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BRITISH DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT

IN NIGERIA, 1955-1972

by

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ABSTRACT

This thesis is intended to assess the contribution of British direct investment to the economic development of Nigeria between 1955 and 1972. Chapter One establishes the background to the study by considering the main features of the Nigerian economy, the determinants of economic development and the natural inducements for foreign investments in Nigeria. In Chapter Two, the level and the sectoral distribution of British investment in Nigeria are discussed. It is found that Britain accounted for over half of the total foreign investment in Nigeria during the period, and that over two-thirds of British direct investment was concentrated in the petroleum industry. Chapter Three discusses the significance of British direct investment in the agricultural sector. It is shown that the level of direct investment in the sector was very low because of the prohibitive policy of the British Colonial Government with regard to foreign ownership of land in Nigeria and, later, because the repressive pricing policy of the Nigerian Marketing Boards discouraged British investors. The most important feature of British direct investment in Nigerian agriculture during the period was the indirect nature of its contribution, which proved particularly significant in tobacco growing.

Chapter Four discusses the manufacturing industry, whose development and growth received the greatest priority in the Government's policies during the period. Perhaps the most important feature of British direct investment in the manufacturing sector was the concentration of the largest proportion on consumer non-durable goods with little associated linkage effects. Chapter Five discusses the petroleum industry. Apart from being the industry with the most rapid growth-rate in Nigeria, it was also the most important absorber of foreign capital during the period.

British direct investment dominated the industry and British oil investors performed the Schumpeterian entrepreneurial function of pioneering the industry. It is argued that the low price paid for Nigerian crude oil before 1970 was due to the ignorance of Nigerians about the complexities of the oil industry and the economic power of the oil companies which enhanced their bargaining power. It is also shown that British direct investment in the petroleum industry was of particular importance in its contribution to the Nigerian balance of payments. Chapter Six discusses the role of British direct investment as a vehicle for the transfer of technology and managerial skills to Nigeria. In Chapter Seven, all the major obstacles to British investment are discussed. In Chapter Eight, the main conclusions regarding the benefits, limitations of investments and the importance of the Nigerian Government's policies are indicated.



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ABBREVIATIONS

A.P.C.M.,	Associated Portland Cement Manufacturers.
C.B.I.,	Confederation of British Industries.
C.B.N.,	Central Bank of Nigeria.
C.D.C.,	Commonwealth Development Corporation.
F.A.O.,	Food and Agricultural Organization.
I.B.R.D.,	International Bank for Reconstruction and Development.
G.D.P.,	Gross Domestic Product.
I.F.C.,	International Finance Corporation.
M.P.E.,	Multinational Private Enterprise.
N.J.E.S.S.,	Nigerian Journal of Economics and Social Studies.
N.I.B.D.,	Nigerian Industrial Development Bank.
N.T.C.,	Nigerian Tobacco Company.
U.A.C.,	United Africa Company.
U.N.,	United Nations.



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## CHAPTER I

### I N T R O D U C T I O N

This chapter is essentially introductory and is intended to provide a background for analysing British direct investments in Nigeria. Attention will, therefore, be focussed on the past performance of the Nigerian economy. Nigeria has an area of 356,669 square miles, which is slightly larger than the combined areas of France, West Germany and Italy, or about four times the size of the United Kingdom. Nigeria is situated in West Africa and it is bounded on the West and North by the Republics of Dahomey and Niger, on the East by the Republic of Cameroons, and on the South by the Gulf of Guinea and the Atlantic Ocean. Nigeria's broad frontiers cut across all the wide horizontal bands of climate and vegetation characteristic of West Africa. The coastline is intersected by an intricate network of creeks and rivers, and by the great Niger Delta. For most of its length it consists of a sandy beach backed by a belt of mangrove swamp. Beyond this there is a zone of tropical forest in undulating country with scattered hills, then the country becomes an open savannah and stretches to the arid edge of the desert in the extreme north. The mean maximum temperature is about 87<sup>0</sup> Fahrenheit in the coastal belt and about 94<sup>0</sup> in the north. Nigeria has two main seasons: the rainy season and the dry season. The rainy season varies from May to October inland but shortens from June to September in the north. The dry season normally begins in November except in the north, where it starts in October and ends in April. Near the coast, it is usual to have some rain in all months, but in the north



the dry season is normally one of complete drought.

Nigeria is the largest among the British ex-colonies in Africa and accounts for nearly half of the total population of these ex-colonies. On October 1, 1960, Nigeria became politically independent and three years later, it became a Federal Republic within the British Commonwealth of Nations. Nigeria is Africa's most populous country. Its population represents nearly one-quarter of the total population of Africa. Nigeria's current population is estimated to be over 60 million.

### THE MAIN FEATURES OF THE NIGERIAN ECONOMY

Although Nigeria is big in size and has the largest population in Africa, it is nevertheless not a major economic power. Nigeria has not made rapid progress in the development of its backward economy despite its abundant human and natural resources. A run-down of the main features of the economy will confirm this, while at the same time emphasizing the intricate development problems which the country will face in the near future. The features of the Nigerian economy which are of particular importance to our analysis are those which throw light on the strength and weaknesses of the economy, and also enable us to put into real perspective the importance of international direct investments in the Nigerian economy. Such features include the growth of the GDP, the components of capital formation, the sectoral distribution of exports and the employment situation in the country.

### THE GROWTH OF THE GDP

An important indicator of a country's economic performance is the value of its total production of goods and services. Nigeria's gross domestic product grew rapidly from £687.1 million in 1950 to £898.1 million

in 1955. Between 1955 and 1960, the gross domestic product of Nigeria grew very slowly from £898.1 million in 1955 to £918.9 million in 1960 as a result of the sluggish rate of growth in the agricultural sector. At the end of 1960, the GDP was 33.7 per cent higher than the 1950 level and the average annual rate of growth of the GDP during the 1950-1960 period was about 3 per cent. Since 1961, Nigeria's GDP has been growing more rapidly than ever before. Table 1.1 below shows the value at constant prices and the growth rates of the gross domestic product of Nigeria since 1962.

TABLE 1.1

VALUE AT CONSTANT PRICES AND GROWTH RATES OF THE GDP 1962-1971

YEAR	VALUE (N£'MILLION)	GROWTH RATE (PER CENT)
1962-63	1315.4	-
1963-64	1425.7	8.4
1964-65	1463.4	2.6
1965-66	1543.0	5.4
1966-67	1583.1	2.6
1967-68	1506.8	- 4.8
1968-69	1530.8	- 0.2
1969-70	1699.9	13.0
1970-71	1863.5	9.6

SOURCE: ECONOMIC AND STATISTICAL REVIEW 1971, Federal Ministry of Information, Lagos, 1972.

Nigeria's gross domestic product grew fairly steadily from the period after independence in 1960 until the first quarter of 1966. With the beginning of hostilities and the subsequent civil war from 1967 to early 1970, economic activities were adversely affected; this ultimately resulted in a negative growth in the gross domestic product during 1967 to 1969. With the cessation of hostilities,

economic activity picked up and a growth rate of 13 per cent was recorded in 1969-70, which was the highest ever recorded in Nigerian history. This high rate of growth is also partially due to the fact that the national income in the years 1967-1969 declined. Over the 1962-71 period, Nigeria's gross domestic product grew at an annual average of 5.6 per cent. In 1970-71 the GDP was 41.6 per cent higher than the 1962-63 level.

The bulk of Nigeria's output has always come from the agricultural sector. During the 1950-1960 period, the agricultural sector contributed an average of about 65 per cent to the gross domestic product. Since 1961 the percentage proportion of the GDP emanating from the agricultural sector has been falling as a result of the rapid development in other sectors of the economy. Table 1.2 below shows the breakdown of the sectoral contributions to the GDP from 1962-63 to 1971-72.

TABLE 1.2

GROSS DOMESTIC PRODUCT AT FACTOR COST CONSTANT PRICES (PER CENT)

SECTORS	1962 -63	1963 -64	1964 -65	1965 -66	1966 -67	1967 -68	* 1970 -71	* 1971 -72
Agriculture	61.2	61.1	59.2	56.4	54.9	55.9	44.8	41.8
Mining	2.0	2.2	3.2	5.3	7.2	3.5	14.8	18.5
Manufacturing and Crafts	5.8	5.4	5.4	5.9	5.9	7.4	8.2	8.5
Electricity & Water Supply	0.5	0.5	0.6	0.6	0.7	0.7	0.6	0.6
Building and Construction	4.4	4.6	4.4	5.2	5.1	4.9	4.8	4.9
Distribution	12.2	12.7	13.3	13.1	12.7	13.3	11.8	11.5
Transport	4.2	4.3	4.0	3.6	3.4	3.4	3.7	3.7
Communication	0.4	0.5	0.5	0.6	0.6	0.5		
Others <sup>a</sup>	9.2	8.7	9.2	9.0	9.5	10.3	11.2	10.7
TOTAL	100	100	100	100	100	100	100	100

- SOURCES: 1. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, Federal Ministry of Information, Lagos, 1970.  
2. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, FIRST PROGRESS REPORT, Central Planning Office, Lagos, 1972.

NOTES: \*: Estimates  
a: Includes general government, education, health and other services.



Agriculture was and still is the dominant sector in the Nigerian economy, contributing over 65 per cent of the GDP in 1960. However, the percentage contribution of agriculture to the GDP has been falling since 1962-63 due to the rapid development in mining and manufacturing. Despite the sluggish performance of the agricultural sector during the 1961-70 period, the sector nevertheless accounted for over half of the GDP in 1970. According to the estimates for the 1970-72 period, the agricultural contribution to the GDP was still the most important. During the 1960-70 period, agriculture contributed an annual average of 59 per cent to the GDP. Next in importance to agriculture before 1970 was distribution which contributed an average of 13 per cent per annum to the GDP during the 1960-70 period. Since 1971, distribution has become the third most important contributor to the GDP, thus losing its place to mining. The mining sector has become an important contributor to the GDP with a rapid rise in the production and export of crude petroleum. From a low level of 2 per cent in 1962-63, the mining sector has grown so rapidly as to contribute nearly 20 per cent of the Nigerian GDP in 1972. The petroleum sector is largely responsible for the mining sector's contribution to the GDP, accounting for over 90 per cent of the sector's contribution to it. Although the contribution of the manufacturing sector to the GDP has been rising since 1960 when the sector contributed about 1.5 per cent of the GDP, at the end of 1970 less than 10 per cent of the GDP derived from the sector. During the 1955-72 period, the most rapidly growing sectors of the Nigerian economy in order of importance were mining and manufacturing, and these sectors were dominated by British investors, as will be shown in the later part of the thesis.

CAPITAL FORMATION

Perhaps more revealing than any other key indicator of the performance of the Nigerian economy during the last two decades has been the rate of capital formation. Gross capital formation in Nigeria increased more than four-fold between 1950 and 1955 from £18 million in 1950 to £78.4 million in 1955. At the end of 1960, gross capital formation in Nigeria has increased to £129.2 million. During the 1960-1970 period, capital formation increased nearly three-fold. However, more useful than the absolute level of capital formation are the changes in its structure because these provide a useful insight into the development of the economy as a whole. Table 1.3 below shows the breakdown of the gross capital formation of Nigeria by types of asset.

TABLE 1.3

GROSS CAPITAL FORMATION BY ASSETS 1959-1972 (PERCENTAGES)

TYPE OF ASSET	1959	1961	1963	1965	1966	<sup>a</sup> 1967 /68	<sup>a</sup> 1968 /69	<sup>b</sup> 1970 /71	<sup>b</sup> 1971 /72
Land, Agriculture & Mining	9.4	19.8	18.9	15.7	14.8	13.2	11.1	9.6	8.2
Buildings	35.3	30.1	30.2	24.2	24.0	20.3	21.0	37.9	38.1
Civil Engineering Wks. Plant, Machinery and Equipment	22.8	19.5	21.0	20.3	21.6	18.8	17.2		
Transport Equipment	25.4	23.1	22.1	29.4	31.7	40.1	43.2	52.5	53.7
	7.1	7.5	7.8	10.4	8.0	7.6	7.5		
TOTAL (N£ MILLION)	122.8	152.5	177.0	234.1	242.4	198.4	207.2	381.3	465.4
PRIVATE SECTOR	49.6	60.5	64.2	64.2	62.5	68.6	66.4	65.6	-
PUBLIC SECTOR	50.4	39.5	35.8	35.8	37.5	31.4	33.6	34.4	-

SOURCES: 1. DIGEST OF STATISTICS, JAN. 1968 & JULY 1972, Federal Office of Statistics, Lagos.  
 2. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, Federal Ministry of Information, Lagos, 1970.  
 3. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, FIRST PROGRESS REPORT, Central Planning Office, Lagos, 1973.

NOTES: a: Does not cover the three Eastern States.  
 b: Estimates.



The dominance of buildings and civil engineering works combined, as the most important source of capital formation between 1961 and 1965, is clearly shown in Table 1.3. The emphasis on buildings and construction began in 1950 and during the 1950-1960 period buildings and construction combined accounted for over half of the total expenditure on fixed assets. The building boom which began in the 1950's continued until early 1966 and, as a consequence, capital formation during this period was heavily biased in favour of residential construction rather than of expanding the productive capacity of the economy. Investments in plant, machinery and equipment largely undertaken by foreign investors, which formed about one-quarter of total investment expenditure during the 1950-1960 period, have become the most important source of capital formation in Nigeria. The rapid pace of industrial and petroleum development after 1960 necessitated large capital investment on plant, machinery and equipment. Investments in land, agriculture and mining development made their highest percentage contribution to capital formation in 1961, after which period the percentage contribution has been falling due to the sluggish pace of agricultural development.

Another important revelation from Table 1.3 is the dominant position of the private sector as the most important source of capital formation. Before 1960, the public sector contributed more to capital formation than the private sector and the reason for this was the high level of investments in building, construction and in the agricultural sector by the regional and Federal governments. At the same time, Nigerian industrial development before 1960 was slow and the general level of agricultural, mining and industrial investments undertaken by the private sector was very low. After 1960, the rapidly growing markets of Nigeria resulting from a growing population with rising incomes, and government incentives spurred private investors both indigenous and foreign to a high level of investment activities in order to take



the available opportunities for making high profits. As a consequence, between 1960 and 1972, investments by the private sector accounted for an annual average of over 64 per cent of the total gross capital formation. Although the public sector is still an important source of capital formation, nevertheless its contribution has fallen from 50.4 per cent of the total in 1959 to about 35 per cent in 1971-72.

More important than the absolute level of capital formation is the proportion of the current output which is invested to increase the level of output in the future. Table 1.4 below compares output with investment.

TABLE 1.4

OUTPUT AND INVESTMENT (AT CURRENT FACTOR PRICES)

YEAR	GROSS DOMESTIC PRODUCT		INVESTMENT		INVESTMENT AS A PERCENTAGE OF GDP
	AMOUNT (£M)	PERCENTAGE CHANGE	AMOUNT (£M)	PERCENTAGE CHANGE	
1962	1315.4	-	159.9	-	12.20
1963	1403.2	6.7	177.0	10.6	12.60
1964	1457.0	3.8	195.0	10.2	13.40
1965	1540.3	5.7	234.1	20.0	15.18
1966	1605.0	14.2	242.4	3.7	15.14
1967/68 <sup>a</sup>	1301.2	-	198.4	-	15.20
1968/69 <sup>a</sup>	1358.6	4.4	207.2	4.4	15.30
1970/71	1995.9	-	381.3	-	19.10
1971/72	2234.9	12.0	465.4	22.1	20.80

SOURCES: 1. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, Federal Ministry of Information, Lagos, 1970.

2. SECOND NATIONAL DEVELOPMENT PLAN 1970-74, FIRST PROGRESS REPORT, Central Planning Office, Lagos, 1973.

NOTE: a: Does not include the three Eastern States.

Between 1962 and 1966 investment grew at an average of 11 per cent per annum, while the GDP grew at an annual average of 8.5 per cent.

In 1965, while a 20 per cent increase in investment resulted in only a 5.7 per cent increase in the GDP, a 3.7 per cent increase in investment in 1966 resulted in a 14.2 per cent increase in the GDP. This difference

can be explained by a higher productivity of capital in 1966 resulting from fuller utilisation of installed capacity which increased output with little or no additional investment. In addition, there is also the time-lag between investment and output which might delay the resulting output from the 1965 investment until 1966. The Nigerian civil war severely affected investment and output between 1967 and early 1970 throughout Nigeria, especially in the three Eastern States, and this makes comparison with the previous years not a useful exercise. Since the end of the war in 1970, the level of investment has increased, thus resulting in an increase in the level of output. The annual level of investment as a percentage of GDP was, on the average, about 15 per cent between 1962 and 1972. The high proportion of the GDP devoted to capital formation after 1969 was due to the high level of economic activities since the end of the civil war. Investment plans held back during the war were executed to take advantage of the shortages in consumer goods experienced in Nigeria since 1970.

#### EMPLOYMENT LEVEL AND DISTRIBUTION

The agricultural sector is the backbone of the Nigerian economy in many respects. The sector is the most important generator of employment in the Nigerian economy. Table 1.5 shows the distribution of gainful employment in Nigeria in 1966-67.

TABLE 1.5

## DISTRIBUTION OF GAINFUL EMPLOYMENT BY SECTORS 1966-67

OCCUPATION	PERCENTAGE OF TOTAL
Agriculture	71.9
Manufacturing	9.6
Construction	0.6
Commerce	12.9
Transport and Communications	0.8
Services	3.9
Others	0.2
TOTAL	100.0

SOURCE: ECONOMIC AND STATISTICAL REVIEW 1970, Federal Ministry of Information, Lagos, 1971.

Approximately 72 per cent of the gainfully employed population of Nigeria was engaged in agriculture in 1966-67. Commerce and manufacturing provided 12.9 per cent and 9.6 per cent respectively of the total gainful employment in 1966-67. The three sectors - agriculture, commerce and manufacturing - combined provided over 94 per cent of the gainful employment in Nigeria. The relationship between Tables 1.2 and 1.5 is worth noting. Those sectors of the Nigerian economy which contributed most to the GDP in Table 1.2 also provided the largest part of the gainful employment. The only exception to this observation is mining which has been contributing a sizeable part of the GDP in recent years but provides only a negligible proportion of the gainful employment, classed under "Others" in Table 1.5. The reason for this is the fact that mining is capital-intensive by nature and as a consequence only very few people can be employed. Agriculture, commerce and manufacturing together not only provided over 90 per cent of the total gainful employment in Nigeria, but they also contributed an annual average of 75 per cent of the GDP during the 1962-1972 period.



The leading role of the agricultural sector as the major generator of employment has not changed significantly since 1966-67, as Table 1.6 below will show.

TABLE 1.6

EMPLOYMENT SITUATION IN 1970<sup>a</sup>

CATEGORY	NO. OF PERSONS (MILLIONS)
Labour Force	26.084 (100 per cent)
Unemployment Gap	2.030 (7.8 per cent)
Gainful Occupation	24.054 (92.2 per cent)
(a) Agriculture	16.790
(b) Non-Agriculture	7.264
Wage Employment	1.385 (5.7 per cent)
Self-employed	22.669 (94.3 per cent)

SOURCE: ECONOMIC AND STATISTICAL REVIEW 1970, Federal Ministry of Information, Lagos, 1971.

NOTE: a: Employment does not necessarily refer to wage employment.

The agricultural sector still provided approximately 70 per cent of the gainful employment in 1970 despite the increased activities in the other sectors of the Nigerian economy.

The total unemployed in 1970 was put as over 2 million people, which was 7.8 per cent of the labour force for the year. The existence of a large pool of healthy people capable and willing to work who are without any employment is one of the most intractable problems of Nigeria. The figure of 2 million seems to be an understatement of the level of unemployment in Nigeria in 1970. There are two major problems associated with how to estimate the level of unemployment in Nigeria. The first problem is the "non-existence of the market for labour" in rural areas and smaller towns which prevents the establishment of employment exchanges in these areas. The second problem concerns how to estimate the number of unemployed in the

big towns where the employment exchanges are located, since many people, although unemployed, do not register in the labour exchanges. There are two reasons why those unemployed may not register in the labour exchanges. The first is that many people are not aware of the existence of the labour exchanges, and second, in most cases, the labour exchanges are not helpful in finding jobs for people and therefore many people who know about their existence do not use their facilities.

Even if we accept the unemployment figure in Table 1.6, the fact still remains that the level of unemployment is high. In a country like Nigeria where there are neither social security payments nor unemployment benefits, an unemployment level of 2 million must have a serious restricting effect on the purchasing power of the unemployed and their dependants, thus having a damping-down effect on the level of demand in the economy as a whole.

Another feature of the Nigerian economy is the small proportion of the gainfully employed in wage employment. Table 1.7 which follows shows the sectoral distribution of wage employment in 1964. In 1964, only 561,534 people were in wage employment in Nigeria. Wage employment more than doubled between 1964 and 1970, but despite the increase, only 5.7 per cent of those in gainful occupation in 1970 were in wage employment. The remaining 94.3 per cent who were self-employed were mainly people engaged in subsistence agriculture, petty traders, retailers and rural craftsmen. There are two main reasons why the proportion of self-employed is so high in Nigeria. The first reason is that the Nigerian economy is dominated by primary production and services industries which are in turn dominated by family labour. Nigerian agriculture is not organized on a professional and commercial basis and as a consequence there is limited wage employment in the sector. Out of the 6.3 per cent of the wage employment in agriculture in 1964, the Government and public corporations accounted for over 90 per cent.



The second reason is the slow growth of wage employment in other sectors of the Nigerian economy. The manufacturing sector which normally provides substantial wage employment in developed countries is still in its infancy in Nigeria. Despite the rapid increase in investments in the sector since 1964, only 150,000 people are presently engaged in the sector due to the high level capital-intensive technology adopted by industrialists, especially foreign investors.

TABLE 1.7

SECTORAL DISTRIBUTION OF WAGE EMPLOYMENT IN 1964

INDUSTRY GROUP	a GOVERNMENT	NON- GOVERNMENT b	T O T A L	
			NUMBER	PERCENTAGE
Agriculture, Forestry and Fishing	17,876	17,240	35,116	6.3
Mining and Quarrying	216	50,819	51,035	9.1
Manufacturing	3,716	58,148	61,864	11.0
Construction	28,006	50,014	78,020	13.9
Electricity	4,614	10,325	149,39	2.7
Commerce	855	44,310	45,165	8.0
Transport & Communications	17,851	40,217	58,068	10.3
Services	147,308	70,019	217,327	38.7
TOTAL	220,442	341,092	561,534	100.0

SOURCE: DIGEST OF STATISTICS, VOL. 17, NO. 1, JAN. 1968, Federal Office of Statistics, Lagos.

NOTES: a: Includes Federal, State and Local Governments.

b: Includes Public Corporations.

Another important revelation in Table 1.7 is the importance of the public sector as a provider of wage employment. In 1964, the various governments of Nigeria provided 39.3 per cent of the wage employment for the year. When the number of people employed in public corporations is added to those employed by the various governments, the importance of the public sector as a generator of wage employment cannot be doubted. With the division of Nigeria into twelve States since 1967 and the establishment of several public corporations at Federal and States level,



the expansion of wage employment in the public sector has been remarkable.

### NIGERIAN EXPORTS

Just as the agricultural sector is the main generator of employment in the Nigerian economy, the sector has also, until recently, provided the largest part of Nigerian exports. Table 1.8 below shows the sectoral distribution of the value of Nigeria's exports from 1964 to 1971.

TABLE 1.8

#### SECTORAL DISTRIBUTION OF NIGERIA'S EXPORTS 1964-71 (PERCENTAGES)

COMMODITY SECTORS	1964	1965	1966	1967	1968	1969	1970	1971
Agricultural Products	69.6	60.1	50.5	53.2	65.0	45.3	30.0	19.0
Manufactures	1.0	1.0	1.1	1.1	1.1	0.9	7.4	3.5
Minerals & Products	20.8	30.9	37.9	35.3	24.2	45.2	57.8	73.4
Others	8.6	8.0	10.5	10.4	9.7	8.6	4.8	4.1
TOTAL EXPORTS (N&MILLION)	214.7	268.4	283.1	241.8	211.1	318.2	442.7	648.7

SOURCE: CENTRAL BANK OF NIGERIA; ANNUAL REPORTS, 1966-1971.

In 1964 the agricultural sector accounted for nearly 70 per cent of Nigeria's total exports, after which period agricultural exports fell continuously both in absolute and in percentage terms until 1967 and rose again in 1968. The rapid fall in agricultural exports after 1965 can be explained in terms of the political troubles in the country, during which period the railway lines were disrupted. It was not until the Federal Army had captured a sizeable part of the fighting areas where the railway lines were located that the backlog of agricultural products began to be moved to the ports in the south for subsequent exportation to overseas markets. Although agricultural

exports have continued to rise in value since 1968, nevertheless the percentage share of such exports has been falling since 1969 as a result of an increase in the percentage contribution from minerals. The exports of manufactures have always been a minute proportion of Nigeria's total exports. The percentage contribution of such exports remained almost constant between 1964 and 1968. Although the value of the exports of manufactures fell in 1967 and 1968 in response to the Nigerian civil war, nevertheless the manufacturing sector was able to maintain its percentage share in total exports as a result of the fall in the value of total exports for the two years. The sudden increase in the value of the exports of manufactures as reported by statistics in 1970 and 1971, which resulted in the percentage increase in the contribution to total exports, was due to the adoption of a new method of classifying exports. The exports of processed agricultural products which were previously classified as agricultural exports began to be classified as manufactures and semi-manufactures after 1969. If the old classification were to be adopted the total exports of manufactures and semi-manufactures for 1970 and 1971 would be approximately £9 million instead of the £55.5 million recorded in Table 1.8 for the two years. The changes in the method of classification also partly account for the fact that the share of agricultural exports has fallen so fast since 1969.

The most rapid increase in the commodity sectors of Nigerian exports occurred in the exports of minerals and mineral products of which crude petroleum accounted for over 90 per cent. The upward trend in the exports of minerals since 1964 was checked by the outbreak of the Nigerian civil war in 1967 which severely paralyzed the production and export of crude oil in 1967 and 1968. When the oil companies resumed production in 1969, oil exports rose and have been rising very



rapidly since 1970 with the resumption of full production in the oil fields.<sup>1</sup> Figure 1.1 shows the movement in the three main commodity sectors of Nigerian exports. An increase in the percentage contribution by mineral exports to total exports has been and will continue to be associated with a decrease in the percentage contribution of the agricultural exports to total exports and vice versa.

### NATIONAL INCOME AND ITS DISTRIBUTION

A rapidly increasing level of investment accompanied by a steady growth in domestic production may seem to be an impressive performance by Nigeria, especially when the Development Decade of 1960-1970 envisaged a target growth rate of 5 per cent for the Gross National Product of the less developed countries<sup>2</sup> and Nigeria was able to achieve an average annual growth rate of 5.6 per cent during the period. However, when the annual growth rate of 5.6 per cent in the Nigerian Gross Domestic Product is compared with an estimated population growth rate of 2.5 per cent per annum, it becomes very clear that the per capita income of Nigeria only grew at an annual average of 2 to 3 per cent. The per capita income of Nigeria is one of the lowest in the world, representing about 50 per cent of the average for the African continent and about 40 per cent of the average for the less developed countries. In 1958, the per capita income of Nigeria was only ₦49 and by 1966 it has only increased to ₦66<sup>3</sup>.

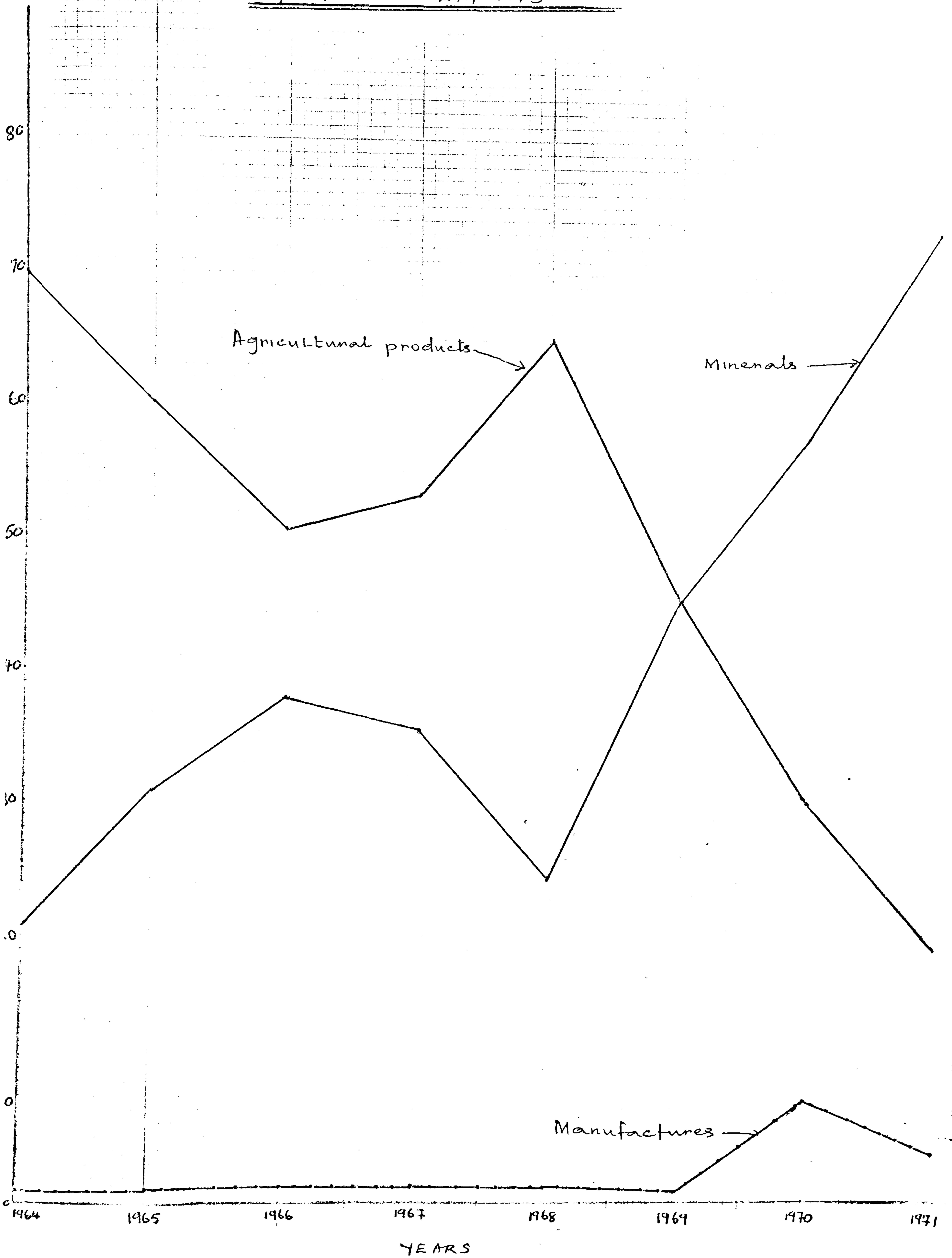
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<sup>1</sup>More will be said about the effect of the Nigerian civil war on the production and the export of crude oil in Chapter V.

<sup>2</sup>C. Legum, "The First U.N. Development Decade and its Lessons for the 1970's", Praeger Publishers, New York, 1970.

<sup>3</sup>Year Book of National Accounts Statistics, Vol. II, 1970, United Nations, New York, 1970.

NIGERIAN EXPORTS





Due to the controversy about the reliability of the 1963 census figures of Nigeria, no attempt has been made in recent years to estimate the per capita income of the country. Until such time when the results of the 1973 census will be available to throw light on the per capita income of Nigeria, it will suffice to say that the per capita income of the country is very low.

If the per capita income of a country is very low, as in the case of Nigeria, and the national income is evenly distributed among the population, although there will still be poverty in the country, a large proportion of the population will be able to afford the basic necessities of life. The national income of Nigeria is, however, concentrated in a few hands. Although no attempt has been made to investigate the distribution of income in Nigeria, there are some isolated regional statistics on the distribution of income which could shed some light on income distribution in the country as a whole. Addressing the graduation ceremony of the University of Ife in Nigeria, the Chancellor of the University, Chief Obafemi Amolowo, observed that "in the Western State where the standard of living was among the highest, 71 per cent of the people were within a 'nominal' income range of £1 - £50 per annum in 1971, while 28 per cent were in the £51 - £100 range. And the position had not changed substantially since then".<sup>4</sup> The concentration of the national income of Nigeria in a few hands has very serious implications for economic development. The rich in Nigeria have a conspicuous consumption habit for goods with a high import content. Many wealthy Nigerians lavish their money on very expensive cars, jewels, foreign travel and imported clothes, which leak the existing meagre development resources of the land to foreign countries. The problem

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<sup>4</sup>West Africa, October 22nd, 1973.

facing Nigeria therefore is not simply one of rapid development in order to increase the per capita income, but it is also one of equitable distribution of the national income associated with rapid economic development.

THE NECESSITY FOR AND THE DETERMINANTS OF RAPID ECONOMIC  
DEVELOPMENT IN NIGERIA

It has been established in the previous paragraphs that the Nigerian economy is characterized by the concentration of employment in agriculture, heavy unemployment, a skewed distribution of income, meagre existence of the export of manufactured goods and low per capita income. All these characteristics are some of the main features of under-development. These features are compounded by the widespread existence of "poverty, ignorance and disease" which Chief Awolowo said "are in evidence everywhere, more particularly in the rural areas"<sup>5</sup>. The enumerated features of the Nigerian society are enough to show why it is necessary for Nigeria to achieve rapid economic development, for, without making more goods and services available to those in want and creating more opportunities for those in search of jobs, Nigeria cannot have a stable society with happy and contented people.

Many factors have frequently been mentioned as necessary for rapid economic development and they are often conveniently classified into quantitative and qualitative factors. The quantitative factors include increases in the factors of production - land, labour, and capital. The qualitative factors are simply the institutional framework for improving the efficiency of the factors of production and they include the traditional and attitudinal traits of the development planners and the people of the country seeking rapid economic

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<sup>5</sup>West Africa, October 22nd, 1973.



development and technological innovations. It should be added, however, that the classification of factors into quantitative and qualitative is by no means clear-cut, for in the processes of development the changes that do occur may blur the dividing line between the various factors. For instance, more capital for investments will no doubt require some qualitative improvements in savings habits and an increase in and better organization of savings institutions.

Nigeria requires the various quantitative and qualitative factors mentioned for rapid economic development. Land is plentiful in Nigeria and in addition, Nigerian land is rich in mineral resources.<sup>6</sup> Some of these mineral resources have been and are being exploited to provide capital for investments. There is no doubt, however, that some of the mineral resources are not being fully utilized to the best advantage of the country and we are in this case referring to coal and the natural gas produced in conjunction with crude petroleum which is being flared in Nigerian oilfields. Only a small proportion of the Nigerian rich land is cultivated; the rest is allowed to remain fallow. In some cases where agricultural lands are intensively cultivated, the inability of farmers to apply manure due to ignorance and lack of capital necessarily reduces the productivity of such lands. In other cases where farmers have extensive margins of cultivation, lack of irrigation, and primitive energy-consuming hand tools, poor financial resources and bad land tenure systems also reduce the productivity of land. There is no doubt that if the constraints on the adequate utilization of Nigerian resources are removed, a more rapid economic development will result from increased and better utilization of land and mineral resources.

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<sup>6</sup>More will be said about the Nigerian mineral resources towards the end of the chapter.



An adequate supply of labour, especially skilled and managerial manpower, is an important pre-requisite for rapid economic growth. Population growth increases the supply of labour but management and technical education increases the supply of skilled and managerial manpower. The quality, efficiency and the adaptability of the labour force depends, among other things, on the level of education of the labour force. Education then becomes one of the most crucial factors for rapid economic development because not only does it upgrade the quality of labour, but it also enables the other factors of production, land and capital to be appropriately combined and utilized. Nigeria with a population of over 60 million should have very little problem in supplying the required labour force for rapid economic development. With the large-scale unemployment and the ineffectiveness of the trade union movement, labour costs are not a serious problem in Nigeria. It should be added, however, that it is neither the absolute population nor the total unemployed that matters but the skill and the competence of the labour force. Although Nigeria is still deficient in some types of technical and managerial manpower, in every sense, Nigeria has a well-educated labour force. There are over 1500 primary schools with an enrolment of over 3 million children; 350 teacher-training colleges with 32,000 students; 1300 secondary modern and secondary grammar schools with 280,000 students; six universities with nearly 20,000 students and several technical and trade centres. In addition, there are over 12,000 Nigerian students in overseas institutions. Since political independence in 1960, Nigeria's annual educational budget as a percentage of total annual expenditure has been one of the highest in the world. Out of the public sector's capital expenditure of £536.5 million during the 1962-68 period, £45.6 million was expended on education.<sup>7</sup> This amount represented 8.5 per cent of

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<sup>7</sup>Second National Development Plan 1970-74, Ministry of Information, Lagos, 1970.

the public sector's capital expenditure during the period. The Nigerian government has also earmarked a sum of £139 million for education during the 1970-74 period. It should therefore not be surprising that there are several thousands of school and college leavers unemployed in the towns. The number of unemployed graduates and professional people has been increasing very rapidly in recent years. There is no doubt, therefore, that Nigeria has adequate manpower, necessary for rapid economic development. In addition, any foreign investor who may come to the country will not only find a pool of qualified unemployed to select from, but he will also be helping to reduce the present large-scale unemployment of Nigeria.

Another requirement for rapid economic development in Nigeria is the availability of capital to carry out various agricultural and industrial projects in the country. The level of investment in an economy depends on the domestic resources which can be mobilized and the inflow of resources from foreign countries, whether in the form of aid or direct investments. Investment resources within an economy can be mobilized by voluntary savings, taxation and deficit financing. While it is true that there is usually an understatement of savings in under-developed countries because a lot of the savings of the peasants are not recorded, it must be conceded that the level of personal saving in Nigeria is very low. Although no attempt has been made to collect data on the various components of the Gross Domestic Savings in the past, a projected savings level for the economy during the Second National Development Plan period 1970-74 can throw some light on savings in Nigeria.



TABLE 1.9

## PROJECTED GROSS DOMESTIC SAVINGS (AT CURRENT PRICES) IN PERCENTAGES

	1970-71	1971-72	1972-73	1973-74	TOTAL
Personal Saving	14.4	11.0	8.5	7.2	9.3
Excess of Wage Accruals over Disbursements	3.3	2.4	1.9	1.6	2.1
Corporate Capital Reserves	42.9	38.4	34.5	29.4	34.5
Government Surplus on Income and Product Account	25.4	37.3	44.9	52.8	43.8
Internal Resources of Statutory Corporations	14.0	10.9	10.2	9.0	10.3
TOTAL IN £N'MILLION	134.3	210.2	297.2	387.0	1028.7

SOURCE: SECOND NATIONAL DEVELOPMENT PLAN 1970-74, Federal Ministry of Information, Lagos, 1970.

Table 1.9 shows the estimated domestic savings for the period 1970-74. During the plan period, personal savings will account for only 9.3 per cent of the total Gross Domestic Savings. Corporate ploughed-back profits will account for over one-third of the savings. The remaining items on the table, which represent public sector savings, will account for 56.1 per cent of the total Gross Domestic Savings during the 1970-74 plan period. The fact that the figures in Table 1.9 are mere estimates very much reduces their reliability.

The level of voluntary saving is very low in Nigeria for two main reasons: (a) a low level of per capita income even if the national income is evenly distributed reduces the available resources for saving. In addition the inadequacy of savings institutions, especially in the rural areas, reduces the gathering of the resources of rural savers. The commercial banks are the most important savings institutions in Nigeria. They account for over 90 per cent of the total personal savings in the country. Their savings activities are limited because (a) there



are only 300 commercial banking branches serving the whole of Nigeria, and (b) because all the 300 branches are located in the towns, there is a complete lack of relationship between rural financial resources and investment for developmental purposes; and (b) the concentration of the national income in the hands of few Nigerians who have a high conspicuous consumption preference for foreign goods often reduces the amount of domestic savings. These factors explain why the bulk of Nigerian savings are accounted for by the public sector and corporate firms. In addition, when the resources available for the government's investment projects are inadequate, there is always a resort to credit creation or deficit financing. However, there is a limit to the use of credit creation if the accompanying inflation is not to get out of hand. As a consequence, the Nigerian government, while making use of the credit creation facilities has nevertheless been very active in seeking foreign resources to augment domestic investible resources. During the 1970-74 Plan period, out of an estimated gross fixed domestic investment of £1596 million, the Nigerian government hopes for a net private foreign capital inflow of £495 million which is nearly one-third of the estimate. The level of investment in the Nigerian economy and also the pace of economic development will not only be determined by the mobilized level of domestic investible resources, but also by the level of the inflow of foreign capital.

Three important qualitative factors are necessary for rapid economic development in Nigeria and they are (a) changes in attitude; (b) improvements in and extension of knowledge and technology; and (c) improvements in institutions and in social and economic organization. The attitudinal traits of many Nigerians, especially in high places, are not conducive to rapid economic development. A large majority of Nigerian businessmen are interested in quick profits and so opt

for speculative investments such as urban development. A large number are also engaged in import and export businesses, distribution, haulage and agency businesses. The ploughing-back of profits and the ability and willingness to take risks are qualities lacking in Nigerian businessmen. These character traits should not surprise anyone who knows that some Nigerian leaders are wasteful and at times corrupt. If the leaders cannot put up with a temporary state of deprivations and austerity, it is difficult to see how an ordinary man in the street can be convinced to economize. As Peter Clark observed during his involvement with the Nigerian First National Development Plan, "Nigerian politicians want economic development, but the consolidation of their political position receives first priority. . . . . Most Nigerian leaders were position-oriented, not achievement-oriented, desiring status, authority and personal aggrandizement".<sup>8</sup> Until such time when there is a change of attitude on the part of Nigerians, especially the businessmen and the national leaders, the resources of the country cannot be fully mobilized for rapid economic development.

Improvements in and extension of knowledge and technology have been emphasized by many writers, especially B. R. Williams<sup>9</sup> as an important agent of rapid economic development. Improvements in existing techniques and the introduction of new technology can lead to an improvement in the methods of production, in products and in the introduction of new products which may gain access to the international market. An increase in the demand for goods arising out of technical progress and the infusion of new technologies can lead to increased investment and the adoption of labour-saving and capital-saving techniques which

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<sup>8</sup>P. B. Clark, Economic Planning for a Country in Transition: Nigeria, in Planning Economic Development, by E. E. Hagen, Richard Irwin, Homewood, Illinois, 1963, p.p. 263-264.

<sup>9</sup>B. R. Williams, Technology, Investment and Growth, Chapman, London, 1967.



in turn can result in rapid economic development. Technical innovations and new technologies do not originate from a vacuum; they are the end result of systematic research and development carried out by corporations and government institutions. Nigeria performs very little research and development and as a consequence, it has to rely on the import of foreign technologies to upgrade its backward economy.<sup>10</sup>

Many institutions require improvements if Nigeria is to achieve rapid economic development. The savings institutions are too few and are badly organized. The post offices are few and are grossly inefficient. The telephone system is chaotic. Water supply, electricity and health facilities are inadequate. In addition, government departments which deal with many aspects of development are badly organized, with the result that unnecessary delays have frustrated many investors, both foreign and indigenous.

The attitudes of the trade unions may have a favourable or an unfavourable effect on economic development. Trade unionism is in its infancy in Nigeria and as a result of the rivalry among the existing unions, they are badly organized and lack unity, with the result that they cannot provide a united front against employers. In addition, government legislation and decrees exist to limit their power. As an example, strikes by trade unions are forbidden.

In sum, the need for rapid economic development in Nigeria cannot be over-emphasized, since the country is still relatively backward and the standard of living of the people is very low. Many factors are necessary for rapid economic development in Nigeria and these include land and its resources in the form of mineral deposits, an increasing

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<sup>10</sup> More will be said about R & D activities in Nigeria and the transfer of modern technology to the country in Chapter VI.



supply of skilled and management personnel, a high level of investments in appropriate projects, a good educational system tailored to meet the needs of the country, a change in attitudes and improvements in the social and economic institutions, adequate infrastructure, technical innovations and new and adapted technology. Some of the factors listed as necessary for rapid economic development cannot be adequately provided by Nigeria alone. Such factors include capital for investments, technical and managerial personnel, and new and adapted technology. This being so, one of the most important methods of making up the deficiencies in the domestic developmental resources is through direct investments. Direct investments will only take place if investors are convinced they can at least earn as much profit abroad as in their domestic economies. In order to attract foreign investors, many countries have offered incentives to prospective investors. In addition, some countries have some natural advantages which can act as incentives to foreign investors. Nigeria has been lucky enough to have some of these natural incentives.

#### THE NATURAL INDUCEMENTS FOR FOREIGN DIRECT INVESTMENTS

There are two types of inducements for private investors in Nigeria. The first type, which will be discussed at a later part of the thesis, consists of planned incentives calculated to bring private investments to Nigeria. Among such incentives are government policies favourable to private investment, tax holidays, pioneer industry certificates and industrial estates. The second type of inducements with which this section is concerned is those natural aspects of the Nigerian society which are not designed specifically to attract foreign investors but do act as incentives. Important among these are the natural resources of Nigeria, the available infrastructure and the extent of the Nigerian market.

NATURAL RESOURCES

Nigeria is potentially rich in mineral resources. The confidence which Western European countries have in Nigeria is based on the existence of large-scale untapped mineral resources. Among the known mineral resources of Nigeria are petroleum oil, limestone, coal, tin, gold, columbite, silver, lead-zinc, gypsum, glass sands, clays, asbestos, graphite, iron ore, stone, zircon and gas. While the deposits of some of these minerals have been fairly accurately determined, further surveys are necessary to locate and assess the reserves of others. Table 1.10 shows the recent production of minerals in Nigeria. The growing importance of petroleum as the cornerstone of the Nigerian economy is demonstrated by the rapid growth in the production of crude oil.

TABLE 1.10

MINERAL PRODUCTION 1960-1970 (IN TONS UNLESS OTHERWISE STATED)

DATE	CASSITERITE	COLUMBITE	LIMESTONE	CLAY	TIN METAL	COAL	CRUDE OIL (BARRELS)	GOLD (OZS)	MARBLE
1960	10374	2048	24101	-	-	561961	6367187	994	-
1961	10513	2346	589559	4977	622	597364	16802016	679	-
1962	11043	2260	710786	3086	7663	617785	24623691	411	-
1963	11789	2011	804426	866	9050	582984	27913476	315	-
1964	11788	2339	980685	-	8749	688206	43996898	244	1669
1965	12885	2548	1291587	-	9339	730092	100065294	79	1120
1966	12566	2221	1097992	-	9155	630126	152427535	50	1400
1967	12260	1924	833940	321	9104	94563	116461625	39	595
1968	13025	1135	647445	-	9783	-	51732410	214	145
1969	12631	1491	679951	-	8741	19527	197204339	298	1150
1970	10585	1590	677524	-	7940	59986	395835825	124	1801

SOURCES: 1. FEDERAL OFFICE OF STATISTICS, LAGOS;  
2. FEDERAL MINISTRY OF MINES AND POWER, LAGOS.

Petroleum exports now account for nearly 80 per cent of Nigeria's exports and remain the largest single earner of foreign exchange. In 1969 Nigeria ranked as the 13th largest oil producer in the world and the third in Africa but, by the first quarter of 1970 when petroleum production



hit the 1 million barrels per day level, Nigeria had become tenth among the world petroleum producers and second in Africa. The Nigerian workable coal reserve is estimated as 340 million tons while lignite has an estimated reserve of 70 million tons. The estimated reserve of columbite stands at over 53,000 million tons while that of cassiterite is 135,000 million tons, and iron ore 46 million tons. Nigeria is the world's largest producer of columbite. The existence of these mineral resources has given rise to certain industries in which foreign investors, especially British investors, are engaged. Limestone deposits have given rise to cement factories at Ewekoro, Nkalagu and Calabar. Tin smelting and other associated activities have been concentrated in Jos plateau - the main area of the deposits. Nigeria is a member of the International Tin Council. The large deposits of crude oil in the Southern part of Nigeria have led to the construction of a £10.5 million refinery at Elesha-Elеме opened at Port Harcourt in 1965. The construction of an iron and steel complex planned during the Second National Development Plan 1970-74 period is based on the existence of large deposits of iron ore and coal. Nigerian mineral resources have induced foreign investors to come to Nigeria in two ways. The first way is that significant raw materials have been provided for the establishment and expansion of local industries in which foreign investors are interested and examples include cement, engineering and petroleum industries. The second way is the foreign exchange resource associated with the exports of some of the mineral resources which have enabled the Nigerian government to relax some of the exchange regulations restricting the repatriation of profits to the benefit of foreign investors.



## INFRASTRUCTURE

Perhaps more than in any other field since independence, Nigeria has made very rapid progress in transport and communications. As one writer has put it, "Generally speaking, Nigeria's transportation facilities, communications media, and electricity supply may be considered to be some of the brightest constituents of her economy".<sup>11</sup> Nigeria has over 55,300 miles of roads throughout the Federation, out of which 9,500 miles are asphalted. These roads connect not only the main towns of the Federation to each other, but they also run from the towns to the rural areas. It must be added, however, that many of the roads leading to the rural areas are neither tarred nor repaired. During the Nigerian civil war, many roads and bridges were damaged. The Nigerian government has, however, planned to spend a total of £32.8 million on road rehabilitation during the 1970-74 period and the road programme of the states will cost £72.4 million during the same period. One important defect of the Nigerian roads is that many of the bridges and culverts on them are narrow and badly constructed. The Federation of British Industries has drawn the attention of the Nigerian government to the "obvious urgency of a programme of revision of sub-standard bridges and culverts on the roads. The international standard is a loading of 8 tons per axle, but although much progress has been made there are still many on main roads which are limited to 4-ton loads".<sup>12</sup>

"Efficient postal and telecommunications systems," we are told, "are indispensable factors in the promotion of rapid economic growth."

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<sup>11</sup> Alan Sokolski, *The Establishment of Manufacturing in Nigeria*, Frederick Praeger, New York, 1965, p. 272.

<sup>12</sup> Federation of British Industries, *Nigeria: An Industrial Reconnaissance*, London, Feb. 1961.

This is particularly true in developing countries where good transport and communications facilities act as incentives to commercial and industrial investors".<sup>13</sup> In spite of the above understanding of the value of efficient postal and telecommunications systems, Nigerian postal and telephone services are grossly inadequate and inefficient. However, efforts are being made to improve and expand the services and an expenditure of £42.6 million has been planned during the 1970-74 period to build more post offices, improve radio-telephone-telegraph links between states capitals and Lagos, and between Nigeria and the rest of the world. An earth satellite station of an estimated cost of £3.4 million is under construction at Lanlate. When all these programmes have been completed, Nigeria will have an efficient communication system.

Nigeria has over 2,280 miles of railway lines running from the West to the North, and from the East to the North. Extensions of the existing lines to connect other strategic commercial towns are under way. The repairing of the lines damaged during the civil war, along with other specific development projects, is estimated to be costing £21.8 million during the Second National Development Plan period of 1970-74.

The Nigerian Airways also provide air transport both on national and international routes. All the major cities in the Federation are linked by air routes. Work is already in progress for the extension of many runways in various airports within the country and an estimated expenditure of £25.6 million has been planned for the period 1970-74 to widen the scope of the Nigeria Airways.

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<sup>13</sup>Transport and Communications: Building the New Nigeria, Nigerian National Press, Apapa, (No date) p. 19.



The Nigerian National Shipping Line and other private companies provide shipping services between Nigeria and other parts of the world. The possibility of making Nigerian rivers play an increased role in the nation's transport system is under study. The scopes of the Nigerian major ports in Apapa, Port Harcourt, Warri and Calabar are being widened.

Electricity and water taps, although available in the main towns and some rural areas, are not adequate for Nigeria's needs. Large sums of money, £45.3 million for electricity, £53.8 million for health and £51.7 million for water, have been ear-marked for increasing the supply of water and electricity, and for widening health services throughout the Federation during the 1970-74 period. Efforts are also being made to build more hospitals and to train more doctors in Nigerian and overseas institutions. In sum, there is no doubt that Nigeria has one of the most modern and best developed transport and communications systems in Africa. Road, rail and air routes traversing the whole length and breadth of the country link agricultural, industrial and commercial centres. "For an under-developed country, Nigeria is relatively well advanced in the provision of a comprehensive and partially integrated infrastructure".<sup>14</sup>

#### THE SIZE OF THE NIGERIAN MARKET

A country with a population of over 60 million people will, on the face of it, at least be expected to provide a steady market for the sale of many goods and services. It is, however, not the size of the population that matters, but the purchasing power of the population. There are three important limitations to the size of

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<sup>14</sup>A. Sokolski, Ibid., p. 273.



the Nigerian market: (a) the per capita income in Nigeria, as shown earlier, is one of the lowest in the world and in Africa; (b) there is the concentration of the national income in few hands, with a preference for goods with high import content and (c) - perhaps the most serious limitation - is the preference of a large number of Nigerians for goods manufactured abroad. In an interview, an official of the UAC Group of Companies drew the attention of the writer to the problem such preferences create for their expansion programmes in Nigeria. Added to the limitations mentioned above was the unhealthy regional rivalry which has contributed to the fragmentation of the Nigerian market by the frequent establishment of production units in each region when the country as a whole cannot even adequately support one unit. Despite these limitations, it must be conceded that the size of the Nigerian market along with a steady rise in incomes is one of the brightest features of Nigeria. For some commodities, the Nigerian market may be small, but for a large number of products, it is not only adequate, but many British firms are finding it difficult to meet its ever-growing demand.

#### INVESTMENT AGENCIES

One of the brightest features of Nigeria is the existence of a large number of institutions ready and willing to give financial assistance to investors. The establishment of development institutions in Nigeria dated back to 1946, when the Nigerian Local Development Board, designed to grant loans to local governments, government departments as well as private organisations for building infrastructure and stimulating industrial production, came into being. The Local Development Board was wound up in 1949 only to be replaced by four locally oriented boards called Regional Development Boards, one for each of the three Regions and the other for Lagos. The Regional

Development Boards later became the Development Corporations with one in each of the Eastern, Mid-Western, Northern and Western Regions of Nigeria. After the division of Nigeria into twelve States in 1967, many of the newly-created States have established their own Development Corporations. The functions of the Development Corporations can be summed up as:

- "(a) The undertaking of those projects for which individual initiative and private capital are not forthcoming, i.e., to be complementary to, and not competitive with, private enterprise;
- (b) The undertaking of those types of enterprises for which the minimum economic unit and so the capital requirements are large;
- (c) The attraction, as far as possible, of outside capital to these enterprises subject to adequate safeguards".<sup>15</sup>

Since the inception of the Development Corporations, many of them have invested directly either individually or in partnership with foreign and/or indigenous investors in agricultural and industrial projects. British companies which have entered into partnership with the Development Corporations include Vono Ltd., the U.A.C., Crittall Hope, Asbestos Cement Products Ltd., Tate & Lyle, Bookers Brothers, John Holt Ltd., British Associated Portland Cement Manufacturers, and many others.

In addition to the Development Corporations, the Nigerian Industrial Development Bank (NIDB) was established on January 22nd, 1964, by a consortium of international financial and investment institutions and the Nigerian government to provide medium and long-term finance to enterprises owned and managed by the private sector. NIDB is also

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<sup>15</sup>Western Region Production Development Board, Annual Report, 1955-56, p.p. 7-8.



prepared to assist clients to obtain the necessary advice in carrying out the feasibility studies and financial planning which have to precede actual investment. At the end of 1972, over £16 million have been invested in indigenous and foreign companies operating in manufacturing, mining, agro-allied industries, hotel businesses and tourism.<sup>16</sup> There is also the Revolving Loans Fund created by the Revolving Loans Fund for Industry Act, 1959, for providing loans to assist in the establishment, expansion or modernisation of industrial enterprises within the Federation of Nigeria. The initial capital of the fund, £200,000, was given to Nigeria by the United States as aid. The Fund is administered by the Federal Ministry of Commerce and Industry to make loans varying from £10,000 to £50,000 to incorporated companies preferably with Nigerian participation. At the end of 1962, three foreign companies with Nigerian participation have so far been granted loans.

The Commonwealth Development Corporation also operates in Nigeria to provide funds to public and private agencies involved in the agricultural and industrial development of the country.<sup>17</sup> In addition to holding shares in and granting loans to companies, the C.D.C. also invests in a large number of companies through its subsidiaries - the Development Finance Co., Ltd., and the Northern Nigeria Investments Ltd., which were joint ventures between the former Eastern Nigerian Government and the former Northern Nigerian Government respectively. At the end of 1972, the C.D.C. has invested over £11 million in Nigeria.

The last of the investment agencies to be considered is the International Finance Corporation (I.F.C.), a member of the World Bank Group established in 1956 "to further economic development by encouraging

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<sup>16</sup>N.I.D.B., Annual Report, 1972, Lagos.

<sup>17</sup>More will be said about the activities of the Corporation in Chapters III and IV.



the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development".<sup>18</sup> Since its inception in 1956, the I.F.C. has invested in four projects in Nigeria in partnership with British and Japanese private investors, the C.D.C. and the Nigerian Federal and States Governments. At the end of 1973, the I.F.C. had invested over \$4 million in Nigeria.

The existence of the investment agencies has not only attracted many foreign investors to Nigeria through the risk capital, technical and management services provided, but the activities of the agencies and their foreign partners have also helped to accelerate the growth of industrial and agricultural development in Nigeria.

#### CONCLUSION

Nigeria provides a classical example of a land of want and plenty. Nigeria is an agricultural society and the agricultural sector employs 70 per cent of the working population, provides over 50 per cent of the export earnings and contributes over half of the GDP. In recent years, the depressed state of the Nigerian agriculture has highlighted the under-developed nature of the Nigerian economy. A large majority of Nigerians are poor, underfed and disease-stricken. Heavy employment and meagre wage employment are two additional features of the Nigerian economy. Yet, the country is rich in human and natural resources which are not only under-utilized but are also misutilized. If Nigeria is to utilize its human and natural resources appropriately and fully, there is an urgent need for rapid economic development. Certain factors are necessary for rapid economic development in Nigeria and they include

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<sup>18</sup> I.F.C., Article One, Articles of Agreement, reproduced in I.F.C. Annual Report, 1973.

land and its resources, a healthy and skilled labour force, an availability of financial investment resources, adequate infrastructure, changes in attitudes and traditional institutions, and improvements in and extension of knowledge and technology. While the majority of the factors listed above can be provided by a rigorous mobilization of domestic resources, external resources are required to make up the deficiency in the supply of some factors. Not only will modern technologies accompany the inflow of external resources to Nigeria, such resources may also provide a useful cushion to alleviate the foreign exchange bottleneck which has acted as a strait-jacket on economic development in many less developed countries. Whether or not these advantages have accompanied British direct investments to Nigeria will be found out in the remaining part of the thesis.

## CHAPTER II

### THE MAGNITUDE AND THE SIGNIFICANCE OF BRITISH DIRECT INVESTMENT

#### IN NIGERIA

This chapter is concerned with the significance of U.K. direct investment in the Nigerian economy. Attention will be focussed on the level and proportion of total investment accounted for by Britain, the sectoral distribution of such investments and the motivation to invest in Nigeria of British companies. In addition, an attempt will be made to show that the inflow of British capital to Nigeria was closely related to the pattern of trade between Nigeria and Britain by investigating the level of British investment in distribution.

#### THE MAGNITUDE OF INVESTMENT

Among the things which can be associated with British rule in Nigeria, apart from the inherited political democracy, is the existence of British capital in Nigeria. British capital in Nigeria is as old as British rule itself. Nigeria is the most important absorber of British capital in Black Africa and is only surpassed by South Africa in the whole of Africa. The Table 2.1 following shows the book values of the cumulative private investment of the U.K. compared with the total foreign investment in Nigeria. Cumulative investment is the overall total of investment to-date. The first point to note in Table 2.1 is the rapid growth in U.K. investment in Nigeria since 1960. Between 1960 and 1968, U.K. investment in Nigeria grew at an annual compound rate of 10 per cent. Total foreign investment, on the other hand, grew at an annual compound rate of 14 per cent over the same period. The breakdown of U.K. total investment into paid-up capital and reserves



TABLE 2.1

BOOK VALUES OF CUMULATIVE INVESTMENT OF THE U.K. AND  
TOTAL FOREIGN INVESTMENT IN NIGERIA (N£'MILLION)

YEAR	TOTAL FOREIGN INVESTMENT IN NIGERIA	THE BREAKDOWN OF U.K. INVESTMENT			U.K. AS A PERCENTAGE OF TOTAL INVESTMENT
		PAID-UP CAPITAL AND RESERVES	OTHER LIABILITIES	TOTAL U.K. INVESTMENT	
1960	179.9	-	-	120.9	67.2
1961	203.2	-	-	134.7	66.3
1962	220.9	47.8	87.8	135.6	61.4
1963	258.8	65.2	87.4	152.6	59.0
1964	321.8	82.2	98.4	180.6	56.1
1965	377.0	112.2	89.4	201.6	53.5
1966	426.4	141.2	86.0	227.2	53.3
1967	474.0	164.4	76.4	240.8	50.8
1968	510.7	192.9	68.3	261.2	51.1

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW, 1965-1971.

and other liabilities reveals that the other liabilities accounted for more than half of the total investment between 1962 and 1964. Other liabilities are companies' indebtedness to their head offices and other foreign institutional moneylenders. Since 1965 paid-up capital and reserves have been growing very fast and by 1968 they represented 73 per cent of U.K. total investment in Nigeria. The rapid increase in the paid-up capital and reserves component of the U.K. investment and the fall in other liabilities were due to (a) the run-down of companies' indebtedness to their head offices. Between 1965 and 1967, nearly £30 million were paid by British companies operating in Nigeria to their head offices in the U.K. And (b) as companies ploughed back their profits as a result of government economic policies prohibiting repatriation during the Nigerian crisis, retained earnings increased the paid-up capital and reserves. Another point worth noting is that, although total U.K. investment in Nigeria has been

increasing from year to year since 1960, the percentage share of U.K. investment in total foreign investment has, however, been declining. The main reason for this is the granting of exploration rights to oil companies from the United States, France, Holland and Italy which were formerly monopolized by the Shell B.P. Group. The exploration activities of the oil companies from these countries have swollen the inflow of capital to Nigeria from the countries as Table 2.2 below will show.

TABLE 2.2

CHANGES IN CUMULATIVE FOREIGN INVESTMENT BY ORIGIN 1962-68 (£MILLION)

COUNTRY/ REGION OF ORIGIN	1962		1968		INCREASE 1962-68	PER- CENTAGE INCREASE 1962-68
	N£MILLION	PER- CENTAGE	N£MILLION	PER- CENTAGE		
United Kingdom	135.6	61.4	261.2	51.1	125.6	92.6
United States	19.4	8.7	103.5	20.3	84.1	433.5
Western Europe	46.8	21.2	110.5	21.6	63.7	136.1
Others	19.1	8.7	35.5	6.9	16.4	85.8

SOURCE: CALCULATED FROM: CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW, 1965-1971.

Table 2.2 shows changes in cumulative investment between 1962 and 1968. Although the U.K. was the most important investor in Nigeria in 1968, her percentage increase in investment was the second lowest over the 1962-1968 period. The United States, on the other hand, increased its total investment four-fold between 1962 and 1968. The annual

compound growth rates for the period 1962-1968 are as follows:<sup>20</sup>

United Kingdom	11.6 per cent
United States	32.2 per cent
Western Europe	15.4 per cent
Others	10.7 per cent
Total	15.0 per cent

The growth rate figures show that the U.K. achieved the second lowest annual growth in total investment over the 1962 to 1968 period in Nigeria. Another important point to note is the difference in the growth rates of U.K. investment during the 1960-1968 period and 1962-1968 period. While U.K. investment grew at an annual compound rate of 10 per cent during the 1960-68 period, a higher annual compound growth rate of 11.6 per cent was achieved during the 1962-1968 period. This means that U.K. investment grew more rapidly between 1962 and 1968 than between 1960 and 1962. The main explanation for the slow growth of U.K. investment in Nigeria between 1960 and 1962 was the uncertainty created by Nigeria's independence in October 1960 among U.K. investors. Faced with a new Nigerian government which was likely to remove some of the political advantages enjoyed under the British colonial government, there was a run-down of head office liabilities by British companies which led to an outflow of over £7 million

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<sup>20</sup> Annual compound growth rates are calculated by using end point ratios,

$$\left(1 + \frac{r}{100}\right)^t = \frac{Y_t/A}{1} \dots\dots (1)$$

where  $Y_t$  is the value at the end of period  $t$   
 $A$  is the initial value  
 $t$  is the time period.

It follows from equation (1) that  $\text{Log} \left(1 + \frac{r}{100}\right)^t = \text{Log} \frac{Y_t/A}{1}$

which equals  $\frac{1}{t} (\text{Log } Y_t - \text{Log } A)$ . Therefore

$$\frac{r}{100} = \text{antilog} \left( \frac{1}{t} (\text{Log } Y_t - \text{log } A) \right) - 1.$$



in 1962. The impact of oil investments on the United States' investment in Nigeria is clearly reflected in the highest growth rate achieved by the country during the 1962-1968 period. The discovery of oil in Nigeria encouraged more oil companies to seek exploration licences from a post-independence Nigerian government which was prepared to grant licences to new oil companies in order to break the monopoly of Shell-BP. When Nigeria obtained political independence in 1960, there were only two oil companies operating in the country. At the end of 1968 there were nine oil companies operating in Nigeria, out of which five were American major oil companies. The rapidly increasing investments of the American oil companies and the fact that the United States started with a low base figure in 1962 resulted in a very high growth rate of the United States' investment in Nigeria between 1962 and 1968. The growth in the investments of Western Europe in Nigeria during the 1962-1968 period was due to the investment activities of the Italian, French and Dutch oil companies. The rapid increase in oil investments undertaken by American and Western European oil companies provides the explanation for the rapid growth in the total volume of investment in Nigeria and the changes in the sources of foreign investment.

#### SECTORAL DISTRIBUTION OF CUMULATIVE INVESTMENT

The sectoral distribution of U.K. investment in Nigeria is not available in the Central Bank of Nigeria's publications. However, the Board of Trade provides information on the extent of U.K. investment in agriculture, commerce and industry, and others. The reconciliation of the Board of Trade figures and the Central Bank of Nigeria's figures gives a broad sectoral breakdown of U.K. investment in Nigeria, as Table 2.3 shows. The first point to note is the slow growth of U.K. investment in the Nigerian economy excluding the petroleum industry, banking and insurance investments. There was a year-to-year fall

TABLE 2.3

## SECTORAL DISTRIBUTION OF CUMULATIVE INVESTMENT (£MILLION)

Year	COMMERCE, INDUSTRY AND AGRICULTURE AND OTHERS		PETROLEUM INVESTMENT, BANKING AND INSURANCE		TOTAL N£ MILLION
	£MILLION	PERCENTAGE OF TOTAL	£MILLION	PERCENTAGE OF TOTAL	
1962	92.8	68.4	42.8	31.6	135.6
1963	97.8	64.1	54.8	35.9	152.6
1964	90.4	50.1	90.2	49.9	180.6
1965	94.7	47.0	106.9	53.0	201.6
1966	91.2	40.1	136.0	59.9	227.2
1967	95.0	39.5	145.8	60.5	240.8
1968	80.7 <sup>a</sup>	30.1	180.5	69.1	261.2

SOURCES: 1. BOARD OF TRADE JOURNAL, September 23, 1970.  
2. CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW 1968-1971.

NOTE: a: The Board of Trade figure of £93.6 million (sterling) was converted into Nigerian pounds to take into account the devaluation of the pound in 1967. The Central Bank of Nigeria's exchange rate in 1968 was N£1 = £1.16 (sterling).

in the percentage proportion of the total U.K. investment in other sectors of the Nigerian economy excluding petroleum, banking and insurance investments due to a rapid increase in the total U.K. investment brought about by increased petroleum investments. Of the total U.K. investment in the petroleum industry, banking and insurance, petroleum investments accounted for over 95 per cent. Between 1962 and 1968, petroleum investments increased more than four-fold and at the end of 1968, petroleum investments accounted for over 65 per cent of the total U.K. direct investment in Nigeria.<sup>21</sup>

<sup>21</sup>More will be said about U.K. investment in the petroleum industry in Chapter V.



While it is true that a large proportion of U.K. investment is concentrated in the petroleum industry, it must be emphasized that British investment in Nigeria is more diversified throughout the Nigerian economy than investments from other foreign sources.

#### NET U.K. DIRECT INVESTMENTS

We have seen in the previous sections that the U.K. is the major investor in Nigeria and that since 1962 her proportion of the total investment has been falling steadily. What is being attempted here is to find out whether the U.K. increased her net investment at the same rate as the total net foreign investment was increasing.

Table 2.4 shows the net capital inflow from the U.K. to Nigeria compared with the total net foreign capital inflow.

TABLE 2.4

NET FLOW OF U.K. AND TOTAL FOREIGN INVESTMENT 1961-68 (£MILLION)

DATE	TOTAL NET INFLOW	U.K. NET INFLOW	U.K. NET INFLOW AS A PERCENTAGE OF THE TOTAL
1961	27.3	13.8	50.4
1962	17.7	2.9	16.4
1963	37.9	17.0	44.9
1964	63.0	28.0	44.4
1965	55.2	21.0	38.0
1966	49.4	25.6	51.0
1967	47.6	13.6	28.0
1968	36.7	20.4	55.0

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW, 1968-1971.

Net capital inflow is the total capital inflow minus repatriated profits, dividends, interest and other capital transfer. The first point to note is that net capital inflow from the U.K. accounted for over half of the total net capital inflow to Nigeria in only three years of the eight years under consideration. U.K. net capital inflow reached its lowest level ever in 1962 when about £3 million was invested and the



reasons for this were (a) the repatriation of profits by companies operating in commerce and industry and (b) the settlement of inter-company liabilities. The fact that there was a net capital inflow from the U.K. in 1962 was due to the retained earnings of Shell-BP which were meant for the expansion of the company's activities in the petroleum industry. Total net capital inflow from all sources and from the U.K. increased to reach its highest level in 1964. Several reasons explain the high level of total net capital inflow from all sources and from the U.K. in 1964 and these are (a) the inclusion of banking and insurance inflows in the 1964 Survey which were never included in the previous surveys added £10.4 million to the total capital inflow to Nigeria during the year; (b) the establishment of the Nigerian Industrial Development Bank Ltd. in 1964 attracted substantial capital from foreign financial institutions and companies who contributed part of its initial capital, (c) about 25 per cent of registered companies in 1963 which were in their pre-production planning stage started full production in 1964 and so brought in substantial capital for their operations and (d) the successful oil exploration efforts in 1964, apart from leading to an expansion in the operations of existing oil companies, also attracted additional new companies to Nigeria. The total net capital inflow continued to fall after 1964 in response to the uncertainties associated with the political disturbances in the country. In 1967, the net capital inflow from the U.K. reached its lowest level since 1963 due to the fact that British companies in the war-affected areas had, to a large extent, ceased operations. The recovery of net capital inflow from the U.K. in 1968 was due to the increase in liabilities to head office and trade and suppliers' credit. Of the total net capital inflow to Nigeria during the 1961-68 period, which amounted to nearly £335 million, the U.K. was responsible for 42 per cent. The fact that the U.K. still accounted for over half

of the total foreign investment in Nigeria in 1968 despite the slow growth of her net capital inflow was due to the U.K.'s substantial investment in Nigeria before 1961.

SECTORAL DISTRIBUTION OF U.K. NET INVESTMENT

The Board of Trade frequently publishes the net flow of U.K. investment to different parts of the world. Table 2.5 shows the net flow of U.K. investment to Nigeria excluding that of the oil companies. The first point to note is that in three out of the eight years under

TABLE 2.5

U.K. NET INVESTMENT FLOWS TO NIGERIA 1963-1970 (£MILLION)

1963	1964	1965	1966	1967	1968	1969	1970
7	-5	7	-1	-3	3	24	23

SOURCE: BOARD OF TRADE JOURNALS, April 8, 1970 and March 23, 1972.

consideration, there was a disinvestment by the U.K. in sectors other than oil exploration. The disinvestments of 1964, 1966 and 1967 were due to (a) the run-down of inter-company indebtedness and (b) the desire of subsidiary companies to build up their credit positions with their head offices. The enormous capital required to repair the war damages and the ensuing boom which began at the end of the war in January 1970 led to a record inflow of capital to Nigeria from the U.K. in 1969 and 1970. Excluding 1969 and 1970, the annual average U.K. net investment flow to Nigeria was £1.3 million which cannot be said to be very substantial.

We have seen from the previous section that the U.K. net investment, excluding that of the oil companies, was very small indeed, especially during the 1963-68 period. What remains to be investigated is the sectoral distribution of the meagre net investment. Table 2.6 shows the sectoral distribution of U.K. net investment in Nigeria



excluding the oil companies.

TABLE 2.6

SECTORAL DISTRIBUTION OF U.K. NET INVESTMENT IN NIGERIA (£MILLION)

SECTOR	1963	1964	1965	1966	1967
Agriculture	"	" )	-0.6 )	-0.6	"
Mining	-0.2	-0.1 )	-0.6 )	-0.6	-0.2
Electrical & Mechanical Engineering	"	-	-	-0.2	-0.2
Vehicles & Shipbuilding	-	-	-	-	-
Other Manufacturing Industries	3.4	0.3	1.9	2.4	0.7
Construction	0.6	-0.2	0.6	0.5	-0.8
Distribution	-0.1	-4.9	3.2	-3.4	-3.9
Transport & Communications	0.8	-1.0 )	0.1 )	-1.1	-0.3
Shipping	"	" )			
Other Activities (Incl. Banking and Insurance)	2.4	2.1	2.2	-0.1	2.5
TOTAL	6.6	-4.8	7.4	-1.2	-2.5

SOURCES: 1. BOARD OF TRADE JOURNALS, 19.7.68 and 9.5.69.  
2. SUPPLIED BY THE BOARD OF TRADE, STATISTICS SECTION, LONDON.

NOTE: " means 'not available'.

The first point to note is that the differences between the figures in Table 2.5 and the total in Table 2.6 are due to the rounding-off of figures in Table 2.5. The second point to note is that net capital inflow from the U.K. during the 1963-67 period was absorbed by three sectors only and these were: other activities, of which banking and insurance are the most important, other manufacturing activities, and construction. The highest level of disinvestment occurred in distribution where the run-down of merchant stock resulted in an outflow of over £12 million during the period. In addition, the restriction on imports of non-essential consumer goods after 1961 and the import substitution policy of the Nigerian government resulted in the withdrawal of capital from distribution.<sup>22</sup>

<sup>22</sup>More will be said about why British companies withdrew from distribution in Chapter IV.



As more opportunities for making profits in the manufacturing sector were discovered, British merchant companies continued to redeploy a substantial part of the capital withdrawn from distribution into manufacturing. It is also worth noting that no additional investment took place in the agricultural sector during the period. The fact that in three of the five years under consideration, figures of investment in agriculture were not available could only serve to indicate the interest which U.K. companies took in Nigerian agriculture. It is difficult to imagine how the effects of British investment could be felt by a large majority of the population if agriculture is neglected since the latter sector is the mainstay of the Nigerian economy.<sup>23</sup>

Since the investments of the oil companies are not included in the Board of Trade Figures, we can estimate the extent of the companies' investment by comparing the Central Bank of Nigeria's figures with those of the Board of Trade. Table 2.7 shows the net investments of U.K. oil companies in Nigeria.

TABLE 2.7

NET INVESTMENT FLOW OF THE U.K. OIL COMPANIES 1963-1968 (N£MILLION)

	A	B	C	
YEAR	TOTAL NET INVESTMENT (INCLUDING OIL COMPANIES)	TOTAL NET INVESTMENT (EXCLUDING OIL COMPANIES)	INVESTMENT BY OIL COMPANIES	C AS A PERCENTAGE OF 'A'
1963	17.0	7	10	58.8
1964	28.0	-5	33	117.9
1965	21.0	7	14	66.7
1966	25.6	-1	26.6	103.9
1967	13.6	-3	16.6	122.1
1968	20.4	2.6*	17.8	87.3

SOURCES: 1. CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, 1968-71.  
2. BOARD OF TRADE JOURNAL, APRIL 8, 1970.

NOTE: \* : The figure of £3 m. (sterling) recorded by the Board of Trade was converted into the Nigerian pound (N£1 = £1.16 sterling in 1968) to take account of the devaluation of 1967.

<sup>23</sup> More will be said about why British companies do not invest in Nigerian agriculture in Chapter III.

A large proportion of U.K. net investment between 1963 and 1968 went to oil exploration in Nigeria. In three of the six years under consideration, net investments by the oil companies exceeded the total U.K. net investment by 18 per cent, 4 per cent and 22 per cent respectively in 1964, 1966 and 1967. The conclusion drawn from this analysis is that oil exploration has been the major absorber of U.K. net capital inflow since 1963.

#### COMPONENTS OF U.K. NET INVESTMENT

Capital inflow consists of unremitted profits, increase in equity holdings and debentures, commercial credits and other short-term loans from overseas parent and affiliate companies. The Board of Trade has been kind enough to supply the break-down of U.K. net investment (excluding the oil companies) in Nigeria between 1958 and 1964. Table 2.8 shows the component of U.K. net investments in Nigeria.

TABLE 2.8

#### COMPONENT OF U.K. NET INVESTMENT IN NIGERIA 1958-64 (£MILLION)

COMPONENT	1958	1959	1960	1961	1962	1963	1964
Unremitted Profits	1.8	2.1	2.1	-5.5	-1.8	2.7	2.8
Nett Acquisitions	0.4	2.9	1.2	1.6	3.6	9.4	0.5
Head Office Indebtedness	1.8	0.7	0.1	1.3	-3.6	0.4	1.5
Inter-company Account	0.1	-1.5	3.7	13.1	-2.8	-6.0	-9.4
<b>TOTAL</b>	<b>4.0</b>	<b>4.2</b>	<b>7.2</b>	<b>10.5</b>	<b>-4.6</b>	<b>6.6</b>	<b>-4.8</b>

SOURCE: SUPPLIED BY THE BOARD OF TRADE, STATISTICS SECTION, LONDON.

The two most important sources of U.K. net investments during the 1958-64 period were net acquisitions and unremitted profits. The desire of the U.K. merchant companies to redeploy their capital more widely into the manufacturing sector resulted in the acquisition of ownership interest in many industrial projects undertaken by private and public agencies.



Retained earnings which were contributing some part of total net U.K. investment during the 1958-60 period recorded negative contributions in 1961 and 1962. The repatriation of profits during the 1961 and 1962 period was due to the fear that the newly independent Nigerian government might take some drastic measures which were not favourable to British investors. After repeated assurances from the Ministers of Trade and Finance, some companies began to plough back some part of their profits. Table 2.8 is, however, limited in scope because it did not include net investments by the oil companies. More appropriate data embracing all the sectors of the Nigerian economy is shown below in Table 2.9.

TABLE 2.9

## COMPONENTS OF U.K. NET CAPITAL INFLOW TO NIGERIA 1961-68 (£MILLION)

YEAR	UNREMITTED PROFITS	CHANGES IN FOREIGN SHARE AND LOAN CAPITAL	TRADE AND SUPPLIER'S CREDIT	OTHER FOREIGN LIABILITIES	LIABILITIES TO HEAD OFFICE	TOTAL
1961	1.8	5.9	1.1	-	5.0	13.8
1962	7.1	2.4	0.4	0.4	-7.4	2.9
1963	10.0	6.9	0.1	1.1	-1.1	17.0
1964	11.6	14.4	0.5	-0.7	2.2	28.0
1965	25.2	1.1	0.4	-1.0	-4.7	21.0
1966	38.9	0.1	0.6	0.4	-14.4	25.6
1967	18.4	1.4	1.7	2.4	-10.3	13.6
1968	12.6	3.1	3.6	0.3	0.8	20.4

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW 1968-1971.

The first observation on Table 2.9 is that unremitted profits or retained earnings remained the single most important source of U.K. net capital in Nigeria. During the 1961-1964 period, unremitted profits accounted for 51 per cent of the U.K. net capital inflow to Nigeria. During the 1965-68 period, however, unremitted profits were substantially higher than the total net capital inflow for the period. There are several reasons for these observations. Between 1961 and 1964, there was no restriction on the repatriation of profits from Nigeria and as a



consequence British companies saw no reason for retaining a substantial part of their profits before 1965. In addition, the social instability which prevailed in Western Nigeria, during 1964-64, threatening peace all over the country, created a situation which inspired caution in further commitment of new capital resources in the country by U.K. companies. The increased resort to internal financing after 1961 was, no doubt, by firms already firmly established in the country, who found it profitable to maintain and even expand their operations where it was advisable to do so. It should therefore not be surprising that the British oil company, Shell-BP, accounted for all the unremitted profits component of U.K. net capital inflow to Nigeria during the 1961-64 period. As the political disturbances of Western Nigeria spread to other parts of the country, the Nigerian government introduced a very strict scrutinization procedure for applications for profits repatriation and other capital transfers in 1965 and 1966. Many British companies were forced to plough back their profits when there was no means of repatriating them out. With the outbreak of war in 1967, there was a total ban on the repatriation of profits. The ban was not lifted until 1972. Despite the ban on profit repatriation after 1966, the magnitude of U.K. unremitted profits declined as a result of the curtailment, and in some cases, cessation of investment activity coupled with losses sustained from war damages. Many British companies, especially the Shell-BP Company and the United Africa Company, suffered severe losses during the Nigerian civil war. Foreign share and loan capital were an important source of new U.K. capital investment in Nigeria during the review period, especially during the first four years of the period. It is observed that, taking consecutive years from 1961 to 1968, there existed an inverse relationship between the magnitude of unremitted profits and the inflow of foreign share and loan capital. During the period 1961-1964 when British companies could repatriate their profits,

foreign capital as a component of net capital inflow was substantial. During the 1965-1968 period when unremitted profits were substantial, foreign share and loan capital fell drastically. It would therefore appear that the level of unremitted profits resulting from exchange control restrictions, coupled with investment opportunity created by the ban on importation of manufactured goods in Nigeria did influence the magnitude of foreign share and loan capital during the review period. In addition, there was the likelihood that as companies resorted to more internal financing, there might have been no need for foreign loan capital.

Trade and suppliers' credit is a short-term trade credit granted by a seller who agrees to be reimbursed by the purchaser over a period of time. Trade and suppliers' credit has the main advantage of bailing out a purchaser from a difficult time when instant payments cannot be made. The supplier may also gain because trade and suppliers' credit may enable him to sell more goods than otherwise. The year to year contribution of trade and suppliers' credit to British net capital inflow before the imposition of exchange restrictions in 1967 was due to the Nigerian government's regulation which imposed 180 days' delay before the import bill of certain goods could be settled. In 1967 and 1968, the strict exchange control measures and the total ban on the repatriation of profits and capital delayed the liquidation of external liabilities due and this explains why trade and suppliers' credit was the second most important source of U.K. net capital inflow to Nigeria in 1968.

Other liabilities, which are receipts from and payments to foreign affiliate companies represented the second least important source of U.K. net capital during the review period. During the 1961-68 period receipts from the head office were not a source of net capital inflow to Nigeria. More capital was transferred to the head office than was



received from it. During the 1961-64 period when British companies operating in Nigeria were free to repatriate their profits, the negative figures of liabilities to head offices recorded in 1962 and 1963 were due to the willingness of British companies to build up their credit positions with their head offices. Between 1965 and 1967, there was a restriction on the repatriation of profits but there was no ban on the transfer of capital to the parent company. As a consequence, British companies took advantage of the loophole provided by a distinction between repatriated profits and capital transfer to head offices to repatriate a large proportion of their profits to the U.K. under the disguise of capital transfer to their head offices. When in 1968 the loophole was plugged by a ban on profits repatriation and capital transfer to head offices, liabilities to head offices made a moderate contribution to U.K. net capital inflow to Nigeria.

Apart from the opportunities which gaps in governments' policies can offer to companies, there are three other methods by which financial capital can be transferred from the subsidiary company to the parent company and these are (a) the accounting practices of firms which enable the subsidiary company to be in substantial debt to the parent company; (b) the transfer of goods at very low prices from the subsidiary company to the parent company and (c) the transfer of goods at higher prices from the parent company to its subsidiary. British companies operating in Nigeria do not transfer goods to their parent companies because (a) they concentrate on consumer goods which are meant for the Nigerian market and (b) the Nigerian Marketing Board is a monopsony as far as Nigerian primary products are concerned. If U.K. companies need Nigerian primary products, they can only buy them from the Marketing Board. The other method by which U.K. companies operating in Nigeria can transfer their financial capital to the U.K. is through the high prices the parent company can charge on purchases made on behalf of its



subsidiary. The opportunity for transfer pricing occurs because subsidiary companies purchase their raw materials, intermediate and capital goods requirements through their parent companies rather than in the free market. The predictability of the demand of the subsidiary companies, reinforced by the restriction imposed on dealings with other suppliers confers upon the parent companies the unique advantage of marking-up the prices of goods supplied to their subsidiaries without a reduction.

There are three major reasons why companies may adopt transfer pricing as a method of transferring financial capital. The first reason is to avoid tax payment both at home and abroad. Since only profits are taxed by most governments, hidden payments in the form of high mark-up prices for imported raw materials, intermediate and capital goods offer a good method of tax evasion. What firms are interested in is their post-tax profit and as long as this can be increased, they cannot be bothered about what happens to their tax payment to the government. Transfer pricing is a device which enables firms to increase their post-tax profits without any change in pre-tax profits. The second reason for transfer pricing is that when restrictions are imposed on the repatriation of profits, high mark-up prices for imported goods may be the most important way of repatriating substantial profits. The third reason is that the profits earned by a company may be so high as to provoke a public outcry if shown in the profit and loss account and the only way to get round this problem is through transfer pricing which may substantially disguise the level of actual profit.

How does this practice fit into the Nigerian situation? There is no doubt that some British companies operating in Nigeria do mark-up the prices of their imports substantially above the international price levels. As an example, a British drug firm in Nigeria was found to be selling some drugs at higher prices than Nigerian retailers

who obtained their supplies from Nigerian businessmen who ordered directly from the U.K. When the Nigerian branch manager of the firm was asked why this was so, he explained that the prices of supplies from the U.K. as quoted by their parent company were so high they were only selling at costs plus freight charges. The above example may not be enough to conclude that the British drug firm concerned was marking-up the prices of drugs substantially above what they cost in England since it was possible for Nigerian importers to deal with firms offering cheaper prices than those firms from which the British drug parent company was ordering drugs. It must be added, however, that it was most unlikely that Nigerians could get more favourable treatment from British companies than could other British companies.

Scanty though the supporting evidence may be, there are certain indications that some U.K. companies operating in Nigeria use transfer prices to transfer financial capital out of the country. In addition to the use of transfer prices in transactions between subsidiary companies and parent companies, a vertically integrated company whose various activities in the same line of production and marketing are scattered about in many countries has a unique opportunity of using transfer prices to switch financial resources from one country to another. Shell-BP is an example of a British company, vertically integrated and with the power to switch financial resources to and from Nigeria through the use of transfer prices. While it is possible for Shell-BP to use transfer prices to switch financial capital to Nigeria, there are several reasons why the opposite is likely to be the case. Firstly, there is very limited opportunity for the use of large financial resources in Nigeria by Shell-BP. The company has not diversified into petrochemicals where huge resources would be required. Secondly, the return on resources kept in Nigeria is likely to be very low since the rate of interest on savings is very low. Thirdly, political instability may



make the repatriation of such capital difficult and unsafe. Lastly, Nigerian currency is not an international currency and any attempt by Shell-BP to transfer capital from Nigeria must be accompanied by the permission of the Central Bank of Nigeria. While it can be argued that transfer prices could be used to transfer financial resources out of the country in the future, the fact remains that the Nigerian Government has in recent years been very active in the fixing of posted prices for crude oil and this is likely to be the case in future. In addition, more and more countries are entering into bilateral agreements with producing countries on the level and prices of crude oil for their refineries, thus removing the opportunity for the oil companies to buy at cheaper prices in producing countries and sell at higher prices in importing countries. It can therefore be reasonably postulated that if Shell-BP adopts transfer pricing in its operations in Nigeria, the practice will not result in an inflow of financial resources to the country. It is therefore likely that transfer pricing will be used to switch capital to countries where high returns are likely to be earned and where the capital is safe.

Like other international oil companies operating in Nigeria, Shell-BP not only produces crude oil in the country, but it also refines, distributes and markets the final products. The vertically integrated nature of Shell-BP enables the company to pay a low price for Nigerian crude oil and to sell the crude oil at a higher price to its refinery overseas, thus making a large untaxed income in its operations. One of the main reasons why exporting and importing countries complain about the oil companies is because they charge different prices for crude oil in exporting and importing countries.<sup>24</sup>

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<sup>24</sup>E. T. Penrose, "The Large International Firm in Developing Countries", Allen & Unwin, London, 1968.



The ability of the oil companies to charge different prices for crude oil in exporting and importing countries provides them with an instrument for switching financial resources from one country to another in order to avoid taxation. It should therefore not be surprising that some people have referred to the oil companies as "masters in tax evasion". While there is no concrete evidence to substantiate the fact that Shell-BP has been using transfer prices to switch financial resources from Nigeria overseas, there is a general belief that Shell-BP has been adopting the method. This belief is reinforced by the ability of the Nigerian government to sell the crude oil accruing to it from its 35 per cent ownership stake in Shell-BP's operations in Nigeria at ~~£~~16.80 a barrel in the free market when Shell-BP only pays ~~£~~8.31 a barrel for the crude oil the company produced in Nigeria.<sup>25</sup>

In addition, the interviews conducted in Nigeria and in England seem to suggest that U.K. companies do mark-up the prices of purchases undertaken on behalf of their Nigerian subsidiaries overseas. British companies interviewed in England repeatedly stated that it was to get favourable prices for their subsidiaries that they undertook overseas purchases on their behalf. In 1971, however, the views expressed by some Nigerian managers, when asked about the head offices in London undertaking their overseas purchases on their behalf, were different from the views expressed by the head offices in 1972. The majority of the Nigerian managers interviewed held the view that better prices would be obtained for their imports if they were free to import from where they liked.

Perhaps it is appropriate to pause at this stage to consider the implication of transfer prices for the theory of the firm. In economic

theory, the firm is usually regarded as an "unibrain", a decision-making entity whose action is oriented towards making profits. Without going into the controversy about the motive or motives of the firm, it can be safely asserted that all firms want to survive and grow, and in order to do this, they must earn profits. The level of post-tax profits earned by a firm is affected, among other things, by the government's economic and monetary policy. In the economic theory of the firm, there is the omission of the government's effect on the decision of the firm. Transfer pricing is essentially an attempt to reconcile the government with the decision-making process of the firm. In their drive to earn high profits in order to survive and grow, firms will not only search for profitable opportunities for investment, but they will also be preoccupied with the removal of obstacles to the achievement of maximum benefits from successful investments. While it is possible for a subsidiary company to transfer financial resources to its parent company overseas through head office transfers, the fact remains that this method can be easily noticed and stopped, as the Nigerian case showed in 1968. Transfer pricing provides the firm with the unique opportunity of transferring substantial resources from one company to another unnoticed and without provoking public outcry.

There is no doubt that multi-national companies do mark-up the prices of their intermediate and capital goods in some developing countries where they operate. C. Cooper, for example, found that the mark-up prices for intermediate goods were substantially higher than international prices in Turkey.<sup>26</sup> In his investigation of costs in Colombian firms, Vaitos found that mark-up prices for intermediate products and capital goods in the Colombian pharmaceutical, electronics, rubber and

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C. Cooper, "The International Transfer of Technologies", Seminar, Sussex University, Brighton, 5.6.70.



chemical industries were between 25 and 200 per cent above the international price.<sup>27</sup> Vaitzos came to the conclusion that "If Colombia could reduce the prices of its intermediate products and capital goods by only 15 per cent it could have saved in 1968 foreign exchange equivalent to more than 50 per cent of its total earnings from all its exports outside of coffee and petroleum, close to U.S. \$ 100 million".<sup>28</sup> The findings of Vaitzos indicate that the use of transfer prices to transfer financial capital can have an unfavourable effect on economic development through the balance of payments crisis associated with the drain on foreign exchange resources to pay for imported intermediate products and capital goods. There can be, in the final analysis, only one answer to the problem of transfer prices and that is for the countries where they are used to develop their intermediate and capital goods industries so that most of their requirements are met from internal production. The conclusion to be drawn from the discussion on the use of transfer prices to transfer financial capital is that if companies actually do it, as seems likely, then the profits shown in their profit and loss accounts become a defective indicator of actual profitability. There is every possibility that as the level of implicit or hidden payments in the form of mark-up prices for imports goes up so also is it likely that the level of explicit payments or profits will go down.

#### THE MOTIVATION TO INVEST

We have seen in the previous sections that U.K. investment in Nigeria has been increasing since 1961 and the pace has not slowed down. The question which this section is seeking to answer is why U.K. businessmen invest in Nigeria. The first pioneer work on motivation to invest was

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<sup>27</sup>C. V. Vaitzos, *Transfer of Industrial Technology to Developing Countries through Private Enterprise*, Sussex University, 1970.

<sup>28</sup>C. V. Vaitzos, *Ibid.*, p. 10.



carried out in 1964 by A. N. Ho kam.<sup>29</sup> The four most frequently cited motives in his survey were:

1. The firm had long held a good market relation with Nigeria. Aiming to preserve the market for the parent company in the face of rising duties or local competition (58 per cent).
2. Aim to expand sales into a new market otherwise difficult by just exporting (30 per cent).
3. As a result of the parent company's strategy of investing in key global areas. Convinced that Nigeria is a very important area and that it might be too late to gain entry profitably into the market if the decision were postponed too long (28 per cent).
4. Aim at forestalling a major competitor's move or possible move into Nigeria (26 per cent).

Another survey carried out by R. S. May<sup>30</sup> in England came out with many frequently mentioned motives. The factors influencing the investment of 26 manufacturing companies interviewed by R. S. May were the following:

<u>FACTOR</u>	<u>FREQUENCY OF MENTION</u>
1. To avoid being shut out by tariffs and other restrictions	15
2. Specific invitation of/encouragement from the Nigerian Govt.	11
3. Long-term prospects of Nigerian Economy	9
4. To take advantage of increased demand	7
5. Activities of competitors	7
6. Request by/encouragement from company already in Nigeria	5
7. Profits on supply of machinery	3
8. Presence of raw materials	2
9. Others	8

From the questionnaires sent out and the interviews conducted by the writer, the motivation to invest of 37 British Companies operating in Nigeria is summarized as follows:

1. The Nigerian economy is inherently strong and we are confident about the long-term prospects for industrial development in the country (38 per cent).

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<sup>29</sup>A. N. Ho kam, The Motivation to Invest and the Locational Pattern of Foreign Private Industrial Investments in Nigeria, Nigerian Journal of Economics and Social Studies, March, 1966.

<sup>30</sup>R. S. May, Direct Overseas Investment in Nigeria 1953-1963: Some aspects of its constitution and contribution to Nigeria's Economic Development, Scottish Journal of Political Economy, November, 1965.

2. The tariff barriers erected against imports made domestic production a necessity if we do not wish to lose our market in Nigeria (30 per cent).
3. To be able to compete on equal footing with our competitors (18 per cent).
4. Our existing investment in Nigeria and the resources and knowledge accumulated through time provided us with an incentive to venture into new but closely related areas (13 per cent).

The three investigations provide us with a useful guide as to why British businessmen invest in Nigeria. There is a variation in the emphasis each investigation puts on different motives. Such a variation is to be expected due to the place and the timing of the interviews. While Horkam carried out his investigations in Nigeria, R. S. May and the writer carried out their studies in England. Also, Horkam and May carried out their studies in 1964, whereas this writer conducted his interviews in 1972. However, it must be accepted that, even with the differences in the emphasis laid on different factors, the results of the three investigations emphasize the same factors. The confidence which British investors have in the long-term prospects of the Nigerian economy has been frequently mentioned. Even with the tribal politics of the early post-independence period and the ensuing civil war which came to an end in 1970, British investors regard the future prospects of their investments in Nigeria with great optimism. The rapidly growing population and the associated increase in the demand for goods and services brought about by a rising standard of living must have been and will be acting as a great incentive for industrial expansion. On the modernisation programmes which represented a further investment of millions of pounds undertaken by the U.A.C. Group in Nigeria in 1972, the Group's magazine, "Link", notes that the "growing sophistication of the Nigerian consumer was expanding the market for manufactured goods.



To satisfy these demands some companies within the group had installed new machinery for increased production and others had introduced new products into the Nigerian market.<sup>31</sup>

The increase in the production of petroleum oil which is continuously accelerating the country's foreign exchange earnings will no doubt continue to result in a healthy balance of payments position which will in turn enable profits to be repatriated abroad without much strain on the economy. Many firms feared the erection of tariff barriers and other restrictions against imports into Nigeria as being reasons for domestic production. With the Nigerian government bent on reducing the importation of some goods, high tariffs have been erected to shelter domestic firms from foreign competitors. Businessmen who found exporting to Nigeria too difficult saw no other alternative way of retaining the Nigerian market than by initiating domestic production behind the tariff wall. The activities of competitors have also stimulated investment in Nigeria. The desire of businessmen to hold on to what market they have under their control while diversifying into other new lines to increase their overall market share not only necessitates capital deepening but it also requires capital widening.

Putting all the motives given by businessmen for investing in Nigeria into real perspective, one major aim stands out quite clearly and that aim is to get the highest level of profit possible from every unit of investment. One important British company interviewed, which has substantial investments in many African countries, puts its motive thus: "by investing in these countries, one gets a greater volume of sale and as long as that is profitable it is worthwhile continuing to do so". Implicit in the confidence which businessmen have in the long-term prospects of the Nigerian economy is the belief that high

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<sup>31</sup>West Africa, January 29, 1973.



profits can be earned. The defensive investments of some businessmen to combat the aggressive competition of their rivals were induced by the desire to maintain and expand sales in order to earn more profits. The initiation of domestic production behind tariff walls when export prospects had been made bleak was merely to recoup what would be lost on a reduction in exports through the gains from domestic production. The specific invitations and encouragement given by the Nigerian authorities to some foreign investors would only be considered and accepted if enough profits would be earned. The core of the argument here is that profit is the keystone of the investment arch in Nigeria; it is the central factor upon which investment decisions hinge.

#### BRITISH INVESTMENT IN DISTRIBUTION

The early contact of the British with Nigeria was made by merchant firms who traded in slaves and later shifted to the purchase of commodities like ivory, palm oil and cocoa for sale in the U.K. after the abolition of the slave trade in 1807. British traders were not the only traders interested in the Nigerian trade; they faced stiff opposition from French firms who often challenged them. In order to counteract the challenge of French trading firms, usually backed by the French government, British traders amalgamated to form the United Africa Company in 1879. When the United Africa Company received a royal charter in 1886, Britain gave the company the right to administer and rule Nigeria until 1900 when the company was relieved of this function. The United Africa Company then concentrated all its attention on trading between Nigeria and Britain. It is therefore not surprising that from the period of the first contact of the British with Nigeria up to the early 1960's, the direction of British investment in Nigeria was closely related to the pattern of trade between Britain and Nigeria, as Table <sup>in</sup> 2.10. The table shows the sectoral distribution of U.K.  
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investment in Nigeria in 1968. The first point to note is that the figures in the table added together amount to £89.5 million, which means that the remaining £6.1 million represents investments in agriculture, electrical and mechanical engineering, transport and communications and shipping, for which the breakdown was not available. The same reason explains why the percentages added up would give a total of 95.6, which means the remaining 4.4 per cent was accounted for by the four sectors for which there was no breakdown.

TABLE 2.10

SECTORAL DISTRIBUTION OF THE TOTAL VALUE OF U.K. INVESTMENT  
IN NIGERIA AT THE END OF 1968<sup>1</sup>

SECTOR	VALUE IN £MILLION	PERCENTAGE
Agriculture	"	"
Mining	6.2	6.6
Electrical & Mechanical Engineering	"	"
Vehicles, Shipbuilding & Marine Engineering	-	-
Other Manufacturing	32.8	35.0
Construction	4.1	4.4
Distribution	35.1	37.5
Transport & Communications	"	"
Shipping	"	"
Other Activities	11.3	12.1
TOTAL	93.6	

SOURCE: BOARD OF TRADE JOURNAL, SEPTEMBER 23, 1970.

NOTES: 1: CDC, banking, insurance and oil industries were excluded.

": means 'not available'.

-: means 'nil' or 'negligible'.

Apart from petroleum investments, which were not included in Table 2.12, distribution was the most important absorber of British capital at the end of 1968. The U.K. investments in distribution were undertaken by three merchant firms, the United Africa Company, John Holt Ltd., and Paterson Zochonis of Manchester. The main initial functions of



the British merchant firms were the importation and distribution of British manufactured goods throughout Nigeria and the purchase of Nigerian primary products for sale in the U.K. These functions were succinctly put as "On the one hand the importation, distribution, and sale of manufactured goods of all kinds throughout the countries of West Africa and on the other the buying and marketing overseas of the natural products of the countries prevailed."<sup>32</sup>

During the post-war period, two important changes began in the distribution activities of British merchant firms. The first change was the gradual withdrawal from the purchase of Nigerian primary products. By the end of 1960, the Nigerian Marketing Boards had become the sole buyer and seller of Nigerian primary products. The second change was the gradual withdrawal from retail trade, and the capital thus withdrawn was redeployed in the manufacturing sector.<sup>33</sup> British investments in distribution are at present largely concentrated on wholesale activities. In addition, some retail trading is still carried out by the three merchant firms but only in the cities and in commodities requiring technical knowledge and after-sales services, such as electrical appliances, drugs, motor vehicles and some household consumer durable goods.

#### CONCLUSION

Britain has been the major foreign investor in Nigeria up to the end of 1968 and this situation is explained by the fact that Nigeria was a colony of Britain until the country became independent in 1960. British investment has been increasing from year to year since 1960 as British investors discover new avenues for making profits. Despite the increase in the level of investment emanating from Britain, the proportion of total foreign investment in Nigeria accounted for by

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<sup>32</sup>UAC, A Profile, UAC Ltd., London, 1972, p. 5.

<sup>33</sup>More will be said about the reasons for and the timing of the changes in Chapter IV of the thesis.



Britain has been falling as more oil companies, especially from America and Europe, entered the Nigerian petroleum industry. The exploration activities of these companies have resulted in more rapid increases in the level of investment emanating from their countries of origin. A large proportion of British investment in Nigeria is concentrated on the exploration and production of crude oil and this means in effect that British investment is largely devoted to the provision of a commodity for the international market. Distribution was the second largest absorber of British capital investment at the end of 1968, with the manufacturing sector absorbing a little less than the distribution sector. The Nigerian agricultural sector did not absorb a significant proportion of British direct investments and why this was so will be the subject matter of the next chapter.

CHAPTER III

BRITISH DIRECT INVESTMENT IN THE NIGERIAN AGRICULTURAL SECTOR

This chapter is concerned with the contribution of British direct investment to agricultural development in Nigeria.

THE AGRICULTURAL SECTOR IN THE NIGERIAN ECONOMY

In many respects agriculture is the most important sector of the Nigerian economy. As we pointed out earlier in Chapter One, a large proportion of the Nigerian labour force is engaged in agriculture; the rural sector generates three-fifths of the national income and supplies a large proportion of Nigeria's exports, and is, therefore, an important earner of foreign exchange.

TABLE 3.1

EXPORTS OF MAJOR AGRICULTURAL PRODUCTS 1962-1970 (£N'000s)

	1962	1963	1964	1965	1966	1967	1968	1969	1970
Cocoa	33347	32359	40100	42693	28250	54511	51200	52596	66537
Groundnuts	32426	36646	34056	38033	40816	35594	37973	35404	21771
Groundnut Oil	6177	6528	8144	9533	9667	5920	9362	10462	11606
Groundnut Cake	2452	2735	4634	5251	4695	4211	4884	5058	5520
Palm Kernels	16887	20818	20962	26540	22432	7797	10125	9903	10871
Palm Oil	8937	9364	10755	13842	10962	1338	69	404	566
Raw Cotton	5857	9500	6104	3296	3349	4139	3283	3339	6565
Natural Rubber	11356	11794	12007	10977	11437	6344	6407	9640	8706
Hides & Skins	3820	4196	4620	4567	5736	4347	3980	4163	2845
Timber	5674	6647	7782	6278	5726	3403	3663	4230	3100
Agricultural Exports	126933	140587	149164	161010	143070	127604	130946	135199	138087
TOTAL EXPORTS	168536	189330	214651	268390	284084	241819	211085	318152	442834
Agricultural Exports as a Percentage of Total Exports	75.3	74.2	69.5	60.0	50.4	52.8	62.0	42.5	31.2

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, DECEMBER, 1970

Table 3.1 shows the composition of Nigerian agricultural exports. Exports of cocoa and groundnuts accounted for about 50 per cent of total agricultural exports. Over the period, there is a variation in the contribution of each product to total agricultural exports, as Table 3.2 will show. In Table 3.2, only four out of the ten major agricultural products contributed more to total agricultural exports in 1970 than in 1962.

TABLE 3.2

CHANGES IN THE VALUE OF MAJOR AGRICULTURAL EXPORTS 1962 & 1970

IN PERCENTAGE

	Cocoa	Grd. Nut	Grd. Nut Oil	Grd. Nut Cake	Palm Kern-els	Palm Oil	Raw Cott-on	Natu-ral Rubber	Hides & Skins	Tim-ber	Agri-cultural Ex-ports	TOTAL EXPORT
Changes 1962/70	+99.5	-33.0	+87.9	+125	-35.6	-93.7	+12.1	-23.3	-25.5	-45.4	+8.8	+162.

SOURCE: CALCULATED FROM TABLE 3.1

The highest percentage increase was recorded in groundnut cake, the export value of which was 125 per cent in 1970 above the 1962 level. The value of the exports of cocoa and groundnut oil nearly doubled the 1962 level in 1970. Among the six major products whose export values were below the 1962 level in 1970, palm oil export value reached the lowest recorded level. There are two main reasons why the export value of any Nigerian agricultural product may be higher or lower than that of the previous period. The first reason is that there may be an increase or a fall in the quantity exported; second, that the international price of a particular product might have increased or decreased. The fall in the contribution of some major agricultural exports to the total agricultural exports value in 1970 was due to a fall in the quantity of such products exported.



TABLE 3.3

## EXPORTS OF MAJOR AGRICULTURAL PRODUCTS (IN '000 TONS) QUANTITIES

	1962	1963	1964	1965	1966	1967	1968	1969	1970
Cocoa	195	175	197	225	190	242	206	171	193
Groundnut	530	614	544	512	573	520	638	517	287
Groundnut Oil	63	67	80	91	104	71	109	100	89
Groundnut Cake	88	85	139	113	133	131	171	168	160
Palm Kernels	367	398	394	416	394	163	159	176	182
Palm Oil	118	126	134	150	143	16	3	8	8
Raw Cotton	23	40	25	14	23	33	14	14	28
Natural Rubber	60	63	75	68	70	48	52	56	58

SOURCE: ECONOMIC & STATISTICAL REVIEW, 1970, FEDERAL OFFICE OF STATISTICS, LAGOS, 1971.

As Table 3.3 shows, all the products which recorded a negative change in Table 3.2 were in 1970 below the 1962 quantity level. The highest fall in the quantity of export occurred in palm oil and palm kernels which were only 6.7 and 49.5 per cent respectively of the 1962 level in 1970. The fall in the export of palm oil and palm kernels after 1966 was brought about by the Nigerian civil war which seriously disrupted production in the three Eastern States and the Mid-West. The fall in the quantities of other major agricultural export commodities was due to two main reasons. Firstly, the increased use of some of the agricultural products in domestic industries necessarily reduced the quantity available for exports. This was the case with rubber and hides and skins. Secondly, there was a general fall in the production of some agricultural products brought about by a shift from the production of cash crops to food crops as the prices of the latter substantially increased because of a rapid rise in demand.

The importance of the agricultural sector as a major earner of foreign exchange is also shown in Table 3.1. In 1961, agricultural exports totalling £134 million accounted for 89 per cent of all exports,

and 66 per cent of total foreign exchange earnings.<sup>34</sup> Despite the fact that the figures for agricultural re-exports are not included in Table 3.1, the export of major agricultural products alone contributed over 60 per cent of Nigeria's total foreign exchange earnings from 1960 to 1968. The fall in the percentage contribution of agricultural products to total exports in 1966 and 1967 was due to the Nigerian political disturbances. As can be noted in Table 3.2, the growth in the value of agricultural export has not kept pace with the growth of total export value. Whereas the value of total exports was 162.8 per cent above the 1962 level in 1970, the value of agricultural exports was only 8.8 per cent above the 1962 level in 1970. It is therefore not surprising that in 1969 and 1970 exports of major agricultural products only contributed 42.5 per cent and 31.2 per cent respectively of the total export value. Two factors are responsible for the falling percentage share of the value of agricultural exports in total exports value. The first factor is the sluggish growth in the output of agricultural products. The second factor is the growing importance of the petroleum export. The latter, which stood at £17.2 million in 1962, has substantially increased to £254.8 million in 1970.<sup>35</sup>

Another indication of agriculture's importance in the Nigerian economy is its contribution to the GDP. Table 1.6 in Chapter I shows the various components of the GDP of Nigeria. In 1960 when Nigeria became independent the agricultural sector contributed about 70 per cent to the GDP. This percentage contribution fell to 64 per cent in 1961, but it was not until after 1964 that agriculture contributed less than 60 per cent to the GDP. Since 1965 the contribution of agriculture

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<sup>34</sup>Federal Republic of Nigeria, Second National Development Plan 1970-74, Federal Ministry of Information, Lagos, 1970, p. 103.

<sup>35</sup>More will be said about the petroleum industry in Chapter V.



to the GDP has been falling in percentage terms but even then, up to 1969, agriculture still contributed more than half of the GDP. In 1970, only 47.7 per cent of the GDP emanated from agriculture, which shows quite clearly that other sectors are growing more rapidly than the agricultural sector. It has been shown in the previous discussion that agriculture is the mainstay of the Nigerian economy, employing about 70 per cent of the labour force, contributing about 50 per cent to the GDP, and is also the most important single earner of foreign exchange. The next discussion will centre on the specific role agriculture could play in the future economic development of Nigeria.

#### THE ROLE OF AGRICULTURE IN THE ECONOMIC DEVELOPMENT OF NIGERIA

In the contemporary world developing countries face difficult decisions in the allocation of their meagre investment resources, and the major choice they face is between the decision to invest in agriculture or that to invest in industry. At first sight the decision whether to invest in agriculture or in industry should not be difficult in the less-developed economies, where about three-quarters of the population depends on agriculture for a livelihood. In Nigeria, 40 to 70 per cent of the national income is generated in the agricultural sector which also provides 50 to 80 per cent of foreign exchange earnings. Yet this important decision has been clouded by the inability of many developing countries, especially Nigeria, to get their investment priorities right. "Often in ignorance, but sometimes in flagrant disregard of the historical conditions precedent to, and contemporaneous with, industrial development in the more advanced societies, the leaders of most of the under-developed countries feed the popular fancy about the efficacy of industrialism by directing their scarce capital resources to channels which bear very little relation to their present economic advantages and growth capacities."<sup>36</sup>

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<sup>36</sup> Professor H. A. Oluwasanmi, Agriculture and Economic Development in Tropical Africa, Nigerian Journal of Economic and Social Studies, May, 1959.



As a consequence, many developing countries in the fifties and sixties took a pessimistic view about agricultural development and tended to associate poverty with agriculture and wealth with industrialization. This view was reinforced by the economic development of U.S.S.R. which was based on industrialization and the expansion of the public sector at the expense of agriculture. This view led to a tragic neglect of agriculture.

In recent years, it is becoming more clear to developing countries that agriculture and economic backwardness are not synonymous, and that sustained industrial development depends to a large extent on the level of development in the agricultural sector. The role of agriculture in the process of development depends on the stage of development which has been reached at the time when industrialization and growth become a social aspiration, and also upon the ratio of agricultural land to population. Diversity among nations in their factor endowment, traditional values, political and historical background precludes any universally applicable stated role for agriculture in the process of economic development. The emphasis on agriculture in public policy and the forms of agricultural policy will, therefore, vary from one country to another.

In its drive towards modernization, there are several ways by which agriculture can assist the transformation of the Nigerian economy from its present backward state. Firstly, agriculture can help in the process of economic development by providing increased food supplies. Nigeria has a population of about 60 million and it is increasingly becoming difficult to feed the rapidly growing population adequately.

TABLE 3.4

## FOOD CONSUMPTION IN NIGERIA AND ADVANCED COUNTRIES

YEAR	COUNTRY	CALORIES PER DAY	FATS CONSUMPTION PER CAPUT	PROTEIN CONSUMPTION PER CAPUT
1970	Nigeria	2290	48.7	59.9
1969/70	Germany	3180	163.7	83
1969/70	France	3270	156.3	102.6
1970/71	U.K.	3170	142.3	86.8
1970	U.S.A.	3300	159.2	98.6
1970	Japan	2470	51.9	79.6

SOURCE: PRODUCTION YEAR BOOK, 1971, FAO, UNITED NATIONS, ROME, 1972.

Table 3.4 shows the calories per day and fats and protein consumption per caput in Nigeria compared with those of five selected advanced countries. Apart from Japan, the gap in food consumption between Nigeria and the developed countries is so wide that the deficiency in the diets of Nigerians, and the inadequacy of their food supplies, becomes a recognizable problem. What is likely to throw more light on the nature of the problem is the fact that the calorie consumption of Nigerians has been falling since 1963. During the 1961-63 period calories per day in Nigeria stood at 2440. By 1970, calories per day had fallen to 2290. The problem of feeding the Nigerian population is likely to grow worse in future as Table 3.5 will show, unless the country embarks on a radical transformation of the agricultural sector.



TABLE 3.5

## FOOD CONSUMPTION IN NIGERIA (£MILLION) 1963-1980

	1963 /64	RATE OF GROWTH PER CENT	a 1967 /68	RATE OF GROWTH PER CENT	a 1973 /74	RATE OF GROWTH PER CENT	a 1979 /80
G.D.P.	1394	4.5	1663	5.5	2293	6.1	3275
Savings	139	8.5	193	8.6	317	8.7	524
Total Consumption	1255	4.0	1470	5.1	1976	5.7	2751
Public Consumption	95	12.1	150	5.8	210	7.8	330
Private Consumption	1160	3.7	1343	4.7	1771	5.4	2421
Private Consumption per Caput	20.9	1.2	21.9	1.9	24.5	2.3	28.1
Food Expenditure at Factor Cost	716	3.4	819	4.0	1039	4.4	1344
Food Expenditure at Factor Cost Per Caput (£)	12.9	0.9	13.3	1.3	14.4	1.3	15.6
Food Imports	25		30		27		25
Domestically Produced Food	691	3.4	789	4.2	1012	4.5	1319
Food Expenditure as Percentage of Private Consumption	62%		61%		59%		56%
Food Imports as Percentage of Food Expenditure	3.5%		3.7%		2.6%		1.9%

SOURCE: AGRICULTURAL DEVELOPMENT IN NIGERIA 1965-1980, FAO, UNITED NATIONS, ROME, 1966.

NOTE: a: Estimates

The annual rate of increase in the demand for food is given in the equation  $D = p + ng$ , where  $p$  and  $g$  are the rate of growth of population and per capita income and  $n$  is the income elasticity of demand for agricultural products. The demand on the Nigerian agriculture as shown in Table 2.5 is thrown into real perspective when it is realized that population growth in Nigeria is of the order of 2.5 per cent per annum and the income elasticity of demand for food is about 0.7 compared with a value of 0.2 - 0.3 in contemporary West Europe, U.S.A. and Canada. The magnitude of these problems is clearly thrown into relief when Japan's achievements in the period from the 1880s to 1920 (when she achieved a rate of growth of agricultural output which was able to keep pace with an annual increase in demand of 2 per cent) are compared with the task which Nigeria must tackle. She must keep pace with a 4 - 5 per cent per annum increase



in demand for food, and in addition solve the problems of unemployment, of improving transport and communications, health and marketing to sustain the rapidly growing urban population while at the same time keeping a steady relationship between the cities and the rural areas so that the former do not become Europeanized. Failure to increase food supplies adequately during industrialization to keep pace with growth in demand would definitely, as the present situation in Nigeria shows, lead to rising food prices and pressure on wage rates which adversely affect profits, investment and growth. Under these circumstances, agricultural development then becomes the limiting factor on economic development.

There is little evidence on the price elasticity of demand for food in Nigeria but it is probably much lower than that for advanced nations since there is little possibility of substitution for the Nigerian staple diet, and there is also the obvious natural resistance to a reduction of intake. The inflationary effect of a rise in food prices is very strong. Foodstuffs account for between 60-62 per cent of total private consumption compared with only 20 - 30 per cent in developed economies. The real problem then becomes one of how to keep food cheap and plentiful. If domestically produced food fails to satisfy the need of a country, that country must resort to food imports if a proportion of its population is not to die of hunger. Necessarily, food imports depend on the availability of foreign exchange or suppliers' credits. Nigerian food imports add up to an average of £30 million annually. If the output of Nigerian agriculture could be increased to cater for the need of the economy, not only would the scarce foreign exchange expended on food imports be saved, internal food prices would be stabilized with a consequent favourable effect on investment and economic growth.

Agriculture can contribute to economic development by providing raw materials for Nigeria's developing industries. Nigeria has a rich variety of raw materials to serve as a basis for agro-based industries. They include palm oil and palm kernels, cotton, sugar cane, rubber, cocoa, rice, tobacco, hides and skins, grounds and timber. The available raw materials have given rise to some industries. As examples, sugar cane is used for crushing and manufacturing of sugar by-products at Bacita, cotton ginneries are scattered all over the north, rice mills, soap manufacturing, palm oil mills and rubber processing plants are located in the palm oil and rubber areas of the East and the mid-West. There is a soap and margarine factory at Apapa in Lagos, and in the Western State there are a cannery, rubber processing plants, cocoa-processing plants and sawmills. In addition, groundnuts and other oil-bearing products can provide the foundation for a crushing industry together with the manufacture of by-products like fertilizers and animal feeds; livestock slaughtering can provide, as well as hides and skins for shoe factories, blood, bones and "waste" products as a rich source of materials for both animal feeds and fertilizers. Tobacco has provided the base for cigarette manufacturing in Ibadan, Ilorin, Port Harcourt and Zaria. While it is reasonable to base some industries on the available raw materials, the problem which is posed by the inability of the supply of raw materials to meet the requirements of industries can be very costly indeed. The citrus fruit canning factory of the Western Nigeria Development Corporation has been functioning substantially below capacity due to an inadequate supply of citrus fruits. Other industrial establishments with substantial excess capacity due to an inadequate supply of raw materials include the bags and sacks factory in Badagry, the oil extracting plant at Apoje near Ijebu-Igbo and the shoe factory at Ogbomosho. In March 1972 the £1 million soap factory at Aba owned by Lever Brothers was temporarily closed due to an "acute



palm oil shortage".<sup>37</sup> A meat canning plant in Kaduna established in 1955 was disrupted at its initial stage due to inadequate supply of cattle. While there is scope for agriculture to supply industry with raw materials, the success of this function depends on the extent to which agricultural materials are produced in sufficient quantities to meet the industrial needs. If excess capacity is allowed to develop due to an inadequate supply of raw material, as has been the case in the past, then diseconomies of scale will set in, high production costs per unit of output will result with ultimate high prices for final products. The high price of final products may reduce demand to a level where to produce anything at all will result in heavy losses.

Agricultural progress is, normally, a pre-requisite of economic development in a functional sense. In a closed economy, the growth of an industrial sector of high productivity requires both an available supply of labour and food. In the Lewis<sup>38</sup> two-sector model with the assumption of unlimited supplies of labour in the subsistence sector the supply of labour to the capitalist sector must come from the agricultural sector. Whether or not, however, the conditions of the Lewis model are met, the industrial labour force must originally be drawn from the rural labour force, and, even if there is not a perfectly elastic supply of labour, Japanese experience has shown that investment is the limiting factor and that, provided farm productivity is enhanced there will be no shortage of unskilled labour and little difficulty in achieving the required transfer of manpower from agriculture to manufacturing and other rapidly expanding sectors in the economy.

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<sup>37</sup> West Africa 17/3/72.

<sup>38</sup> W. A. Lewis, Economic Development with Unlimited Supplies of Labour, Manchester School, May, 1954.



Agriculture can make a useful contribution to foreign exchange earnings through enlarged agricultural exports. One of the constraints which have acted as a bottleneck to development process in many developing countries is the shortage of foreign exchange. As shown in Table 3.1, agricultural exports accounted for a yearly average of about 60 per cent of Nigeria's total exports from 1962 to 1970. The Food and Agricultural Organization of the United Nations has emphasized that earnings from agricultural exports in Nigeria could be substantially increased to £163.2 million in 1974 and to £205 million in 1980 if efforts are made.<sup>39</sup> The projected agricultural export earnings envisaged by the United Nations' FAO may not be difficult to achieve, for two reasons. First, Nigerian agricultural export has reached a £161 million level in 1965 without any serious improvement in the rural sector. If a marginal improvement takes place in the future, the result is likely to be beneficial to agricultural exports. Second, with the recent boom in primary products unprecedented in modern times, Nigeria is likely to benefit from high prices for commodities if the quantities available for export can be appreciably increased. Although the world export prices of primary products have been rising since 1970, during the last two years they rose more rapidly than ever before. Melvyn Westlake notes that "since last autumn, commodity prices have risen broadly by 70-80 per cent".<sup>40</sup> Among the primary products affected by the world boom are three of the Nigerian major agricultural exports, cocoa, groundnuts and cotton. Nigeria has already started to cash in on the boom, for in 1970, when the quantity of cocoa export fell below the 1962 level, the value of cocoa export nevertheless was nearly

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<sup>39</sup>FAO, UNITED NATIONS, Agricultural Development in Nigeria 1965-1980, Rome, 1966.

<sup>40</sup>M. Westlake, Commodity Boom Redresses Balance, The Times, November 14, 1973.

100 per cent above the 1962 level. The problem of Nigeria is therefore one of how to increase substantially agricultural exports to take advantage of the world situation. There is no doubt whatsoever that the introduction of new crops or the increased production of existing agricultural export crops will continue to play a strategic role in providing enlarged supplies of foreign exchange.

Agriculture may also make a great contribution to capital formation. In the Lewis model of the dual economy it is the rate of capital formation which determines the rate of expansion of employment in the capitalist, high-wage sector, and it is the rate of expansion of such employment, relative to the growth of the labour force, which determines how soon the surplus rural labour will be so reduced that wage levels are no longer depressed by the low level of productivity and earnings in the subsistence agricultural sector. As agriculture usually bears the brunt of development, Nigeria's future economic progress requires a substantial amount of capital to finance investment in manufacturing, social overhead capital and recurrent government expenditure on health, education and other services. Although substantial earnings are at present derived from petroleum exports, the fact remains that the scope for raising agricultural productivity by means requiring only very little capital investments make it possible for agriculture to provide a net contribution to capital requirements without reducing consumption standards. Productivity can be increased in agriculture by the consolidation of holdings, by improvements in the land tenure system, by the expansion of land under cultivation, by planting improved high-yielding seeds, by improved marketing and storage facilities, by the application of fertilizers and hand tractors, which are not expensive. To raise productivity in the agricultural sector is one thing, to withdraw the surplus in the sector is another. The latter, however, is



not an easy task in a country like Nigeria where farmers often go on riots for small levies. Japanese economic development has shown that agriculture can make a substantial contribution to the financing of industrial expansion. There is no doubt that the agricultural sector bore the brunt of Japanese economic development. The instrument for siphoning off agricultural surplus in Japan at the initial stage of development was the land tax. The savings of the farmers were also gathered by the agricultural banks located in each prefecture. In England during the industrial revolution "With the agricultural sector providing the largest single contribution, directly or indirectly, to the savings produced by the economy before the industrial revolution, capital flows from the land were crucial. Landlords' rents and farmers' profits contributed capital for investment outside agriculture (particularly in transport) as well as for investment in agriculture itself. The greater willingness of the English landed classes to invest in these economically productive ways, the greater ability of English farmers to invest, and the greater opportunities for such profitable investment in England than in many continental countries proved very important indeed. Direct investment by groups in the landed sector became supplemented by a much more widespread connection once the country banking system began to tap the savings of agricultural districts more widely, and when farmers and landowners began to bank their balances rather than keeping them hoarded at home."<sup>41</sup> When agricultural productivity becomes increased in Nigeria, it will be easy to siphon off the farmers' surplus only if the rich businessmen and landowners, who are mostly tax-evaders, are made to contribute their fair share to development funds through progressive taxation. The absence of any

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<sup>41</sup>P. Mathias, *The First Industrial Nation*, Methuen & Co., Ltd., London, 1969, p. 65.



form of banking facilities in the rural areas and in some towns is an important obstacle to gathering farmers' savings for developmental purposes.

Finally, rising agricultural productivity may raise the level of rural effective demand for industrial goods. Lewis's model assumes that the only obstacle to the expansion of the capitalist sector is the shortage of capital, thus an increase in rural nett cash income is not a stimulus to industrialization but an obstacle. However, both Lewis and Nurske stress the importance of rising rural purchasing power in providing profitable investment opportunities.<sup>42</sup> There is here a clear conflict between the emphasis on agriculture's essential contribution to capital requirements for overall growth and the emphasis on rising rural purchasing power. There is no simple way to reconcile this conflict, for the size of the available market is especially pertinent to investment decisions concerning industries characterized by economies of large-scale production. It is worth remembering, however, that first, the substitution of domestic for imported output often provides a significant rise in demand independent of a rise in purchasing power. Second, if capital requirements are large relative to available resources, it is the availability of capital and not the small size of the market that could limit the rate of investment. Third, there are also the political considerations which may affect policy measures. The Nigerian authorities, however, ought to realise that the marginal propensity to save and to invest in the agricultural sector is lower than in the industrial sector, and this therefore means that to decrease taxation in the agricultural sector may reduce the level of investment.

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<sup>42</sup>W. A. Lewis, Report on Industrialization and the Gold Coast, Accra, 1953; R. Nurske, Problems of Capital Formation in Under-Developed Countries.

The past discussions have shown quite clearly that agriculture can make a substantial contribution to economic development. By providing food, capital, raw materials and labour, the agricultural sector can help feed the growing industrial labour force, provide investment resources in the manufacturing sector, reduce costs through the provision of cheap raw materials for industrial establishments, and release labour for the manufacturing sector without a reduction in productivity. Increased productivity in the agricultural sector can stimulate the demand for industrial products while agricultural exports earnings can reduce the foreign exchange constraint on development.

#### BRITISH INVESTMENT IN NIGERIAN AGRICULTURE

The fact that agriculture is the most important sector of the Nigerian economy has been firmly established in the previous sections. What needs to be seen is how U.K. investment has contributed to the development of Nigerian agriculture. The United Kingdom, as shown in Chapter II, is still the most important investor in Nigeria, accounting for over 50 per cent of total foreign direct investment in 1968 when her cumulative total investment stood at £N261.2 million. If one goes by the history of the British-Nigerian relationship and the fact that the U.K. is the most important foreign investor in Nigeria, one would expect to find a reasonable proportion of U.K. investment in the agricultural sector. However, in recent years there has been very little additional U.K. direct investment in Nigerian agriculture, as Table 2.10 in Chapter II shows. Out of the five years which the Board of Trade statistics covered, only in two years were figures of net investment in agriculture available, and for those two years the additional investment was nil (-0.6 in 1965; +0.6 in 1966). It will therefore be reasonable to assume that U.K. net private direct investment has not been going to the agricultural sector. We are therefore left with the only



alternative of looking at previous U.K. cumulative investment in agriculture in order to know the contribution of U.K. direct investors to Nigeria's agricultural development. Table 2.12 in Chapter II, showing the sectoral distribution of U.K. cumulative investment in Nigeria in 1968, reveals the absence of U.K. investment in Nigerian agriculture. Although we were told that the figures of U.K. investment in Nigerian agriculture were not available, since 174 companies were responsible for the £93.6 million value of U.K. direct investment in Nigeria at the end of 1968, it can be reasonably assumed that U.K. direct investment in Nigerian agriculture was either marginal or non-existent.

Information about the extent of U.K. investment in Nigerian agriculture has been collected from various sources.

TABLE 3.6

U.K. PLANTATIONS IN NIGERIA 1905-1960

YEAR	PLANTATION	MANAGEMENT	TOTAL ACREAGE AVAILABLE	TOTAL ACREAGE PLANTED, 1963
1907	Ikot MBO (Rubber)	Palmol Ltd.	4000	3875
1905	Sapele Rubber Planta- tion	Miller Brothers	2000	1950
-	Jamaison River Rubber Estate	United Africa Coy.	2000	1930
1936	Cowan Oil Palm Estate	United Africa Coy.	6900	6500
1937	Calabar Oil Palm Estate	Palmol Ltd.	12000	7000
1959	Ikot Okpora Road (Rubber)	Dunlop	20000	12171

SOURCE: R. K. UDO, BRITISH POLICY AND THE DEVELOPMENT OF EXPORT CROPS IN NIGERIA, Nigeria Journal of Economics and Social Studies, November, 1967.

Table 3.6 shows the extent of U.K. plantations in Nigeria before 1961. Out of a total of 40 plantations varying from 500 to 20,000 acres in Nigeria at the end of 1960, only six were British-owned; the remaining



thirty-four are owned by private Nigerian citizens, partnerships and Nigerian Development Corporations.

There are several reasons why British direct investment was and is still very small in Nigerian agriculture. The British colonial government's agricultural policy in Nigeria was based on the notion that the agricultural resources of the country can best be developed and exploited through Nigerian farmers. As the Governor of Nigeria said in 1940, the British government had no intention of turning Nigerians from a race of farmers "into a race of labourers."<sup>43</sup> As consequence, foreign entrepreneurs were refused permission to own lands and the plantation system which proved successful in East and Central Africa and Congo was rejected as unsuitable for Nigeria. However, the effect of the Government's ban was partial and limited only to reducing the number of plantations in particular crops, and as will be shown later, there are more important reasons why British companies are likely to invest in only a few crops.

Three factors were the main determinant of the agricultural policy of the British government in Nigeria. The first consideration was economic. The British government at that time did not see the economic viability of the plantation system in Nigeria. Although the government was aware of the technical advantage of the plantation system and the inefficiency associated with peasant producers, the fact that enormous losses could be incurred in the plantation when the weather was bad and that the heavy fixed costs of management, labour, housing, etc. still had to be met even when there was no harvest, prompted the British government to prefer the small scale peasant producers who could shift from cash crops to food crops without much disruption to the social set-up when the weather was bad. The second reason is closely associated with the first. In plantations during periods of depression retrenchment of labour usually occurred. The British government was aware of the social and economic consequences of retrenched labour in plantations during depressions and so ruled against the system. The plantation system could also lead to the displacement of families especially in the densely populated parts of the country which invariably were the areas

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<sup>43</sup>This statement is part of the Governor's speech to the Legislative Council on March 4, 1940.

most suitable for plantations. The creation of a large pool of a landless proletariat resulting from the plantation system could not only result in riots and agitations, but such a pool of deprived people could provide a class for breeding criminals and law-breakers. Also considered important is the fact that the plantation system would lead to migration of labour between different parts of the country which might upset local tribal life and consequently lead to unhealthy tribal rivalry. The last factor determining the agricultural policy of the British government in Nigeria was the desire to prevent the unnecessary exploitation of the land resources of Nigeria by foreigners. As the High Commissioner of the then Protectorate of Southern Nigeria, Sir Ralph Moor, claimed, Great Britain was, in accordance with the principle of Dual Mandate which formed the basis of British political policy in tropical Africa, morally committed to protect the natives and their land from exploitation by foreign capitalists. It is, however, difficult to discover the reason why the protection from foreigners offered to Nigerian farmers was not extended to East and Central Africa where white settlers engaged in the plantation system on a large scale. In sum, as far as the British government's anti-plantation policy in Nigeria was concerned, "it is fair to recognize that it was well-intentioned, although it was by no means the best policy to follow. The economic arguments put forward in support of the policy were largely based on sentiments and so was the idea of the desire to preserve local tribal life - an idea which was both unrealistic and inconsistent with the growing desire for economic betterment by the people".<sup>44</sup>

Once foreign capitalists had been excluded from Nigerian agriculture, it was left for the Nigerians to develop both their cash crops and food

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<sup>44</sup>R. K. Udo, British Policy and the Development of Export Crops in Nigeria, NJESS, November, 1967.



crops to the maximum level possible. The British government did not, however, fail to help the peasants in the cultivation of cash crops. It was in the interest of the British government that export crops were increased in order to swell her foreign exchange resources. As a result, the British government embarked on giving various incentives to the farmers. In 1910 the Department of Agriculture was established to persuade farmers to introduce new farming methods and crops, to carry out research and to co-ordinate agricultural policies. Cash subsidies, improved seedlings, fertilizers and free supervision and instructions on planting, harvesting, pest control and mechanization were made available to farmers as an incentive for increased production of export crops.

Despite all the cash and incentives in kind offered to the Nigerian peasants by the government, the results of the policies on agricultural production were far from being satisfactory. The yields of some crops did not reach the expected level and in other cases where large yields were recorded, the inferiority of the crops reduced their prices and marketability in the international market. It is quite plain therefore that the agricultural policy of the British government in Nigeria did not achieve its major aim of increasing agricultural production through the peasants. At the same time, the anti-plantation policy did not allow foreign investors to engage in Nigerian agriculture. The first oil palm plantations in the world were located in the Congo and Malaya, after the British government had refused Mr. William Lever (later Lord Leverhulme) in 1907, 1920 and 1925 permission to establish oil plantations in Nigeria. The establishment of two oil palm estates near Benin and Calabar in 1936 and 1937 respectively took place when the British Government relaxed its anti-plantation policy. No sooner were these estates established, however, than the government clamped down once again on the plantation system.

Towards the end of British rule in Nigeria there was a radical change in agricultural policy. The plantation systems received a boost after 1950 owing to the belief among Nigerian leaders that the success which accompanied the plantation system in the Congo and the Cameroons would be achieved in Nigeria. In addition, because the plantation system interested foreign investors, foreign investment strategy might have persuaded the Nigerian government to go into plantations. As Nigeria progressed towards political independence and the achievement of self-government in the East and West in 1957, the majority of Nigerian leaders were in favour of the plantation system, and this resulted in the establishment of a large number of plantations by various Nigerian Development Corporations. Out of about 40 plantations established in Nigeria between 1905 and 1960, only six were established before 1950; the remaining 34 were established between 1951 and 1960.

After Nigeria had achieved independence in 1960, it was not an easy task for the Nigerian government to persuade British investors to engage in agriculture. Having been restricted from investing in Nigerian agriculture for over half a century, it is not difficult to see why it was not easy for British investors to engage in agriculture. The reaction of some British investors who are engaged in agro-allied industries to Nigerian agriculture was distorted by the policy of British colonial government for Nigerian agriculture. One British company whose agricultural investment in Nigeria is in every respect reminiscent of British government's agricultural policy in pre-independent Nigeria is the Nigerian Tobacco Company (NTC). The NTC is a subsidiary of the British-American Tobacco Company of London, whose agricultural policy in Nigeria is simply one of encouraging the peasants to grow tobacco rather than owning tobacco plantations themselves. The short gestration period of tobacco and the ability of Nigerian farmers to grow superior tobacco make peasant agriculture preferable to the plantation system in tobacco growing. Tobacco growing in Nigeria dated back to the nineteenth century when it was grown for hand-rolled cigarettes and pipes and for chewing



purposes. It was not until 1915, however, that the Department of Agriculture started to experiment with imported varieties with the hope of developing an export trade in tobacco. The experiments were unsuccessful, and the idea of commercial production has to wait until 1933 when the NTC opened a pilot cigarette factory at Oshogbo. In order to ensure the domestic supply of tobacco for the new factory, the NTC encouraged the peasant farmers to grow tobacco by distributing free seeds. As a result, 83 acres of tobacco were grown in Southern Nigeria in 1934. The peasant, however, faced the enormous problem of getting finance to create barns for flue-cured tobacco, and as a result, in the 1920s, the Agricultural Department had thought that the flue-cured tobacco was out of the question for peasant farmers. To eradicate this problem, the NTC originally undertook the curing of the flue-cured tobacco in its barns, and after 1954 the company transferred to producers the barns which it had built and operated itself, so that the groups now undertake all curing.

The NTC became after 1954 the buyer and the manufacturer of tobacco grown by Nigerian peasant farmers. There are several ways by which the NTC has helped the Nigerian tobacco growers.

Firstly, the company provided the farmer with plants grown in the company's nurseries and supervised his cultivation through the Company's extension workers, referred to as the "Leaf Staff". Secondly, the company encouraged the formation of co-operatives and business companies which are registered with the Ministry of Co-operatives and Industry. Thirdly, the company lends money to co-operatives on generous terms for the construction of barns, for the purchase of other crops, fertilizers, sprays and farm implements. Fourthly, the consolidation of fragmented plots into large holdings and the use of tractors on tobacco farms were due to the encouragement of the company. And lastly,

the results of the research carried out by the Leaf Department of the Company were readily made available to farmers.

As a result of the activities of the company, the three-year mean of the acreage of tobacco grown rose from 935 acres in 1944-6 to 11,235 acres in 1960-62; the average yield from 349 lbs./acre to 519 lbs./acre; and the production of cured leaf from 326,500 pounds to 5,829,000 pounds. Commercial tobacco, which occupied about 40,000 acres in 1965, is likely to have increased to nearly 60,000 acres by now. With the formation of Philip Morris Ltd. at Ilorin in 1963, in which the U.A.C. group owns a minority share, tobacco growing in Nigeria further received a boost. At the moment about 100,000 Nigerian farmers depend on tobacco growing for their livelihood. Without doubt, even though the NTC has not invested directly in tobacco growing in Nigeria, its activities in the form of advice, supervision, free seeds, generous credits and the organised purchase of tobacco have helped Nigerian agriculture.<sup>45</sup>

There are four main reasons why the NTC's strategy was successful in Nigeria. The first reason is the genuine interest the company took and still takes in tobacco growing. The NTC wanted cheap raw tobacco for its cigarette factories and the only way to get this was through the encouragement of peasant production. Second, the Nigerian tobacco growers were concentrated in a particular division of the Western State and as a consequence they were not difficult to organize. Presumably if the farmers were scattered all over a wide area, the story would have been different. Third, the direct purchase of the tobacco harvests of farmers and the prompt payments made by the NTC provided an impetus for confidence and hard work among farmers. And last, the short gestation

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<sup>45</sup>More will be said about the industrial activities of the company in Chapter IV.



period between planting and harvesting ensures two harvests in one year. The latter provides an incentive to farmers to work hard when one harvest is bad. In the final analysis, the success of the scheme was due mainly to the initiative and the hard work of the NTC.

The U.K. manufacturers of cocoa products, especially Cadbury Brothers, Ltd., have contributed indirectly to agricultural development in Nigeria with special emphasis on cocoa. Although they have not invested directly in cocoa production, their buying agencies have undertaken extension work on methods of fermentation and drying, and they also helped to formulate the inspection and grading regulations, all of which improved the quality of cocoa production. The Cadbury plantation in the Cameroons may also have some demonstration effects on farmers through the information provided on cultivation and costs contained in "Cocoa Growers' Bulletin", a bi-annual publication issued by Cadbury Brothers to farmers and co-operative societies in Nigeria. U.K. cocoa products manufacturers have also contributed to research activities on cocoa through the provision of insect-proof quarantine houses for the Cocoa Research Institute in Nigeria, and financed the introduction of a collection of breeding material from Trinidad to Nigeria.

Apart from the investment activities of the oil companies, the most important U.K. investor in Nigeria is the United Africa Company (UAC) and its subsidiaries. The UAC Group accounts for about half of the total U.K. investment in Nigeria, excluding oil investments. The contribution of the UAC to Nigeria's agricultural development has been both indirect through buying and marketing export produce and providing inducements, and direct through the provision of tools and other inputs for farming, operating plantations, and processing the produce. The UAC initial agricultural function in Nigeria was that of buying the Nigerian primary produce for use in industry in the U.K. As a consequence, the

company's contribution to agricultural development in Nigeria was indirect through the provision of credits, the building of roads to extract timber, which often stimulated the opening of new lands along the roads, and the confidence it gave to farmers that a steady market existed for their products. Another indirect contribution of the UAC to Nigerian agriculture has been the supply of agricultural implements to Nigerian farmers. Bullock-operated sugar crushers and corn-mills were supplied to many parts of the country, and in addition in the three Eastern States of Nigeria the company developed and sold several thousands of hand presses for palm oil and the Pioneer Oil Mill, a medium-scale machine press. Experiments in the use of tractors in the Sokoto Rice Scheme were a failure but still the UAC, as Massey-Harris dealers, has provided simple but efficient implements, such as groundnut planters and groundnut lifters, to farmers in the Northern part of Nigeria. A further achievement of the UAC to help Nigerian agriculture was the establishment of a crocodile machet factory at Port Harcourt in 1965 to supply hand implements to Nigerian farmers.

The major direct contribution of UAC to agriculture in Nigeria are the plantations owned by the company. Mr. William Lever, the first Lord Leverhulme's interest in Nigeria grew from the need for vegetable oil for his soap industry in England. As a consequence, the UAC began to develop plantations in Nigeria and the Congo, and by 1950 the company operated 110,000 acres in both countries. At this time it employed nearly 40,000 plantation workers, and had built over 20,000 cottage-type workers' houses, providing accommodation for a total community of over 50,000. The plantations have produced palm oil and kernels, rubber and cocoa, and the company's research department has done invaluable work in collaboration with government departments, particularly on oil palm. In order to meet the increasing demand for raw materials in its soap factories at Lagos and Aba, the UAC further expanded its



oil palm estates near Benin and Calabar in the 1950s. The Minna farm in Northern Nigeria, which was established in 1959 by the UAC, supplies large numbers of pigs both for consumption and for the company's West African Cold Storage in Apapa for the processing of meat products.

The UAC has also established other industries apart from those mentioned above to process agricultural products. The bulk oil plants which processed all the palm oil exported from Nigeria was formerly owned by the UAC before being bought by the government. The UAC has also formed a partnership with the Northern Nigeria government to develop a Kenaf estate at Jema'a with the ultimate aim of establishing a factory for bag production. Farmers have been encouraged to grow the fibre themselves in order to supply raw materials for the bag factory in Jos. Another area of contribution is the 7 per cent shares held in the Nigerian Sugar Company at Bacita, established in 1963 to manufacture sugar cube and by-products. Without doubt the UAC has contributed substantially to Nigerian agriculture through the granting of credits, the purchase of raw materials, the supply of agricultural implements and directly through its plantations and pig farm. The establishment of agro-allied industries has also provided a ready market for Nigerian agricultural produce and indirectly stimulates production.

Other British companies which have contributed to the development of agriculture in Nigeria include Dunlop, I.C.I. and Bookers Ltd. As shown in Table 3.4, the Dunlop Company has the largest rubber estate among foreign companies in Nigeria. The plantation which was established in 1959 near Calabar was designed to supply rubber for the company's tyre factory at Ikeja in Lagos. About 500 Nigerians are directly or indirectly employed in the plantation. I.C.I.'s contribution to Nigerian agriculture has been indirect through the blackpod chemicals produced in the U.K. by its subsidiary -

Plant Protection Limited. Blackpod disease had been a major threat to Nigerian cocoa until Plant Protection Limited produced a product called "Perenox" which was sold to farmers along with the spraying equipment by UAC, the appointed agent of PPL. I.C.I. further introduced another product called "Perepod" and UAC, through its produce-buying organization helped to test and later to promote it successfully. The material and spraying equipment reached farmers through the government-financed co-operative movement. At present Gammalin 20, produced in the U.K. and distributed by John Holts and UAC, has replaced previous chemicals and it is widely used by cocoa farmers in Nigeria.

An aspect of agriculture in which a British firm has invested and performed other important functions has been the £6 million Bacita Sugar project of the Nigerian Sugar Company Ltd. The project, studies for which began in 1957, comprises some 6000 acres planted with cane, a factory capable of producing 60,000 tons of white sugar a year, and a division to sell and distribute sugar to retail outlets throughout Nigeria. Total capital of the Nigerian Sugar Company Ltd., a public company incorporated in Lagos in 1962, is £3.8 million. All the Nigerian governments are represented on the Board. A British subsidiary company in Nigeria called Bookers (Nig.) Ltd. is one of the largest shareholders. The company is also the managing agent of Nigerian Sugar Company Ltd. For its initial annual production of some 25,000 tons of sugar, the company employed an all-the-year-round force of about 11,000, plus another 1,200 for cane cutting, transport and replanting during the harvesting period from November to April. The labour force grew from 300 in 1962 to 1,800 in 1964, and at the moment over 3,000 people are employed in the venture.

We have noted from the previous sections that U.K. private direct investment in Nigerian agriculture has been very marginal indeed.



What we are concerned with at the present moment is the reasons why Nigerian agriculture has not absorbed substantial U.K. private capital as was the case in East and Central Africa. The first important reason why U.K. private investors have not invested in Nigerian agriculture is the agricultural policy of the British colonial government which prohibited the ownership of land by foreigners. The plantation system was regarded as unsuitable for Nigeria, and British investors interested in such ventures had to turn elsewhere. Although in 1951 a new constitution permitted regional governments in Nigeria to alienate land but at that time only a few British investors were interested in the agricultural sector, having been used to new lines of investment activities, it was not easy to persuade private investors to shift their resources to agriculture. The second reason for marginal investment in agriculture is the lack of experience or any knowledge about agricultural investment. A large majority of firms interviewed emphasized the fact that they have no knowledge of any kind about agriculture as being the major reason ruling out agricultural investment from their investment projects in Nigeria. As far as many U.K. private firms in Nigeria are concerned, investment in Nigerian agriculture would represent "a round peg in a square hole" which would neither fit nor be comfortable. Another factor of importance is the low rate of return on agricultural investments. The level of return on agricultural investments depends on a number of factors such as the weather, pests and diseases, and the price obtained on the harvested products. Some of these factors are outside the control of an investor, and the latter, the price of crops, is very important, since the Nigerian Marketing Board has the sole monopoly of buying the majority of Nigerian export crops. In addition, it takes a longer period to get any yield from agricultural crops. Cash crops like cocoa, palm produce, coconut and rubber take from 5 to 7 years before any harvest can be reaped from them

after planting. To many British investors, who are in most cases myopic, such an investment represents an unnecessary tying-down of capital which ought to be profitably used elsewhere. In the final analysis, agricultural investments are not likely to be attractive to British investors since they want to recoup their initial capital investment within 3 to 5 years of their operations in Nigeria. The last factor of importance which has acted as a disincentive to foreign private investment in the agricultural sector is the buying activities of the Nigerian Marketing Boards. The Nigerian Marketing Boards, who are charged with the buying of the majority of Nigerian cash crops, have tended to price these products below the minimum accepted level, with the result that such prices have acted as a disincentive to increased production. The CBI in 1961 laid emphasis on the problem a foreign investor would face if he had to buy his raw materials from a monopoly holder, such as the Nigerian Marketing Boards, and that guarantees and assurances of protection against such monopolists are required to encourage investment.<sup>46</sup> Nine years later, in 1970, the CBI echoed the same feeling: "Marketing Boards exist for palm oil, groundnuts, bonni seed, cotton and soya bean. There is reason to believe that their operation has so affected the return on these crops that further investment has been discouraged."<sup>47</sup> The result of the pricing policies of the Marketing Boards has been to encourage foreign private investors who are particularly interested in agricultural investments to concentrate on products which are not bought by the Boards, like rubber, pigo and other food crops. As a result of the above reasons, only three British companies, the UAC, Dunlop and Bookers Ltd.

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<sup>46</sup> CBI, Nigeria: An Industrial Reconnaissance, London, February 1961. More will be said later about other factors limiting British investment in Nigerian agriculture.

<sup>47</sup> CBI, Nigeria, 1970, London (no date).



have direct investments in Nigerian agriculture. If, however, British companies are not interested in direct investment in agriculture, a British public corporation has done a lot to improve agricultural development, and its activities will be the subject of the following discussion.

#### COMMONWEALTH DEVELOPMENT CORPORATION (CDC)

The Commonwealth Development Corporation (CDC) was established by an Act of Parliament in 1948 as the Colonial Development Corporation to assist the economic development of British dependent territories. As many of the dependent territories became independent and more were in the process of becoming independent, an Act of Parliament in 1963 changed its name to Commonwealth Development Corporation, to enable the Corporation to operate in newly independent territories within the Commonwealth. In 1969 the Overseas Resources Development Act empowered the CDC, with the approval of the Minister for Overseas Development, to operate outside the Commonwealth. So far, the CDC has been permitted to operate in the Cameroons, Ethiopia, Indonesia and Thailand. In other words, the CDC has become a world corporation operating on commercial lines, with the obligation that it must pay its way. The CDC has regional offices in different parts of the world, and its function has been to undertake projects for the promotion and expansion of economic activities in areas where it operates. The economic activities in which the CDC has invested include agriculture, forestry, fisheries, mining, commerce and industry, electricity and water undertakings, transport, housing, hotels, building and engineering. The investment activities of CDC have grown astronomically since its inception in 1948. At the end of 1949 there were 28 projects with a capital outlay of £1,418,700 and of these, approximately one-third were agricultural.

Ten years later at the end of 1959 there were 88 projects with an invested capital of £59,921,000. By December 1969, there were over 180 projects, with an outlay of £129,890,000. As the investment activities of CDC grow, so does the functional distribution of its investment become more sophisticated and radically changes.

TABLE 3.7

FUNCTIONAL DISTRIBUTION OF CDC'S INVESTMENT 1959-1971 IN PERCENTAGES

SECTORS	1959	1960	1965	1970	1971
Basic Development (Public Utilities	45.2	52.5	53.1	50.3	52.0
Primary Production	43.1	38.3	21.0	19.2	17.8
Commerce and Industry	11.7	9.2	25.9	30.5	30.2

SOURCE: CDC ANNUAL REPORTS 1959-1971

In Table 3.7, the primary sector accounted for 43.1 per cent of CDC's total investment in 1959, but after this date the proportion absorbed by the sector has been falling until it reached its lowest level in 1971. Investments in public utilities remained steady over the period, but what was not invested in the primary sector was invested in commerce and industry. In 1959 only 11.7 per cent of the total investment went to commerce and industry. By 1971, commerce and industry absorbed nearly one-third of CDC total investments. Investments in public utilities were concentrated on power and water supply, housing and transport. In 1971 the 52 per cent of the total investment absorbed by public utilities was distributed as follows: power and water supply 25 per cent; housing 24 per cent and transport 3 per cent. The shift in emphasis from primary production since 1959 was due to the stipulation by the government that the CDC must pay its way. As an official of CDC who was interviewed told the writer, "at any point in time there



is always a large amount of CDC investment in projects at the development stage, and so there is no return from them at all. If we are to pay our way, as we should, we ought to invest in commerce and industry in order to get some return".

The CDC operation in Nigeria is of particular importance to the economy of the country. Apart from Shell-BP and UAC, the CDC is the third largest British investor in Nigeria. At the end of 1971, the CDC's investment in Nigeria was nearly ten million pounds. Table 3.8 shows the operations of the CDC in Nigeria at the end of 1971.

TABLE 3.8

CDC'S OPERATIONS IN NIGERIA AS AT 31ST DECEMBER, 1971

1. BASIC DEVELOPMENT (PUBLIC UTILITIES)		£3,253,671
Lagos Executive Development Board	£1,028,671	
Nigerian Housing Development Society Ltd.	£2,225,000	
2. PRIMARY PRODUCTION		£693,430
Ilushin Estates Ltd. (Rubber)	£77,778	
Oke-Afa Farms Ltd. (Poultry)	£100,000	
Savanah Sugar Co., Ltd. (Sugar Estate)	£64,000	
South Chad Irrigation Pilot Project (Wheat & Rice)	£50,000	
South-Eastern State Rubber Plantations Ltd.)	£401,652	
Cross River Rubber Estate		
3. COMMERCE AND INDUSTRY		£5,652,836
Afprint (Nig.) Ltd.	£554,000	
Development Finance Co., Ltd.	£1,000,000	
Dunlop Nigerian Industries Ltd.	£150,000	
Five Star Industries Ltd.	£258,334	
Hill Station Hotel Ltd.	£25,000	
Nigeria Hotels Ltd.	£636,852	
Nigerian Cement Company Ltd.	£472,500	
Nigerian Industrial Development Bank	£75,000	
Northern Hotels Ltd.	£83,350	
Northern Nigeria Investments Ltd.	£2,297,800	
Zamfara Textiles Industries Ltd.	£100,000	
<b>TOTAL INVESTMENT IN NIGERIA</b>		<b>£9,599,937</b>

SOURCE: CDC ANNUAL REPORT, 1971.

CDC investments were in nineteen areas, of which six were agricultural projects. What is important, however, is the amount invested in each area of operation. The distribution of the CDC's investment in Nigeria at the end of 1971 is as follows: basic development 33.9 per cent; primary production 7.2 per cent; and commerce and industry 58.9 per cent. If the functional distribution of the CDC's investment in the world is compared with that of Nigeria at the end of 1971, a great divergence would be observed between the two.

AREAS	THE WORLD (Per cent)	NIGERIA (per cent)	DIFFERENCE (Per cent)
Basic Development	52.0	33.9	-18.1
Primary Production	17.8	7.2	-10.6
Commerce and Industry	30.2	58.9	+28.7

These figures show that the CDC's investments in Nigeria's basic development and primary production were 18.1 per cent and 10.6 per cent respectively below the world average investments in these areas in 1971. Investments in Nigeria's commerce and industry were 28.7 per cent above CDC's investments in these sectors at the end of 1971, which will tend to suggest that more profitable opportunities existed in Nigeria's commerce and industry than in many areas where the CDC operates. Our main concern here is with agricultural investments which accounted for only 7.2 per cent of the CDC's total investments in Nigeria in 1971. Ilushin Estates Ltd. is a rubber plantation venture of over 5,000 acres owned by the Western State government and the CDC. No profits were made at the end of 1971 due to delays in the delivery of factory plant, depressed market conditions and rising costs. The Oke-Afa Farms Ltd. is a poultry venture owned by a Nigerian - Chief Ashamu. The CDC's involvement here was simply the advancing of £1.1 million to the businessman. The Savannah Sugar Co., Ltd., is still at its pilot stage. The Federal government of Nigeria requested the CDC to investigate the site near the confluence



of the Gongola and Benue rivers for a sugar estate. As a consequence, the CDC, with technical assistance from Bookers and Tate & Lyle, is at present undertaking a feasibility study of the project. Management and consultancy services for the project are being provided by the CDC. The South Chad irrigation pilot project is a joint venture between the CDC and the North-Eastern State government to investigate the mechanised production of wheat and rice, and the settlement of smallholders on an area of over 500 acres. The CDC has seconded a manager with two supporting staff, who are being paid under British technical aid for the project. The Southern Eastern State Rubber Plantations Ltd. and the Cross River Rubber Estate were rubber plantations formerly owned by Dunlop but bought over by the Southern Eastern State government. The CDC has not only provided finance for these projects, but technical services and management have also been provided.

The above discussion has shown that the CDC's agricultural investments in Nigeria have been concentrated on rubber (the only cash crop) and food crops like wheat, rice, poultry and sugar. The CDC has not invested in any of the crops purchased by the Nigerian Marketing Boards. There is no doubt that the CDC has contributed directly to agricultural development in Nigeria. By investing in cash and food crops, the CDC is not only helping to increase the export of rubber, but also helping to provide food for thousands of Nigerians when the wheat and rice project in Maiduguri reaches maturity. By providing consultancy and technical services as well as management for some of its agricultural projects, the CDC is indirectly contributing to the efficiency of Nigerian agriculture. It must be added, however, that the CDC's investments in Nigerian agriculture are very small compared with the enormous capital flowing to commerce and industry, but as one official of the CDC stated when interviewed, investments in the agricultural sector are in "projects which cannot attract investment because of the low return and the long

yielding period. It is the small investment in industry which enables us to make some profit."

### THE STATE OF NIGERIAN AGRICULTURE

It has been established at the beginning of the chapter that Nigeria is an agricultural country and will remain so for the foreseeable future, no matter how great the growth of industry and oil production may be. A country that is willing to grow ought to, and should, make use of its abundant resources as the springboard of its development process. The immediate problem facing Nigerian leaders in the 1950s was "to discover the actual and potential prime movers in the economy, and to seek to facilitate their growth. For if the prime movers are pushing ahead rapidly, everything else will fall into place".<sup>48</sup> Nigerian leaders took no time to realize that agriculture was the prime mover of the economy, for as W. A. Lewis said, "the growth of agricultural exports has been the main element carrying the economy".<sup>49</sup> It was therefore not a misplaced emphasis when the IBRD declared in its report on Nigeria that "Nigeria's economic development and the improvement of its living standards thus depend largely upon the growth and progress of the agricultural sector of the economy".<sup>50</sup> Since the IBRD wrote its report, petroleum has been discovered and exploited in Nigeria, but still the emphasis on agriculture has not waned. In 1961 Lord Netherthorpe observed that "No investment by Nigeria herself could yield greater dividends nor contribute more effectively to her economic and industrial development than agriculture".<sup>51</sup>

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<sup>48</sup>W. A. Lewis, *Reflections on Nigeria's Economic Growth*, OECD, Paris 1967, p. 15.

<sup>49</sup>W. A. Lewis, *Ibid.*, p. 16.

<sup>50</sup>IBRD, *The Economic Development of Nigeria*, John Hopkins Press, Baltimore, 1955, p. 192.

<sup>51</sup>CBI, *Nigeria: An Industrial Reconnaissance*, London, February, 1961.



Having made up their minds to develop agriculture, Nigerian leaders after 1950 concentrated their attention on the development of export crops through the plantation system, which the British government had regarded as unsuitable to Nigeria. As a consequence, out of the 40 plantations in Nigeria at the end of 1960, 28 were wholly owned by the Nigerian governments. Twenty-one of the thirty-two plantations established in Nigeria since 1951 are completely controlled and owned by the governments. Two were wholly owned by expatriates, three were wholly owned by Nigerians and joint government-private firms amount to six. The financing and the management of the government plantations were left with the Regional Development Corporations. However, despite the efforts of the Regional governments to increase production through plantations, the results were far from being satisfactory. In 1961, only 5 per cent of the 60,000 tons of rubber produced and  $3\frac{1}{2}$  per cent of the total palm oil export of 165,000 tons came from the plantations. In 1970, an estimated 95 per cent of Nigerian cocoa was produced in the Western State by about 350,000 cocoa farmers and about 20 per cent of the total production of rubber came from the plantations. Although the plantations supplied high quality commodities, their failure to provide a sizeable part of total agricultural production convinced the Nigerian governments that encouragement and incentives should be given to the farmers. As a consequence, various regional governments embarked upon a number of programmes. In 1962, the then Eastern Region launched the Oil Palm Rehabilitation Scheme. Under the scheme farmers were paid a subsidy of about £18 per acre in the form of cash, fertilizers and seedlings over a five-year period, provided new oil lands were opened and planted with improved palms developed by the Nigerian Institute for Oil Palm Research. As a result of the scheme, over 50,000 acres of oil-palm were planted in the Eastern Region between 1962 and 1967. In addition, farmers were encouraged to form co-operatives, and efforts were made for

the replacement of the traditional hand-squeezing method of processing palm oil by the widespread use of the hand hydraulic oil mills, which the UAC did so well to supply, often on credit.

In the then Western Region, the effort of the government was concentrated on improving cocoa supply. The Nigerian Cocoa Research Institute, which was an outgrowth of the West African Cocoa Research Institute established by the British government, devoted its energy to the elimination of the blackpod disease. The control of cocoa pests, and the widespread use of gammalin 20 and spraying equipment among cocoa farmers were due to the intensive campaign and the generous loans offered by the Western Regional government. Further assistance to farmers included subsidies on fertilizers and insecticides, distribution of high-yielding seedlings and intensive extension assistance. Farm settlements were also undertaken to provide employment for school leavers. Out of the three Regional governments, the Northern Region government was the only one that did not invest in plantations. Instead, the government embarked upon helping farmers to increase the production of cotton and groundnuts by providing new varieties of seeds, and subsidizing fertilizers. Fertilizers used in Northern Nigeria increased from 4,000 tons in 1962 to 35,000 tons in 1967. In the Mid-West, there was an intensification of the extension programme, and of developing high-yielding clonal rubber seedlings for distribution to farmers at subsidized rates. Hiring units for tractors and equipment and service workshops were set up in all the regions. The governments' programmes when put in money terms were not as extensive as the description above would tend to suggest. Out of a total capital expenditure programme of £676.5 million in the 1962-68 Development Plan, only £91.9 million was allocated to the primary sector, and this represented 13.5 per cent of the Plan's total expenditure. During the Plan period, 1962-68, however, only £52.7 million out of the



planned expenditure of £91.9 million was spent and this represents an underspending of 42.8 per cent. During the Second National Development Plan period of 1970-74, £107,663,000 has been ear-marked for agriculture out of a total capital expenditure of £1,025,369,000. Planned expenditure on agriculture during the 1970-74 period represents 10.5 per cent of total capital expenditure. Some light is shown on the credibility gap between what the governments say they would do and what they actually did by

Table 3.9.

TABLE 3.9

SECTORAL PERFORMANCE: AGRICULTURE 1970-71 (£MILLION)

STATE	PLANNED EXPENDITURE 1970-71	ACTUAL EXPENDITURE 1970-71	PERFORMANCE RATIO PER CENT
Federal	4.545	2.407	53.0
Benue-Plateau	0.645	0.502	77.8
East Central	2.239	0.341	15.2
Kano	3.917	1.661	42.4
Kwara	0.364	0.069	19.0
Lagos	0.455	0.010	2.2
Mid-Western	0.934	0.509	54.5
North-Central	0.681	0.399	58.6
North-Eastern	0.826	0.295	35.7
North-Western	0.759	0.211	27.8
Rivers	0.707	0.309	43.7
South Eastern	1.962	0.070	3.6
Western	2.466	1.073	43.5
TOTAL	20.5	7.856	38.3
PERCENTAGE OF EXPENDITURE IN ALL SECTORS	10.8 per cent	6.6 per cent	

SOURCE: SECOND NATIONAL DEVELOPMENT PLAN, 1970-74, FIRST PROGRESS REPORT, THE CENTRAL PLANNING OFFICE, LAGOS, 1972.

In all the States, actual expenditure on agriculture was substantially below the targets set. Overall expenditure in all the states was 61.7 per cent below the planned target. Also, while the planned expenditure on agriculture was to be 10.8 per cent of the total expenditure,

during the 1970-71 period, it was only 6.6 per cent and this shows that other sectors received more priority than the agricultural sector. Moreover, when the planned expenditure on agriculture during the 1962-68 period is compared with the planned expenditure on the sector during the 1970-74 period and it is realized that during the latter period planned expenditure was to be 3 per cent below the proportion devoted to agriculture during the 1962-68 period, it would be reasonable to conclude that Nigerian authorities are giving less priority to agriculture than before.

The reduced priority given to agriculture in recent years seems to contradict the belief of the authorities about the role of agriculture in the development of the country. "The economic growth which took place in Nigeria over the last two decades had agricultural production for export as its main driving force. Not only did the exportation of agricultural products generate income within the domestic economy, it also provided the foreign exchange which made possible the importation of machinery and other capital goods required for industrialization and general development."<sup>52</sup> It is in the Plan where the above statement was quoted that gave lower priority than ever before to agriculture. The low rating of agriculture in the development strategy of Nigeria, and the defects associated with executed agricultural programmes, have resulted in a marked reduction in agricultural exports and an increase in food imports. As Figure 3.1 shows, the aggregate index of recorded output of agricultural export commodities, which stood at 100 in 1960, fell to 80.9 in 1971, and this represented a decline of about 20 per cent below the 1970 level, and, except for 1969, was the lowest index since

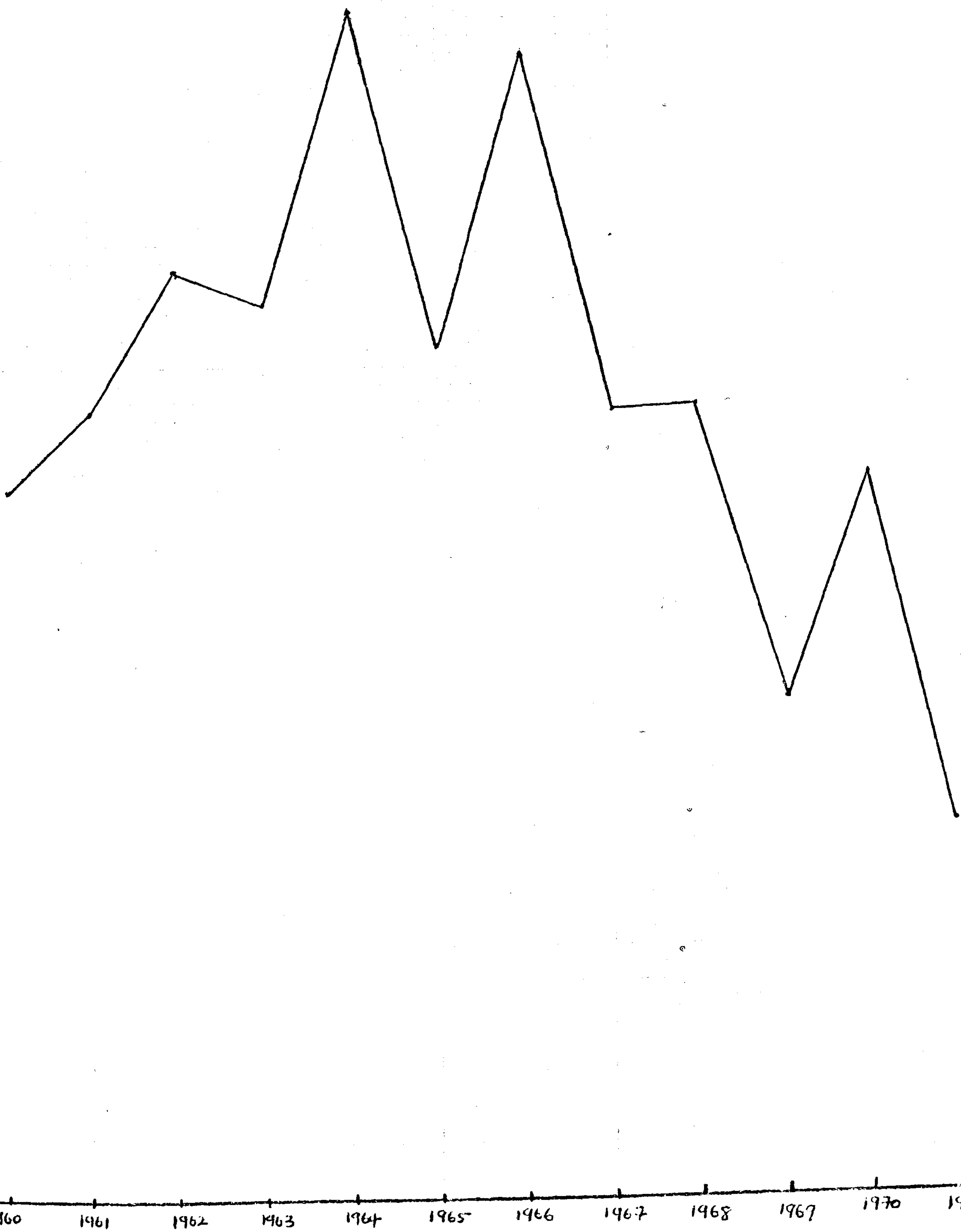
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<sup>52</sup>SECOND NATIONAL DEVELOPMENT PLAN, 1970-74, p. 103.



AGGREGATE INDEX OF OUTPUT OF AGRICULTURAL EXPORT COMMODITIES.

(Base: 1960 = 100)



SOURCE: CENTRAL BANK OF NIGERIA: ANNUAL REPORTS FOR 1970 & 1971.

1960. Food imports on the other hand rose from £23.5 million in 1962, to £28.8 million in 1970, and to £44.1 million in 1971.

There are three major defects associated with agricultural policies in Nigeria. The first type of defects are those associated with the plantations of the Regional Development Corporations. Many of the plantations were located on poor soils and areas of insufficient rainfall. Feasibility studies and soil surveys to discover suitable locations were rarely undertaken. Economic factors were relegated to the background while political considerations became the overriding determinants of locations. In some cases, exorbitant compensations have been paid to owners of lands on which government plantations are located. In other cases, inadequate compensations have led to agitation and lack of co-operation between plantation management and the surrounding localities. Mismanagement, lack of discipline, laziness, favouritism, primitive techniques, costly development errors, excessive expenditure on housing and amenities, have added up to the high costs and gross inefficiency which characterize many of the plantations. These defects of the plantation system in Nigeria ensure that as long as there is a choice between peasant agriculture and the plantation system, peasant agriculture is to be preferred as the plantation system is not a substitute for peasant agriculture.

The second defect is the inadequate information services provided by governments about available incentives and new techniques. Government agricultural experts are rarely seen in the rural areas. Because government agricultural institutions are located near the towns and along main roads, they cannot be contacted easily by farmers in rural areas. The majority of the farmers in rural areas are simply not aware of government incentives, high-yielding seedlings, new techniques and the existence of fertilizers. It is therefore not surprising that agriculture in Nigeria is still largely carried out with primitive traditional and extended-family methods of production.

Perhaps the major defect of agricultural policies in Nigeria is the lack of co-ordination at the departmental level, at the regional



level and at the Federal level. The interflow of ideas between the different sections of agricultural departments and institutions suffers from the bureaucratic defects of red-tape, communication defects and inefficiency on the part of officials. At the regional level there is little or no exchange of ideas about agricultural policies and development. This has resulted in agricultural policies being haphazardly formulated, and applied with wide variations all over the country. At the Federal level, the Federal Ministry of Agriculture is extremely weak and lacks the dynamic force of leadership which could have minimized the defects at the States level. The defects in governments' agricultural policies are not insurmountable, but the speed and the extent to which they are remedied will depend on the role Nigerian leaders envisage for agriculture in the development of the country.

#### OBSTACLES TO AGRICULTURAL DEVELOPMENT

Agricultural development in Nigeria is hindered by many obstacles. The first obstacle is the repressive pricing policies of the Marketing Boards. Nigerian marketing boards are an outgrowth of the old West African Produce Control Board, created by the British government to market West African export products. The Nigerian Marketing Boards were created between 1947 and 1949, the first to be established being the Cocoa Marketing Board in 1947. The government statement establishing the boards stated that "average price paid in West Africa will be substantially near the average net price realized on the world markets and the boards' buying and selling transactions will, therefore, approximately balance."<sup>53</sup> The initial function of the marketing boards was therefore

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<sup>53</sup>Statement on the Future Marketing of West African Cocoa, Cmd 6950, London, H.M.S.O. 1946.

the stabilization of producers' prices. Later, however, they became the instrument for the mobilization of farmers' savings for economic development, and they also encouraged and financed research. As a result of the monopsony position of the marketing boards as the sole buyer of Nigerian export crops, they accumulated huge surpluses by paying farmers prices substantially below the f.o.b. prices of their products. In the period 1964-65, the ratio of the producer price to the f.o.b. price, according to W. A. Lewis<sup>54</sup> was as follows: cocoa 69 per cent, groundnuts 64 per cent, seed cotton 54 per cent, palm kernels 51 per cent and palm oil 50 per cent. The huge surpluses accumulated were not used to subsidize prices paid to farmers in years of low overseas prices, but were appropriated by the governments to finance agricultural and industrial development. Sometimes, however, the surpluses were used to finance political parties. The withholding from farmers of a high proportion of their earnings through low prices was regarded by many people as an important fiscal role to damp down or prevent inflation. However, the IBRD in 1955 recommended that "henceforth the boards' functions are limited to setting quality standards, fixing producer prices and purchasing and marketing crops. The financing of economic development and agricultural research is a responsibility of government and the boards should not attempt to undertake it. .... We also recommend that in fixing producer prices, the boards should have no object other than mitigating price fluctuations and giving an incentive to improvement of quality. The deliberate use of the price-fixing function for other purposes, such as the promotion of development or to counteract inflationary or deflationary trends cuts across the responsibility of government".<sup>55</sup>

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<sup>54</sup>W. A. Lewis, Ibid., p. 20.

<sup>55</sup>IBRD, Ibid., p. 88.



The marketing boards did not take the IBRD's recommendations seriously, instead they stuck to their fiscal role of pricing the farmers' products down, and thus discouraging production, and in turn reducing fiscal revenues. The repressive pricing policies of the marketing boards have had some unfavourable consequences on agricultural production. First, the prices of some products have been so low as to discourage farmers from investing in crops purchased by the marketing boards. This has resulted in farmers shifting from export crops to food crops on which they could earn high returns. In the East, W. A. Lewis noted that "the chief reason for the decline of production, and the still greater decline of the export of palm produce, is that the government has driven the price so low that farmers have preferred to grow food, and have encouraged their relatives to emigrate to other regions".<sup>56</sup> In the North, many farmers have abandoned groundnut growing for cattle rearing and the growing of millet and guinea corn, because of the low prices paid on groundnuts.

Second, foreign investors have been discouraged from investing in Nigerian agriculture because of the pricing policies of the marketing boards. Foreign entrepreneurs who are interested in agriculture have concentrated on crops outside the control of the boards, and those that have invested in crops controlled by the boards did so to feed their industries with the raw materials emanating from such crops.

Third, in the West low prices have acted as an incentive to smuggle cocoa out of Nigeria to Dahomey. As the governor of the Western State has recently said, "Some licensed buying agents appointed by the State marketing board have been using their licences as 'veritable instruments for promoting smuggling'".<sup>57</sup>

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<sup>56</sup> Ibid., p. 21.

<sup>57</sup> West Africa, 19th February, 1973.

It is estimated that the tonnages of cocoa smuggled range from 10,000 to 30,000 tons annually which represents a loss of about £3 million or more a year to Nigeria in foreign exchange. In the Northern part of Nigeria, the smuggling of groundnuts to the Niger Republic is on a large scale and this is estimated to be costing an additional £3 million in lost foreign exchange.

Lastly, Nigerian farmers have on a number of occasions demonstrated their violent resentment at the pricing policies of the marketing boards. The death of a policeman in 1971 at the Nigeria-Niger border, when smugglers fired on him, is an example of the resentment. In 1968, the under-payment of cocoa farmers in the Western State was one of the major causes of riots which took many lives.

It is now widely recognized that the pricing policy of the marketing boards needs a thorough review. The problem posed by the marketing boards was clearly put in a recent government publication: "Another important policy area which requires action in the agricultural sector is the marketing board system. The indications show that the system as presently operated discourages increased efforts and production by the farmers. The stagnation in the output and export of some cash crops is attributed to the marketing board system. The time has come for a serious review of the situation. Such an exercise will consider the need for the continued existence of the marketing boards, their powers and functions, producer price fixing, alternative marketing systems, and effects of any changes on the fiscal position of the State governments".<sup>57</sup> During the Independence anniversary on October 1, 1972, the Nigerian Military government pledged to reform the marketing boards.

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<sup>57</sup>Second National Development Plan 1970-74, First Progress Report, Central Planning Office, Lagos, 1972, p. 66.



In future prices paid by the boards to the farmers would be fixed by the Federal Military government and not by individual boards. Two further problems of the marketing boards which, according to the Central Bank of Nigeria, require urgent attention, are "the failure of local mills to pay promptly for produce purchased from the boards, who thereby bear an unnecessary financial burden, including interest charges on loans over long periods, and the need for the boards to keep adequate and up-to-date accounts, in order to know their position at any point in time and to exercise financial control. In some cases, the boards' accounts are several years out-of-date".<sup>58</sup> In addition, an attempt should be made to merge the nine marketing boards. The six Southern States and Benue-Plateau have one marketing board each for crops produced in their States; there is another one for the remaining five Northern States and another central one in Lagos. These independent boards could be merged into a Central marketing board with branches in the States. This would ensure uniformity of treatment for farmers throughout the country.

The second major obstacle to agricultural development in Nigeria is the land tenure system, and communal ownership. Land tenure in many parts of the country is still largely under the control of families, communities, clans and villages. The inheritance system in many parts of the country, which often results in the division of lands into smaller holdings among the children and relatives of the deceased, hinders agricultural improvement in many ways. The fragmentation of lands often leads to misunderstandings and disputes, which result in valuable time being spent on settling disputes. Many farmers have

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<sup>58</sup> Central Bank of Nigeria, Annual Report for the Year ended 31st December, 1971.

their lands scattered over a wide area, and they have to walk long distances from one plot to another. Under these circumstances time and energy are wasted, distant plots cannot be adequately supervised; capital equipment may be duplicated and if plots are very small it may be difficult to work them with ploughs. In order to increase the size of farms, consolidation should be encouraged and the inheritance system which divides lands into small plots should be abolished. On communal lands, which anybody with a right to the lands can farm, there is usually no incentive for improvement. Investment apart, communal tenure is a handicap to innovation. Livestock cannot be bred selectively unless they are segregated and their mating controlled; neither is it convenient to experiment with new agricultural methods in circumstances where communal activity imposes its own routines. Individual ownership should be encouraged.

The third major obstacle to agricultural development is finance. One major problem facing Nigeria is the shortage of institutions to provide credit to farmers. The importance of agricultural credit for agricultural development cannot be overrated. We have been told that "Efficient systems of agricultural credit are necessary if agriculture is to make its contribution to national development".<sup>59</sup> There are three sources of agricultural credits for farmers in Nigeria: they are the banks, the government and private money lenders. The banks are better placed to grant credits to farmers because they have large financial resources. However, many of the banks, especially foreign-owned banks, have not been of much help to farmers.

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<sup>59</sup> H. Belshaw, *Agricultural Credit in Economically Underdeveloped Countries*, FAO, United Nations, Rome, 1959, p. 228)



TABLE 3.10

## COMMERCIAL BANK LOANS AND ADVANCES TO AGRICULTURE (£'000)

END OF MONTH	1960	1962	1964	1966 <sup>1</sup>	1968	1970	1971
JUNE: Agriculture <sup>2</sup>	4687	7565	11213	2342	1658	2644	5360
TOTAL	37713	61090	91869	123056	103063	121645	218936
Agriculture as a Percentage of Total	12.4	12.4	12.2	1.9	1.6	2.2	2.4
DECEMBER: Agriculture <sup>2</sup>	11281	18039	30223	2423	1924	3496	
TOTAL	57000	77035	122407	149045	112859	175675	
Agriculture as a Percentage of Total	19.8	23.4	24.7	1.6	1.7	2.0	

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC AND FINANCIAL REVIEW, 1961-1971.

NOTES: 1: Prior to January 1966, agriculture included loans to finance exports.

2: Figures for imports and domestic trade were not separated until April, 1969.

Table 3.10 shows bank loans and advances to agriculture. Between 1960 and 1965, when finance for export crops was included in the figures, credits to agriculture were never above a fifth of total credits, except in December 1962 and 1964. Since January 1966, when the finance for export crops has been excluded from the sector, commercial bank credits to agriculture have been very small indeed, representing only about an average of 2 per cent over the 1966-71 period. Commercial bank credits to agriculture become less important when it is realized that small farmers have generally had little direct help from banks. The banks usually demand securities which most farmers cannot provide. Farmers are not prepared to use their lands as security, even if they own the lands. Since the majority of farmers are scattered over the rural areas, they have been excluded from the credit facilities of the banks, because the latter are located in big towns. Also important is the fact that there

are only 300 commercial bank branches serving over 60 million Nigerians, out of which Barclay's Bank, which had been the only and the oldest bank in Nigeria for a long time, has 87 offices. The commercial banks are not important credit providers to farmers in Nigeria.

Government finance to farmers is limited. Apart from export crops being the prime receiver of loans, only favoured and influential people get government loans. In some cases, political supporters and co-operatives get some advances. The small farmer is unknown and gets no financial help from the government's meagre financial credit. The majority of farmers in Nigeria rely on money lenders for their credits and, as such, they are usually at the mercy of the unscrupulous money lenders who charge very high interest rates. Apart from the high interest rates, the money lenders exploit the farmers in two other ways. One is the system of lending money by buying farmers' crops in advance, which prevents farmers from reaping any gain when prices are high. The second system is that of lending money in return for a certain fixed part of the farmers' total harvest. The enumerated features of money lending have impoverished many farmers who could have been better off if alternative credit facilities were available. The income of the farmer is at the mercy of factors, some of which are beyond his control, such as locusts, drought and other climatic factors. If any of these factors occurs, the farmer needs funds. He also needs funds for farm operations, fixed capital and working expenses for marketing and processing, and for other incidental expenditure between sowing and harvesting. There is, therefore, an urgent need for institutions to provide credits to farmers. The Nigerian government can learn a lot from Japan in this respect by establishing agricultural banks in rural areas to provide credits, and also by helping to gather the savings of the farmers which can then be harnessed for developmental purposes. Alternatively, mobile banks could be provided to serve the rural areas.



## THE FUTURE OF NIGERIAN AGRICULTURE

Nigerian agriculture faces enormous tasks in the future, and if the sector is adequately to meet the challenge, there should be a serious transformation from the present backward and traditional system to a more ambitious modern system of farming and cattle rearing. As it is widely believed in official circles, "the performance in the past has not been quite satisfactory and this situation has called for a radical departure from the traditional approach to agricultural development in Nigeria".<sup>60</sup> There are six major tasks facing Nigerian agriculture. First, to provide employment for the rapidly growing population. The FAO agricultural report referred to earlier estimates that Nigeria's population would be 86.2 million by 1980. Although the manufacturing sector is growing fast, only a few people can be absorbed into this sector because it employs capital-intensive methods of production. As a result, the agricultural sector will be expected to meet the employment challenge of the future. Second, to provide an adequate, well-balanced diet for the growing population. The population of Nigeria is about 60 million at the moment and food imports have been increasing greatly, yet the masses of Nigerians are pathetically underfed and malnourished. When the population reaches 86.2 million in 1980, the problem of feeding Nigerians becomes a mammoth task. There is no doubt that the past performance of the agricultural sector of a compound growth rate of 1.5 per cent between 1966 and 1972 cannot be enough to feed an estimated annual population growth rate of 3 per cent after 1974. It is essential that food production should grow at an annual rate of 4-5 per cent if the rapidly increasing population is to be fed, and such a growth rate

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<sup>60</sup>First Progress Report on the Second National Development Plan, Lagos, 1972, p. 66.

requires mammoth efforts on the part of the Nigerian government and the farmers. If food production does not meet the requirements of the population, the only alternative to starvation is the importation of food. Imports would drain Nigeria of its scarce foreign exchange resources, and the country may be plunged into a balance of payments crisis. The latter would in turn have an adverse effect on investment and industrialization. In addition to increasing the production of cereals and legume grains, adequate attention should be paid to animal products. Nigeria imports 300,000 cows, 250,000 sheep and 150,000 goats from the Cameroons, Chad and Niger every year.<sup>61</sup> Nigeria's import bill on milk in 1964 amounted to £2.25 million and this had increased to over £7 million by 1971. It was recently reported that Nigeria expressed an interest in purchasing 100,000 tons of meat from Uruguay annually and the latter was only able to supply 30,000 tons to Nigeria every year.<sup>62</sup> Nigeria, however, has ample land and resources to provide enough products to meet its requirements if efforts can be directed in the right directions. During the 1970-74 period, in addition to the £107.7 million estimated for the agricultural sector, a sum of £25 million was earmarked for livestock, forestry and fishing, to be shared as follows: livestock £12.24 million, forestry £5.78 million and fishing £6.96 million respectively. Estimated figures cannot solve Nigeria's food problem. Until the authorities turn estimates into reality, Nigeria's food problem is frighteningly enormous.

The third task ahead of Nigerian agriculture is to provide raw materials in large quantities to satisfy the needs of the industrial sector. There are three types of linkages possible in the agricultural sector: (a) horizontal, (b) backward and (c) forward linkages. There

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<sup>61</sup>West Africa, August 18, 1972.

<sup>62</sup>West Africa, September 15, 1972.



is some degree of interdependence between the different sections of the agricultural sector which provide important horizontal linkage effects. Cow dungs and groundnut shells are used on a large scale as manure on many farms in Northern Nigeria. To a large number of farmers who cannot afford fertilizers, this is the cheapest way of conserving soil fertility. Agriculture is regarded as short on backward linkage effects because very little investment opportunities occur in the earlier stages of production, but as for forward linkages, the sector can be rated high. Agricultural raw materials can generate large-scale manufacturing activities, especially in agro-based industries. In the case of Nigeria, this is especially so since many industries depend on the agricultural sector for their raw materials. It was shown earlier in the chapter that some factories have been forced to close down temporarily owing to shortages in the supply of agricultural raw materials. Other factories exist with substantial excess capacity due to inadequate raw materials. In the absence of adequate raw materials to satisfy the needs of agro-based industries, if factories are not to close down, there can be only one answer to the problem and that is to import. This would drain Nigeria of its meagre foreign exchange resources and in the event of a balance of payments crisis arising, there is bound to be a curtailment of industrial production.

Four, agriculture should provide more foreign exchange through export earnings than the sector has ever done in the past. The FAO report on Nigerian agriculture estimates that the agricultural export earnings should be about £300 million by 1980 if there is to be enough finance for the economic and social objectives which the country has set itself. It has been estimated by the U.S. Department of Agriculture that Nigeria would be a net importer of palm oil by 1980.<sup>63</sup>

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<sup>63</sup> U.S. DEPARTMENT OF AGRICULTURE, Production and Export Prospects for Palm Oil in West Africa, West Africa, February 5, 1973.

This forecast can only be disheartening to the Nigerian authorities since Nigeria, until after 1960, was the leading producer and exporter in the world.

Five, the agricultural sector should contribute a substantial part of the capital needed to finance economic development. If the farming population becomes well-off through increased agricultural production, they can be easily taxed and their savings gathered to finance developmental projects.

Last, and closely associated with the fifth task, is the problem of providing a steady and growing market for the manufacturing sector. The manufacturing sector, in the absence of export possibilities, will depend to a large extent in the foreseeable future on Nigeria's domestic market. With about 70 per cent of the population involved in agriculture, an increase in the demand for manufactured goods would depend mostly on what happens to the agricultural sector.

One of the ways by which agricultural production can be increased is by bringing more land under cultivation. At the moment, only 16 per cent of Nigeria's soil is under cultivation, 62 per cent is uncultivated and left fallow; 21 per cent is occupied by forests, mountains and rocks, while buildings occupy the remaining 1 per cent. This means that out of Nigeria's economically active population of 30 million, 70 per cent are in agriculture, cultivating 37 million acres of land, and this represents an average of 1.8 acres per head of the active labour force in agriculture. This situation is even made worse by the fact that the 16 per cent of Nigeria's soil cultivated represents areas with low productivity potential. The FAO classifies Nigeria's soil into five classes according to potentiality.



TABLE 3.11

## SOIL POTENTIALITY CLASSES IN NIGERIA

SOIL CLASSES	AREA IN SQ. KM.	PERCENTAGE
1 (Very high productivity - 65 to 100 per cent)	31200	3.42
2 (High productivity - 35 to 64 per cent)	415200	45.53
3 (Medium productivity - 20 to 34 per cent)	276600	30.27
4 (Low Productivity - 8 to 19 per cent)	88800	9.37
5 (Very low productivity - 0 to 7 per cent)	100800	10.05
	912000	100.0

SOURCE: UNITED NATIONS, FAO, AGRICULTURAL DEVELOPMENT IN NIGERIA 1965-1980, ROME 1966.

Table 3.11 shows that nearly half of Nigeria's soil has high productivity and that only about a fifth has low productivity. Let us compare the table above with the land actually in use in Nigeria.

TABLE 3.12

## PRESENT SOIL PRODUCTIVITY CLASSES IN NIGERIA

SOIL CLASSES	AREA IN SQ. KM.	PERCENTAGE
1	-	-
2	50400	5.52
3	289200	31.72
4	423600	46.45
5	148800	16.31
	912000	100.0

SOURCE: AS IN TABLE 3.11.

Table 3.12 shows that Nigerian farmers do not utilize high productivity soils of the country despite the fact that only 16 per cent of the country's soil is under cultivation. Over 62 per cent of the 16 per cent of Nigeria's soil under cultivation is classified as being areas of low

and very low productivity. If agricultural productivity is therefore to be substantially increased, not only should more lands be brought under cultivation, but also Nigeria's high productivity soils should be fully utilized.

Bringing under cultivation more of Nigeria's soil requires substantial investment in the agricultural sector. Table 3.13 shows the investment requirements of the agricultural sector up to 1980.

TABLE 3.13  
INVESTMENT IN AGRICULTURE 1963-1980 (£'MILLION)

	1963/64	1967/68 <sup>a</sup>	1973/74 <sup>a</sup>	1979/80 <sup>a</sup>
Total Investment	172	288	417	642
Investment in Agriculture	30	52	83	135
Public Investment in Agriculture	10	18	33	61
Private Investment in Agriculture	20	34	50	74
Investment in Agriculture as a percentage of total	17%	18%	20%	21%
Total Public Investment	69	119	185	292
Public Investment in Agriculture as a percentage of Total Public Investment	14%	15%	18%	21%
Public Investment in Agriculture as a percentage of Total Agricultural Investment	33%	35%	40%	45%

SOURCE: UNITED NATIONS, FAO, AGRICULTURAL DEVELOPMENT IN NIGERIA 1965-1980, ROME 1966.

NOTE: a; Estimates.

Figures of the private sector's investment in agriculture are not available, but if public expenditure planned for 1970-74 period is compared with Table 3.13, and if public authorities stick to the plan, the target set by the United Nations would be met. The experience of the 1962-68 and 1970-71 periods has shown that planned investment in the agricultural sector will not be met as priorities are often easily given to other projects. The Nigerian authorities may pay particular attention to agricultural projects requiring low capital investment but high yielding, that is, agricultural projects with low capital-output ratio.



## THE FUTURE ROLE OF BRITISH DIRECT INVESTMENT IN NIGERIAN AGRICULTURE

The past discussions have highlighted some of the gaps in Nigerian agriculture which can be readily filled by British investments. Of the two forms, modern farming and the plantation system, which British investment can take in Nigerian agriculture, for political, social and economic reasons, the type which appeals to British investors is the establishment of plantations for crops. Modern farming, as it exists in advanced societies, is essentially the management of large units of land with all the main attributes of an industrial firm. It requires a great deal of both fixed and working capital and a small amount of labour per unit of output as a capital-intensive form of technology, which aims at cutting down labour and increasing its productivity is adopted. "In every type of operation, cultivating and harvesting included, human energy is replaced as far as possible by the work of animals and the power of machines".<sup>1</sup> In modern farming, "More and more farm workers have to be skilled technicians, and their employers skilled personnel and business managers. Farm technology is ever more sophisticated and science-based, and innovations are readily adopted by an increasing proportion of the farmers".<sup>2</sup> In addition, land is intensively cultivated and several crops are planted in rotation.

The plantation system has many dimensions. It is a system of agricultural production as well as a social institution. A plantation is defined as "an economic unit producing agricultural commodities (field crops or horticultural products, but not livestock) for sale and employing a relatively large number of unskilled labourers whose activities are

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<sup>1</sup>R. Dumont, *Types of Rural Economy, Studies in World Agriculture*, Methuen & Co., London 1970, P.30-31.

<sup>2</sup>A. H. Bunting, ed.: *Change in Agriculture*, Duckworth & Co., London 1970, P.726.

closely supervised. Plantations usually employ a year-round labour crew of some size, and they usually specialise in the production of only one or two marketable products. They differ from other kinds of firms in the way in which the factors of production, primarily management and labour are combined".<sup>3</sup>

With the above definition, the major similarities and differences between the plantation system and modern farming can be identified. Firstly, both the plantation system and modern farming employ wage labour. Whereas the peasant agriculture is essentially a family undertaking, employing no wage labour. Secondly, like plantations, modern farming produces commodities for sale in domestic and foreign markets while peasant household produces goods for his own consumption and for sale in the market. Unlike peasant agriculture and modern farming, the plantation system is restricted to one or two field crops. Several crops are cultivated in peasant agriculture and modern farming, and ~~the~~ both embrace all aspects of agriculture: field crops, poultry keeping and livestock. This diversification of production in modern farming and peasant agriculture ensures their flexibility and responsiveness to changes in the relative prices of agricultural products. In Nigeria, all the crops produced by plantations are also produced by peasants. Therefore, agricultural production in Nigerian plantations is designed to supplement the produce of peasants.

Another major distinguishing feature of the plantation system from modern farming is the technology adopted. The plantation system employs a labour-intensive form of technology and as a consequence, the method of production in plantations is not much different from the method used in peasant agriculture. The technology adopted in plantations ensures the employment of a large number of unskilled labour, normally

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<sup>3</sup> G. L. Beckford, *Persistent Poverty, Underdevelopment in plantation economies of the third world*, Oxford University Press, New York 1972, P.6



rawn from the peasantry. Normally, the wage labour employed in plantations maintains some form of link with peasant agriculture. Modern farming, on the other hand, is not restricted to labour intensive technology. In addition, because of the method of production adopted in modern farming, a large number of inputs comes from the manufacturing sector. The existence of modern farming, therefore, is highly dependent on the industrial sector for the provision of inputs. "Farming is buttressed by an array of input industries, which supply machinery, fertilizers, chemicals, seeds, containers and other needs, and of output industries which purchase, transport, store, preserve, process and pack the produce, and organize the supply of food to urban consumers."<sup>1</sup>

There are several reasons why British companies have not invested in modern farming in Nigeria in the past and are not likely to invest in the future. Firstly, there is the absence of white settlers in Nigeria. The development of modern farming in Africa is closely associated with the existence of white settlers. The colonization of Nigeria by the British was not accompanied by British settlement. Since there are no white settlers in Nigeria, it should therefore not be surprising that there has been no British investment in modern farming, in Nigeria in the past, and this is likely to be the situation in the present. Secondly, there is the total lack of knowledge and experience about the complexities of modern farming among British companies operating in Nigeria. None of them specialise in the production of agricultural commodities and as explained earlier, they emphasized the lack of background knowledge as ruling agricultural investment from their investment programmes. Lastly, new agricultural investors are likely to be discouraged by the great deal of both fixed and working capital required in modern farming. Given the constraints on foreign investment in Nigeria, it is most unlikely that British investors will be willing to invest enormous capital in Nigerian agriculture without a proof of adequate returns.

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<sup>1</sup>A. H. Bunting, ed., op.cit., p.726

The plantation system, which will be the form which British agricultural investment takes in the future has certain fundamental limitations. Firstly, the plantation system is usually restricted to few crops. Some plantations cultivate crops with long gestation periods while others cultivate crops with short periods. What the plantation system produces depends on who establishes the plantation. In Nigeria, for example, only cocoa, palm produce, sugar-cane, and rubber are cultivated in plantations. State plantations except in terms of ownership are identical to companies' plantations. As for Nigerian food crops, the variation in diets between the different parts of Nigeria and the limited nature of the demand for many Nigerian food crops make large-scale production, for which the plantation system is best suited unnecessary and unsuitable. The second limitation of the plantation system is the problem of efficiency. Efficiency in plantations crucially depends on many factors such as the size of the plantation, its organisation, the level of supervision, climatic factors, political considerations which may restrict land area cultivated and the amenities provided, and the employment of expatriate staff. While the effects of some of these factors on efficiency can be readily assessed, the effects of others cannot be readily predicted. What is certain, however, is that when a plantation is efficient, it may not only be advantageous to its foreign owner, but it may well benefit Nigeria directly or indirectly. However, when plantations are inefficient, they not only result in a wasteful use of good soils, but they may also represent a misallocation of human and financial resources.

The third limitation concerns the inflexibility of the system. The inflexibility in Nigerian plantations is brought about by the long gestation periods of crops most suited for the system in Nigeria. Cocoa, palm produce and rubber take from 5 to 10 years after planting before any crop can be harvested. When there is a change in the world commodity prices requiring either expansion or contraction in production, the plantation system is usually insensitive or sluggish to respond. Added



to the tenacity of a company's plantation is the strategy of the owner which may prevent its adaptation to changing conditions. This means that even if the crop on a company's plantation has a short gestation period, the plantation may still be insensitive to changes. As an example, a company which owns a plantation, the crop from which is used as a raw material in its domestic industries will be reluctant to shift from the production of the crop to another one whose price has increased in the international market. This is because the company will not only consider seriously the problem of serving its industries with raw materials but there is also the likelihood that the shift from the established crop to another may not fit into the parent company's global strategy. This means that decision-making processes in companies' plantations are not isolated from the industrial and global strategies of these companies. The last limitation to the plantation system in Nigeria, as far as foreign investors are concerned, is the fact that, apart from food crops, most of the cash crops which are suitable for the plantation system cannot be sold directly in the international market by the individual producing company. As we have argued earlier in this chapter, the Nigerian Marketing Board is the sole seller of the Nigerian cash crops in the international market. Because the prices paid for the crops the Board purchases from domestic producers are generally lower than can be obtained by direct selling to the world market, many foreign investors have not been willing to invest in Nigerian cash crops and are not likely to do so in the future.

Despite the enumerated limitations, some British companies like Unilever, African Timber & Plywood Ltd., Tate & Lyle, Dunlop, Bookers Ltd. and the United Africa Company Ltd., have undertaken plantation investments in the past and the experience this gained is likely to be of particular importance in the establishment of future plantations in the production of particular commodities. In addition, as long as British companies find it cheaper and more convenient to supply their industries

with the produce of their plantations, they are likely to continue to invest in plantations. The majority of British investors in plantations are vertically integrated companies diversifying into the sources of raw materials to ensure steady and adequate supplies. There are many crops not controlled by the Marketing Board, the demand for and the prices of which are rising very fast. Some of these crops can be and have been cultivated in plantations. As an example, the Commonwealth Development Corporation has recently entered into an agreement with the Nigerian Government for a giant sugar-cane plantation near Numan in the North-Eastern state at a cost of £40 million, a third of which will be provided by the Corporation<sup>1</sup>. In addition, two other British companies involved in the project are Tate & Lyle as a technical partner and Ward, Ashcroft and Parkman Ltd. to handle the irrigation and water resources aspects.

Another area of profitable investment in Nigerian agriculture is cattle ranching. Apart from the United Africa Company's investment in a pig farm in Northern Nigeria, British investors have not considered investment in cattle ranching seriously. Yet, as we have pointed out earlier in this chapter, Nigeria spends several million pounds every year to import goats, pigs, sheep and beef from African and Latin American countries. Despite the imports, the inability of supplies to meet demand has resulted in very steep prices for meat and meat products in Nigeria. In addition, the world-wide shortage of beef has resulted in high prices for beef and meat products in the U.K. Under these circumstances, some persuasion on the part of the Nigerian authorities for British companies (especially those engaged in the production of dairy products) to enter into partnership agreements with the Nigerian government for the establishment of cattle ranching is likely to receive a more serious consideration in the future.

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<sup>1</sup>West Africa, March 18, 1974



But even if British companies are not particularly keen to invest directly in Nigerian agriculture, their indirect investments in the production of inputs to the agricultural sector can be very beneficial to Nigeria indeed. The inputs we are particularly referring to in this instance are fertilizers, chemicals, insecticides and other biochemical inputs required to improve the output of the agricultural sector. Such an undertaking will also help to integrate the petroleum environment with that of agriculture. It ought to be emphasized that even when improved seedlings are available to the farmers, unless they are planted in conjunction with fertilizers and other chemicals to check pests and to conserve soil fertility, excellent results cannot be obtained.

#### CONCLUSION

British private direct investment in Nigerian agriculture has not matched the level of British total investment in the country. As a result of the meagre investment in the agricultural sector, the contribution of British direct investment to the Nigerian agriculture has been basically indirect through the purchase of raw materials, the granting of credits and loans, the supplying of agricultural implements, the research into crop diseases and making available to farmers the results of such research. The restrictions imposed by the British Colonial Government and later the repressive buying activities of the Marketing Boards made and still make agricultural investment unattractive to British investors. In a recent report, the Central Bank of Nigeria observed that "the low level of performance of the agricultural sector export in recent years points to the need for re-examination of the

entire fabric of that sector. Apart from inhibiting factors such as inadequate mechanisation, out-dated farming techniques, deficiencies in the system of land tenure, and the vagaries of weather, inefficiencies in the marketing process have contributed greatly to the poor performance of the sector. Specifically, it appears that the operations of the Marketing Boards, particularly, the determination of producer-prices and the practices of licensed buying-agents, have not provided the much-needed incentives for expansion for output".<sup>66</sup>

The above quotation suggests that despite the activities of the Nigerian authorities to increase agricultural production, not much has been achieved so far and this situation tends to suggest that there is a need for a new approach to agricultural development. In addition to reforming the pricing activities of the marketing boards, urgent attention should be paid to the land tenure system, the co-ordination of agricultural policies and the provision of credit to farmers. Nigerian authorities could create an agricultural bank with offices in rural areas to provide credit and at the same time gather the savings of farmers for economic development. An intensive feasibility study and soil survey of the whole country would enable the choice of good soils for cultivation to be made. Water resources and irrigation should receive adequate attention, especially in Northern Nigeria, where drought has frequently been a major problem. The adoption of new techniques with special reference to mechanization should receive attention. Although there are many teething problems of finance and education to be overcome before Nigerian farmers readily accept the use of ploughs, tractors, combine harvesters and other agricultural machinery, the present hand implements require too much energy so that farmers often achieve very little with them. As a first step, better,

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<sup>66</sup>Central Bank of Nigeria, Annual Report, 1971, p. 16.



sharper and more productive hand tools, such as the simple, easy to operate Japanese hand tractors, could be introduced. British investors can help in setting up factories for the manufacture of simple hand tools tailored to meet the needs of the Nigerian agricultural population. Animal-drawn implements, already in use in Northern Nigeria, though on a small scale, should be encouraged to be widely used throughout the country. In the course of time, however, farmers should be educated to use tractors, cotton pickers, combine harvesters, better hoes and other sophisticated agricultural implements and machinery. Agricultural education should receive more attention. There is a frightful shortage of agricultural personnel in Nigeria at the moment. Apart from the agricultural departments of the six Nigerian universities, there are only a few institutions in towns like Akure, Ibadan, Kabba, Umudike and Zaria to train Nigerian future agriculturists. Farmers receive little or no education, and it is therefore difficult for them to understand and apply new techniques. The States' authorities would do well to expand agricultural education. In the Northern States, the authorities should try to delegate some agricultural functions formerly performed by the local authorities taken from them. It appears that since the government has taken over agricultural functions from the local authorities, agricultural performance in some Northern States has slumped noticeably. Health facilities, storage and marketing techniques should be provided and improved. As Chief Awolowo has said, "If our farming, storage, and marketing techniques were modern and if the education, health, and general living conditions of our farmers were much better than they are, much more acreage of land would be brought under cultivation; far fewer people would be needed on the farm to produce more food and export crops than at present, and the productivity and standard of living of the farming population would rise considerably".<sup>67</sup>

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<sup>67</sup> Chief O. Awolowo, *The People's Republic*, Oxford University Press, Ibadan 1968, p. 303

To sum up, Nigerian authorities should embark on a serious transformation of agriculture through a dynamic agrarian reform programme directed at the abolition of intermediaries, replacement of the multiplicity of land tenures by a simpler system, restriction on subletting, diminution in the number of uneconomic holdings by prohibiting partition of holdings below a certain level, legal restrictions on ejection, fixation of fair rents, legal security of tenure, the consolidation of holdings, legislative measures towards redistribution of land, promotion of co-operative farming and the provision of credit facilities and education. This means that efforts should be directed at removing the structural obstacles to agriculture. Once these structural obstacles are removed and farmers are educated to use high-yielding seeds and fertilizers, and better, sharper and energy-saving hand tools, agricultural productivity will increase and the important role of agriculture in industrialization will be played effectively. If agriculture succeeds, the hard road to industrialization will be very easy. For a developmental strategy that seeks to mobilize and harness the resources and efforts of a large majority of a country's population is likely to be successful, provided that the right programmes are pursued.



## CHAPTER IV

### BRITISH INVESTMENT IN THE NIGERIAN MANUFACTURING INDUSTRY

#### INTRODUCTION

Nigeria's leaders in the past two decades have been pre-occupied with accelerating the growth of the manufacturing sector. The demand for industrialization is not unique to Nigeria; it is a common feature of many developing countries. As a result of a misconception of the immediate role of industrialization in economic development, many of these countries concentrated a large proportion of their resources in manufacturing, and regarded that sector as a panacea for economic backwardness. After several years of intensive manufacturing activities which were not matched by a tangible reduction in the problems of economic backwardness, many developing countries have started to rethink, and to adopt appropriate development strategies designed to reduce poverty, unemployment and the concentration of incomes in a few hands.

Manufacturing on a significant scale in Nigeria is a post-independence phenomenon. Although Nigeria emerged from World War II with some light industry, and the ensuing post-war boom brought about further industrial expansion, it was not until after 1955 that specific attention was focussed on industrial expansion as a major goal. In 1960, when Nigeria obtained political independence, there were only 150 establishments employing twenty-five or more people. Of these 150 establishments, 55 per cent were established between 1956 and 1960. This means that the five-year period prior to Nigeria's independence, when two of the three Regions, the East and the West, were self-governing, saw a marked intensity in manufacturing activities. Between 1961 and

1965, however, manufacturing activities expanded enormously. Of all the medium and large-scale plants in existence in Nigeria at the end of 1965, 55 per cent were established between 1961 and 1965, according to Professor Aboyade.<sup>68</sup> The remaining 45 per cent were established as follows: 5 per cent before World War II; 15 per cent between 1946 and 1955, and 25 per cent between 1956 and 1960. Since 1966 only a few industrial establishments have come into operation. Of the 1035 mining and manufacturing establishments employing ten or more people in Nigeria at the end of 1971, only 164 were established between 1966 and 1971.<sup>69</sup> This figure must be interpreted with caution since many of the establishments listed in the Industrial Directory are undated. Having said that, the political disturbances in Nigeria between 1966 and 1970 damped down industrial activities and the ensuing civil war did not provide a congenial atmosphere for the establishment of new industries.

#### WHY MANUFACTURING?

The upsurge of industrial activities in Nigeria after 1955 was due to a number of factors. The primary motive for the intensification of manufacturing activities by Nigerian leaders since 1956 was the desire to diversify the economy. As shown in Chapter III, Nigeria is an agricultural country, and until recently agricultural goods accounted for over 60 per cent of total exports. With the downward movement in the world export prices of products, from the Korean war peak, since 1956 and until recently, Nigeria would face two important dangers if resources were concentrated in the agricultural sector alone. The first danger

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<sup>68</sup> O. Aboyade, "Industrial Location and Development Policy: The Nigeria Case", Nigerian Journal of Economics and Social Studies, November 1968.

<sup>69</sup> Federal Ministry of Industries, Industrial Directory 1971, Lagos 1972.



is associated with planning. The fluctuations in output and foreign exchange earnings resulting from movements in world demand and prices for primary products make development planning very difficult. The second danger is that the reliance of Nigeria's economy on the export of a few primary products exposes the country to very serious disrupting problems should there be a fall in the demand for any of these products. Three products, cocoa, groundnuts and palm kernels, accounted for a yearly average of 70 per cent of Nigeria's total agricultural export earnings during the 1962 to 1970 period. The development of the manufacturing sector would provide a cushion for the economy, and damp down any disrupting effect from world fluctuations in the demand for, and the prices of, primary products.

The second attraction of manufacturing to Nigeria is the belief that an intensive and sustained growth of manufacturing would help to absorb both the unemployed and the under-employed labour in agriculture. However, the limits to the number of people which the manufacturing sector can absorb are more real than are sometimes supposed. These limits are imposed by the type of technology adopted, and the need to rely on foreign skilled labour at the initial stage of industrialization. It has also become very clear nowadays that manufacturing activities involving capital-intensive technology usually employ a very limited number of people.

Another reason for the great enthusiasm for manufacturing is the thought that a growing manufacturing sector would not only cause a fall in foreign exchange expenditure, but might also provide a net addition to existing foreign exchange through the export of manufactured goods. Although an intensive and sustained effort in the manufacturing sector may help to reduce foreign exchange pressures, in the short run and in most cases, however, this is not the case. The ability of the manufacturing sector to provide foreign exchange and to reduce foreign



exchange expenditure depends on (a) whether a large proportion of the manufactured goods are exported, (b) whether manufacturing activities are concentrated on import substitution and (c) whether a large proportion of the raw materials and intermediate goods used in the manufacturing sector are supplied domestically. If, as in the case of Nigeria, manufacturing goods are for the domestic market and a large proportion of the raw materials and intermediate goods needed in the sector are imported, an intensive manufacturing expansion is likely to aggravate foreign exchange problems if there is no alternative foreign exchange earner in the economy.

The desire to industrialize has frequently been based on the claim that the high standard of living in advanced societies is a function of their industrialization. Agriculture tended to be associated with poverty and industrialization with wealth. It is not only erroneous to associate agriculture with economic backwardness, but agriculture may also provide the necessary impetus for industrialization. Historical facts do not lend any support to this belief either. Australia, New Zealand, Sweden and Denmark have shown quite clearly that the modernization of the agricultural sector can provide a country with a high standard of living. Moreover, it was not until 1941 that manufacturing employment exceeded agricultural employment in the United States and by that time, the U.S. had been the richest country in the world for many decades. Perhaps Nigerian future planners would realize that it is not the sector itself that resources are concentrated upon that determines the improvement in the standard of living of the population, but the organization, efficiency and the productivity of that sector. If manufacturing activities were to be organized with little or no efficiency, as it is the case with agriculture in Nigeria, it would not be long before it became clear that the advantages which inspire enthusiasm for industrialization could not be realized.



One of the main attractions of accelerated development of the manufacturing sector is that it can raise the pace of economic development much faster than can a corresponding attempt in the agricultural sector. The sluggish growth of the Nigerian agricultural sector in recent years has encouraged the rapid acceleration of manufacturing in order to provide a sufficiently strong impulse to make the economy grow at a fast rate. This belief has been succinctly put by Nigeria's Permanent Secretary in the Ministry of Industries, "By its very nature, however, the agricultural sector can only register a modest growth rate. During the present plan period it has grown around 4 to 4.5 per cent per annum. Because of this, in Nigeria as in every developing country, the role of industrialization is crucial if satisfactory growth rates are to be achieved for the economy as a whole".<sup>70</sup> In the 1950s the agricultural sector grew at an annual rate of 3 per cent; in the 1960s the growth rate fell to about 2 per cent per annum, and since 1970, the sector has been growing at an annual rate of 1.8 per cent. It has been shown in Chapter III that the slow growth of the agricultural sector was due, among other reasons, to the inadequate attention paid to the sector. It is difficult therefore to understand how a sector given such a low priority in the development programmes could provide the much-needed expansionary stimulus to the economy as a whole.

The acquisition of political power associated with political independence must be emphasized as one of the major incentives for intensified manufacturing activities between 1961 and 1965. The British colonial government was not interested in the industrialization of Nigeria for the same reason that led it to prevent foreign capitalists from investing in the Nigerian agriculture. The British government was

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<sup>70</sup> P. C. Asiodu, *Industrial Policy and Incentives in Nigeria*, Nigerian Journal of Economics and Social Studies, July 1967.

interested in the preservation of the Nigerian social life and anything that could disorganize it, like industrialization or foreign ownership of land, did not receive official approval. In addition, industrialization would have raised many administrative problems which might have put an unnecessary strain on officials. After political independence, Nigerian leaders were free to undertake various projects of which the industrial ones received the greatest priority. In addition, Nigeria was, and still is, free to fix tariffs according to the requirements of the country, as long as GATT provisions are met. As a result of the political power which accompanied political independence, various laws and incentives were designed to stimulate industrialization. Also worthy of note is the existence of a group of Nigerian businessmen who are in favour of rapid industrialization. Having realized the importance of industrialization as a quick way of making money, Nigerian businessmen became an active pressure group urging the government to accelerate the pace of this industrialization.

#### THE LEVEL OF MANUFACTURING IN NIGERIA

Having committed itself to rapid industrialization, the Nigerian government embarked on an industrial policy aimed at making industrial investments very lucrative to both domestic and foreign investors, and this has resulted in a very rapid expansion of manufacturing. Foreign investors are, however, largely responsible for the rapid expansion of the manufacturing sector. In 1965, it is estimated that 63 per cent of total industrial investments in Nigeria was undertaken by foreign investors. The picture has not changed much since then, and at the moment foreign investors still undertake about 60 per cent of manufacturing investments. Table 4.1 shows the rapid expansion of investments in the manufacturing sector. Between 1962 and 1968 foreign investments in the manufacturing sector grew by 17.7 per cent per annum.



TABLE 4.1

CUMULATIVE FOREIGN INVESTMENT IN THE MANUFACTURING SECTOR  
ANALYSED BY TYPE OF INDUSTRY (N£'000) 1962-68

TYPE OF INDUSTRY	1962	1963	1964	1965	1966	1967	1968
1. Food	4305	8441	10039	9037	7137	13801	11636
2. Beverages	5768	2739	2705	6977	7590	7184	8974
3. Tobacco	6839	5724	5904	6992	9192	7890	11706
4. Textiles	3669	3960	4016	6196	5138	8784	13023
5. Footwear & Apparel of Textiles	338	340	159	235	282	796	910
6. Wood and Cork	-	282	356	234	269	796	910
7. Furniture & Fixtures	265	614	665	350	889	1033	1183
8. Paper & Paper Products	293	290	792	1001	1394	2367	1992
9. Printing & Publishing	666	829	700	1019	900	792	1815
10. Leather & Leather Products	-	51	52	155	152	270	201
11. Rubber Products	2033	4127	2914	4206	5032	9302	3533
12. Chemicals	3884	5991	6010	5745	9056	9522	12935
13. Products of Petroleum and Coal	864	2711	7314	6762	8084	9500	9131
14. Non-Metallic Mineral Products	3393	4995	3683	7227	6986	7287	11289
15. Basic Metal (Iron & Steel)	100	160	334	1618	1053	3640	1785
16. Metal Products	3404	4807	8566	7580	8015	11071	6881
17. Machinery (Except Electrical)	146	180	377	129	457	91	172
18. Electrical Machinery	234	542	608	686	704	517	902
19. Transport Equipment	1683	1880	2898	2076	1837	3212	3045
20. Miscellaneous	453	671	508	1287	333	2035	637
TOTAL	38335	49334	58600	69512	74500	99322	102045

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, 1968-71.

In 1968, cumulative investments in the sector were 166.2 per cent above the 1962 level. The most rapidly growing industries are basic metals, products of petroleum, paper and paper products, textiles, chemicals and food. The industries where a large proportion of foreign investments were concentrated in 1968 are textiles, chemicals, tobacco, food, non-metallic mineral products and beverages. The six industries accounted for over 68 per cent of total foreign investment in the manufacturing sector in 1968. The rapid increase in investments in the manufacturing sector has resulted in the accelerating pace of industrial production as



shown by Figure 4.1. From 1963 to 1966 there was a rapid growth in manufacturing production. During the 1967 to 1968 period, the civil war which engulfed Nigeria adversely affected manufacturing production, hence the sluggish growth during the period. As soon as the war was nearing an end, manufacturing activities revived and from 1969 until the present, manufacturing production has been growing more rapidly than ever before.

The rapid increase in the level of investment and production in the manufacturing sector has been accompanied by a growing increase in the value added by the sector.

TABLE 4.2

VALUE ADDED BY THE MANUFACTURING SECTOR, 1958-68 (£MILLION)

INDUSTRY GROUP	1958	1963	1967	1968
Food (including tobacco, meat, dairy, sugar & confectionery)	4.76	10.77	16.02	10.94
Beverages (including soft drinks)	4.50	10.17	11.79	15.80
Vegetable Oil Milling	1.51	3.42	7.22	6.28
Textiles	1.76	3.99	13.68	13.78
Garments	0.04	0.09	1.02	1.18
Footwear	0.24	0.54	1.35	0.86
Furniture and Fixtures	0.32	0.73	1.62	1.89
Glass Products and Pottery	0.01	0.02	0.05	0.07
Paints	0.16	0.36	0.59	0.69
Bricks and Tiles	0.04	0.10	0.12	0.11
Cement and Concrete Products	1.51	3.42	3.14	4.15
Basic Industrial Chemicals, Petroleum Products & Miscellaneous Products	1.27	2.87	7.04	15.52
Electrical Equipment	0.05	0.12	0.44	0.63
Basic Metal & Metal Products	1.27	2.88	6.07	6.35
Motor Vehicle & Bicycle Assembly	0.29	0.65	0.80	1.64
Other Manufactures	6.57	14.8	16.68	18.05
Crafts	16.20	20.4	22.4	23.0
TOTAL	40.5	75.3	110.03	120.94

SOURCE: FEDERAL OFFICE OF STATISTICS, LAGOS.

Table 4.2 shows the value added<sup>71</sup> by manufacturing from 1958 to 1968.

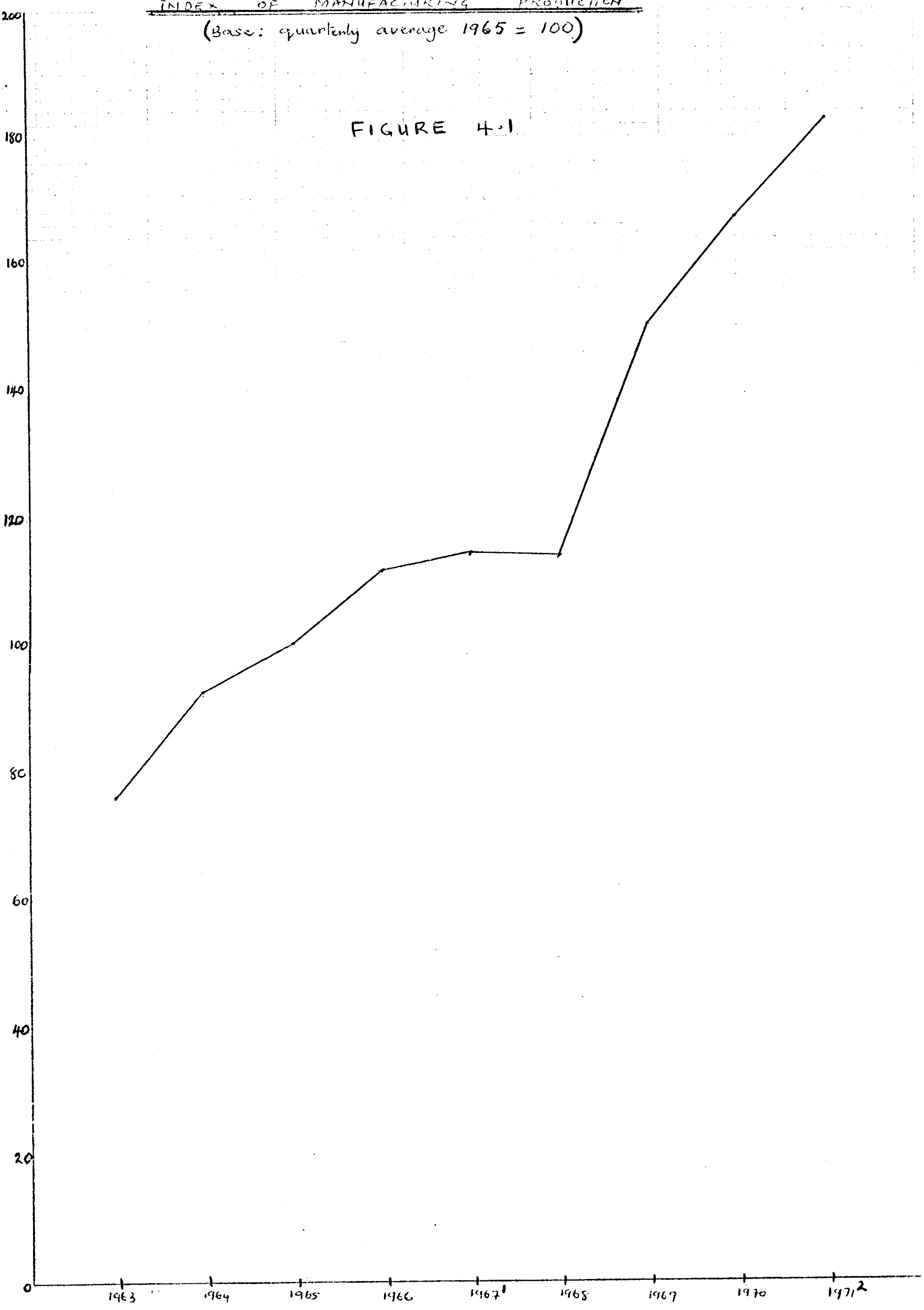
<sup>71</sup> Value added is calculated by subtracting industrial costs from gross output. See Table 4.9.



INDEX OF MANUFACTURING PRODUCTION

(Base: quarterly average 1965 = 100)

FIGURE 4.1



NOTES: 1. Production figures of establishments located in the Eastern States are not included, from mid-1967

2. Provisional.

SOURCE: CENTRAL BANK OF NIGERIA : ANNUAL REPORT FOR 1971.

The consumer goods, on which a large proportion of foreign investment was concentrated, contributed the largest part of the value added by the manufacturing sector during the 1958-68 period. In 1968 value added by the manufacturing sector was 198.6 per cent above the 1958 level. Over the 1958-68 period value added by manufacturing grew at an annual rate of 11.5 per cent. The most rapid growth rate was recorded during the first five years between 1958 and 1963 when the annual growth rate was 13.2 per cent. The value of the output of the manufacturing industries was estimated as over £250 million in 1971.<sup>72</sup>

#### THE MAGNITUDE OF BRITISH INVESTMENT IN THE MANUFACTURING SECTOR

The U.K., as shown in Chapter II, is Nigeria's most important foreign investor, accounting for over 60 per cent of total foreign investment in Nigeria in 1962. As more countries have increased the level of their investments in Nigeria, the relative importance of the U.K. as the major investor has been diminishing. At the moment, with the U.S. investments in Nigeria amounting to more than N£250 million in 1972, according to the U.S. Ambassador in Nigeria, Mr. John Reinhardt, U.K. total investment has currently been estimated to be about one-third of total foreign investment in Nigeria.<sup>73</sup> The downward trend in the percentage share of U.K. investment in the total foreign investment has also been reflected in her share in total foreign manufacturing investments. In 1965, according to Professor S. Aluko, when foreign investors accounted for 63 per cent of the total industrial investments in Nigeria, the U.K. alone accounted for 45 per cent.<sup>74</sup> In 1968, as Table 2.12 in Chapter II shows, if the unknown but meagre level of

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<sup>72</sup>Federal Ministry of Industries, Industrial Directory 1971, Lagos, 1971.

<sup>73</sup>West Africa, September 29, 1972.

<sup>74</sup>Chief Awolowo, The People's Republic, Oxford University Press, Ibadan 1968, p. 310.



investment in the electrical and mechanical engineering industry is excluded, U.K. investment in the Nigerian manufacturing sector amounted to £32.8 million, which was 35 per cent of the total value of British investment in Nigeria excluding oil, banking and insurance investments. In the same year, if manufacturing investment is compared with the overall total of U.K. investment in all the sectors of the Nigerian economy, the percentage share of manufacturing investment becomes infinitesimal. In 1968 when total U.K. investment in Nigeria amounted to N£261.2 million, investment in the manufacturing sector totalling £32.8 million or N£25.65 million was only 9.8 per cent of U.K. total investment. The U.K. share in total foreign manufacturing investment was also very low in 1968. As Table 4.1 shows, total foreign investment in Nigerian manufacturing amounted to N£102 million; U.K. investment in the sector was N£25.65 million and this represents only 25 per cent of the total foreign manufacturing investment. The deteriorating position of the U.K. as Nigeria's major investor in the manufacturing sector becomes clear when it is realized that whereas in 1965 the U.K. accounted for 69 per cent of the total foreign manufacturing investment, by 1968 this proportion had fallen to 25.1 per cent.

The diminishing importance of the U.K. as Nigeria's most important foreign investor in the manufacturing sector can be explained by the inability of the U.K.'s net investment in the sector to keep pace with the growth of net foreign investment in manufacturing.

TABLE 4.3

NET FLOW OF FOREIGN INVESTMENT TO THE MANUFACTURING SECTOR (£M)

	1963	1964	1965	1966	1967
U.K.	3.4	0.3	1.9	2.2	0.5
Total Flow	11.0	9.3	10.9	5.0	24.8
U.K. as a Percentage of Total Flow	30.9	3.2	17.4	44.0	2.0

SOURCE: 1: BOARD OF TRADE JOURNALS OF 19.7.68 AND 9.5.69.  
2: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW 1968-71.

Table 4.3 shows the net inflow of investment to the Nigerian manufacturing sector from all foreign sources and from the U.K. The low level of net capital inflow from the U.K. during the period was due to a number of reasons. The political disturbances which began in the Western Region in 1964 threatened peace throughout the country, and made the business outlook very gloomy. In addition, the Nigerian coups which took place in January 1966 and July 1966 culminated in a civil war which affected British companies more severely than companies from other parts of the world.

#### THE U.K. MAJOR INVESTORS

##### THE UNITED AFRICA COMPANY LTD. (UAC)

The United Africa Company Ltd. (UAC), a member of the Unilever Group of companies, is the second largest U.K. investor in Nigeria, next in importance only to the Shell-BP group. In its own right, the UAC is the largest merchant firm in Nigeria and also the most important investor in distribution and manufacturing. Excluding oil investments, the UAC accounts for about two-thirds of British investment in Nigeria. The UAC and the affiliated companies in the Unilever Group's investment in Nigeria amounted to £48.5 million in 1961.<sup>75</sup> The United Africa Company Limited was formed on 29th April, 1929, by a merger between the Niger Company (a subsidiary of Unilever Ltd.) and the African and Eastern Trade Corporation. As an off-shoot of the Chartered Royal Niger Company (which has been referred to in Chapter II), the UAC's contact with Nigeria dated back over 300 years. The initial functions of the UAC prior to the post-war period (as explained in Chapter II) were the distribution of U.K. manufactured goods in Nigeria and the purchase of Nigerian

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<sup>75</sup> Statement to the Shareholders in 1961 by the Chairman of Unilever.



primary products for export. After World War II, UAC's operations in Nigeria entered a period of fundamental change.

TABLE 4.4

CAPITAL EXPENDITURE BY THE UAC GROUP AND OTHER  
UNILEVER ASSOCIATED COMPANIES (£'000s)

DATE	COMMERCIAL	INDUSTRIAL		TRANSPORT	AGRICULTURAL	TOTAL
1951/52	549	728	40.3	529	-	1806
1952/53	587	701	38.9	516	-	1804
1953/54	823	492	33.2	166	-	1481
1954/55	787	238	15.4	310	206	1541
1955/56	1186	519	24.7	296	100	2101
1956/57	1624	552	21.6	209	172	2557
1957/58	1351	508	18.6	635	232	2726
1958/59	935	563	26.9	263	334	2095
1959/60	1074	1224	43.3	40	479	2817
1960/61	1403	736	31.4	82	124	2345
1961/62	1368	1267	47.2	48	2	2685
1962/63	1293	3018	68.6	37	51	4399
1963/64	742	1558	58.2	303	74	2677

SOURCE: UNITED AFRICA COMPANY LTD., STATISTICAL & ECONOMIC REVIEW, 1955-1964.

Table 4.4 shows the capital expenditure of the UAC in Nigeria from 1951 to 1964. The figures for later years were not included in the table because the UAC has discontinued the publication of the Statistical and Economic Review from which the figures could be extracted. When contacted, the UAC has not been able to supply the break-down figures after 1964 because, according to an official of the company, no attempt has been made to calculate the figures since the discontinuation of the Review. As Table 4.4 shows, more capital was invested in commerce than in any other sector between 1951 and 1959. Industrial investments did not account for more than 30 per cent of total capital expenditure except in 1951, 1952 and 1953 during the 1951 to 1959 period. After 1959, however, industrial investments began to receive pride of place. Between 1960 and 1964, capital expenditure in the industrial sector was 77.7 per cent above the expenditure in the sector for the 1951 to 1959 period.

During the last five years of the period under consideration, 1960-1964, capital expenditure in the industrial sector accounted for 64 per cent of the total capital expenditure by the UAC during the 1951 to 1964 period. There was therefore a shift in the investment priorities of the UAC from commerce to industry after 1960, and this shift from one sector to another has been termed "redeployment".

#### REDEPLOYMENT IN MERCHANT FIRMS

Redeployment involves two things. Firstly, it involves the withdrawal of capital and manpower by the merchant firm from established lines of business which circumstances have rendered unprofitable or politically unacceptable to national aspirations. Secondly, it involves the re-investment of withdrawn resources in those activities which offer a satisfactory return and are politically acceptable. There are two main reasons why the UAC and other merchant firms have embarked on a serious process of redeployment since the post-war years. The first reason is economic. The boom which followed the Second World War brought with it expansion and a rise in incomes for many Nigerians. The increase in wealth and the associated desire for a higher standard of living brought about a sophistication in consumer demand which constitutes a salient change in the structure of market opportunities in Nigeria. As more local industries were developed and many Nigerian customers of the merchant firms engaged in export and import businesses, competition became fiercer in distribution and the profit margins of merchant firms were adversely affected. In addition, after Nigeria's political independence in 1960, the monopoly in distribution enjoyed by British merchant firms, under the tariff and political protection offered by the British colonial government, disappeared. To maintain their profit levels, British merchant firms had to bow to the inroads of Nigerian and foreign manufacturers into their jealously guarded



distributive trades by moving into new areas of activities where their experience, financial resources and marketing experience could shield them from these competitors. The case has been clearly put by the UAC, "Once the development of a country is under way, incomes begin to rise and the demand of consumers for goods and services tends to increase. When this happens, the local market comes to assume a growing importance and new and competitive suppliers of the goods and services in demand are attracted. This is what has been happening in the countries of tropical Africa during the post-war years. Some of the new and competitive suppliers are local traders and wholesalers; others are overseas manufacturers no longer content to leave the local marketing of their wares, as hitherto, to established general merchants, unless on a favoured basis; still others are the new industries that are being developed locally to produce goods that previously had to be imported. As many of these new local suppliers are merely taking advantage of the expanding market and are operating on very low overheads, their entry into the field has had the effect of reducing the overall profit margins of the established merchants, whose overheads, arising from their world-wide buying machinery and their networks of trading posts, are necessarily on a sizeably larger scale; while the direct incursion of overseas and local manufacturers into the market has detracted from the range of merchandise being handled by the general merchants".<sup>76</sup>

The second reason is political. Once Nigeria obtained political independence, there was also the desire to obtain economic independence. As a consequence, attention was focussed on industrialization as this was regarded as a panacea for economic backwardness and the means to raise the standard of living of the people. Industrial policies therefore

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<sup>76</sup>UAC, Redeployment: An Aspect of Development in Tropical Africa, Statistical and Economic Review, No. 28, April, 1963, p.3.

involved the handing-over of primary products export and the buying businesses to the Nigerian Marketing Boards from the merchant firms, increased participation in industrial and distributive trades by the government and rich Nigerians. "The upshot of this multi-pronged government penetration," said the UAC, "has been to bring the 'commanding heights' of the economy securely into its hands, thus making it quite impracticable - as well as quite impolitic - for a private firm to pursue its own development along lines at variance with overall national policy and need".<sup>77</sup> It is in the light of the economic and political changes taking place in Nigeria that merchant companies, especially the UAC, have undergone a fundamental change to recast their patterns of operations and embark on a programme of redeployment that would enable them to earn high profits while at the same time associating themselves with the national aspirations.

#### REDEPLOYMENT IN THE UAC GROUP

The UAC provides a unique example of a merchant company which has successfully diverted a higher proportion of its resources in Nigeria to manufacturing. The company's first step was to withdraw from cocoa and palm produce buying at the end of 1958-59 season. The company then concentrated on purchasing non-controlled items like hides and skins, rubber and sheanuts. The company also withdrew from provisions and petroleum and many of its smaller trading stations were either closed or transferred to independent Nigerian operators. The company then deployed resources into department and multiple stores and shops where enormous amounts of capital, marketing expertise and the provision of technical after-sales services are required. As a consequence, units

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<sup>77</sup>UAC, Statistical and Economic Review, April 1963, p. 6.



were formed dealing with motors, machinery and electrical equipment, chemists, textiles and haberdashery, hardware and cold storage in many parts of Nigeria.

It was in the manufacturing sector that UAC's redeployment was well-marked. As a company spokesman has said, "To withdraw, however, is only in order to reinvest to better purpose. To firms with their sights adjusted to the future, new horizons of opportunity are constantly opening up to replace those which are closing down. To release men and money from commitments in which their usefulness is declining and to reinvest them where better prospects beckon is an inescapable course for any firm whose orientation is to the future rather than to the past".<sup>78</sup> In a country like Nigeria, the rapidly growing population and the sophistication of consumer demand associated with rising incomes provide an avenue for a high level of investment in the manufacturing sector and the UAC took advantage of the situation.

Table 4.5 shows the industrial investments of the UAC in Nigeria. The African Timber and Plywood (Nig.) Ltd. is one of UAC's earliest agricultural and industrial investments in Nigeria. Established and located at Sapele in the Mid-West, the company began with the felling and the extraction of Nigerian timber for export. Later, a sawmill was added and this was followed by a plywood and a blockboard factory. By 1960, the African Timber and Plywood Ltd. not only formed one of the largest tropical timber extraction and processing units in the world, it also represented the largest industrial unit in the country. The company now serves export markets with Nigerian timber while at the same time providing increasing quantities of timber for home use in building houses, shops, and schools, and materials for heavy construction such as railway sleepers, bridge beams and dock piles.

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<sup>78</sup> UAC, Ibid., p. 15.

TABLE 4.5

## INDUSTRIAL INVESTMENTS OF THE UAC GROUP OF COMPANIES

COMPANY	LOCATION	PRODUCT	YEAR OF START-UP
African Timber & Plywood Ltd.	Sapele	Timber & Plywood	1948
Nigerian Breweries Ltd.	Apapa, Aba, Kaduna	Beer & Minerals	1949, 1956-7
Nipol (Nig.) Ltd.	Ibadan	Plastic Products	1957
Vehicle Assembly Plant	Apapa	Bedford Lorries and Parts	1958
Lipton (Nig.) Ltd.	Apapa	Tea & Coffee blending & packaging	1959
W.A. Portland Cement Co.	Ewekoro	Cement	1961
W.A. Cold Storage Co.	Apapa	Meat Products	1961
Walls (Nig.) Ltd.	Apapa	Ice cream	1961
Vono Products Ltd.	Mushin-Lagos	Beds, Mattresses, etc.	1961
Guinness (Nig.) Ltd.	Ikeja, Benin	Stout, Beer	1962, 1972
The Nigerian Sugar Co.	Bacita	Sugar & By-products	1963
Norspin	Kaduna	Cotton Yarn	1963
Vitafoam (Nig.) Ltd.	Ikeja, Aba	Foam Rubber Products	1963, 1972
A. J. Seward (Nig.) Ltd.	Apapa, Zaria	Perfumes and Cosmetics	1964, 1963
Bordpak (Nig.) Ltd.	Apapa	Cardboard Boxes & Cartons	1964
Philip Morris (Nig.) Ltd.	Ilorin	Cigarettes	1964
Associated Cement Mfrs.	Apapa	Vehicle Batteries	1965
Crocodile Machets	Port Harcourt	Machets	1965
General Cotton Mill Ltd.	Onitsha	Printed Textiles	1965
Premier Packaging Ltd.	Apapa	Paper Wrappings	1966

SOURCE: UAC, STATISTICAL & ECONOMIC REVIEW, 1955-1964, UAC LINK MAGAZINES AND UAC HEAD OFFICE IN LONDON.

The Nigerian Breweries Ltd. (NBL) represents one of UAC's import substitution investments. NBL began the production of beer and minerals at Apapa in 1949. By 1956 another brewery went into production at Aba, and to complete the regional distribution, a brewery was opened in Kaduna in 1957. The NBL is a joint venture between the UAC, Heinekens of Holland, a number of European companies and the Nigerian public. In 1962, the UAC in partnership with Guinness Overseas Ltd. opened a stout factory



at Ikeja. The unique feature of UAC's investment in the beer and stout industry is that the company went into partnerships with companies possessing technical competence; Heinekens of Holland in beer brewing and the Irish brewer, Guinness, in stout. The assembly plant for Bedford commercial vehicles erected by the UAC came into operation in June 1959. In addition to vehicle assembly, bus and body building is also carried out in the plant at Apapa. The UAC holds a 10 per cent share in the West African Cement Company at Ewekoro. The Nigerian Sugar Company Ltd. at Bacita is a public company whose shares are held by Federal and State governments, Booker (Nig.) Ltd., and Tate & Lyle are technical partners. UAC holds a 7 per cent share interest in the company. In the textiles industry the UAC is well represented by its investments in Norspin, whose textile factory is at Kano and General Cotton Mill Ltd. at Onitsha. Norspin is a joint venture between the UAC, the English Sewing Cotton and Northern Nigeria Investments Ltd., the body in which the CDC is associated with the old Northern Nigeria Development Corporation. It was established in 1963 to produce cotton yarn and cotton cord for Dunlop's tyre factory at Ikeja. In 1965 both the UAC and its technical partner, English Sewing Cotton, established the General Cotton Mill Ltd. at Onitsha to print imported Japanese cloth. The West African Cold Storage Company manufactures and markets a range of food products, including meat, ice cream, canned soups, condiments and sugar confectionery. Vono Products Ltd., a joint venture among the UAC, Vono Ltd., a leading U.K. bedding manufacturer, the Western Nigeria Development Corporation and CFAO, was established in 1961 to manufacture mattresses and spring beds. Vitafoam (Nig.) Ltd. was incorporated as a company in association with G. B. Ollivant Ltd., a member of the UAC Group, and Vitafoam Ltd., of Middleton, Manchester, in 1963 and commenced manufacturing operations in November of the same year. Located at Ikeja, Vitafoam manufactures latex foam moulded

products such as mattresses, pillows, cushions and fillings for the furniture trade. UAC is also associated with Lipton Ltd. which owns a factory at Apapa for roasting, blending and packaging tea and coffee. The UAC owns Bordpak (Nig.) Ltd., established at Apapa in 1964 to manufacture cardboard boxes and cartons. Premier Packaging Ltd. was established in 1966 to manufacture paper wrappers. In the perfumes, cosmetics and other toilet preparations industry, the UAC is well represented by A. J. Seward (Nig.) Ltd. The company has two factories, at Apapa and Zaria, to manufacture pomades, balms, brilliantines, perfumes, talcum powders and other toilet preparations. The Kwara Tobacco Company was a joint venture between the UAC, Philip Morris of America and the Northern Nigeria Investments Ltd. Its cigarette factory was opened at Ilorin in 1964 with the aim of providing cigarettes which will cater for all classes of demand in Nigeria. The name of Kwara Tobacco Company has been changed to Philip Morris (Nig.) Ltd. with effect from 9th January, 1969. Other companies which the UAC has joined with others to establish but with which it is no longer concerned include Taylor Woodrow (Nig.) Ltd., Nigerian Pre-Stressed Concrete Company Ltd., Nigerian Joinery, Northern Construction Company, Farm Milk and Pye (Nig.) Ltd.

One important industrial investment of the UAC Group to which no reference has yet been made is Lever Brothers (Nig.) Ltd. As a subsidiary of Unilever Ltd. of the U.K., Lever Brothers is one of the oldest manufacturing companies in Nigeria. The first factory was established at Apapa in 1925. The other factory, a £2 million soap factory, was established at Aba in 1958. In its two factories, Lever Brothers (Nig.) Ltd. manufactures products identical with those of its U.K. parent company such as detergents, margarine and other edible fats, soap and other toilet preparations, perfumes and talcum powder.



Just as the UAC Group has been redeploying its capital and structure to meet changing conditions, so also has the company been redeploying its labour and upgrading African employees.

TABLE 4.6

UAC GROUP: AFRICAN AND EUROPEAN MANAGERIAL STAFF

DATE	TOTAL		AFRICAN MANAGERS		EUROPEAN MANAGERS	
	NO.	%	No.	%	No.	%
1953	697	100	80	11.5	617	88.5
1955	775	100	99	12.8	676	87.2
1957	874	100	149	17.0	725	83.0
1959	917	100	166	18.1	751	81.9
1960	929	100	200	21.5	729	78.5
1961	1006	100	264	26.3	742	73.7
1970	1134	100	771	68.0	363	32.0

SOURCE: 1: UAC, STATISTICAL & ECONOMIC REVIEW, 1955-1963.

2: NEW COMMONWEALTH, TRADE & COMMERCE, NO. 8, 1970.

Table 4.6 shows the rapid Africanisation of its managerial staff. While in 1953 only 11.5 per cent of its managerial staff were Africans, by 1959 the percentage had increased to 18.1. After 1960, there has been a rapid Africanisation of the managerial staff, partly because the company is genuinely interested in providing employment for the rapidly increasing number of Nigerian graduates, and partly because of the pressure put on the company by the Nigerian government to reduce its European managerial staff.

The post-war activities of the UAC in Nigeria have shown quite clearly that when there is the desire, there is always the possibility of adapting to changing conditions. The UAC has responded honourably to the economic pressures mounted by competitors and the desire of the Nigerian government to industrialize. Not only have resources been withdrawn from less profitable and politically acceptable lines, such resources have also been redeployed into new lines. The UAC has been

able to do this by building on its accumulated marketing experience. In some cases the company has collaborated with overseas technical partners, mostly manufacturers with whom the company have already done business, whose special technical skills could be married with the commercial experience of the UAC, to provide a complementary element of expertise and capital. There is therefore an element of truth in the attitude of the UAC group regarding industrialization in Africa put forward in 1959, "...Thus, quite apart from a genuine desire in sympathy with public demand to help West African countries to broaden the scope of African enterprise, there is a thoroughly practical basis for the encouragement of local industries by the company. This has also found practical expression in the way the United Africa Company and other trading companies have gone into partnership with local governments and with experienced manufacturers in the establishment of industries in West Africa".<sup>79</sup>

The success which has accompanied the adaptation of the UAC to the changing Nigerian conditions is due largely to the interest and the confidence the company has in Nigeria. Although all the industrial investments of the UAC are concentrated in light industries and consumer goods, the fact remains that the Company redeployed its capital to manufacturing. In addition, as an official of the company said in an interview, "UAC are not industrialists. We are a merchant firm adapting to the aspirations of your people". For the UAC to redeploy a large proportion of its capital from its established lines of activities to manufacturing within a period of about ten years is in itself commendable. The UAC represents all that is good in a British investor in Nigeria. The company has formed partnerships with Nigerian governments in a number of projects, recruited foreign technical partners to Nigeria, and

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<sup>79</sup>UAC, Industrialization in Commonwealth Africa, Statistical and Economic Review, No. 23, September 1959, p. 39.



provided genuine training opportunities for Nigerians to acquire much-needed managerial skills. The company has also associated itself with Nigeria at all times whether in times of adversity or prosperity. It is therefore not an exaggeration to say that what is good for the UAC is, in most cases, good for Nigeria.

COMMONWEALTH DEVELOPMENT CORPORATION

After Shell-BP, UAC and the NTC, the Commonwealth Development Corporation (CDC) is next in importance among the British direct investors in Nigeria. As explained in Chapter III, the CDC is a public body whose main interest is to help backward countries to develop and for this reason, the CDC only have to break even from one year to another to remain in business. Table 4.7 shows the CDC's investment in Nigeria's commerce and industry in 1971. Commerce and industry accounted for 58.9 per cent of the CDC's total investment in Nigeria in 1971, the corresponding figure for CDC's operations in the world, as a whole,

TABLE 4.7

CDC'S OPERATIONS IN NIGERIA'S COMMERCE AND INDUSTRY IN 1971

1.	Afprint (Nig.) Ltd.	£554,000
2.	Development Finance Co. Ltd.	£1,000,000
3.	Dunlop Nigerian Industries Ltd.	£150,000
4.	Five Star Industries Ltd.	£258,000
5.	Hill Station Hotel Ltd.	£25,000
6.	Nigeria Hotels Ltd.	£636,852
7.	Nigerian Cement Co., Ltd.	£472,500
8.	Nigerian Industrial Dev. Bank	£75,000
9.	Northern Hotels Ltd.	£83,350
10.	Northern Nigeria Investments Ltd.	£2,297,800
11.	Zamfara Textiles Industries Ltd.	£100,000
	TOTAL	<u>£5,652,836</u>

TOTAL CDC'S INVESTMENT IN ALL SECTORS IN 1971 = £9,599,937

COMMERCE & INDUSTRY AS A PERCENTAGE OF TOTAL INVESTMENT = 58.9

SOURCE: CDC ANNUAL REPORT, 1971.

was 30.2 per cent. These figures would tend to suggest that the CDC paid more attention to commerce and industry in Nigeria than it did in many parts of the world. Three of the companies in Table 4.7, Afprint Ltd., Five Star Industries Ltd. and Zamfara Textiles Industries Ltd., are in the textile industry. Afprint (Nig.) Ltd. is a textile company to which the CDC has agreed to lend £800,000 for expansion. The company operates a factory at Iganmu, Lagos, to provide finished printed fabrics from grey cloth. A £6 million expansion programme into spinning and weaving to utilize local raw materials began in 1971. By the end of 1971, the CDC had advanced £554,000 to the company. Five Star Industries Ltd. operates a factory completed in 1971 at Ikeja industrial estate in Lagos to produce woven and knitted fabrics from synthetic filament yarns. The CDC holds £25,000 shares in the company and has also lent £233,334 to it. The Zamfara Textiles Industries Ltd. was established in 1965 as a joint venture between the CDC, a Sudanese businessman called Seroussi and the Northern Nigeria Development Corporation. The company has two spinning and weaving mills in Gusau and Kaduna. The CDC holds £40,000 shares in the company and has lent another £60,000 for expansion purposes. Development Finance Co. Ltd. and Northern Nigeria Investments Ltd. are development companies established in partnership with the former Regional governments of the East and North to finance industrial projects. When the war broke out in 1967, Development Finance Co. Ltd. had invested £1.7 million in 15 businesses in the Eastern part of Nigeria. The war, however, paralyzed the activities of the company and its operation was suspended during the war. After the war, the CDC has helped to resuscitate the company and some of the businesses in which the company had invested have already been brought back into operation. The Northern Nigeria Investments Ltd. has invested some £5 million in 30 projects including textiles, engineering, food processing, hotels and tanning. One can see that through the two development companies alone, the CDC has investments



in over 40 industrial projects in Nigeria. The Nigerian Industrial Development Bank, in which the CDC has a £75,000 investment, was established in January 1964 to finance industrial investments. It is a Federal Government institution whose shares are held by the Federal and State governments and foreign and domestic companies. Dunlop Nigerian Industries Ltd. is a British company established in 1963 which owns a rubber tyre and tube factory in Lagos. The CDC holds £50,000 shares in the company and has lent another £300,000 for expansion programmes. The Nigerian Cement Company Ltd. is a joint venture between the Nigerian government, the CDC, the Nigerian public, along with the Danish firm of F. L. Smidth and its British Associated Tunnel Portland Cement Company as technical partners. The company was established in 1957 and has a cement factory at Nkalagu in East Central State. The CDC holds £375,500 (8.9 per cent) of issued stock of the company. The Nkalagu factory was severely damaged during the war and the CDC has agreed to lend £585,000 to restore the company to its pre-war level of operation. The CDC also has substantial investments in the three Nigerian Hotel companies which build and operate hotels throughout the country. Although most of the CDC's investment undertakings in Nigerian commerce and industry have been through advances and shareholding rather than by owning industrial establishments of its own, the CDC's contribution to industrial expansion is invaluable to the Nigerian economy. By providing capital at critical stages when firms needed further expansion in order to stay in business, the CDC has not only helped to avert the economic collapse of these firms, but it has contributed to employment, rising incomes and the general economic prosperity of Nigeria. Through the three investment agencies - Development Finance Company Ltd., Nigerian Industrial Development Bank and the Northern Nigeria Investment Ltd., in which the CDC has over half of its total investment in commerce and industry, the CDC has its capital widely diffused in over 50 industrial

projects in Nigeria. This means that the effects of the CDC's industrial investments are not limited to the projects listed in Table 4.7 alone, but are widely felt throughout the country.

#### THE NIGERIAN TOBACCO COMPANY (NTC)

Another important British company in Nigeria is the Nigerian Tobacco Company (NTC). The NTC is associated with the British-American Tobacco Company Group in London, the largest manufacturer of tobacco products in the world with over 140 factories manufacturing tobacco products in 55 countries. The NTC is reckoned to be Nigeria's third largest British investor, outplaced only by Shell-BP and the UAC. The NTC provides a unique example of a company whose contribution to the Nigerian economic development is likely to be substantial not only in terms of the enormous capital invested in its four factories, but also in terms of its import substitution effect and the much-valued steady market it provides for Nigerian tobacco growers.<sup>80</sup> The first attempt at tobacco manufacturing in Nigeria dates back to 1935, when the British-American Tobacco Company established a pilot plant in a disused cotton factory in Oshogbo. Here cigarettes were manufactured from imported tobacco leaf. With supplies of domestically produced tobacco leaf increasing and the possibility of further expansion, BAT opened its own factory at Ibadan in 1937. In 1951 Nigerian Tobacco Company (NTC) acquired the business previously carried on by British-American Tobacco Company, and five years later, in 1956, another factory was established in Port Harcourt. In order to meet rising demand and to spread the benefits of tobacco manufacture more equitably among the three Regions of Nigeria, another factory was established in Zaria in 1959. In 1970, work started on the construction of another factory in Zaria to add to the already existing one in the city.

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<sup>80</sup> Much has been said about the activities of the NTC in the agricultural sector in Chapter III.



It was estimated that the new factory, including equipment, will cost about £2.5 million. The new Zaria factory when completed will form an integrated complex with the existing factory and the Zaria complex was estimated to have a manufacturing capacity of 400 million cigarettes per month. In 1970, according to an official of BAT, NTC produced 700 million cigarettes per month.

In 1960, the NTC became a public company and share ownership was extended to Nigerians. Again in 1964, ordinary stock of the NTC was offered to the Nigerian public for sale and according to Mr. Jamieson, an NTC manager, there were 1900 Nigerian shareholders<sup>81</sup>. In 1966, the authorised capital of the company was £7.5 million and its shareholders in Nigeria numbered 3700, while its factories gave direct employment to over 2700 Nigerians.

TABLE 4.8

NTC AT A GLANCE FROM 1959 TO 1966 (IN N£)

YEAR	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Trading Profit	1039060	1142838	1116040	1216071	1406686	1570749	1994256
Taxation	427483	453796	436422	456891	531587	557140	873000
Nett Profit	611577	689042	679618	759180	875099	1013609	1121256
Dividend:							
a) Amount	410000	500000	562500	625000	750000	750000	900000
b) Rate in £1	1/7d.	2/-d.	2/3d.	2/6d.	3/-d.	3/-d.	3/-d.
Fixed Assets	3271710	3555793	3731399	4096910	4436729	5090851	5909037

SOURCE: NTC, YOU AND NTC (NO DATE)

Table 4.8 shows the performance of the NTC from 1959 to 1966. As can be noted in the table, taxation paid to the government doubled over the period. The nett profit earned by the company was also outstanding, amounting to 83.3 per cent above the 1959 level in 1966. Dividend to stockholders increased by more than 119 per cent above the 1959 level in 1966. In 1970, capital and reserves of the company was estimated to be

<sup>81</sup> West Africa, 13.6.64.

over £10 million and the total number of people directly employed was 3550. When the fourth factory in Zaria comes into full production, it is estimated that the NTC will be employing over 4000 people. In addition, since about 97 per cent of NTC's tobacco requirement is presently produced in Nigeria, the company has thus offered a livelihood to about 100,000 farmers who grow tobacco and sell it to NTC. Since 1962, the distribution of NTC's products has been entirely in the hands of independent Nigerian businessmen and women, who supply the retail traders in their various areas of responsibility. There are 61 NTC distributors who jointly employ about 2,000 people, serving some 750,000 retailers. The NTC controls about 90 per cent of the Nigerian cigarette market; the remaining 10 per cent is controlled by Philip Morris.

The NTC's investment in the tobacco manufacturing industry has given rise to a secondary investment activity. In 1964, the Nigerpak Ltd. was established as a joint venture between the NTC and Times Press Ltd. to provide labels, shoe boxes, and other types of light cartons and packaging materials, including cigarette packets. By the end of March, 1964, a sum of £150,000 had been invested in modern rotogravure machinery, the first of its kind in West Africa. Nigerpak Ltd. employs about 100 Nigerians and supplies NTC's cigarette cartons.

There is no doubt that the NTC has made a substantial contribution to the economy of Nigeria. By paying substantial taxes to the Nigerian government, the company is helping to swell public revenue, often used, among other things, for development purposes. In addition, several thousands of Nigerians are employed directly and indirectly by the company and such large-scale employment helps to stimulate demand in other industries.

#### OTHER BRITISH INVESTORS

Other important British companies operating in Nigeria include John Holt (Liverpool) Ltd. John Holt is the second largest merchant firm in Nigeria. It was founded in 1867 as a family concern. Unlike UAC,



John Holt has not redeployed its capital into industrial undertakings on a large scale. Instead the company has concentrated on distributing drugs and cosmetics through its West African Drug Company, motor vehicles and parts through J. Allen & Company Ltd., engineering, electrical equipment, hardware, provisions, textiles and building materials through its various ventures scattered all over Nigeria; travel services through Holts Travels, and insurance through John Holt Insurance Company. As for industrial investments, John Holt has controlling interests in Haco, a company manufacturing perfume and plastics located at Kano and Ikeja; Nigerian Enamelware Company in Ikeja, Holt Rubber Company in Sapele and Holt Tanneries in Northern Nigeria. The company also has minority interests in Crittall-Hope, a British company manufacturing building materials; Nigerian Breweries, Nigerian Canning Company and Asbestos Cement Products. The main reason why John Holt has paid very little attention to manufacturing in Nigeria is that the company has other profitable opportunities in wine and spirits in France and these are the areas of investment to which resources are being diverted. However, John Holt is likely to be faced with a serious problem in the future when the Nigerian Enterprises Promotion Decree comes into effect, for a large proportion of its distributive activities will be affected by the decree. The choice that would face the company then would be either to expand manufacturing activities in Nigeria or to contract its investments altogether.

Williams and Williams Ltd. opened their first factory in Port Harcourt in 1960 to manufacture window and curtain walling materials. In 1963 Williams and Williams Ltd. formed a partnership with Northern Development Limited to operate a joint venture called Reliance Metal Products (Nig.) Limited, located in Kaduna. The new company has been manufacturing a wide range of standard windows, doors and sheet metal products.

In March, 1964, in order to meet the increasing demand for paint created by the developing economy of Nigeria, Pinchin Johnson and Associates Ltd., the Courtaulds paint subsidiary, formed a new company - Pinchin Johnson and Associates (W.A.) Ltd. with registered offices in Port Harcourt. In the same year, four other British companies, International Paints, British Paints, Permacem, Imperial Chemical Industries, also established four more paint factories in Lagos. In the cement industry British firms were also important investors. In 1957, the West African Portland Cement Company, with its factory located at Ewekoro in Abeokuta, was formed by a joint venture between Western Nigeria Development Corporation and two British firms, Associated Portland Cement Manufacturers, the world's largest cement producer, and the UAC. The two British firms held 51 per cent and 10 per cent shares respectively. Despite the fact that the West African Cement Company has to compete with other cement companies in Nigeria, the venture has so far been a success. In addition to the investment activities of the UAC in the textiles industry, Whitebread and Sons of Lancashire went into partnership with the Northern Nigeria Development Corporation and the Northern Nigeria Marketing Board to establish Kaduna Textiles Limited. Other important British investors in Nigerian manufacturing include Pilkington Glass of St. Helens in Lancashire, Cadbury Brothers Ltd., Dunlop, W. J. Bush, Metal Box Company, Turner and Newall, Tate & Lyle, Paterson Zochonis of Manchester and its associate Nicholas (Nig.) Ltd. and Crittall Hope Ltd.

#### THE CONTRIBUTION OF MANUFACTURING INVESTMENT TO THE NIGERIAN ECONOMY

The previous sections considered the area of British investments in the manufacturing sector of the Nigerian economy, and also the major British firms responsible for these investments. The present section is concerned with the contribution of these investments to the Nigerian



economy. One of the main attractions of industrialization in Nigeria is the belief that intensive manufacturing activity would help to remove the stubborn, intractable and unyielding obstacles to mass employment. Almost all the literature on foreign investment in developing countries has laid emphasis on the employment creation effect, yet no attempt has been made to quantify the level of employment actually generated by foreign investment in these countries. Developing countries have been made to believe that once the manufacturing sector is intensively activated, unemployment will be reduced and one of their social problems would be solved very quickly. Professor A. Lewis took the same view in his celebrated article in which he emphasized that it is the rate of expansion in the capitalist sector which determines the rate of expansion of employment in the high wage capitalist sector.<sup>82</sup> For Professor Lewis, "the key to the process is the use which is made of the capitalist surplus. Insofar as this is reinvested in creating new capital, the capitalist sector expands, taking more people into capitalist employment out of the subsistence sector. The surplus is then larger still, capital formation is still greater, and so the process continues until the labour surplus disappears."<sup>83</sup> The above quotation seems to suggest that there is a positive correlation between investments in the capitalist sector and employment creation. It is doubtful whether such a correlation exists for the rate and level of employment generated by a unit of investment in the capitalist sector depend on (a) the area of investment in the capitalist sector and (b) the technology adopted. The greatest limitation of Lewis's two-sector model of employment creation by the capitalist sector to Nigeria is the fact that the surplus labour in the agricultural sector is not brought about by the pressure on land or by agricultural

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<sup>82</sup> A. Lewis, *Economic Development with Unlimited Supplies of Labour*, Manchester School, 1954.

<sup>83</sup> A. Lewis, *op. cit.*

efficiency resulting in many people doing what few people could do. There is surplus labour in the Nigerian agricultural sector because many people are cultivating a small proportion of the country's available soil. As shown in Chapter III, only 16 per cent of Nigeria's soil is cultivated due to (a) insufficient capital to bring in more land under cultivation (b) primitive agricultural systems accompanied by a laborious system of cultivation and complete lack of agricultural education and professional agricultural system. If capital is available to extend the proportion of land under cultivation, say to 50 per cent of Nigeria's arable soil, will there not be more employment opportunities for a greater number of people?

TABLE 4.9

THE INDUSTRIAL SECTOR AT A GLANCE 1965-1971

	1965	1967 <sup>a</sup>	1969 <sup>a</sup>	1971
No. of Establishments	776	555	704	870
No. Employed	94,277	76,395	128,519	145,445
Wages & Salaries in N&s.	21,300,000	20,169,000	34,461,000	44,667,000
a) Gross Output in N&s.	218,325,000	219,246,000	423,921,000	477,082,000
b) Industrial Costs in N&s.	132,390,000	131,615,000	226,804,000	255,859,000
Value Added (a-b) in N&s.	85,935,000	87,631,000	197,116,000	221,223,000

SOURCE: FEDERAL OFFICE OF STATISTICS, ECONOMIC INDICATORS FOR APRIL 1973, JULY 1972, APRIL 1970, AND DIGEST OF STATISTICS, VOL. 17, NO. I, JANUARY 1968.

NOTE: a: Excluding the three Eastern States.

British investment in the Nigerian manufacturing industry as shown in Chapter II amounted to £32.8 million (sterling) in 1968. Table 4.9 shows, among other things, the number of people employed in Nigerian manufacturing industries in the 1965-1971 period. The total number of people employed in 1971 was 145,445, which was 0.4 per cent of the Nigerian working population for the year. This figure represents a drop in the ocean of the employment pool in Nigeria. If one assumes that



British investment alone was responsible for the employment of 145,445 people in 1971, the conclusion would still be that British investment in the manufacturing sector creates negligible employment. If one now drops the assumption, then the level of employment created by British investment in the manufacturing sector becomes extremely small. The employment figures in Table 4.9 covered both foreign and domestic establishments operating in the manufacturing sector. Britain accounted for only 25.1 per cent of total foreign investment in Nigeria's manufacturing sector in 1968. British investment as a proportion of total foreign investment in the manufacturing sector has been falling since 1965 when it stood at 69 per cent. When it is realized that the U.K. only accounted for less than one-third of total foreign investment in the manufacturing sector in 1971, and that the total employment created in the sector by both foreign and domestic investors was only 145,445, the U.K. then becomes less important as a creator of employment in the manufacturing sector. Another factor worth noting is that unlike some other foreign investors in Nigeria, U.K. establishments adopt the most modern and capital intensive form of technology. Industrial establishments adopting modern and capitalist forms of technology do not individually create much employment. It is estimated that in 1967, such establishments which contributed 85 per cent of total industrial output were responsible for employing less than 10 per cent of the labour force in manufacturing.<sup>84</sup> Putting all the facts together, the obvious conclusion is that U.K. investment in the manufacturing sector of the Nigerian economy has not created significant employment. This, however, is not surprising, for as Professor Dudley Seers has rightly asserted, "there is by now plenty of evidence to show that a growing manufacturing

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<sup>84</sup> Daily Times, The Role of Industries in Nigeria's Economy, June 30, 1972, Lagos.

sector does not provide much employment, even if care is taken to use labour-intensive techniques where possible. The correct proposition is that if industry develops, the consequent rise in incomes will permit a substantial expansion of employment to take place in the economy as a whole".<sup>85</sup>

Another major attraction of intensive manufacturing to the Nigerian authorities is the belief that foreign exchange problems would be reduced by producing import substitution products and by exporting some of the manufactured goods to other countries. As a consequence, particular attention was paid to import substitution and British companies are prominent in the production of commodities like beer, cement, cotton textiles, paints and detergents.

TABLE 4.10

INDICES OF DOMESTIC PRODUCTION AND IMPORTS OF SELECTED MANUFACTURES

DATE	BEER AND STOUT		CEMENT		COTTON TEXTILES		PAINTS		SOAP AND DETERGENTS	
	PRODUCTION	IMPORTS	IMPORTS	PRODUCTION	IMPORTS	PRODUCTION	IMPORTS	PRODUCTION	IMPORTS	PRODUCTION
1963	100	100	100	100	100	100	100	100	100	100
1964	118.0	87.0	26.3	159.6	100.5	113.3	224.6	146.4	50.8	96.1
1965	121.3	22.9	7.0	188.9	101.4	198.2	693.7	202.0	67.6	125.8
1966	133.7	19.1	53.0	192.6	70.5	338.9	182.5	243.2	28.7	141.7
1967	128.3	13.0	47.0	141.0	88.4	447.0	188.1	230.4	77.0	130.4
1968	150.1	13.4	31.6	110.4	61.8	419.6	172.2	207.2	41.7	93.3
1969	185.9	11.0	36.1	108.8	86.5	541.2	494.4	331.3	30.4	94.5
1970	233.5	11.9	168.8	112.3	72.5	621.6	340.4	535.8	31.5	102.6

SOURCE: CENTRAL BANK OF NIGERIA, ANNUAL REPORT, 1970.

Table 4.10 shows the indices of domestic production and imports of the five products mentioned above. As the domestic production of the selected manufactured products increases, so does the import of such products decrease. In other words, increasing manufacturing production of the

<sup>85</sup> D. Seers, The Role of Industry in Development: Some Fallacies, Journal of Modern African Studies, December 1963.



selected products has resulted in a fall in imports and some savings in foreign exchange. The sudden increase in the imports of paints in 1966 marked the first full year of domestic production by the five leading British paint manufacturers. Also, the sudden increase in the importation of cement and detergents in 1970 was due to the fact that the two major cement and detergent factories at Nkalagu and Aba respectively were paralyzed and went out of action during the Nigerian civil war. To meet the increasing demand for these products, suppliers resorted to imports. Can we conclude that import substitution policy, because it has resulted in a reduction in imports of consumer goods, has saved Nigeria some foreign exchange?

A reduction in imports of manufactured goods is brought about by an increase in domestic production to satisfy expanding demand. An intensive activity in the manufacturing sector is usually associated with a marked increase in the imports of capital goods and raw materials.

TABLE 4.11

IMPORTS BY MAJOR GROUPS (NEMILLION)

IMPORT GROUP	1963	1964	1965	1966	1967	1968	1969	1970	1971
Consumer Goods	111.1	117.3	118.7	90.4	90.6	71.2	81.9	109.1	168.5
Durable	18.0	19.3	20.8	17.4	16.2	8.6	12.3	22.2	34.7
Non-Durable	93.1	97.8	97.9	73.0	74.4	62.6	69.6	86.9	133.8
Capital Goods & Raw Matls.	93.0	133.7	153.8	163.3	129.6	113.3	150.4	259.8	362.3
Capital Goods	47.3	71.4	86.5	92.3	69.2	61.0	75.6	142.6	201.1
Raw Materials	45.7	62.3	67.3	71.0	60.4	52.3	74.8	117.2	161.2
Miscellaneous	3.5	3.3	2.8	2.6	3.4	8.1	16.4	9.3	7.4
TOTAL	207.6	254.3	275.3	256.3	223.6	192.6	248.7	378.2	538.2

SOURCE: CENTRAL BANK OF NIGERIA, ANNUAL REPORTS, 1965-1971.

Table 4.11 shows Nigeria's imports of major groups of commodities. The table shows the rapidly increasing rate of imports of capital goods and

raw materials for industry since 1963. The imports of capital goods and raw materials amounted to over £150 million annually from 1963-1971.

TABLE 4.12

IMPORTS BY MAJOR GROUPS IN PERCENTAGES 1963-1971

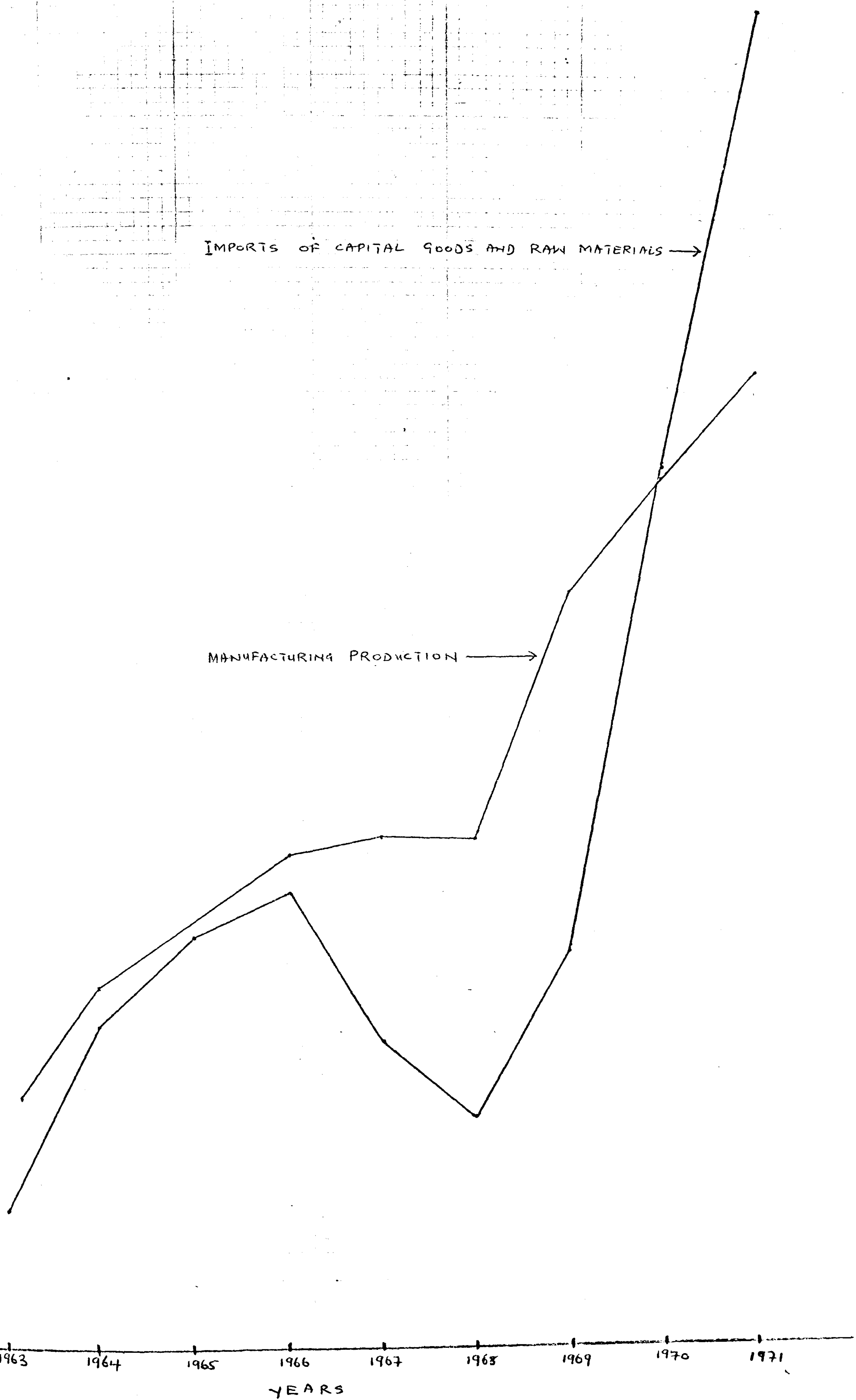
IMPORT GROUP	1963	1964	1965	1966	1967	1968	1969	1970	1971
Consumer Goods	53.5	46.1	43.1	35.3	40.5	37.0	32.9	28.8	31.3
Capital Goods and Raw Materials	44.8	52.6	55.9	63.7	58.0	58.8	60.5	68.7	67.3

SOURCE: TABLE 4.11

As Table 4.12 shows, imports of capital goods and raw materials rose from 44.8 per cent of total imports to 67.3 per cent in 1971. On the other hand, imports of consumer goods fell from 53.5 per cent in 1963 to 31.3 per cent in 1971. The first conclusion on a policy of import substitution in Nigeria is that it is a device for substituting imports by imports. Figure 4.2 shows the correlation between manufacturing production and the imports of capital goods and raw materials. The diagram shows that both indices move in the same direction. As manufacturing production increased rapidly from 1963 to 1966, so there was a rapid increase in the imports of capital goods and raw materials. Between 1967 and 1968, manufacturing production slowed down as a result of the Nigerian civil war, which began in 1967. The war emergencies called for a stiffer control on imports to conserve foreign exchange for arms purchase, and the imports of capital goods and raw materials were adversely affected, hence the sudden dip after 1966. After 1968, when a large proportion of the break-away region had been captured, confidence began to return; manufacturing activities picked up and there was a relaxation of war controls to allow into the country the capital goods and raw materials necessary for industry. As a consequence, manufacturing production and the imports of capital goods and raw materials began to increase at an



INDICES OF MANUFACTURING PRODUCTION AND IMPORTS OF CAPITAL GOODS AND RAW MATERIALS



IMPORTS OF CAPITAL GOODS AND RAW MATERIALS →

MANUFACTURING PRODUCTION →

YEARS

FIGURE 4.2

unprecedented rate. An increase in the manufacturing activities of British firms brought about foreign exchange leakages through the imports of capital goods and raw materials.

It has been shown in the previous section that a policy of import substitution in Nigeria is a device for substituting the imports of capital goods and raw materials for the imports of consumer goods. If the value of the capital goods and raw materials imports is more than the savings from a reduction in the imports of consumer goods, then a policy of import substitution is likely to have an unfavourable effect on the country's balance of payments. In Nigeria the savings from the domestic production of many of the import substitution goods have not been sufficient to compensate the value of the imports of capital goods and raw materials. Available data are so defective as to make it impossible for the writer to detail the unfavourable balance of payments effects of import substitution on Nigeria. There are three reasons why a policy of import substitution has been unfavourable to the Nigerian balance of payments. The first is that the increase in the domestic production of some goods is not a sufficient indication of what will happen to the imports of such products when there is no domestic production. This is because domestic production can itself lead to an increase in demand brought about by large-scale advertisement and knowledge of the existence of the products. This has been the case with beverages and tobacco products in Nigeria. Without the domestic production of beer and cigarettes, their imports could not have been appreciably different from when there is domestic production. The increase in the domestic production of beer and cigarettes is due to a rapid increase in demand brought about by large-scale advertisements, and the practice of allowing employees to have free beer and cigarettes; this in turn encourages them to continue to buy beer and tobacco when they leave these industries, as smoking and drinking have become a



permanent habit. However, there is no doubt that the value of imported capital goods and raw materials would not have been as high as it is to-day in the absence of increased local production of import substitutes.

The second reason is that the total outlay on imported capital goods and raw materials is substantially higher than the cost of importing consumer goods. As a consequence, a rapid increase in the imports of capital goods and raw materials is likely to have a more serious effect on the balance of payments than a reduction in the imports of consumer goods. The third and the last reason is the practice by international companies of pricing their imported capital goods and raw materials substantially above the international price level through a system of invoicing.<sup>86</sup>

Without doubt, a policy of import substitution has had an unfavourable effect on the Nigerian balance of payments, and, were it not for the petroleum industry which continues to provide the necessary foreign exchange requirements for capital goods and raw materials imports, the policy would have collapsed in the face of the development of a foreign exchange bottleneck.

Import substitution in Nigeria has led to the production of inferior goods at very high costs, which in turn reduces the level of demand. This is the case with cement and textiles in Nigeria at the present time. In addition, a policy of import substitution in Nigeria has led to the concentration of enormous resources in consumer goods industries and "a diversion of scarce capital resources from the establishment of industries making intermediate and capital goods capable of changing the structure of the economy".<sup>87</sup>

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<sup>86</sup> Much has been said about this practice in Chapter II.

<sup>87</sup> A. F. Ewing, *Industry in Africa*: Oxford University Press, London, 1968, p. 9.

The results of a policy of import substitution in Nigeria are not different from what has been observed in many developing countries. In his conclusion on the policies of import substitution, G. Meier declared that in many instances the policies "have resulted in higher prices, a domestic product of inferior quality, excess capacity in the import-competing industries, and a restraint on the expansion of exports - all without a nett saving of imports since the replacement of finished import commodities has required heavy imports of fuels, raw materials, and capital goods, as well as foodstuffs in cases where agricultural development has lagged".<sup>88</sup> Jack Baromson echoed the views of Meier two years later in 1966 when he declared, "Import substitution policies now in effect in many new industrializing areas, while providing protection for domestically produced products, have at the same time intensified supply difficulties and restricted demand to domestic markets. This tendency has been to foster small-scale, high-cost plants producing for domestic markets of limited size and insulated from competitive forces. A proliferation of these small, inefficient factories has had the self-defeating effect of spreading scarce resources, especially technical and managerial personnel, too thinly and of intensifying balance of payments difficulties (by generating new demands for imports of materials and parts to maintain established plants or their suppliers".<sup>89</sup>)

A policy of import substitution which has been vigorously pursued since the past decade seems to be waning. The Nigerian government is currently emphasizing development of industries making intermediate and capital goods. In addition, some of the import substitution industries, especially textiles, are being exposed to international competition through a reduction in tariffs to increase their efficiency.

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<sup>88</sup> G. M. Meier, *Leading Issues in Development Economics*, Oxford University Press, New York, 1964, p. 303.

<sup>89</sup> Jack Baromson, "Transfer of Technical Knowledge by International Corporations to Developing Economies", *American Economic Review, Supplements*, 1966, p.p. 259-267.



It has been said earlier that British investments in the manufacturing sector have been a source of foreign exchange leakage through the imports of capital goods and raw materials associated with these investments. However, foreign exchange leakages can be compensated for by the exports of manufactured goods which can earn foreign exchange. Table 4.13 shows the exports of manufactures compared with total exports from Nigeria between 1964 and 1971.

TABLE 4.13

NIGERIA'S TOTAL EXPORTS AND EXPORTS OF MANUFACTURES (N£MILLION)

	1964	1965	1966	1967	1968	1969	1970	1971
Exports of Manufactures	2.2	2.7	3.1	2.6	2.4	3.0	32.9	22.6
TOTAL EXPORTS	214.7	268.4	283.1	241.8	211.1	318.2	442.7	648.7
Exports of Manufactures as a percentage of total exports	1.0	1.0	1.1	1.1	1.1	0.9	7.4	3.5

SOURCE: CENTRAL BANK OF NIGERIA, ANNUAL REPORTS 1966-1971.

Over the 1964-69 period, exports of manufactures accounted for a yearly average of £2.7 million. In 1970 and 1971, however, there was a sudden apparent increase in the exports of manufactures. The reason for the increase was the change in the statistical computation of figures of manufactures. Whereas in the past, processed agricultural exports were not included in manufactures, after 1969, such agricultural exports have been classed as manufactures. Out of the exports of manufactures of £32.9 million and £22.6 million in 1970 and 1971 respectively, agricultural exports accounted for 40.4 per cent and 34.1 per cent respectively in 1970 and 1971. This means that without a change in the computation of figures in 1970 and 1971, exports of manufactures could have been £19.6 million and £14.9 million in 1970 and 1971 respectively. Over the 1964-1971 period, exports of manufactures accounted for a yearly average of 2.1 per cent of Nigeria's total exports. The exportation of Nigerian manufactured goods is not to countries outside Africa. Although some

British companies, like Vitafoam Ltd., West African Cold Storage Company, Lipton and the Nigerian Tobacco Company, have been exporting some of their manufactured goods to Sierra Leone, Ghana, Gambia, Senegal, Ivory Coast and West Cameroons, nevertheless, British investors in the manufacturing sector have not been responsible for a large proportion of the meagre manufactured goods Nigeria exports beyond its national boundary. We find the savings on import substitution in the Nigerian manufacturing are less than £5 million annually, and that exports of manufactures are less than £9 million annually on the 1964-71 average, while the imports of capital goods and raw materials represent a yearly average of over £150 million. The obvious conclusion from these figures is that, far from contributing anything to Nigeria's foreign exchange resources, British manufacturing investments have aggravated Nigeria's foreign exchange problems through import leakages. This conclusion is not surprising, since there is now enough evidence to show that industrialization in many of the less-developed countries has not reduced their foreign exchange problems.<sup>90</sup> On the effect of industrialization on foreign exchange, Professor Seers declared, "There is the fallacy that industrialization will cause the expenditure of foreign exchange to fall. This may happen, but generally it does not, because industrialization involves importing machines and spare parts, materials and semi-manufactures, and usually fuel; it also means a rising outflow of profits to foreign investors. The correct statement here is not that the expenditure of foreign exchange will fall, but that industrialization will make it possible for incomes to rise faster than imports. Moreover, in the end, after a decade or so, dependence on the proceeds of a few primary products will be lessened".<sup>91</sup>

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<sup>90</sup> For a detailed experience of Latin-American countries, see "The Economic Development of Latin America in the Post-war Period", United Nations, New York, 1964.

<sup>91</sup> D. Seers, "The Role of Industry in Development: Some Fallacies", Journal of Modern African Studies, December, 1963.



If British firms have not contributed anything to Nigeria's foreign exchange resources, they have, however, contributed substantially to the rising level of incomes. As shown in Table 4.9, substantial wages and salaries were paid by the manufacturing sector during the 1965 to 1971 period. The annual average wages and salaries paid by the manufacturing sector amounted to over £30 million. Out of the total wages and salaries paid to employees in the manufacturing sector over the 1965-1971 period, British firms accounted for more than one-third. This amount represented a substantial purchasing power in the economy as a whole. The fact that British firms paid a large proportion of the wages and salaries generated in the manufacturing sector should not obscure the fact that a large proportion of British firms still pay many of their employees less than subsistence level wages. On the whole, however, British firms pay higher wages and salaries to their employees than Nigerian-owned firms and most other foreign firms.

British manufacturing companies have made available to the majority of Nigerians a large variety of commodities; without their investments this would not have been possible. Many brands of products have been made available to customers and for the first time, a large number of people can make a choice in the selection of the products they buy according to their financial capability. Not only are British manufacturing firms catering for the higher income groups; many of them, especially Lever Brothers and other UAC groups of companies, Cadbury Brothers, Nigerian Tobacco Company, I.C.I. and the British paint manufacturing companies, have also been very successful in manufacturing products tailored specifically to meet the needs of the lower income groups.

British companies have also acted as a pull to other foreign manufacturers to invest in Nigeria. Through their day-to-day dealings with other companies in England and throughout the world, they have been able

to provide useful information and guidance to interested companies about investment opportunities in Nigeria. The most important contributor in this respect is the UAC group of companies. Apart from holding exhibitions about Nigeria in its Africa House in London, UAC has helped to recruit many British and foreign companies to Nigeria. Through partnership, UAC recruited investment in Nigeria from Heineken of Amsterdam, Arthur Guinness, Son & Company of Dublin, Lipton Limited of London, Vono Limited of Tipton, Staffordshire, British Vita Company Ltd. of Middleton, in Manchester, the English Sewing Cotton Company Ltd., the Calico Printers' Association Ltd. and Philip Morris International of America. Presumably, without the search for technical partners and the success of UAC to obtain the support of these companies, they would not have invested in Nigeria. Philip Morris International's investment in Nigeria was the company's first investment in Africa. By holding art and cultural exhibitions, and by their daily transactions with other companies, British manufacturing firms have provided information and publicity about Nigeria which can induce other companies to invest in the country. It should be added that bad publicity and information given by unsuccessful British companies in Nigeria to other companies abroad can have the adverse effect of frightening off potential investors.

Apart from the contribution made by British manufacturing companies to the upgrading of industrial technology (which will be dealt with in Chapter VI), one major contribution of British manufacturing companies to the Nigerian economy is the substantial revenue the government derives from them. The Nigerian government derives revenue from British companies through import duties, export duties, motor licences, excise duties, company tax and the personal income tax paid by their employees. The tax revenue derived by the Nigerian government is very substantial. As an illustration; in 1966 the Nigerian Tobacco Company paid £873,000 in tax to the government. In the same year, the Nigerian



Breweries Ltd. paid £3.5 million to the government in taxes.

TABLE 4.14

NIGERIAN GOVERNMENT'S CURRENT REVENUE (N£1000)

	1961	1963	1965	1967	1969	1970
Import Duties	60174	61278	84821	54895	75804	107754
Export Duties	13495	13536	15765	14034	18739	20618
Excise Duties	6407	9299	16538	30142	35971	56275
Company Tax	4738	6173	6510	11250	) 44748	87120
Personal Income and Other Taxes	18439	22397	19991	15410		
<b>TAX REVENUE</b>	<b>103253</b>	<b>112683</b>	<b>143629</b>	<b>125731</b>	<b>175262</b>	<b>271767</b>

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, DECEMBER 1968 AND JUNE 1971.

Table 4.14 shows the tax revenue of the Nigerian governments from 1961 to 1970. Tax revenue has been growing quite rapidly since 1961. The revenues for 1967 were low because the three Eastern States were not included as a result of the civil war. Although the tax revenues emanated from both domestic and foreign firms' activities, British firms contributed a substantial part of the tax revenue. In 1970, for example, Dunlop paid £877,697 in taxes to the government, and in 1971 the tax payment increased to £930,000. In 1970, also, W. J. Bush paid a total tax of £140,006 to the Nigerian government. Guinness Ltd. paid a total of £7 million in taxes to the Nigerian government in 1971/72. There is no doubt, therefore, that the tax payments made by British manufacturing companies to the Nigerian government are a useful and important source of public finance.

THE LINKAGE EFFECTS

The last discussion has focussed attention on the fiscal linkages of British manufacturing companies' investment. By providing revenue to the government, British manufacturing investment would be indirectly linked with those things such as public health, road building, electricity

and water supply, social services, etc., on which government revenues are expended.

Technological linkages of British manufacturing investments, that is, the extent to which manufacturing companies help to build up Nigeria's skilled and technical manpower and supply other industries with such manpower, will be dealt with in Chapter VI. The international investment linkage effects of British manufacturing companies resulting from the dissemination of knowledge and information about Nigeria has already been dealt with earlier in this chapter. The present section is concerned with the sectoral and inter-sectoral linkage effects of British manufacturing investments. Sectoral or inter-firm linkage effects are those benefits and costs associated with the transactions between firms in the same industry and sector. If, for example, the spinning of yarn in an establishment gives rise to weaving in the same or another establishment, that would represent a sectoral linkage effect. The relationship and dealings among firms in this case would be horizontal. Inter-sectoral linkage effects are those benefits and costs resulting from transactions between firms in different sectors. If, for example, the cotton grown by the farmer is sold to an integrated textiles manufacturing establishment, that would represent an inter-sectoral linkage between the agricultural sector and the manufacturing sector. The relationship among firms in this instance would tend to be vertical. Both sectoral and inter-sectoral linkages can give rise to forward and backward linkages. There is little or no sectoral linkage effect that can be associated with British manufacturing investments in Nigeria. Nigerian manufacturing industry is dominated by foreign entrepreneurs and as a consequence almost every industry in the manufacturing sector is dominated by giant foreign monopolists. Inter-sectoral linkage effects occur mostly as a result of backward transactions with the agricultural sector; the NTC provides the most successful example of such transactions.



One of the main features of British manufacturing investments in Nigeria is that they are mainly concentrated in final products. As a consequence, the only forward linkage that could take place is with the distribution sector. Distribution was formerly controlled by the merchant companies, the most important of which are the UAC and John Holt. The distributive trades of the companies and their rapid withdrawal from the sector as a result of intensive competition from Nigerians and the government's pressure to reserve distribution for Nigerians have already been dealt with in Chapter II. By March, 1974, as a result of Nigerian Enterprises Promotion Decree, distributive trades would largely be in the hands of Nigerians.<sup>92</sup>

Another feature of British manufacturing investments in Nigeria is that almost all the manufacturing establishments depend on imported intermediate and capital products and raw materials. This is why the correlation between increased manufacturing production and the imports of capital goods and raw materials, as shown in Figure 4.2, is very high. This will continue to be so until Nigerian authorities design industrial policies that encourage the production of intermediate products. It should not be surprising, therefore, that the manufacturing sector, which is usually regarded as having very high linkage effects, has been characterized in Nigeria with a low linkage effect because of the high import content of manufacturing production and the concentration of manufacturing activities on final products. The above discussion raises the question as to which industries British manufacturing investment will go into in the future. Until now, the end products of British manufacturing investment go to consumers as final products, with very little investment in the intermediate goods sector, and none at all in

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More will be said about the Nigerian Enterprises Promotion Decree in the later part of this thesis.

the capital goods sector. One of the main reasons why a large proportion of British manufacturing investment is concentrated on consumer goods is the policy of the Nigerian government to develop import substitution goods. Now that the policy has so far succeeded, emphasis has been shifting to the development of industries for intermediate and capital goods. One of the main aims of the Nigerian Enterprises Promotion Decree is to force foreign investors to withdraw from consumer goods industries into more sophisticated intermediate and capital goods industries. It is very likely, therefore, that more British manufacturing investments will go to intermediate and capital goods industries in the future, as a result of the constraints on investment in the consumer goods industries.

There are some linkages effects which can be associated with British manufacturing investments. UAC's investment in the Nigerian Brewery Limited has given rise to secondary industries. The bottles used by the brewery are now mostly bought from Glass Industries Ltd. in Port Harcourt; crown cork requirements are purchased from a factory in Ikeja, and cartons for beer are manufactured at UAC's Bordpak Ltd. at Apapa. The manufacturing investments of the Nigerian Tobacco Company have given rise to Nigerpak Ltd. - a company established by the NTC and Nigerian Times Press Ltd. to manufacture cigarette labels and cartons. The most important linkage effect of British manufacturing investments in Nigeria has been felt in the agricultural sector. Nigerian Tobacco Company factories provide a steady market for the tobacco leaf grown by about 100,000 farmers; Lever Brothers' factories at Apapa and Aba provide a heavy demand for Nigerian palm oil, Tate & Lyle's factory at Ilorin makes use of cane sugar grown in Nigeria and the textiles factories and vegetable oil factories rely on raw cotton and groundnuts grown by Nigerian farmers. These examples are essentially backward linkages to the sources of raw materials. The initial export of logs and timber business of the



African Timber and Plywood Ltd., a member of the UAC Group, has grown to an industrial complex comprising a sawmill, a plywood factory and a blackboard factory at Sapele. This is essentially a forward linkage from raw materials to final production in the industrial sector. The above examples have shown quite clearly that the linkage effects of British manufacturing investments have not been substantial and are limited to the agricultural sector due to the high import content of manufacturing consumer goods, and the absence of British manufacturing investments in intermediate and capital goods production.

#### THE GOVERNMENT'S INDUSTRIAL POLICY AND INCENTIVES

The industrial policy of the British colonial government in Nigeria was essentially based on capitalism; that is, the development of industries by private entrepreneurs. The colonial government believed that once industrialists were given some incentives, they would no doubt seek profitable opportunities and invest their capital in industry to make large profits. As a result of this belief, during the 1955-1960 period, out of a public capital programme of £91.3 million, only £7 million or 7.6 per cent of the total was allocated for industrial development and only a small proportion of the estimate was actually spent. However, the colonial government then went on to pass benevolent legislation which conferred salutary investment advantages on private entrepreneurs to spur them to a high level of industrial activity. After political independence in 1960, the post-independence Nigerian civilian government continued with the industrial policies of the colonial government and passed further legislation to induce entrepreneurs to invest in Nigerian industry. The industrial incentives which are available to industrialists in Nigeria are embodied in four Acts - the Industrial Development (Income Tax Relief) Act, 1958; the Industrial Development (Import Duties Relief) Act, 1957; the Customs Duties (Dumped and Subsidized Goods) Act, 1958; the Customs (Drawback) Regulations, 1959, and the Income Tax (Amendment) Act, 1959.

The Income Tax Relief Act of 1958, which grew from an earlier Act called Aid to Pioneer Industries Act (No. 10) of 1952, was designed to enable companies to enjoy tax holidays during the early stages of their operations. Under the Act, an industry can be declared a pioneer and firms operating in such an industry can obtain pioneer certificates which would entitle them to a tax holiday for a period up to five years. A tax holiday is granted in the first place for a period of three years provided that a minimum qualifying capital expenditure of £5,000 has been incurred before production started. The initial capital expenditure requirement has been increased to £75,000 for foreign firms and £25,000 for indigenous controlled firms. The government will grant another year of tax holiday if after three years the rate of expansion, standard of efficiency, and the level of development of the company are considered satisfactory. An additional year of tax relief can be granted if the authorities are satisfied that local raw materials are substantially utilized by the company; there is adequate training and development of Nigerian personnel in the relevant industry; that the industry is important for the Nigerian economy; and the need for expansion, having regard to the location of industry. If the firm incurs losses during one or more years during the tax holiday, the time of exemption is extended from tax on profits earned by the company in its tax relief period. Shareholders are exempted from tax on dividends up to the amount of such profits. The first batch of industries to be declared pioneers were five in number, on 15th September, 1955. From 1955 to the end of 1967, there were 64 industries declared pioneer, 42 of which were declared during the 1955-1960 period.<sup>93</sup> It must be added that the declaration of an industry as a pioneer was never met with the same speed in the granting of

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<sup>93</sup>Establishing Business in Nigeria, 2nd Edition, 1968, Federal Ministry of Information, Lagos.



certificates. For example, out of the five industries declared pioneer in 1955, only one firm was able to receive a pioneer certificate in that year. Between 1955 and 1967, 143 pioneer certificates were awarded, the majority going to foreign firms, especially British firms. British companies who have benefited from the scheme include all the textiles firms in which the U.K. companies invest, Bordpak Ltd., Nigerpak, Dunlop, British paints, Pinchin Johnson, Glaxo Laboratories, Turners Asbestos Cement Ltd., International Paints, Crittall-Hope, Nigerian Enamelware Company Ltd., Metal Box Company, Dorman Long and Amalgamated Engineering Ltd., Williams and Williams Ltd., Crocodile Matchets Ltd., Crown Cork Company Ltd., Raleigh Industries Ltd., West African Cement Company, Vitafoam Ltd. and many other companies with British capital. The major criticism of the scheme is the delay in the award of pioneer certificates. It could take from 6 to 18 months from application to a certificate being issued, and it is very likely that such a long delay can frustrate a potential investor and can, in fact, discourage investments. Another criticism of the scheme is that pioneer certificates have been awarded indiscriminately. Some companies who were granted pioneer certificates made huge profits during the tax relief period which were exempted from any form of taxation. Again, once an industry is declared pioneer, there has been no consideration to limit the number of pioneer certificates granted to firms willing to go to the particular industry which might have been saturated or may have offered huge returns on investments. The scheme needs an urgent revision. Selectivity should replace indiscriminate awards of certificates. Industries which offer attractive profits in the initial stage of operation should be excluded from the scheme. Constant revision of the list of industries declared pioneer would enable emphasis to be shifted from saturated fields into areas needing attention.

The Import Duties Relief Act, 1957, and the Approved User Scheme were designed to allow complete exemption from duty or the granting of a

concessionary low rate of duty on materials imported into Nigeria for use in the manufacturing or processing of goods, or in the provision of services, provided the applicant can satisfy the government that (a) it is impossible to provide the goods and services in question at prices low enough to compete with the imported equivalent, or that the imported finished article bears a lower proportion of import duty than the materials imported to manufacture the same article in Nigeria; (b) that any repayment of import duties to be made are to the overall economic advantage of Nigeria, having regard to the importance of the industry for which the materials are meant in the Nigerian economy and the need of relief to prevent adverse financial results, and (c) that the materials are not used other than for the approved purpose on which relief was granted without prior permission of the Board of Customs and Excise. The main purpose of the Act and Scheme is to enable industries to grow unimpeded by any lack of raw materials. Many British companies have benefited from the scheme. It is, however, fair to ask why the Nigerian authorities still pursue a policy which leaks out a substantial part of the foreign exchange resources of the country when they could make it compulsory for firms to find alternatives to imported materials. As shown earlier in this chapter, an accelerated manufacturing production is closely associated with a high level of imports of capital goods and raw materials. Over the past decade, nearly 60 per cent of the average annual value of the gross output of the manufacturing sector was accounted for by the cost of imported raw materials and capital goods. This, of course, represents a dangerous industrial development strategy since it involves a high dependence on imports. Through its Import Duties Relief Act of 1957 and the Approved User Scheme, the Nigerian government has deliberately encouraged industrialists to rely on imported raw materials rather than vigorously searching for domestic alternatives. The present scheme therefore requires an urgent modification that could encourage industrialists



to search and make use of domestic raw material inputs, to serve as good substitutes for imports.

The administration of the scheme has also been erected with certain defects. There is the fact that differences exist in the amount of relief and the period for which the relief is granted among firms in the same industry and in different industries. Two important drawbacks can be associated with such a practice. Firstly, assuming the amount and the period of relief are determined by economic criteria, which give more favourable treatment to weaker firms, there is the danger of perpetuating inefficiency in industry, while at the same time discouraging the drive to increase efficiency among firms which are willing to do so. In many cases, however, it is likely that the amount and the period of relief would be influenced and determined by the nature of the lobby a firm could muster and mount. Under this circumstance, since the big firms are more powerful in their lobbies, finance and influence, they are likely to get more favourable treatment than the weaker ones. The second danger of importance, therefore, is that the more relief these powerful large firms obtain, the greater becomes their monopoly power and profits. This, of course, may be detrimental to the Nigerian economy due to the barriers to entry for new competitors these firms are likely to erect. Another important loophole in the Imports Duties Relief Act 1957 and the Approved User Scheme is the opportunity the schemes offer to cheat the Nigerian Board of Customs and Excise by false declarations to obtain 100 per cent import duty relief. A very recent example was a British firm which gave a false declaration of alarm bells which are exempted from duty under the Import Duties Relief Act 1957 and the Approved User Scheme, instead of declaring the costly materials it actually imported, which carried heavy duty.<sup>94</sup> Having defaulted the Board of Customs and

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<sup>94</sup> Daily Times, Lagos, 16th December, 1972.

Excise through false declarations, the sacking of Nigerian managers in the firm concerned led to the revelation. There is no doubt that many foreign and domestic firms have been cheating the Nigerian Board of Customs and Excise for a long time in the past under the scheme. Since it is possible for foreign firms operating in Nigeria to tell their suppliers of raw materials, who are usually situated in their countries of origin, what the contents of their invoices should be, having known what materials are exempted from import duty under the schemes, and since the Board of Customs and Excise do not open all boxes, successful attempts to cheat the Nigerian government under the schemes cannot be doubted.

The Customs Duties (Dumped and Subsidized Goods) Act, 1958, is designed to protect local manufacturing establishments against any goods which are being dumped in Nigeria or are subsidized by any government or authority outside Nigeria through the imposition of high tariffs and special duties on such goods. The operation of the Act by the Nigerian government is usually considered in such a way that there will be no conflict with Nigeria's obligations under the General Agreement on Trade and Tariffs. The government has in recent years exercised the power under the Act in August 1965 when the tariff on bicycle tyres was increased from 20 per cent ad valorem to 50 per cent ad valorem to protect domestic producers against dumping by foreign manufacturers.

The Customs (Drawback) Regulations, 1959, is designed to enable the government to grant duty drawbacks or refunds of duty paid on imported materials provided the goods are exported in the same state as that in which they were imported and the materials imported are for use in the manufacture of goods for export. These regulations if well organized can boost Nigerian exports of manufactured goods, but the fact remains that the regulations will be frustrated by administrative laxity and red-tape which would result in prolonged delays and make it impossible for industrialists to use the capital involved.



The Income Tax (Amendment) Act, 1959, which was reframed and now incorporated in the Companies Income Tax Act, 1961, is a kind of accelerated depreciation scheme which provides companies with a high level of initial allowance under the company tax law. The Act has the objective of granting to companies a very much quicker write-down of their capital assets in the early years of trading, so as to enable them to amortize their capital assets during their formative years, and to build up liquid reserves at an early date. The high initial allowances permitted under the 1961 Act completely reduce the risks and uncertainties associated with business investments since it is possible for a company to write-off all its initial capital outlay within the period of 2-5 years of its operation in Nigeria. According to P. C. Asiodu, under the 1961 Act, it was possible for a company to write off 73 per cent of the total cost of a commercial vehicle in the first year.<sup>95</sup> Under the 1961 Act, a company is allowed an initial deduction of 40 per cent for machinery and 20 per cent for industrial buildings in the first year. In addition, a company may take the annual write-down allowance allowed on assets, which is generally 5 per cent to 15 per cent for machinery and 10 per cent for industrial buildings. It should also be noted that a firm may write-off against profits as much as 50 per cent of the cost of machinery during the first year of operation. When taxable income fails to absorb an annual write-off, the balance may be carried forward to be written off against future profits for up to ten years. The accelerated depreciation scheme as formulated in the Companies Income Tax Act of 1961 is generous and has been criticized by visiting economists to Nigeria in the past. As a result of the various experts' criticisms, in a decree published in 1966, the Federal Military government has reduced the rates of initial

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<sup>95</sup> P. C. Asiodu, *Industrial Policy and Incentives in Nigeria*, NJESS, July, 1967.

allowance for machinery from 40 per cent to 15 per cent and for industrial buildings from 20 per cent to 10 per cent for the first year while the ordinary annual write-down varies from 5 per cent to 15 per cent.<sup>96</sup> Even with the reduction brought about as a result of the 1966 Decree, it is still possible for companies to write-off from profits as much as 25 per cent of the cost of machinery in the first year.

In addition to tariff protection, accelerated depreciation and tax holidays, the Nigerian authorities also established industrial estates where industrial establishments can be located at very low rental. The industrial estates are found in different parts of the country and are served with all the modern amenities of electricity, pipe water, good roads and buildings in some cases. The Nigerian governments have also been willing to provide financial resources to foreign companies investing in Nigeria who wish to have some local financial participation to increase the Nigerian commitment to the undertaking and to provide the benefits of local knowledge and experience. Federal and States governments' financial participation in industrial projects are done through the various investment agencies like the Development Corporations, the Northern Nigeria Investments Ltd., the Development Finance Company Ltd. and the Nigerian Industrial Development Bank.<sup>97</sup>

The enthusiasm of the Nigerian government for rapid industrialization since the 1950s has reflected itself in the generous incentives offered to foreign and domestic entrepreneurs. Some of these incentives have been effective and some have not. For example, out of all the incentives offered by the Nigerian government, only two were considered important by all the British firms interviewed and these are tariff protection and the accelerated depreciation scheme provided under the Companies Income

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<sup>96</sup>Income Tax Amendment Decree 1966, Official Gazette No. 110, Vol. 53, December 6, 1966.

<sup>97</sup>More will be said about these investment agencies in Chapter VII.



Tax Act of 1961. Nigeria has been losing several million pounds every year due to excessive generosity of the industrial incentives. For instance, during the 1968/69 financial year, when the war emergency made it necessary for the government to tax companies on the understanding that the pioneer periods of the affected companies will be extended for another year, £2.5 million was collected by the Nigerian government. By allowing companies making huge profits to go untaxed, Nigeria has been creating an unnecessary balance of payments problem for itself. Perhaps the most serious defect of the incentive policy therefore is the adverse effect the generous financial incentives may have on the Nigerian balance of payments. By granting the incentives, the profitability of affected companies is increased, and the level of profits to be transferred abroad is also increased, with the ultimate burden on the balance of payments. Perhaps one of the main reasons for the generous concession is that the Nigerian balance of payments position has been healthy due to the huge foreign exchange earnings of the petroleum industry. Once the balance of payments position of Nigeria begins to worsen, there is likely to be a drastic reduction in the incentives.

In addition, some of the incentives have been abused, especially the Import Duties Relief Act and the Approved User Scheme. These have enabled crooked entrepreneurs, both domestic and foreign, to default the Nigeria Board of Customs and Excise through false declarations. Better controls should be introduced to plug all the existing loopholes used by customs defaulters. Another aspect of the incentives worth mentioning is that many of the firms interviewed honestly believe that tariff protection offered by the Nigerian authorities to get industries off the ground would continue for ever. This, of course, is a false assumption and belief, for if Nigeria does not want to perpetuate inefficiency in its industries, tariff protection must gradually be removed to enable these industries to compete with their counterparts in other parts of the

world. Some companies complained about the reduction of tariff on imported textiles during the last budget. One company in particular estimated that it is losing an average of £1 million every week due to the excessive imports of textiles and the preference of Nigerians for imported textiles. One British firm in the Northern part of Nigeria has substantially retrenched its Nigerian labour force because the company alleged that the reduction of tariffs on imported textiles has made it difficult for it to continue at the former level of production.<sup>98</sup> There is the danger that some companies may use tariff reduction arguments to intimidate the Nigerian government indirectly; by sacking Nigerian workers in textile firms, some of the firms might have felt the Nigerian government would be forced to change its policy. The Nigerian government should make it abundantly clear to foreign firms that they cannot be protected for ever. Nigeria wants industrial development but Nigeria also wants industrial establishments which will be able to compete in the international market.

In addition to various incentives to stimulate private investments in industry, the government's direct investment in industry has been growing very rapidly since 1960. Before 1960, less than £5 million annually was invested in the manufacturing sector and foreign investors were largely responsible with public investment accounting for a negligible proportion. For example, during the 1955-1960 period, only £7 million or 7.6 per cent of the £91.3 million public capital expenditure was allocated for industrial development and less than half of the estimate was actually spent. Since 1960, public expenditure in industry has been increasing. In the 1962-68 First National Development Plan, provision was made for a capital expenditure of £90 million which represents roughly 13 per cent

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<sup>98</sup> New Nigeria, November 27, 1972.



of the public investment programme during the six-year period. The political disturbances in the country from January 1966 until early 1970 made it impossible for most of the industrial projects in the Plan to be executed. As a consequence, by March, 1968, when the life of the Plan expired, less than one-third of the amount stipulated had in fact been committed. During the 1970-74 Plan period, the total cost of Federal government's industrial programme is about £235 million. Since the Federal and States governments would enter into partnership with foreign investors in the execution of most of the industrial projects, and as all investment funds will not be actually disbursed during the Plan period, only £40.8 million is provided as probable disbursement for the 1970-74 period by the Federal government.

TABLE 4.15

## TOTAL PUBLIC SECTOR CAPITAL EXPENDITURE ON INDUSTRIES 1970-74 (£000s)

	(000s) POPULATION	1970-71	1971-72	1972-73	1973-74	TOTAL
Federal Government	54,671	5402	14555	13170	7690	40817
Benue-Plateau	4,230	330	520	580	520	1950
East Central	7,469	2595	1575	825	655	5650
Kano	5,775	665	945	945	945	3500
Kwara	2,399	312	498	637	709	2156
Lagos	1,443	100	710	770	880	2460
Mid-Western	2,536	2305	1385	936	737	5363
North-Central	3,878	730	431	431	976	2568
North-Eastern	7,793	516	1400	1460	655	4031
North-Western	5,734	548	1019	405	555	2527
Rivers	1,545	990	1248	938	857	4033
South-Eastern	3,381	1085	1007	462	455	3009
Western	9,488	2450	2389	1783	1383	8005
TOTAL STATES	54,671	12626	13127	10172	9327	45252
TOTAL - ALL GOVERNMENTS		18028	27682	23342	17017	86069

SOURCE: SECOND NATIONAL DEVELOPMENT PLAN 1970-74, FEDERAL MINISTRY OF INFORMATION, LAGOS, 1970.

Table 4.15 shows how the total public sector capital expenditure in industry for the period 1970-74 is shared by Federal and States governments. In addition to the Federal government's industrial programme of £235 million,

out of which we have been told only £40.8 million will actually be provided by the government, the States governments would also be spending £45 million on industries. This means that during the 1970-74 period, public sector investment in the industrial sector would be £280 million. Investment in manufacturing from the private sector is estimated and expected to grow from £74.8 million in 1970-71 to £117.4 million in 1973-74. For the four years 1970-74, capital investment in private sector manufacturing would add up to £378.5 million. The total capital investment in manufacturing both by the public and private sectors would be around £658 million during the 1970-74 period.

#### CONCLUSION

British manufacturing investment in Nigeria has grown from a very low level to become the second most important after the petroleum investment. In 1960, about 20 per cent of total British investment in Nigeria, excluding oil investments, was in the manufacturing sector and by 1968, the sector had increased its proportion to 35 per cent. At the moment, over 60 per cent of U.K. total investment in Nigeria, excluding oil investment, is in this sector. The rapid rate of growth of British manufacturing investment was due to the emphasis on industrialization in the development strategy of Nigeria and the industrial policy pursued by the government which favours the manufacturing sector more than any other sector. Although U.K. investment in Nigerian manufacturing has been growing very rapidly since 1955 until now, nevertheless, as a proportion of total foreign investment in the manufacturing sector, it has been falling. In 1955, the U.K. accounted for 95 per cent of total foreign investment in the manufacturing sector. By 1960, when Nigeria became independent, the proportion had fallen slightly, to roughly 90 per cent. In 1965, the U.K. still accounted for 69 per cent of total foreign investment in Nigerian manufacturing sector, and by the end of 1968 the proportion had fallen to 25 per cent. The reason for this phenomenon is that U.K. net capital inflow to the manufacturing sector



has not kept pace with the rate of increase in the net total foreign capital inflow to the sector. Between 1963 and 1967, for example, the U.K. only accounted for 13.6 per cent of total net foreign capital inflow to Nigerian manufacturing sector. Two features can be associated with British manufacturing investment in Nigeria. The first is the concentration of British manufacturing investment in a few companies. Although most of the large British companies have manufacturing interests in Nigeria, the United Africa Company, the Commonwealth Development Corporation and the Nigerian Tobacco Company accounted for about 65 per cent of the total U.K. manufacturing investment. The UAC is the most important manufacturing investor in Nigeria and the second most important U.K. investor after the Shell-BP Group. The second feature of U.K. investment in the Nigerian manufacturing sector is the high concentration of investment on final production. Over 80 per cent of U.K. manufacturing investment is concentrated on final products.

The enthusiasm of the Nigerian authorities for rapid growth of the manufacturing sector has not been justified by the findings of the effects of U.K. manufacturing investment on the Nigerian economy. Nigerian employees in British manufacturing establishments have been a minor proportion of the total working population. About 50,000 people are employed in British establishments out of Nigeria's working population of 30 million. The main reason for the meagre employment creation effect of British manufacturing investment is that British companies adopt capital-intensive and most modern techniques of production which make use of limited labour. British manufacturing investment also adds very little to incomes in Nigeria. The main reason for this is that a large proportion of the value added by the manufacturing sector goes abroad, since resources are concentrated on final production. W. A. Lewis has succinctly put the case thus, "It follows that the chief reason why large-scale manufacturing adds so little to Nigerian

income is not that wages are a small part of value added, but that the major part of value added goes abroad".<sup>99</sup> British manufacturing investment has not contributed anything towards Nigeria's foreign exchange resources; it has, in fact, depleted the country of its scarce and meagre foreign exchange through the importation of capital goods and raw materials for industry which has not been matched by the exports of manufactures. To quote Professor Lewis again, "...And since many products survive only because they are protected by tariffs exceeding 30 per cent of value added, it is clear that Nigeria spends more foreign exchange (on machines, raw materials, expatriate salaries and profits) on making some products at home than she would spend if she were to import the manufactured product itself".<sup>100</sup> The linkage effects of British manufacturing investment have also been limited since investments are concentrated on final products. The only area where the linkage effects of British manufacturing investment are substantial is the agricultural sector. As a result of backward linkages to the sources of raw materials, some British manufacturing establishments have provided a stable and steady market for some agricultural products. British manufacturing investments in Nigeria have, however, increased the variety of goods available to the mass of the population and have thereby increased the possibility of choice through the introduction of new products on a large scale. The most important contribution of British manufacturing investments to the Nigerian economy is the substantial tax revenue which the investments provide for the government. About one-quarter of the Nigerian government's tax revenue comes from British manufacturing companies. This, of course, represents a substantial contribution to public finance

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<sup>99</sup> Professor W. A. Lewis, *Reflections on Nigeria's Economic Growth*, OECD, Paris 1967, p. 26.

<sup>100</sup> *Ibid.*, p. 26.



which will no doubt have an indirect effect on a large majority of the population who benefit from public expenditure programmes.

The Nigerian authorities have pursued for the past decade an industrial policy that gives very generous tax holidays, import duty relief and tariff protection to industries. Despite the vigorous attempt at industrializing, the results of the accelerated growth in the manufacturing sector are far from being satisfactory. This is not surprising; the International Bank for Reconstruction and Development's mission to Nigeria in 1955 hinted at the modest contribution of industries to the Nigerian economy. "Interest in industrialization is intense and articulate. Many Nigerian leaders are hopeful that industrial expansion can be brought about quickly and that through it there can be an early and marked improvement in living standards. The mission believes that these hopes over-emphasize the contribution which industry can make in the foreseeable future and that it would be unwise to count on more than a modest expansion in the next few years".<sup>101</sup> Nigeria is an agricultural country. Over 70 per cent of the working population is engaged in agriculture and the corresponding figure for manufacturing is 10 per cent. Over the last decade, agriculture contributed a yearly average of 50 per cent of total Nigerian export earnings, the corresponding proportion for manufacturing is 1.2 per cent. With these vital statistics in mind, it is estimated that private investment in the agricultural sector would amount to £60 million during the 1970-74 period. Public expenditure would be £107.7 million. In the manufacturing sector it is estimated that the private sector would invest £378.5 million during the 1970-74 period. As for the public sector's industrial investments, apart from the £235 million industrial projects of the Federal government, of which

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<sup>101</sup> IBRD, *The Economic Development of Nigeria*, John Hopkins Press, Baltimore, 1955, p. 50.

we are told only £40.8 million would come from the government and the rest from foreign partners, the States also allocated £45 million for industrial development.<sup>102</sup> If we add all the capital expenditures of both the public and private sectors together, an interesting picture would emerge. While £167.7 million would be invested in the agricultural sector, £464.5 million would be going to the industrial sector. Investment in agriculture during the 1970-74 period would just be 36 per cent of the total investment in the industrial sector. Apart from the fact that the estimate of private investment in agriculture has been too high, it is fair to ask whether there is a balanced distribution of investable resources between the agricultural and industrial sectors. The concentration of resources in the industrial sector is made worse by the fact that Nigerian governments have no preconceived plan as to what new industries to develop and what commodities should be produced. In some few cases, when the new industries to be developed are known, political rivalry and uneconomic social factors have made progress too slow. There is no doubt therefore that the Nigerian authorities should develop an industrial policy that would maximise the overall advantage from every unit of investment in the industrial sector, if much progress is to be made. The present low priority given to agriculture should be rectified if the sector is to continue to play its vital role in the economic development of Nigeria. The basic truth is that no country wants to be wholly industrial or wholly agricultural. The most sensible development strategy therefore is one that strikes an appropriate balance between agriculture and industry, so that they complement each other in the process of rapid economic development.

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<sup>102</sup>The discussion in this section is based on the Second National Development Plan, 1970-74.



## CHAPTER V

### BRITISH INVESTMENT IN THE NIGERIAN PETROLEUM INDUSTRY

This chapter is concerned with the role of British direct investment in the development of the Nigerian petroleum industry and the effects of the development on the growth of the Nigerian economy.

#### INTRODUCTION

One of the brightest features of post-independent Nigeria is the discovery, the exploitation and the export of crude petroleum oil on a large scale. The search for crude oil in Nigeria began in 1937. However, the intensive search activities did not show any sign of being fruitful until 1956 when the first oil discovery was made in the Niger Delta. Further discoveries were made in later years and by 1958, crude oil production had begun and in that year about 2.3 million barrels were produced. Since then petroleum production has increased very rapidly to nearly 400 million barrels in 1970. Figure 5.1 shows the rapid increase in petroleum production from 1958 to 1970. From 1958 to 1966 there was a year-to-year increase in production. The Nigerian civil war of 1967-1970 severely affected petroleum production resulting in a fall in the figures recorded for 1967-1968. From 1969 onwards production picked up as fighting moved from the oil fields. By the end of the war, production had returned to normality and, in 1970, petroleum production was 17,109 per cent above the 1958 level. When petroleum production began in 1958, the average daily production for that year was 6301 barrels. In 1970, the average daily production was over 1 million barrels and in 1973 the average daily production had increased to over 2 million barrels. Between 1958 and 1970, total crude oil production in Nigeria grew at an annual compound rate of nearly 54 per cent.

CRUDE OIL PRODUCTION IN NIGERIA 1958-1970

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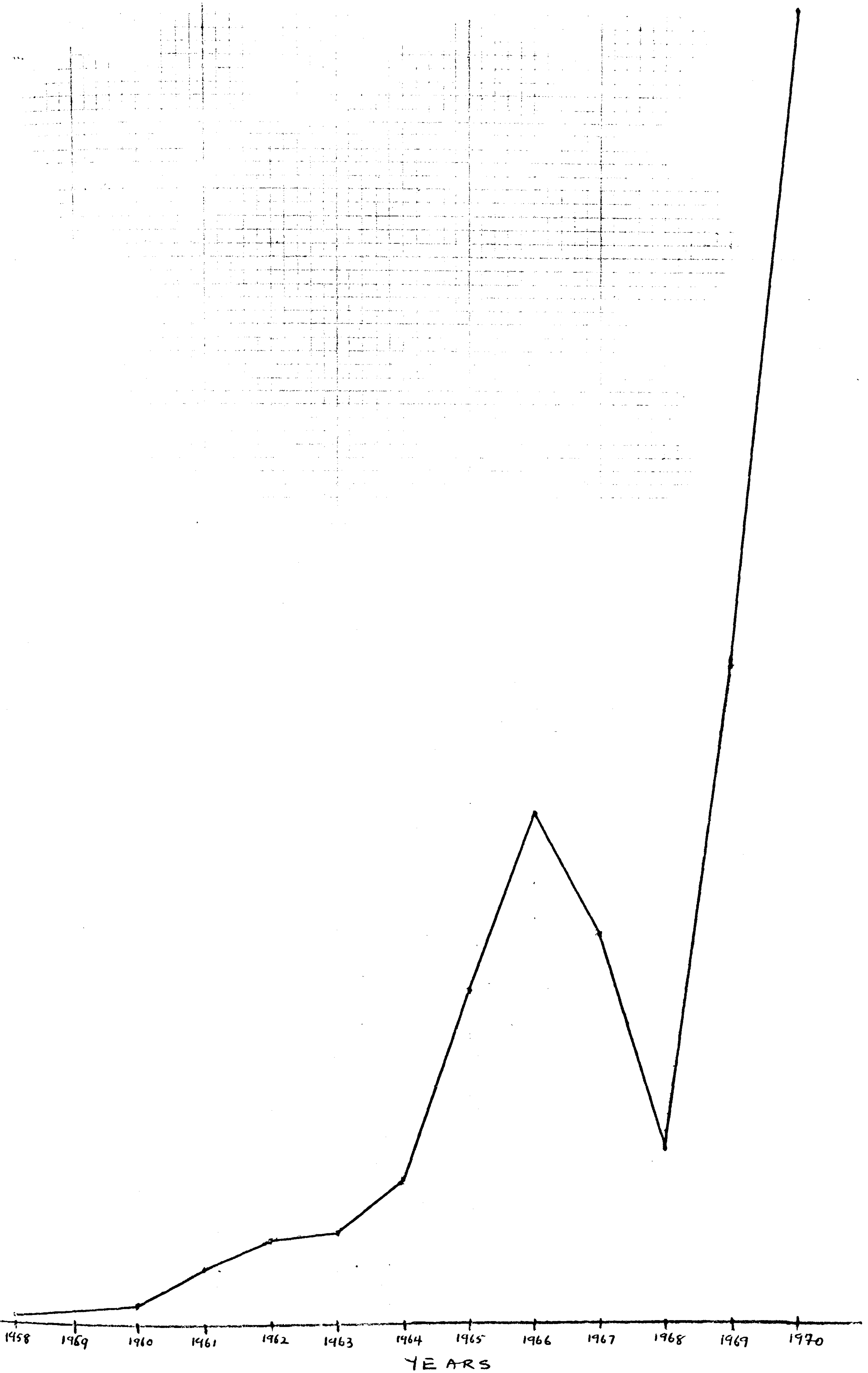


FIGURE 5.1



The discovery and the production of crude oil in Nigeria has focussed world attention on the country, not only as a potential area of investment, but also as a source of energy for advanced nations, especially since the beginning of the Arab-Israeli conflict and the precarious nature of the Middle East oil supply. Table 5.1 below shows the world production of oil in 1970.

TABLE 5.1

WORLD OIL PRODUCTION IN 1970

COUNTRIES	THOUSAND BARRELS PER DAY	PERCENTAGE OF WORLD TOTAL
U.S.A.	11,311	24.0
U.S.S.R.	7,052	14.9
Iran	3,845	8.1
Venezuela	3,714	7.8
Saudi Arabia	3,549	7.5
Libya	3,314	7.0
Kuwait	2,735	5.8
Iraq	1,565	3.3
Canada	1,425	3.0
Nigeria	1,085	2.3
Algeria	981	2.1
Indonesia	853	1.8
Abu Dhabi	694	1.5
Neutral Zone	504	1.1
Mexico	490	1.0
Egypt	394	0.8
Argentina	393	0.8
Qatar	362	0.8
Oman	332	0.7
Roumania	270	0.6
Others <sup>1</sup>	2,185	4.6
<b>WORLD TOTAL</b>	<b>47,053</b>	<b>100.0</b>

SOURCE: IC/153; DATA SUPPLIED BY SHELL INTERNATIONAL, LONDON.

NOTE: 1: Less than 250,000 barrels per day.

Although Nigeria's average daily production of crude oil was only 2.3 per cent of the world daily production in 1970, nevertheless, Nigeria was the tenth leading producer of petroleum. By 1972, Nigeria has become the eighth leading oil producer in the world. In the continent of Africa, Nigeria occupies a unique position, second in importance only to Libya.

Out of the 450.34 million metric tons of coal equivalent of energy produced in Africa in 1970, Libya and Nigeria accounted for 210.2 and 70.8 million tons respectively.<sup>103</sup>

The use of petroleum fuels as an important source of world energy has been growing very rapidly since 1950 when such fields accounted for roughly 24 per cent of total world commercial energy, excluding the Communist Areas and North America.<sup>104</sup> By 1960, the proportion had grown to 41.6 per cent and it is estimated that, by 1976, petrol will account for nearly 70 per cent of world commercial energy. There is a limit to the importance to be attached to the figures quoted since the U.S.S.R., the United States and Canada are not included; but, the trend of the energy picture for the world as a whole does not differ from that depicted. In 1960, petroleum accounted for 40 per cent of energy demand in the OECD; the corresponding figure for the world as a whole was 34.4 per cent.<sup>105</sup> By 1980, it is estimated that petroleum would account for 50 per cent of the OECD energy demand and 42.1 per cent of the world's. What this means, in effect, is that by 1980, OECD petroleum demand would be 191.3 per cent above the 1960 level and the world petroleum demand would be 223 per cent above the 1960 level. What all the available data clearly show is that the demand for petroleum products should continue to increase for the next ten years at least.

#### THE BRITISH OIL INVESTORS

British investments in the Nigerian petroleum industry are undertaken by Shell-BP Petroleum Development Company of Nigeria, Limited, which is jointly owned by Shell Petroleum Company and British Petroleum

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<sup>103</sup> United Nations, Statistical Year Book, 1971, New York, 1972.

<sup>104</sup> The figures quoted in this section are supplied by Shell International London.

<sup>105</sup> S. R. Pearson, Petroleum and the Nigerian Economy, Stanford University Press, Stanford, 1970, p. 6.



Company, each with 50 per cent ownership interest. The first attempt by the Shell-BP Petroleum Development Company (henceforth referred to as Shell-BP) to search for oil in Nigeria began in 1937. This was the second attempt by any company to search for oil in Nigeria, the first attempt having been made in 1908 by the Nigerian Bitumen Corporation, a German company which was forced to leave at the outbreak of the first World War. During the second year of its search for oil in Nigeria, Shell-BP obtained from the British Colonial Government an oil exploration licence covering the entire land area of Nigeria, which is 357,000 square miles. With the outbreak of the Second World War in 1939, all the search activities were suspended and the Shell-BP company was inactive until the end of the war, when the search for oil was resumed and intensified. The disappointments and the frustration arising from the lack of success were not abated until 1956, when oil was discovered in promising quantities at Oloibiri in Yenogoa province in the Niger Delta. By 1956, the Shell-BP company had already invested £15 million in Nigeria and, with the discovery of oil at Oliobiri, there was high hope of further discoveries resulting in increased activities between 1956 and 1958. Further discoveries were made in 1957 and 1958 and, by the time the first export of oil took place in 1958, Shell-BP had already invested £25 million in Nigeria. Since 1958 many oil wells have been discovered from which large quantities of oil had been produced and sold to the international market. Nigeria has become an important oil producer within a decade after the achievement of political independence.

#### THE DISTRIBUTION OF OIL CONCESSIONS AMONG THE OIL COMPANIES

The oil concession negotiated and obtained from the British Colonial Government by Shell-BP in 1938 covered the entire mainland of Nigeria, an area of 350,000 square miles. There were many reasons why Shell-BP could not hold on to the concession for such a vast area for very long.

Firstly, the prospect of finding oil in every part of the country was, and still is, remote and it would serve the company no useful purpose to hold on to areas with little or no prospect for oil. Secondly, the longer the Shell-BP company held to its concession covering the entire land-area of Nigeria, the higher would be the payments to the Government since licensing fees were to be paid on a yearly basis. As soon as other companies sought exploration licences, offering more favourable terms to the Government, the more resolute the government would be in asking for higher licensing fees. Lastly, there was the prospect that, after Nigeria had achieved political independence, the civilian government might revoke the initial licence covering all of Nigeria and replace it with another covering areas with little prospect of oil.

In order to avoid these unpleasant and unfavourable results, Shell-BP embarked on a comprehensive geological survey of Nigerian soils. The company then selected for itself those areas of the country showing the brightest prospects of oil and handed back to the government the remaining area. It was therefore the privilege and the monopoly conferred upon Shell-BP by the oil exploration licence of November 1938 that enabled the company to occupy a dominant position among the oil companies operating in Nigeria. Faced with no opposition for over two decades, Shell-BP was able to select the best soils with oil prospects before handing over the rest to the government for leasing to other companies.

Other international oil companies were not slow to seek exploration licences in Nigeria. As soon as the major oil companies were aware of the geological survey of Nigerian soils and the prospect of finding oil, they came one after another to begin their search for oil in the country. At the moment, out of the seven major<sup>106</sup> international oil companies, ranked by their crude oil production in 1966, only the

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<sup>106</sup> See E. T. Penrose, *The Large International Firm in Developing Countries*, Allen & Unwin Ltd., London 1968, Chapter IV.



Standard Oil Company of New Jersey does not have an exploration licence and operate in Nigeria. The remaining six "majors", along with other smaller companies, operate in Nigeria. At the end of 1972, there were fifteen oil companies at work in the country, of which eleven are wholly foreign-owned, one is a private Nigerian company and the remaining three are partnerships between private Nigerian companies and foreign companies. Table 5.5 shows the oil concessions held by the fifteen companies at the end of 1972. In the table only one company - a private Nigerian company, Henry Stephens & Sons - had a concession covering a larger area of land than Shell-BP. What is important, however, is not the area covered by a concession but the geological quality of the area and the prospect of finding oil. The 18,898 square miles covered by the Shell-BP company's concession represent the area with the brightest prospects for the discovery of oil. It is worth noting at this juncture that only two companies - Shell-BP and Mobil - out of the fifteen oil companies presently operating in Nigeria obtained oil exploration licences before Nigeria became politically independent; the remaining thirteen companies got their licences from the post-independent Nigerian government. The government has always preferred to deal with many companies rather than with one big company in order to increase the government's bargaining power and competition. The granting of oil-prospecting licences to thirteen other oil companies since 1961 was designed specifically to break the monopolistic advantages conferred upon Shell-BP during the period of the British colonial administration of Nigeria. As a result of the government's willingness to grant oil concessions, Nigeria's oil industry has become internationalized and the competition among oil companies has not only reduced the dangers of monopolistic and oligopolistic behaviour, but it has also enabled the government to make the granting of new concessions dependent upon the payment of high initial bonuses and premiums.

TABLE 5.5

## OIL CONCESSIONS HELD BY PETROLEUM COMPANIES IN NIGERIA IN 1972

NAME OF COMPANY	OWNERSHIP	CONCESSIONS IN SQ.			STATES LOCATION
		ON SHORE	OFF SHORE	TOTAL	
Shell-BP Petroleum Development Company of Nigeria Ltd.	Royal Dutch Shell Petroleum Co. (50%) British Petroleum Company (50%)	14992	3906	18898	East Central Kwara Mid-Western Rivers Sth-Eastern Western
Mobil (Nigeria) Ltd.	Mobil Oil Co. (100%)	-	2025	2025	Sth-Eastern
Tennessee Oil Co. of Nigeria Ltd.	Cumberland Corp. (50%) Sinclair International Oil Co. (25%) Sunray Dx. Oil Co. (25%)	1380	-	1380	Mid-Western Rivers
Gulf Oil Co. (Nigeria) Ltd.	Gulf Oil Corp. (100%)	3965	2890	6855	East-Central Lagos Mid-Western Rivers Sth.-Eastern Western
Texas Overseas (Nig.) Petroleum Ltd.	California Asiatic Oil Co. (50%) Texas Overseas Petroleum Co. (50%)	-	1931	1931	Rivers
Nigerian AGIP Oil Company Ltd.	E.N.I. (50%) Phillips Petroleum Co. (50%)	2031	-	2031	East Central Mid-Western Rivers
Safrap (Nigeria) Ltd.	Safrex (50%) Erap (40%) Sogerap (10%)	9336	-	9336	Benue-Plateau East-Central Kwara Mid-Western Rivers
Phillips Oil Co. (Nigeria) Ltd.	Phillips Petroleum Company (100%)	1401	-	1401	Mid-Western Western
Union Oil Nigeria	Union Oil Co. of California (100%)	-	1000	1000	Lagos
Delta Oil (Nig.) Ltd.	Pan Ocean Oil of New York (50%) Chief Godfrey Amachree (Nigerian) (50%)				Rivers Mid-Western
Occidental	Occidental of America (100%)	-	73600 acres	73600 acres	Rivers Sth.-Eastern
Deminex (Nig.) Ltd.	Deminex of W. Germany Niger Petroleum Co. Ltd.	-	2999 sq.km.	2999 sq.km.	Rivers, Lagos Sth.-Eastern
Henry Stephens & Sons	Chief H. Fajemirokun (Private Nigerian)	-	34329	34329	Rivers Sth.-Eastern
Japanese Nigeria Oil Development Co.	Petroleum Co. of Tokyo (Teijin/Teikoku/Mitsui)	-	2000 sq.km.	2000 sq.km.	Western
Monsato Oil Co. of Nigeria Ltd.	Monsato of America Niger Oil Resources (Private Nigerian Co.)	-	616 sq.km.	616 sq.km.	Mid-Western Rivers



TABLE 5.5 (Cont.)

- SOURCE: 1: S. R. Pearson, Petroleum and the Nigerian Economy, Stanford University Press, Stanford 1970, p. 16.
- 2: L. H. Schatzl, Petroleum in Nigeria, Oxford University Press, London, 1969, p. 8.
- 3: West Africa, January 1971 - December 1972.
- 4: Daily Times, July 8, 1972, Lagos.
- 5: Petroleum Press Service, December 1971.

The Nigerian government's policy of granting oil prospecting licences to oil companies was based on the initial determination of the government to develop Nigeria's petroleum through the foreign oil companies long established in the petroleum industry. There are three main methods by which a country can exploit its natural resources: (a) the country can utilize its financial, technical and managerial resources, if it has them, to set up ventures that would exploit its natural resources; (b) the country can invite foreign companies with expert knowledge in the field of operation relevant to its resources and (c) the country can undertake a joint venture with a foreign investor for the exploitation of these natural resources. The Nigerian government initially decided to adopt the second method by inviting foreign petroleum companies to search for, and produce, oil in Nigeria. The main reason for the choice was the dearth of finance and of technical and managerial manpower needed for a wholly home-operated oil company or for the formation of a joint venture with foreign oil companies. After over ten years of accumulated knowledge in the petroleum industry, Nigeria's attitude towards the exploitation of its petroleum deposits has started to change significantly. Whereas the first ten companies listed in Table 5.5 did not have the Nigerian government's participation clause written into their concession agreements, the last five have it specifically written in that the Nigerian government would secure a majority 51 per cent share in any oil discovered in their areas of operations. The last five companies listed in Table 5.5

obtained their concessions between October 1971 and April 1972. It is worth noting that the change in the attitude of the Nigerian government towards new concessions after 1970 began with Nigeria becoming a member of the Organisation of Petroleum Exporting Countries (OPEC) in 1971 and the formation of the Nigerian National Oil Corporation (NNOC), also in 1971, for oil exploration, production, and the processing of gas and petro-chemicals in the large areas of the country specifically reserved for the company.<sup>107</sup> With the formation of NNOC early in 1971, the government declared its intention to participate in the offshore licences which the last five companies in Table 5.5 started to negotiate as from December 1970. It is therefore not surprising that in all the agreements signed in 1971 the government's majority share of 51 per cent was specifically written in. The Nigerian government has also made it clear that it is not likely to grant an exploration licence to any oil company in the future. The desire of the Nigerian government to search for oil by itself in those areas not covered by previous agreements can be verified by the deliberate reservation "for the use of the nation" of the most attractive half of the 5000 square miles originally offered for bids in 1971.

#### OIL PRODUCTION AND EXPORT BY SHELL-BP

The rush by international oil companies to obtain an oil exploration licence from the Nigerian government was due to two main causes, firstly, the inexperience of the Nigerian authorities in the oil industry and secondly, the important advantages of the Nigerian crude oil. When Nigeria obtained political independence in October 1960, the country was very backward, lacking in financial and technical manpower resources. When Shell-BP discovered crude oil in Nigeria in 1956 and other oil companies were optimistic about future discoveries, the possibility of exploiting the inexperience of the Nigerian authorities could be

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<sup>107</sup> More will be said about OPEC and NNOC in later parts of this chapter.



regarded as one of the main factors encouraging some companies to seek oil exploration licences. This strategy on the part of the oil companies paid off because, until 1st September, 1970, Nigerian crude oil was the cheapest in the world, substantially priced below crude oil from the Middle East, Libya and other OPEC countries. The Nigerian officials, unaware of the intricacies and complexities associated with the international petroleum industry, initially made it possible for the first few oil companies who started producing crude oil in Nigeria to obtain favourable treatment with regard to concessions and prices that would have been impossible in a country with a sound knowledge of the background of the international petroleum industry. The second major attraction of Nigeria for international oil companies is the quality associated with Nigerian crude oil, due largely to its relatively low sulphur content. The low kerosene content of the Nigerian crude oil ensures its relatively high fuel yield and excellent blending properties and, since industrialized countries want crude oil for fuel rather than for kerosene, the quality of the Nigerian crude oil confers upon it an important advantage. Scott Pearson has emphasized that the low content of the Nigerian crude oil "will become increasingly important as legislation concerning air pollution is passed in consuming countries. There is technology available to remove sulphur from high sulphur crudes. But the world price of sulphur must rise even higher than recent levels to make the eventual joint production of petroleum products and sulphur more profitable than the production of petroleum products alone from a crude with low sulphur content. And even then, the removal of sulphur from crude oil on a large scale would have a depressing influence on the world sulphur price, tending to shift the advantage back to the producers of low sulphur crude ....unless high sulphur prices induce a major cost-reducing technological change in sulphur extraction from crude oil, the 'sweet' quality of Nigerian crude should remain an important

advantage for the production of oil in Nigeria.<sup>108</sup>

In recent years the strategic position of Nigeria in the West African coast has conferred additional advantages on the Nigerian crude oil. Nigeria is located in the relatively peaceful part of Africa and this ensures a steady supply of oil to the international market. Although Nigeria has recently fought a civil war, this disturbance was an internal conflict which is not likely to be repeated. The large army of Nigeria, strategically placed in barracks located near the oil installations and Nigerian boundaries, and the relatively weak military strength of Nigeria's immediate neighbours, make it very certain that the production and the export of Nigerian crude oil to the international market will continue undisturbed. With the beginning of the Arab-Israeli conflict in 1967 and the associated precarious nature of the Middle East oil supply, and the constant threat to supply through occasional stoppages, the blowing up of pipe lines and the setting on fire of oil storage tanks, Western Europe and North America have increasingly attached more importance to Nigerian crude oil as a more reliable alternative. Additionally, the cost of shipping Nigerian crude oil to Western Europe, North and South America is cheaper than the shipping costs of some of the crude oil producers in the Middle East. The closure of the Suez Canal has also aggravated the transport problems of Middle East oil producers and it is estimated that Nigeria's transport advantage over Persian Gulf crude oil destined for Western Europe amounted to about ~~£~~0.27 per barrel before the closure of the Suez Canal, and after the closure, it has increased to ~~£~~0.47 per barrel.

The search for oil in Nigeria by Shell-BP which began in 1937, and the subsequent discovery of oil in 1956, meant that the company had a

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<sup>108</sup>S. R. Pearson, *Petroleum and the Nigerian Economy*, Stanford University Press, Stanford 1970, p.p. 19-20.



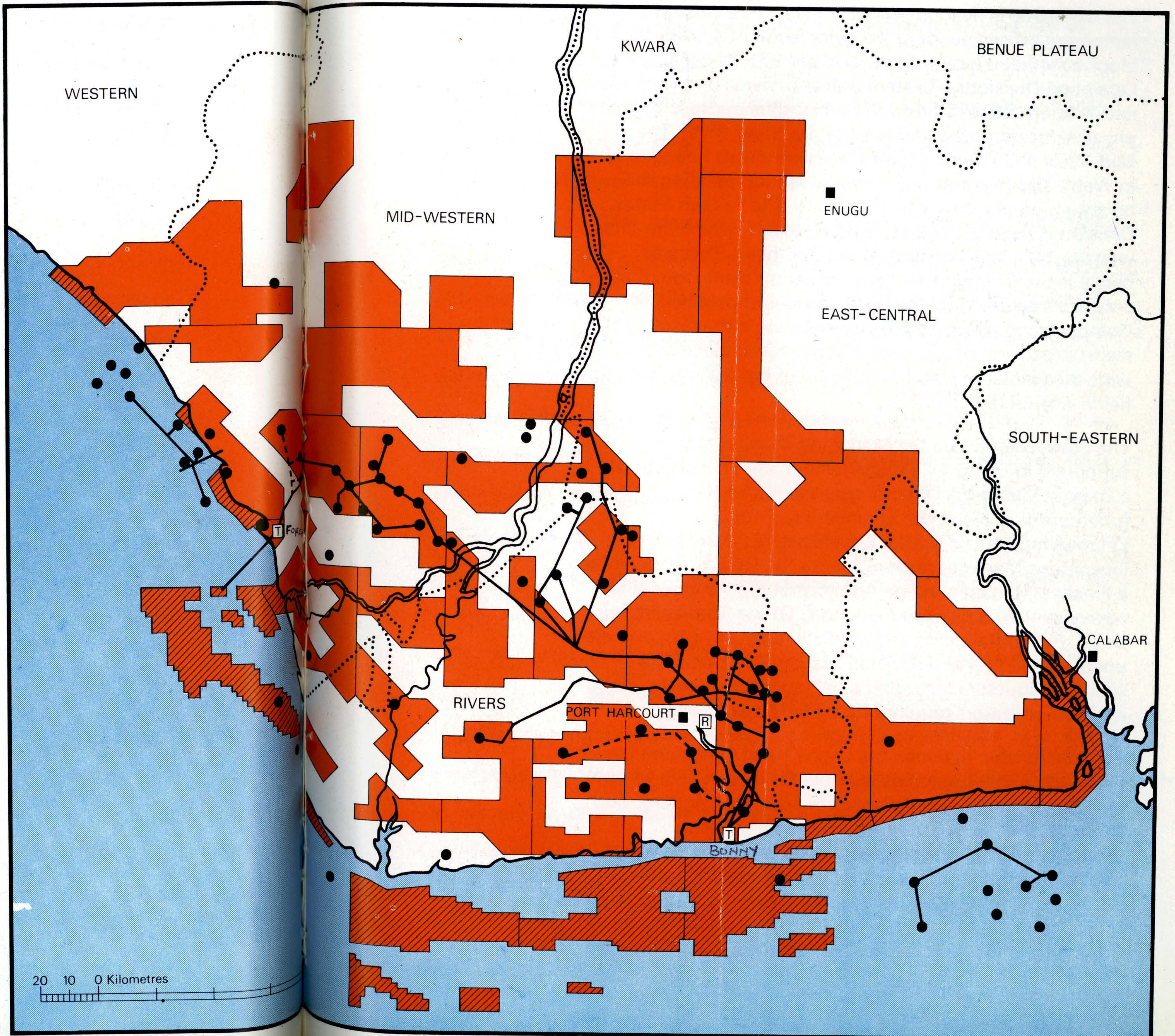
complete monopoly of the entire land area of Nigeria for nearly two decades. The only company which was able to obtain an oil exploration licence in Nigeria before 1960 was Mobil, which, in 1955, signed an agreement covering the land area handed over to the government by Shell-BP (after an intensive geological survey had indicated the areas with oil discovery prospects). The dominant position of Shell-BP in the Nigerian petroleum industry should not be surprising, therefore, since the company was the first to be in Nigeria and also had the opportunity to select the most prosperous areas with oil prospects for itself. The enclosed map shows the on-shore and off-shore concession areas in which Shell-BP operates to-day in Nigeria. Shell-BP concession areas in orange colour on the map are located in five of the six southern States, and in the territorial waters of Nigeria, along with a small portion of the Kwara State. Five of the six states (the Western, Mid-Western, East-Central, Rivers and South-Eastern) in which Shell-BP concession areas are situated have accounted for all Nigeria's crude oil production and export up to the end of 1972. This state of affairs will tend to underline the statement made earlier that Shell-BP concession covers areas with the brightest prospects for oil discovery in Nigeria.

The search for oil, and the subsequent production of it when discovered, no doubt require substantial capital investment. Shell-BP (who did the initial pioneer geological and map surveys of Nigeria from which other oil companies have benefited) has invested enormous resources in its operations in Nigeria. By the end of 1958, when the first shipment of crude oil from Nigeria took place, Shell-BP had invested £25 million. The intensification of search activities and the production of existing oil discoveries pushed Shell-BP's investment in Nigeria to £90 million by the end of 1962. By 1967 when the Nigerian civil war broke out, Shell-BP had invested over £150 million in its operations in Nigeria. The Nigerian



Following Shell-BP's pioneering work some fourteen other oil companies are now engaged in oil exploration and production in Nigeria. The on-shore and off-shore concession areas in which Shell-BP operates today are shown in orange on the map

- Shell-BP Petroleum Development Company of Nigeria Limited
- Oilfield or oil discovery
- T Terminal Shell-BP
- R Refinery
- Pipelines as at 1.7.1970
- Pipelines under construction



20 10 0 Kilometres



# Shell-BP organisation

The Company is headquartered in Lagos in a number of temporary offices pending the completion of a new office block scheduled for about the end of 1971. There are two Operating Divisions—Eastern States Division and Mid-West and Western States Division—named thus because of their physical location east and west of the Niger River. The Mid-West and Western States Division has its headquarters in Warri, also in temporary accommodation pending the construction of a new Division office. The Eastern States Division is headquartered in Port Harcourt, which pre-crisis was the main headquarters of the Company. This was because the Company's main production came from that area in those days. The general reorganisation of the Company and relocation of headquarters is the result of the major expansion of activities that has taken place over a wide area including the big build up of production from fields west of the Niger.

The chief executive is the Managing Director and he is supported in Lagos by a management team consisting of: a Deputy Managing Director responsible for the technical functions of Exploration, Engineering, Petroleum Engineering and Computer Development; a General Operations Manager responsible for the Divisional activities; a Finance Manager and an Administration Manager who covers such functions as Personnel, Office Administration, Legal, Public Relations and Medical. Each Division operates under the control of a Division Manager and both are similar in structure including a full range of the technicians and administrators required for oil field operations.

The relationship between the Lagos Head Office and the Divisions is that Lagos Management is responsible for the development and establishment of policies, standards and norms. The Divisions are responsible for fulfilling programmes and achieving the objectives and targets set and operating within the authorities delegated to them.

*A seismic survey party in the Mid-West, whose instruments record evidence of possible oil bearing rock formations*



civil war, which did not come to an end until January 1970, adversely affected Shell-BP's operations because all its production activities were largely taking place in the areas where the soldiers were fighting. As a consequence, for nearly two years, Shell-BP was inactive. By early 1969 Federal soldiers had captured most of the company's oil installations and areas of concession, and the security provided by the Federal soldiers encouraged the Shell-BP company to embark on a capital investment of £45 million which at that time was the largest expenditure programme in the company's history. In January 1970, the rebel soldiers surrendered and as the Federal soldiers occupied the fighting ground, life began to return to normal. On April 6th, 1970, Shell-BP announced in a Press Release the largest investment programme ever undertaken by the company in Nigeria. The Press Release stated that "Shell-BP will expand its activities in Nigeria this year and a record £56 million capital expenditure programme has been planned by the company. This programme will involve extensive exploration, drilling, construction and oil field development throughout the concession areas in the Mid-West, Eastern States and off-shore".<sup>109</sup> Shell-BP's capital investment in 1971 was estimated to be £65 million and according to the Petroleum Press Service of December 1971, the company's investment programme for 1972 was 25 per cent above the 1971 level. At the end of 1972, the total investment of Shell-BP since it started operating in Nigeria in 1937 has grossed up to nearly £400 million.

The enormous resources invested in Nigeria by Shell-BP have been accompanied by large-scale exploration, drilling and construction activities. At the end of 1970 Shell-BP has drilled 866 wells and shot 60,000 miles of seismic lines since it started operating in Nigeria. The huge

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<sup>109</sup> Shell-BP Development Company, Shell-BP in Nigeria, Lagos (no date).



capital investment along with the intensified exploration activities have resulted in Shell-BP being the leading oil producer in Nigeria.

TABLE 5.6

## CRUDE OIL PRODUCTION IN NIGERIA BY COMPANIES 1958-71

IN THOUSAND BARRELS PER DAY

YEAR	TEXACO	SAFRAP	AGIP/ PHILLIPS	MOBIL	GULF	SHELL- BP	TOTAL PRO- DUCTION	SHELL-BP AS A % OF TOTAL
1958	-	-	-	-	-	6.3	6.3	100
1959	-	-	-	-	-	11.2	11.2	100
1960	-	-	-	-	-	17.4	17.4	100
1961	-	-	-	-	-	46.0	46.0	100
1962	-	-	-	-	-	67.5	67.5	100
1963	-	-	-	-	-	76.5	76.5	100
1964	-	-	-	-	-	120.2	120.2	100
1965	-	-	-	-	25.0	249.2	274.2	90.8
1966	-	-	-	-	51.0	366.6	417.6	87.7
1967	-	-	-	-	54.8	264.3	319.1	82.8
1968	-	-	-	-	98.3	43.0	141.3	30.4
1969	-	-	-	0.3	185.9	354.1	540.3	65.5
1970	2.4	-	4.4	54.2	231.8	790.3	1083.1	72.9
1971	10.4	25.1	38.5	72.4	277.1	1107.7	1531.2	72.3

SOURCES: 1: THE INSTITUTE OF PETROLEUM, LONDON.

2: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, 1963-1971

The first point to note is the rapid growth in the production of crude oil from 6.3 thousand barrels per day in 1958 to 1.5 million in 1971. According to the December 1972 issue of the Petroleum Press Service, Nigeria was producing almost 1.9 million barrels daily throughout 1972. In December 1973, Nigeria was producing nearly 3 million barrels of crude oil per day. The number of oil producing companies increased from one in 1958 to six at the end of 1971. By January 1973 there were nine companies producing oil in Nigeria. The dominant position of Shell-BP as the major oil producer in Nigeria is shown in Table 5.6. Apart from being the only oil producer in Nigeria between 1958 and 1964, Shell-BP still accounted for over 70 per cent of the total Nigerian crude oil production between 1965 and 1971 despite the production activities

of other oil companies which began with American Gulf Oil in 1965.

The rapid growth in the production of oil by Shell-BP which began in 1958 was checked by the outbreak of the Nigerian civil war in 1967.

Between 1967 and 1969 oil production by Shell-BP fell, reaching the lowest level for that company since 1961 in 1968. In 1969, oil production by Shell-BP rose higher than the 1968 level, but was still lower than the pre-1967 level. It was not until 1970, when full production resumed, that Shell-BP was able substantially to increase its production above the 1966 level. Since 1971 oil production by Shell-BP has been increasing more rapidly than ever before.

There are several reasons why the Nigerian civil war severely affected Shell-BP. Firstly, as shown in the map of Shell-BP's concession areas in Nigeria, a large proportion of its oilfields were concentrated in the three States - East-Central, Rivers and Southern-Eastern - which declared a unilateral independence. Secondly, the other oil fields in the adjacent Mid-West state were brought to a halt when the soldiers from the break-away state infiltrated into the Mid-West and some parts of the Western States. Fighting on a large scale not only took place in the rebel states but also in the Mid-West and Western States as well. Thirdly, as soon as the war broke out, one of the military strategies of the Federal government was the complete blockage of the sea surrounding the break-away states. This means there could be no oil exports through the oil terminal at Bonny in the Rivers State. One might be tempted to suggest that the second oil terminal at Forcados in the Mid-West should have been used for the export of oil from Nigeria, but because fighting also took place in the Mid-West, the use of the Forcados oil terminal was limited. There are two further reasons why the use of the Forcados oil terminal, assuming no fighting prevented its use, could have had a marginal effect on the oil export and production from and in Nigeria.



Firstly, a large proportion of Nigerian oil production before the outbreak of the civil war in July 1967 took place in the areas within the break-away state.

TABLE 5.7

DISTRIBUTION OF CRUDE OIL PRODUCTION WITHIN THE STATES ('000 BARRELS/DAY)

STATES	JUNE 1967		AUGUST 1967		JANUARY 1969	
	BARRELS/DAY	%	BARRELS/DAY	%	BARRELS/DAY	%
East Central Rivers	27.8	4.8	-	-	-	-
East-Central/Rivers <sup>1</sup>	254.1	44.0	-	-	138.2	28.9
	95.6	16.5	-	-	29.1	6.1
TOTAL <sup>2</sup>	377.5	65.3	-	-	167.3	35.0
Mid-Western	200.8	34.7	51.9	100.0	310.7	65.0
NIGERIA TOTAL	578.3	100.0	51.9	100.0	478.0	100.0

SOURCE: COMPILED AND CALCULATED FROM: THE FEDERAL MINISTRY OF MINES AND POWER: MONTHLY PETROLEUM INFORMATION, June 1967, August, 1967 and January, 1969.

NOTES: 1: Oil fields in boundary lines.

2: Total for the areas within the break-away state of Biafra.

As Table 5.7 shows, 65.3 per cent of the total oil production in Nigeria in June 1967, a month before the civil war began, took place in the two of the three Eastern States. Two months later in August 1967, when the Federal government had blockaded the break-away states, there was no oil production in the three Eastern States. In January 1969, when the Federal soldiers had captured all the oil fields in the break-away region and in other parts of Nigeria, and Shell-BP had begun production, the Mid-Western State had become the most important oil producing area in Nigeria, supplying 65 per cent of the total oil production in Nigeria, in January 1969. Secondly, and perhaps more importantly, is the fact that a large proportion of the oil produced in the Mid-West was, and still is, exported through the Bonny terminal located in the break-away state of Biafra. What this means in effect is that even if Shell-BP could

continue with oil production in the Mid-West between July 1967 and late 1968, the company could not export the oil produced because the blockade of the Bonny oil terminal had cut off the company's Mid-Western state oil fields linked with the Bonny terminal by the Trans-Niger pipeline. As a consequence, and in the absence of any storage facilities near the oil fields in the Mid-Western state and elsewhere, when on 6th July, 1967, the Federal government blockaded the sea surrounding the break-away state in order to break the secession, oil export from the Bonny terminal was brought to a halt and Shell-BP had to suspend its entire production in the Mid-Western state and in the break-away state of Biafra for a period of 14 months between 6th July 1967 and 6th September, 1968. Once the Federal government had succeeded in capturing the oil fields, Shell-BP once more started to export oil from Bonny terminal on 7th September 1968, and during the following month the Trans-Niger pipeline linking the Mid-West oil fields of Ughelli with the Bonny terminal was reopened.

The effects of the Nigerian civil war on the two other oil companies producing oil in Nigeria before the war were different from that of Shell-BP in certain vital respects. SAFRAP, the French oil company, was completely barred from operating in Nigeria as soon as the Federal government was aware of the support which the French government was giving to the secessionist regime. It was not until 1971, after SAFRAP had agreed to the most stringent conditions ever put to an oil company by the Nigerian government, that is, a 35 per cent ownership interest by the Nigerian government in the oil produced by SAFRAP, did the company start the production of crude oil in Nigeria. The American Gulf Oil company was the least affected by the civil war. The company's oil production activities were carried on during the war at its offshore field in the Mid-Western State and as such the fighting which took



place in the Mid-West did not affect the company's activities. During the civil war, Gulf Oil continued to expand its investment activities and production commenced in its newly-developed offshore fields located south of Benin (see the map enclosed). It is therefore not surprising that, when oil production by Shell-BP fell in 1968 to its lowest level since 1961, Gulf Oil for the first time exceeded the level of oil production by Shell-BP, contributing nearly 70 per cent of the total oil production in Nigeria in 1968. By the end of 1968, the three oil companies producing oil in Nigeria before the war broke out had, except SAFRAP, started oil production again. During 1969 all the damaged installations, pipelines and buildings were repaired and, early in the year, oil production by Shell-BP had reached the pre-war level. On account of Shell-BP's heavy investment in 1969 and 1970, and also the completion of a second oil terminal at Forcados in the Mid-West in July 1969, its oil production increased sharply to 8000,000 barrels per day towards the end of 1970. In 1971 Shell-BP's daily crude oil production reached the 1 million barrels mark and in December 1972 the company was producing 1.3 million barrels per day. Out of the 1136 million barrels of crude oil produced in Nigeria during the 1958-70 period, Shell-BP accounted for nearly 77 per cent or 873 million barrels. At the end of 1970, Shell-BP was producing crude oil in 32 oil fields and the total output for the year alone amounted to 289 million barrels. Despite the dominant position of Shell-BP as the major oil producer in Nigeria, the company's percentage contribution to total oil production in Nigeria in future is likely to continue to fall as more oil companies start to discover and produce oil in Nigeria, that is, unless the company starts to produce from its offshore fields, which have not yet been touched, and/or can discover big oil fields like those in the Middle East.

The advantages conferred upon Shell-BP by the concession obtained from the British colonial government in Nigeria explains the dominant position of the company in Nigeria to-day. As Dr. L. H. Schatzl has said, "Unaffected by competitors the Shell-BP Petroleum Development Company of Nigeria was able to select at their leisure until 1962, 15,000 sq. miles of the 357,000 sq. miles concession area obtained in 1938. In the areas it chose were located the best geological indications for the formation of crude oil deposit sites. The opportunity of exercising an autonomous strategy throughout two decades in the realm of concession politics brought about the result that this company to-day possesses the optimal concession sites in the country. Its monopolistic position in the past with respect to licence selection affords Shell-BP both now and in the future a position of dominance in the development of the Nigerian mineral oil industry. This strong position has resulted from the intensive activities in the investigation of a geologically unexplored territory with unfavourable physical conditions and a rather poorly developed infrastructure. By mastering Nigeria as a new territory for mineral oil supply as well as by the opening of mineral oil deposits with modern equipment and advanced methods not employed heretofore, the company performed the function of a pioneer entrepreneur according to Schumpeter's meaning".<sup>110</sup>

#### NIGERIAN CRUDE OIL EXPORTS AND THEIR DESTINATION

Up to the end of October 1965, all crude oil produced in Nigeria was exported. By November 1965, when an oil refinery, jointly owned by the Nigerian government and Shell-BP Development Company of Nigeria, was completed at Alesa-Elleme in Port Harcourt, Nigeria started to refine some

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<sup>110</sup> L. H. Schatzl, *Petroleum in Nigeria*, Oxford University Press, Ibadan 1969, p. 3.



crude oil for domestic use and for export in times of surplus. During the first year of operation in 1966, about 12.3 million barrels of crude petroleum, or 8.1 per cent of the total crude petroleum output for the year, were processed at the refinery. About 1.2 million tons of petroleum products consisting mainly of motor spirit, kerosene, automotive gas oil, marine diesel oil and fuel oil were produced for marketing in Nigeria. However, the capacity of the Nigerian refinery is limited to 38,000 barrels per day and as a consequence, Nigeria has been exporting an annual average of 97 per cent of its total oil production since 1958. When allowance is made for the surpluses to Nigeria's requirements in the oil refined at Port Harcourt which are exported to countries like Niger, Dahomey, Togo, Chad, the United States and some Latin-American countries, about 98 per cent of total crude oil production in Nigeria is exported annually. Table 5.8 shows the quantity and value of crude oil exported from Nigeria during the 1960-1971 period. The quantity and the value of crude oil exports increased annually from 1958 onwards until 1965, when there was a sudden rise in the quantity and value of exports. While the quantity of crude oil exported in 1965 nearly trebled the 1964 quantity, the value of such exports more than doubled the 1964 value. For the first time, in 1965, crude oil exports accounted for roughly one-quarter of the total value of Nigerian exports. The upward trend in the quantity and value of crude oil exports continued in 1966. However, between 1967 and 1969, petroleum exports did not increase at the previous rate. In fact, the lowest level of crude oil export since 1965 took place in 1968 when its value of about £37 million only accounted for 17.4 per cent of the total Nigerian export for the year. Although the quantity and value of petroleum export reached a new record level in 1969, it was not until 1970, when full production in all the oil fields was resumed, that the astronomical

increase in quantity and value enabled crude oil exports to account for nearly 58 per cent of the Nigerian total export. In 1971, when crude oil export reached an all-time record level of about £476 million, such export not only accounted for over 70 per cent of Nigeria's total export for the year, but it also represented more than half of the total value of crude oil exports from Nigeria between 1958 and 1971.

TABLE 5.8

CRUDE OIL EXPORTS OF NIGERIA 1960-1971

YEAR	CRUDE OIL EXPORTS		NIGERIA'S TOTAL EXPORT (N£ MILL.)	OIL EXPORT AS A PERCENTAGE OF TOTAL EXPORT
	QUANTITY IN '000 TONS	VALUE (N£ MILLION)		
1960	828	4.4	169.7	2.6
1961	2224	11.5	173.6	6.6
1962	3368	17.2	168.5	10.2
1963	3695	20.2	189.3	10.7
1964	5783	32.1	214.7	15.0
1965	13019	68.1	268.4	25.4
1966	18947	91.9	283.1	32.5
1967	14776	72.4	241.8	30.0
1968	6969.6	36.8	211.1	17.4
1969	26549.6	131.0	318.2	41.2
1970	50916.5	255.0	442.7	57.6
1971 <sup>a</sup>	70879.5	475.9	648.7	73.4

SOURCES: CENTRAL BANK OF NIGERIA, ANNUAL REPORTS 1965-1971; ECONOMIC & FINANCIAL REVIEW, 1968-1971.

NOTE: a: Provisional

The United Kingdom, until the present moment, has been the major importer of Nigerian primary exports. In the case of Nigerian crude oil, its direction has always been the decision of the international oil companies whose vertically integrated set-up not only allows them to control crude oil production but also its distribution and hence its destination as well.<sup>111</sup> Despite the difference in the locus of decision making processes in the primary and in the petroleum sectors as to the direction of trade, the United Kingdom has been the major importer of Nigerian crude oil.

<sup>111</sup> More will be said about the problem of vertical integration in the oil companies at a later part of the chapter.



TABLE 5.9

## EXPORTS OF CRUDE OIL TO THE U.K., GERMANY AND BENELUX (PERCENTAGES)

	1958	1959	1960	1961	1962	1963	1964	1965
United Kingdom	42.3	65.2	94.2	100	68.2	61.3	57.7	53.8
Western Germany	-	-	-	-	13.8	26.0	25.4	15.7
Benelux	57.7	34.8	5.8	-	17.3	7.1	1.4	7.3

SOURCE: NIGERIA TRADE SUMMARY, 1958-1966.

Table 5.9 shows that, except in 1958, the U.K. imported over half of the yearly crude oil export from Nigeria between 1958 and 1965. Over the whole of this period, the U.K. imported nearly 70 per cent of the total crude oil export of Nigeria. The Benelux countries which took over half of the first shipment of crude oil from Nigeria in 1958, lost the second position to Western Germany (who had imported no crude oil from Nigeria between 1958 and 1961) after 1962. Between 1958 and 1964, all the Nigerian crude oil export went to Western Europe and Africa, the latter accounting for about 1 per cent of the total. As from 1966 onwards, other parts of the world began to import Nigerian crude oil as the table below will show.

TABLE 5.10

## NIGERIAN CRUDE OIL EXPORTS 1966-1971 (IN PERCENTAGES)

AREA	1966	1970	1971
Western Europe	74.2	69.0	68.0
Western Hemisphere	25.1	29.0	29.0
Africa	0.3	2.0	2.0
Australia	0.4	-	-
Japan	-	-	1.0
TOTAL	100.0	100.0	100.0

SOURCES: 1: NIGERIAN TRADE SUMMARY, DECEMBER, 1966.

2: PETROLEUM PRESS SERVICE, DECEMBER 1971 & 1972.

As shown, the proportion of crude oil import from Nigeria by Western Europe fell from 74.2 per cent of the total in 1966 to 68 per cent in 1971.

The main explanation of this is the fall in the total crude oil import from Nigeria by the U.K. from 38.9 per cent in 1966 to 23 per cent and 18 per cent in 1970 and 1971 respectively. For the first time, the United States and Canada began to import crude oil from Nigeria in 1965, each taking 6.8 per cent and 0.9 per cent respectively of the total crude oil export from Nigeria in that year. By 1966, both countries imported 6.0 per cent and 6.9 per cent respectively of the total Nigerian crude oil export. However, in 1970, the United States became an important importer of Nigerian crude oil, accounting for 12 per cent of the total crude oil export for the year. By 1971, when the United States accounted for 20 per cent of the Nigerian crude oil export for the year, the U.K. lost its position as the most important importer of Nigerian crude oil to the U.S. The overall increase in the export of Nigerian crude oil to the Western Hemisphere after 1965 was due to the rapid increase in crude oil imports by the United States and Canada. Japan also entered the Nigerian crude oil market in 1971 by importing 1 per cent of the total oil export from Nigeria in the year. As shown earlier, economic factors and the global strategies of the oil companies had been the main determinant of the direction of Nigerian crude oil exports in the past. However, Nigerian authorities are likely to have more influence in the future with the acquisition of ownership-interest by the Nigerian government in existing oil companies and the establishment of a National Oil Corporation to produce and market crude oil.

BRITISH INVESTMENT IN THE PETROLEUM INDUSTRY AND ITS CONTRIBUTION TO  
THE NIGERIAN ECONOMY

This section is concerned with the contribution of Shell-BP to the economic development of Nigeria. The Shell-BP Petroleum Development Company is the only British oil company operating in Nigeria.



EMPLOYMENT, WAGES AND SALARIES

The role of the petroleum industry as a provider of employment has not been stressed by many of the writers<sup>112</sup> on the contribution of the petroleum industry to economic development. The reason for this is that the petroleum industry is characterized by capital-intensive technology and, as a consequence, only a very limited number of people are required for employment. Shell-BP offers direct employment to only a small number of Nigerians. In 1963, according to R. L. Hamilton, Shell-BP Finance Manager, the total number of people employed by Shell-BP in Nigeria was 2731.<sup>113</sup> By March 31, 1965, the number of people employed by Shell-BP had increased to 2800. These totals are comprised of Nigerian employees as well as expatriate employees. The Nigerian petroleum industry is not an important absorber of labour, as Table 5.11 will show. Less than four thousand people were employed in the petroleum industry by the beginning of the Nigerian civil war in 1967, and out of this total, 83.3 per cent were Nigerians. Table 5.11 also shows that the majority of Nigerians were employed, and are still employed, as unskilled labour and labourers. In managerial, professional and supervisory positions, few Nigerians were employed, the highest number being employed in 1967, when 622 out of the 3,252 Nigerians employed in the petroleum industry were in high-level positions. Although the expatriate staff formed a small proportion of the number of employees in the Nigerian petroleum industry, they nevertheless occupied high-level positions carrying high salaries and wages. In 1970, when economic activities returned to normal, about 4,300 people were employed in the petroleum industry. In this year, when the Nigerian labour force

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<sup>112</sup> See, for example, R. F. Mikesell, et al, "Foreign Investment in the Petroleum and Mineral Industries", John Hopkins Press, Baltimore, 1971.

<sup>113</sup> West Africa, 3.8.63.

TABLE 5.11

LEVELS OF EMPLOYMENT IN THE NIGERIAN PETROLEUM EXPLORING AND PRODUCING  
INDUSTRY, 1964-1967 (NUMBER OF EMPLOYEES)

EMPLOYEES	1964	1965	1966	1967
Total Employees	3075	3135	3438	3901
NIGERIAN EMPLOYEES: TOTAL	2627	2668	2900	3252
Management )	74	6	16	16
Professional )		85	534	141
Supervisory )	558	39		
Skilled Labour )			882	1043
Unskilled Labour	1393 <sup>a</sup> )		898	969
Other	602 <sup>a</sup>	788	570	618
EXPATRIATE EMPLOYEES: TOTAL	448	467	538	649
Management )		31	39	47
Professional )	301	280	495	379
Supervisory )				
Skilled Technicians )	147 <sup>a</sup>	156 <sup>a</sup> )	4	38

SOURCE: S. R. PEARSON, PETROLEUM AND THE NIGERIAN ECONOMY, Stanford University Press, Stanford 1970, p. 84

NOTE: a: Residual Category.

stood at 26 million and 24 million Nigerians were gainfully employed, employment in the petroleum industry represented a negligible proportion of all gainful employment. Since 1970, more companies have entered the Nigerian petroleum industry and the intensive activities in the petroleum industry have resulted in more employment opportunities. By the end of 1972, about 5000 Nigerians were employed in the industry and Shell-BP accounted for 3500 of the total employees.

If the petroleum industry provides little employment for people, it can, however, increase the level of demand in the economy by the high wages and salaries paid to its employees. The salaries and wages paid by the petroleum industry can have a salutary effect on secondary industries, especially when a large part of the salaries and wages are spent on domestically-produced goods. As shown in Table 5.11, the majority of



the employees in the petroleum industry who were (and still are) in high-level positions carrying substantial rewards were expatriates. Between 1958 and 1964, the total amount paid out in wages and salaries by Shell-BP amounted to N£9.7 million, representing 20.3 per cent of the total local expenditure of Shell-BP during the period.<sup>114</sup> Out of the £9.7 million paid out in wages and salaries, nearly 45 per cent was paid to expatriate employees who have a very high consumption preference for goods manufactured abroad. The Nigerians in high-level positions who also received high salaries spent a large proportion of them on foreign goods. We are therefore left with a situation in which only a small proportion of the wages and salaries paid by Shell-BP was spent on domestically produced goods. It should therefore not be surprising that the employment offered by Shell-BP and the salaries and wages paid to its employees have had only a marginal effect on the Nigerian economy.

#### THE LINKAGE EFFECTS

When an initial or a primary investment gives rise to secondary investments, we have what is referred to as a linkage effect. Investments in the petroleum industry can and often do give rise to investments in other sectors. The extent to which the activities of Shell-BP have given rise to secondary investments can best be assessed by a break-down of the company's local expenditures as shown in Table 5.12. Payments to contractors represent a large proportion of Shell-BP's domestic expenditure. As the table shows, Shell-BP paid a total of £19.8 million to contractors over the 1958-64 period, and this amount represented a yearly average of 41 per cent of the total domestic expenditure. Since the end of the civil war in 1970, as a result of increased exploration, drilling and construction payments to contractors by Shell-BP have been an average of 48 per cent of the company's total local expenditure.

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<sup>114</sup>L. H. Schatzl, op. cit., p. 245.

TABLE 5.12

## LOCAL EXPENDITURES OF SHELL-BP: 1958-1964 (£N'MILLION)

	1958		1959		1960		1961		1962		1963		1964		TOTAL 1958-1964	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Pay- mts. to Contrs	2.4		2.5													
		44.5		43.3	2.3	35.4	2.8	41.8	1.8	31.6	2.9	38.7	5	49.5	19.8	41.4
Sals. & Wages	0.8	15.1	0.9	15	1.4	21.5	1.5	22.4	1.2	21	1.9	25.3	2	19.8	9.7	20.3
Local Purch- ases	0.4	7.5	0.4	6.7	0.5	7.7	0.4	6	0.4	7	1.1	14.7	1.2	11.9	4.4	9.2
Dues, Local Taxes Rates	0.2	3.8	0.3	5	0.2	3.1	0.2	3	0.3	5.3	0.2	2.7	0.5	5.0	1.9	4
Other Expen- diture	1.5	28.3	1.8	30	2.1	32.3	1.8	26.9	2	35.1	1.4	18.7	1.4	13.9	12	25.1
Total Local Expen- diture	5.3	100	6	100	6.5	100	6.7	100	5.7	100	7.5	100	10.1	100	47.8	100
Total Expend- itures in Nigeria and Abroad	15	-	18.5	-	16.9	-	18.3	-	13.4	-	19.7	-	33.7	-	135.4	-
Local Expend- itures as a % of Total Expend- itures		35.3		32.4		38.7		36.6		42.5		38.1		30		35.4

SOURCE: L. H. SCHATZL, PETROLEUM IN NIGERIA, Oxford University Press, London 1969, p. 245



Shell-BP contracts out all drilling and construction, and handles only the work-over rigs. This pattern, which can be observed in the other oil companies operating in Nigeria, has stimulated the growth of contracting firms and industries which are directly or indirectly dependent on the oil industry.

Perhaps it is worth noting at this juncture that a large proportion of the payments made to contractors go to foreign contractors.

TABLE 5.13

SELECTED ANCILLARY FIRMS' RECEIPTS FROM THE PETROLEUM INDUSTRY

PAID ABROAD AND PAID LOCALLY BY OWNERSHIP OF FIRMS IN 1965 (N£MILLION)

CATEGORIES OF FIRMS	TOTAL	PAID ABROAD	PAID LOCALLY		
			EXPATRIATE OWNED	NIGERIAN OWNED	TOTAL
<u>Suppliers</u>	-	-			
Local Purchases of Goods <sup>a</sup>	2.735	-	2.713	0.022	2.735
<u>Contractors</u>	-	-			
Well-Site Preparation & Roads	2.781	-	2.361	0.420	2.781
Dredging	0.470	-	0.471	-	0.470
Drilling	8.603	5.956	2.647	-	2.647
Surveys	2.044	0.956	1.088	-	1.088
Construction	3.483	2.417	0.902	0.164	1.066
Catering	0.209	-	0.150	0.059	0.209
Transportation	2.950	0.750	1.970	0.230	2.200
<b>TOTAL CONTRACTORS</b>	<b>20.540</b>	<b>10.079</b>	<b>9.588</b>	<b>0.873</b>	<b>10.461</b>
<b>TOTAL SUPPLIERS AND CONTRACTORS</b>	<b>23.275</b>	<b>10.079</b>	<b>12.301</b>	<b>0.895</b>	<b>13.196</b>

SOURCE: S. R. PEARSON, op. cit., p. 88.

NOTE: a: including fuel and lubricants.

Table 5.13 shows the total expenditure by the petroleum industry on contracting and local purchases of goods in 1965. Of the £20.5 million paid to contractors, £10.1 million or 49 per cent was paid abroad and the remaining £10.5 million was paid to contractors operating in Nigeria. What is also worth noting is the large proportion of the local payments made by the oil companies to foreign firms. Out of the £10.5 million

paid locally to contractors, only 8.3 per cent went to Nigerian-owned firms. The above table therefore shows that foreign firms were responsible for a large proportion of the locally purchased goods and the contracting businesses of oil companies in 1965. At the end of 1972, foreign contractors still accounted for about two-thirds of the contracting services of the oil companies paid for locally and the remainder went to Nigerian-owned firms.

Most of the foreign contractors employed by Shell-BP and other oil companies are highly specialized firms who service and supply the petroleum industry in its operations in different parts of the world. Notable among the foreign contractors are Richard Costain, Taylor Woodrow, Transworld Drilling, Mothercat, Halliburton Ltd., and Dresser Magcobair. Foreign contractors predominate in fields of activity requiring specialized knowledge, capital and management know-how, including seismic surveys, dredging, drilling, the laying of pipelines and the construction of helicopter landing sites, harbours and bridges. Until such time when Nigerian-owned firms can build up a reservoir of competent and experienced engineers and have enough capital to perform the specialized contracting functions now undertaken by foreign contractors, the latter will continue to account for a large proportion of the contracting businesses of the oil companies. It must be added that many of the foreign-owned contracting firms do give employment to Nigerians, and in that sense, they are contributing to the Nigerian economy. The activities of Nigerian contractors are largely concentrated on clearing bushes, building roads, catering, transportation and intermediate constructions. Most of the Nigerian-owned companies operating in the areas listed above employ an army of smaller local contractors operating in a variety of fields, including the supply of raw materials and the contracting of labour. Most of these large and smaller contracting firms are located near the



oil areas, especially in Warri and Port Harcourt, and their immediate environs. An additional 5,000 Nigerians are employed in contracting firms as a result of Shell-BP's oil exploration activities in Nigeria. The wages paid by Shell-BP to its Nigerian employees, many of whom are unskilled, along with the incomes generated by the local contractors have acted to stimulate commercial and industrial activities in the oil-producing areas. There is a consumer boom at the moment in Port Harcourt, Aba and Warri which is brought about by the concentration of economic and administrative functions of Shell-BP in these areas. In addition, the increasing employment opportunities in the oil-producing areas and the associated higher wages have stimulated the activities of petty traders. With their turnover increasing daily, they are restocking at a faster rate as a result of the big drift to these areas of unskilled labour whose demand for food and domestically produced goods is rapidly increasing. The initial investment of Shell-BP in the exploration and the production of crude oil has led to the growth of a large number of small-scale industries in trading, construction and engineering, banking and insurance, transport and catering sectors in the oil producing areas.

The discovery and the production of crude oil in Nigeria has, however, aggravated the economic disparity between the regions. Because the oil activities are concentrated on the Southern part of Nigeria, the six northern states are completely cut off from the direct benefits of the boom in the oil fields, but they are also unable to take advantage of the increasing demand in the oil-producing areas as a result of regional rivalry. The effect of the petroleum industry on the Southern parts of Nigeria is localized to the oil producing areas. Lagos and Western States are only marginally affected, while the four states in the South-Eastern part of Nigeria are affected quite considerably. The Mid-Western and the Rivers states are the most prosperous and richest states in Nigeria.

The ridiculous revenue allocation system of the Federal government which enables the states where the oil is being produced to derive a certain fixed proportion of the revenue from the oil companies puts at the disposal of the oil producing states financial resources far in excess of their requirements. In addition, tribal rivalry and the insistence by authorities in the oil producing areas that the jobs created directly and indirectly by the petroleum industry be reserved to the nationals of the states ensure that people from other states cannot and do not take up jobs in the oil states. The regional rivalry associated with the petroleum industry was brought to a head when the Western State insisted that the oil discovered in its offshore must be developed in its state. Presumably, the State government was willing to make sure that the benefits associated with the oil discovered in its state were not passed on to other parts of the country. The point worth emphasizing is that not only has crude oil production increased the prosperity of the inhabitants of the oil producing areas, but it has also widened the regional economic disparities.

The production of crude oil in Nigeria has also led to the construction of an oil refinery at Alesa-Eleme in Port Harcourt. The refinery, which started operating in October 1965, was constructed and managed by a joint venture between the Nigerian government (60 per cent) and Shell-BP (40 per cent) in the Nigerian Petroleum Refining Company (NPRC). The refinery was constructed at a cost of £10.6 million and about 250 Nigerians are employed to operate it. The refinery has not only ensured a steady, cheap and reliable supply of refined petroleum to the Nigerian market, it has also saved Nigeria a large amount of foreign exchange as the import of oil falls steadily.



TABLE 5.14  
EFFECTS OF OIL REFINERY ON OIL IMPORTS

YEAR	TOTAL IMPORTS (N£MILLION)	OIL IMPORTS (N£MILLION)	OIL AS A % OF TOTAL IMPORTS
1958	163.3	8.9	5.4
1959	178.4	10.3	5.8
1960	215.9	11.2	5.2
1961	222.5	13.3	6.0
1962	203.2	13.1	6.4
1963	207.5	15.2	7.4
1964	253.8	19.3	7.6
1965	275.3	17.1	6.2
1966	256.3	3.5	1.4
1967	223.6	8.8	3.9
1968	192.6	14.6	7.5
1969	248.7	15.6	6.3
1970	378.2	11.0	2.9
1971	538.2	4.5	0.8

SOURCES: 1: ANNUAL ABSTRACT OF STATISTICS, 1964, LAGOS.  
 2: ECONOMIC INDICATORS, FEDERAL OFFICE OF STATISTICS, LAGOS,  
 May 1967 and January 1973.

The first point to note is the rising cost of oil imports from 1958 to 1964, as can be seen in the table. In 1965, when the Nigeria oil refinery came into operation towards the end of the year, oil imports dropped slightly. In 1966, however, when the oil refinery was in full operation, oil imports dropped sharply, accounting for only 1.4 per cent of total imports. The refinery functioned for only 20 months before the Nigerian civil war broke out (July 1967). During the civil war, the refinery was damaged and Nigeria once again was forced to import oil.

Thus, Nigeria's oil import bill rose steeply to £15.6 million in 1969. At the end of the civil war in January 1970, the refinery was quickly repaired and has been functioning normally with the beneficial effect of a fall in oil imports in 1970 and 1971. As a result of the limited use of refined oil in Nigeria in the late 1960s, the surpluses from the Alesa-Elleme refinery have been exported to Niger, Togo, Chad,

Dahomey and the United States. In recent years, however, the Nigerian refinery capacity of 38,000 barrels per day cannot meet the oil requirements of Nigeria. According to the General Manager of the Nigerian Petroleum Refinery Company, Shaw, petrol consumption in Nigeria in 1971 was about 60,000 barrels a day compared with 40,000 barrels per day in 1970.<sup>115</sup> If the consumption of petrol continues to grow as it has in the past, Shaw notes that a second refinery would have to be constructed to meet the rising demand. In his 1973/74 budget speech to the Nation, the head of the Nigerian Military Regime announced that a second refinery is to be built to cope with the increased demand for petrol in Nigeria. He said that the details of the refinery have been worked out, but its capacity, location and the estimated time of commissioning will be announced later.<sup>116</sup>

The discovery of gas and the subsequent production of some of it in the oilfields by Shell-BP has stimulated industrial development in the oil producing areas. In addition to the generation of electricity for the South-Eastern and the Rivers States, the gas from the oil fields has been a source of energy for the Trans-Amadi Industrial Estate in Port Harcourt, together with the glass factory, the Alcan Aluminium factory and the Michelin Tyre factory sited on the Estate. In addition, gas has also provided an efficient and economic source of energy for industries located in Aba and Ughelli. It must also be added that gas is becoming widely used for cooking in most homes, especially in the towns. Despite the increasing consumption of natural gas in Nigeria, the reserve is so large that very large quantities of natural gas produced in association with oil are allowed to flare off because of

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<sup>115</sup> West Africa, 31st March, 1972.

<sup>116</sup> Daily Times, April 2, 1973, Lagos.



lack of markets. It has been estimated that "more than 700 million cubic feet/day of associated gas is now being flared in the Nigerian oil fields, of which only minor quantities are sold (by Shell-BP) for local industrial use."<sup>117</sup> The Nigerian government has shown a great interest in the establishment of liquid petroleum gas (LPG) extraction plants and a petro-chemical complex which would be linked to associated natural gas production. According to the Petroleum Press Service, work on a \$26 million Port Harcourt plant to extract 12,000-15,000 b/d of LPG for Nigeria Gas Products is reportedly due to begin this year.<sup>118</sup> The plant is to be a joint venture, owned 60 per cent by the Nigerian government and 40 per cent by Guadeloupe Gas Products of Houston. It has also been revealed that the Federal Ministry of Mines and Power has announced the Nigerian government's agreement with Shell-BP for the establishment of a liquefaction plant with 800,000 million cubic feet a day capacity by 1977 and to be owned 55 per cent by the government and 45 per cent by Shell-BP.<sup>119</sup> When all these projects come into operation, then the valuable asset which is being burnt in Nigerian oilfields will be converted into financial resources for the economic development of the country.

It is also worth noting the increased knowledge about Nigeria associated with the activities of Shell-BP. The areas in which Shell-BP operates are situated in the thick equatorial forests of the Niger Delta. Without the search for oil and the subsequent discovery and production of oil in these areas, a large part of the Niger Delta could have been unknown and uninhabited. By improving inland waterways and building new roads and bridges, Shell-BP has thus helped to open up the thick

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<sup>117</sup>Petroleum Press Service, November 1970, p. 406.

<sup>118</sup>Petroleum Press Service, December 1972, p. 442.

<sup>119</sup>The Times, June 12, 1973, London.

forest areas of Nigeria. These facilities have encouraged farm settlements in areas uninhabited before oil exploration, and more agricultural products have been made available to the growing population of Nigeria. The search for oil necessitates aerial photography and rigorous geological and map surveys. To the extent that Shell-BP has made available to the Nigerian government the maps and other results of its geological and map surveys, the company has helped to increase people's knowledge about Nigeria. Socially too, Shell-BP has also contributed to community life in the oil areas. Insofar as small communities in the form of villages and small towns have grown up around the oil fields, the accommodation provided at low rental costs and the electricity, health and recreational facilities provided in these areas by the government and Shell-BP have been additional advantages of oil investment.

#### THE CONTRIBUTION TO GOVERNMENT REVENUE

One of the most important contributions of the petroleum industry to the Nigerian economy is the substantial payments made to the government by the oil companies in recent years. Revenue from the petroleum industry has been growing very rapidly since 1958, but it was not until after 1961 that the revenue from the petroleum industry exceeded 5 per cent of the total government revenue. Table 5.15 shows the rise in petroleum revenue from the 1961 low level to nearly £28 million in 1967 after which period it fell in response to the Nigerian civil war. Petroleum revenue substantially increased in 1970 to reach its highest level since 1958. Table 5.15, however, does not show the true position of petroleum revenue in the public finance of the Federal Government since petroleum profit tax and excise and custom duties are not included. If the profit tax for the period 1968-1971 is added to the above figures, the importance of the petroleum industry as a source of substantial revenue cannot be doubted. As Table 5.16 shows, the percentage contribution of petroleum



TABLE 5.15

## GOVERNMENT'S REVENUE FROM THE PETROLEUM INDUSTRY 1961-70 (£N'MILLION)

YEAR	TOTAL GOVERNMENT REVENUE	PETROLEUM REVENUE <sup>a</sup>	PETROLEUM REVENUE AS A % OF TOTAL
1961	137.0	4.3	3.1
1962	148.6	13.1	8.8
1963	154.4	8.5	5.5
1964	169.0	9.9	5.8
1965	192.2	12.8	6.6
1966	183.2	10.4	5.6
1967	179.7	27.8	5.4
1968	159.7	10.6	6.6
1969	223.5	11.8	5.2
1970	390.9	34.4	8.8

SOURCE: CENTRAL BANK OF NIGERIA, ECONOMIC & FINANCIAL REVIEW, DECEMBER, 1970.

NOTE: a: Excluding petroleum profit tax, custom and excise duties.

revenue did not only rise from 10.4 per cent in 1968 to 31.7 per cent in 1971, but such revenue represented the most important source of government revenue during the period under consideration.

TABLE 5.16

## GOVERNMENT'S REVENUE FROM THE PETROLEUM INDUSTRY 1968-1971 (£MILLION)

YEAR	TOTAL GOVERNMENT REVENUE	PETROLEUM REVENUE	ANNUAL % CHANGE	PETROLEUM REVENUE AS A % OF TOTAL REVENUE
1968	159.7	16.7	-	10.4
1969	223.5	26.9	61.1	12.0
1970	390.9	88.0	227.1	22.5
1971 <sup>a</sup>	520.0	165.0	87.5	31.7

SOURCES: 1: INSTITUTE OF PETROLEUM, LONDON.

2: CENTRAL BANK OF NIGERIA, ANNUAL REPORT, 1971.

NOTE: a: Provisional.

Shell-BP have been paying to the Nigerian government, since 1958, about two-thirds of the total revenue from the petroleum industry. For the period 1958-1964, Shell-BP paid a total of £27.3 million to the Nigerian government.<sup>120</sup> In recent years, payments to the Nigerian government by Shell-BP have been rising as a result of competition among the oil companies for concessions. The increase in the number of companies seeking oil concessions has enabled the Nigerian government to make the granting of new concessions depend upon the payment of high premiums. In 1970, it is estimated that the total payment by Shell-BP to the Nigerian government was about £65 million, the breakdown of which is shown in Table 5.17. If the estimate in Table 5.17 is correct, it would mean that out of a total revenue of £88 million from the petroleum industry in 1970, Shell-BP paid £65 million, which would be 73.8 per cent of the total petroleum revenue. There is no doubt that Shell-BP has been contributing substantially to the Nigerian government's revenue.

TABLE 5.17

SHELL-BP'S PAYMENTS TO THE NIGERIAN GOVERNMENT IN 1970

TYPE OF PAYMENT	£MILLIONS
Royalties	20
Petroleum Profits Tax, Concession Rentals & Custom Duties	39
Harbour Dues	6
<b>TOTAL ESTIMATE</b>	<b>65</b>

SOURCE: SHELL-BP PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LTD.,  
SHELL-BP IN NIGERIA, LAGOS (No date)

Insofar as the government's revenue has been used to finance administration and to provide essential social services, such as public health

<sup>120</sup> L. H. Schatzl, op. cit., p. 244.



facilities, roads, education and community services, Shell-BP's investment in Nigeria has favourably affected the life of many Nigerians through the company's contribution towards government revenue.

#### CONTRIBUTION TO FOREIGN EXCHANGE AND BALANCE OF PAYMENTS

We have seen that the export of crude oil from Nigeria has been rising since the first shipment of crude oil took place in 1958 up to the present moment. As shown in Table 5.8, in 1971 when crude oil export reached a record level of about £476 million, it represented over 73 per cent of Nigeria's total export for the year. Crude petroleum has therefore become Nigeria's most important export and foreign exchange earner. However, what is important to Nigeria is not the value of crude petroleum export, but the net balance after subtracting all imports associated with the petroleum industry. Table 5.18 shows the net contribution of the petroleum industry to the Nigerian balance of payments for the 1963-1969 period. It can be easily seen that, if the values of petroleum exports are compared with the net contribution to the Nigerian balance of payments during the 1963-1969 period, only £249.2 million out of the total export value of £452.5 million was the net addition to Nigeria's balance of payments. The remaining 45 per cent of the total export value for the 1963-1969 period was spent abroad to pay for imports, interests and profits. It is also worth noting that only in one year, 1969, did the cost of materials acquired abroad and the cost of acquisition abroad of sundry services account for less than half of the total value of petroleum export during the 1963-69 period. The petroleum industry was able to contribute about 55 per cent of the value of its export to the Nigerian balance of payments during the 1963-69 period because of the importation of capital to the tune of nearly £109 in addition to paying for its imports. There is no doubt that the petroleum industry has been very effective in reducing Nigeria's balance of payments deficits

TABLE 5.18

THE CONTRIBUTION OF THE PETROLEUM INDUSTRY TO THE NIGERIAN  
BALANCE OF PAYMENTS (N£'MILLION)

	1963	1964	1965	1966	1967	1968	1969
Proceeds from Export Sales	20.1	32.0	68.1	91.9	72.0	37.0	131.0
Reimbursement of Harbour Dues	0.6	1.0	2.0	2.4	1.9	0.2	3.0
Cost of Materials acquired Abroad (C.I.F.)	-4.2	-11.7	-13.5	-19.5	-17.5	-9.9	-12.7
Variation in Materials in Transit and in Export Debtors	-0.2	-	-2.2	-1.0	-	-13.0	-11.8
Cost of Acquisition abroad of Sundry Services	-6.4	-12.3	-22.2	-38.5	-31.5	-28.2	-44.8
Variation in Overseas Cash and Current Account Balance	1.9	13.9	-1.3	5.9	25.2	-	-32.0
Dividends, Interest, Branch Profits)				-19.4	-19.8	-	-
Imports of Capital	2.5	2.2	4.7	21.6	18.4	42.7	20.8
Net Contribution to Balance of Payments	+14.3	+25.1	+35.6	+43.4	+48.7	+28.8	+53.3

SOURCE: CENTRAL BANK OF NIGERIA: BALANCE OF PAYMENTS ESTIMATES OF THE OIL SECTOR 1963-1969 (UNPUBLISHED).

in bad years and even making it possible for surpluses to appear.

Table 5.19 shows the impact of the petroleum industry on the Nigerian balance of payments for the period 1967-1971. The table shows how the contribution of the petroleum industry to merchandise trade rose from £54.5 million to a record level of £463.8 million in 1971. The non-merchandise trade of the oil sector, which included payments for insurance, shipping costs, other travel expenses which were paid abroad, represented an outflow of funds throughout the period. The oil sector's balance on capital account, which included such items as direct investment, profits repatriation and payments of loan capital overseas, was positive for the first two years but negative for the last three years, as a result of the



TABLE 5 . 19

## THE IMPACT OF CRUDE OIL ON NIGERIA'S OVERALL BALANCE OF PAYMENTS 1967 - 1971 (N EMILLION)

Category	1967		1968		1969		1970		1971		Total	
	Non-oil	Oil	Non-oil	Oil	Non-oil	Oil	Non-oil	Oil	Non-oil	Oil		
Merchandise Trade	-34.1	+20.4	+17.3	+118.1	-34.7	+83.4	+232.4	-145.9	+86.5	+463.8	-322.4	+141.4
Non-Merchandise Trade	-59.8	-111.1	-118.6	-48.1	-100.0	-148.1	-40.6	-93.4	-134.0	-159.7	-76.0	-235.7
Balance on Goods and Service	-93.9	-90.7	-101.3	+70.0	-134.7	-64.7	+191.8	-239.3	-47.5	+304.1	-398.4	-94.3
Unrequited Transfers	+7.7	+7.7	+17.2	-	+10.4	+10.4	-	+22.5	+22.5	-	+0.9	+0.9
Balance on Total current Account	-86.2	-83.0	-84.1	+70.0	-124.3	-54.3	+191.8	-216.8	-25.0	+304.1	-397.5	-93.4
Balance on Capital Account	+15.9	+61.4	+80.0	-16.7	+57.0	+40.3	-65.2	+89.8	+24.6	-11.4	+136.6	+125.2
Balance on Current and Capital Account	-70.3	-21.6	-4.1	+53.3	-67.3	-14.0	+126.6	-127.0	-0.4	+292.7	-260.9	+31.8
Overall Balance	-21.6	-4.1	-14.0	-4.1	-14.0	-0.4	-0.4	-0.4	+31.8			

Source : Calculated from the Central Bank of Nigeria's Annual Reports 1969 and 1971

i. Provisional



payments of loan capital overseas, and the repatriation of profits in 1970 and 1971. The overall balance of the oil sector was positive throughout the period, which means that it was the surpluses in this sector which helped to ameliorate the balance of payments crisis in Nigeria. The 1967-1970 period was a difficult one in Nigeria because the country was fighting a civil war and the importation of war equipment drained the country of its foreign exchange resources and, as such, deficits were accumulated in the non-oil sector during the period. The oil sector not only helped to reduce the deficits to the minimum possible levels, but the sector also enabled Nigeria to have a surplus on its balance of payments in 1971.

The dominant position of Shell-BP in the Nigerian petroleum industry is not only reflected in the high level of crude oil production by the company, but also in the substantial contribution the company makes to the balance of payments. Table 5.20 shows the net contribution of Shell-BP to Nigerian balance of payments between 1938 and 1964. Until 1965, Shell-BP was the only exporter of crude oil from Nigeria. After deducting the cost of raw materials and profits repatriated from export proceeds and the inflow of capital, Shell-BP contributed £82.9 million to the Nigerian balance of payments over the 1938-1964 period. This amount may be considered small with regard to the length of time over which the contribution was made, but given the relatively low level of petroleum export proceeds, there was very little room for improvement. Between 1958 and 1964, Shell-BP made about 90 per cent of the petroleum industry's contribution to the Nigerian balance of payments. Since 1965 Shell-BP's percentage contribution to the petroleum industry's total has been falling. Over the 1965-1971 period, Shell-BP contributed about 70 per cent of the petroleum industry's net contributions to the Nigerian balance of payments.



TABLE 5.20

## THE CONTRIBUTION OF SHELL-BP TO NIGERIA'S BALANCE OF PAYMENTS (NEMILLION)

	1938/ 1957	1958	1959	1960	1961	1962	1963	1964	TOTAL
Proceeds from Export Sales	-	1.0	2.7	4.4	11.5	16.7	20.1	32	88.4
Reimbursement of Harbour Dues paid in Nigeria on behalf of the Shipper	-	-	0.1	0.1	0.4	0.5	0.6	1.0	2.7
Cost of Material and Services Acquired Abroad	-16	-9.6	-11.6	-9.1	-6.7	-3.6	-7.4	-12.3	-76.3
Net Flow of Private Capital <sup>a</sup>	25	14	15.7	12.3	6.4	-3.8	-1.5	-	68.1
Net Contribution to Balance of Payments	+9.0	+5.4	+6.9	+7.7	+11.6	+9.8	+11.8	+20.7	+82.9

SOURCE: L. H. SCHATZL, PETROLEUM IN NIGERIA, Oxford University Press, London 1969, p. 164.

NOTE: a: Estimated.

This trend is likely to continue as other companies discover and increase their production and export of crude oil. It must be added, however, that most of the new oil companies would be a drain on Nigeria's foreign exchange as they import raw materials for their initial operations. As Table 5.20 shows, the value of Shell-BP's imports between 1938 and 1960 was substantially above the company's export of crude oil. It was not until 1961 onwards that the value of Shell-BP's exports exceeded the company's import-value. There is no doubt, however, that after the initial period of high imports by the new oil companies, more will be contributed towards Nigeria's balance of payments as imports level out and exports increase.

The effect of the foreign exchange earning capacity of the petroleum industry goes beyond a mere contribution to the balance of payments into

the favourable effects of a healthy balance of payments on economic development. When a country has persistent deficits on its balance of payments, the country's ability to import raw materials, intermediate and capital goods, and probably food from abroad, is limited. The ensuing shortages of raw materials and intermediate goods resulting from a foreign exchange bottleneck will no doubt reduce the level of expansion in the economy and hence unfavourably affect economic development. The balance of payments problem which Nigeria does not have must be emphasized as one of the main reasons why industrial expansion since 1970 has continued until now without the necessity of "applying the brake". In addition to providing the necessary foreign exchange to finance imports for industrial and agricultural expansion, development planning is also facilitated through the predictability of foreign exchange earnings associated with crude oil exports.

#### NATIONAL POLICIES FOR THE PETROLEUM INDUSTRY

The early history of the Nigerian petroleum industry epitomizes all the essential features of a beginner negotiating terms with experienced international oil companies. At the time the first shipment of crude oil took place in Nigeria in 1958, Nigerians had no knowledge of the intricacies and complexities of the oil industry. As a consequence, until 1967, the payment arrangements negotiated by oil companies were less favourable to the Nigerian government than those of the other oil producing countries in the Middle East. Between 1958 and 1966 payments by the oil companies were governed by the Petroleum Profits Tax Ordinance of 1959. Under this arrangement, the government shared profits equally with the oil companies, which are calculated by applying realized prices to the volume of crude oil produced and exported to obtain the gross proceeds before deducting costs. Rentals and harbour dues were calculated separately. Also worth noting is that all the initial capital allowances



for manufacturing companies were also enjoyed by the oil companies.<sup>121</sup>

The step towards increased revenue from the oil companies began late in 1966 when Decree No. 65 cut the rate at which the oil companies are allowed to depreciate their capitalized investment by nearly half. The effect of Decree No. 65 was to reduce the profits of the oil companies while at the same time increasing the government's revenue from the oil industry. The major step, however, was taken in 1967, when Decree No. 1 imposed the Organization of Petroleum Export Countries' terms on the oil companies with only a minor difference, which was that oil companies operating in OPEC countries would phase out the 6.5 per cent "percentage allowance" discount off posted price by 1972, and the "gravity allowance" by 1975. Since Nigeria joined OPEC in 1971, the minor difference explained above was of no economic significance. The financial arrangement under Decree No. 1 of 1967 involved the setting of a posted price on which the calculation of gross proceeds, profits taxes and royalties would be based. Under the new arrangement, royalties were to be treated as expenses and no tax allowances were to be permitted on royalties as was the case before 1967. The effect of Decree No. 1 of 1967 was to increase the Nigerian government's revenue from the petroleum industry. The introduction of OPEC terms into Nigeria was a result of Shell-BP's negotiation with the Libyan government in 1965. All the oil companies have written into their concession agreements with the Nigerian government the "most favoured nation" clause which makes it obligatory for the oil companies to give terms to Nigeria equal to the most favourable terms accorded to any oil producing country in Africa and in the Middle East. No sooner did the Libyan government exact further tax concessions from

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<sup>121</sup> See Chapter IV for government incentives to foreign investors.

the oil companies than Shell-BP suggested to the Nigerian government its desire to apply OPEC terms to Nigeria. As a result of the political disturbances in Nigeria at that time, nothing was done until 1967, when Decree No. 1, explained above, came into operation. In November, 1967, Shell-BP announced a posted price of ~~₦~~2.17 per barrel for AP 1 34<sup>o</sup> crude oil produced in Nigeria. Other oil companies reluctantly followed the example set by Shell-BP, although the effect of the new price level was not felt by Nigeria until 1970 when the civil war, which almost brought oil production to a halt, came to an end. In 1970, Libya was again successful in exacting further tax concessions from the oil companies and in October 1970, Shell-BP informed the Nigerian government of its intention to increase its posted prices by 25 cents. The intended increase in posted prices would raise the existing postings of ~~₦~~2.17 per barrel for 34<sup>o</sup> API crude to ~~₦~~2.42, and the ~~₦~~2.03 price for Shell-BP's 27<sup>o</sup> medium blend to ~~₦~~2.28. In 1971 Nigeria joined OPEC and since then, OPEC prices have been paid for Nigerian crude oil.

There are several reasons why Nigerian crude oil was substantially priced below crude oil from other producing countries before 1970. The first reason is the total lack of knowledge and experience about the petroleum industry. Given the fact that Nigerian officials were negotiating in a fog of ignorance, there was no yardstick by which a more favourable agreement to Nigeria could be reached. The second reason is the unfavourable climatic conditions under which the oil companies had to operate. Nigerian crude oil was discovered in the thick, swampy uninhabited equatorial forests of the Niger Delta. As a consequence, it was necessary to give the oil companies generous terms in order to persuade them to undertake the exceptionally large capital investments which the venture demanded. The third reason is the organization of the international oil companies. They are vertically integrated, and, as a consequence, there is a high degree of discrimination between the



posted prices of crude oil used for the calculation of payments to the oil producing countries and the selling prices of crude oil in importing countries. The vertical nature of the petroleum industry ensured that the transfer prices used for the calculation of payments to Nigerian governments before 1970 were below those of other oil producing countries. The last reason was the domination of the Nigerian petroleum industry before 1960 by three giant international companies, Shell, BP and Mobil. These large firms have at their disposal economic power far in excess of what the newly independent Nigerian government could muster to improve its bargaining position vis-a-vis these companies. As Professor Penrose has said "economic power in the widest sense consists of the ability significantly to influence the use of resources, the distribution of goods, the prices of products, the tastes of consumers, the development of new technology, and the distribution of income".<sup>122</sup> Faced with these few powerful oil companies, the post-independent Nigerian civilian government had no choice but to give generous concessions which replaced the problem of grappling with the control of the oil companies for the initial problem of consolidating political power.

It is with the hope of breaking the monopolistic power of the few oil companies that the Nigerian government was prompted to grant oil exploration licences to other smaller companies after 1961. It also became very clear to the Nigerian authorities that collective participation in the negotiating process is much better and more rewarding than bilateral negotiations with the oil companies. As a consequence, Nigeria joined OPEC in 1971. The Organization of Petroleum Exporting Countries was established in September 1960 by developing oil exporting countries

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<sup>122</sup>E. T. Penrose, *The Large International Firm in Developing Countries*, Allen & Unwin Ltd., London 1968, p. 51.

to provide a united front in negotiations vis-a-vis the oil companies. At the moment there are eleven countries in the Organization, Abu Dhabi, Iran, Iraq, Kuwait, Algeria, Libya, Nigeria, Saudi Arabia, Qatar, Indonesia and Venezuela. At the end of 1972, Nigeria had become the sixth largest OPEC producer and its membership of OPEC has been beneficial. For instance, in April 1971 new agreements for the posted price of crude oil was negotiated by OPEC and the posted price of \$/3.21 per barrel for 34<sup>0</sup> API crude in Nigeria was obtained. Recently, OPEC successfully reached an agreement with the oil companies for compensation against the devaluation of the dollar and for adjusting oil prices in accordance with current parity changes. Explaining the significance of the new agreement negotiated in June 1973, a commentator declared, "In terms of the dollar, the currency unit in which oil taxes are expressed, the accord would give producing states an extra revenue of over \$/1000 million. The estimate is misleading, since the whole objective of these negotiations has been to give the 11 members of OPEC, together responsible for 85 per cent of world exports, compensation for the depreciation in the value of the dollar. For the future, posted prices are to be adjusted monthly in the light of the daily movement of currencies against one another. Under the old Geneva formula, agreed in Geneva in January 1972, assessment took place only quarterly and there was a time lag before prices were adjusted".<sup>123</sup> The success of OPEC in exploiting monopolistic advantages was based on its enhanced bargaining-power brought about by collective and united participation in negotiations vis-a-vis individual importing countries and the oil companies. Since the importing countries are not united, it was easy for OPEC to isolate objecting importing countries from supplies without any retaliation from

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<sup>123</sup>The Financial Times, June 2, 1973.



other importing countries. In addition, in place of the old buyers' market, the crude oil market has become a sellers' market with the much-publicized world energy crisis predicted for the turn of the century. When a commodity is scarce and has limited substitutes for many uses as with the case of crude oil, it commands a high price. Faced with a short time horizon before crude oil is depleted in many of the OPEC member-countries, and the increasing demand for more crude oil in importing countries, the ability to increase prices without any effect on the level of demand and on the availability of resources in OPEC must be emphasized as one of the main reasons why OPEC has successfully exploited its monopolistic position up to now. The above examples of price increases since 1971 show how Nigeria has benefited from its membership of OPEC. On every occasion, the toughly-bargained agreements achieved by Libya and the Gulf States have established a precedent on which Nigeria can negotiate. By the end of October 1973, the posted price of Nigerian crude oil stood at ~~9~~/4.287 a barrel. On November 3, 1973, the price rose to ~~9~~ 8.310 a barrel. Within a period of three years since Nigeria became a member of OPEC, the posted price of Nigerian crude oil has increased nearly fourfold.

#### PARTICIPATION BY THE NIGERIAN GOVERNMENT IN OIL EXPLORATION

After Nigeria has increased its knowledge about the complexities of the petroleum industry and its operations, there are several alternative ways open to the country to exploit its crude oil deposits. Nigeria could "(a) nationalize its resource industry by purchasing the assets from the foreign owners; (b) negotiate for the creation of a joint venture involving both foreign and domestic ownership; (c) invite new foreign companies to explore and develop mineral and petroleum resources; (d) reserve a portion of mineral reserves for exploitation by state enterprises; (e) employ one of several varieties of service contracts

with foreign companies to undertake mineral and petroleum development for a stake enterprise; or (f) leave ownership and control of resource development to international companies".<sup>124</sup> As will be discussed below, Nigeria combined (b) and (d) by obtaining ownership interests in existing companies and by establishing a national enterprise to search for oil in a reserved portion of the country.

The hint of the Nigerian government's participation in the oil industry was heralded in the Second National Development Plan 1970-74, when the government declared that "so far, the Government has not played a very active part in the oil industry. In view of the strategic role oil is going to play in the nation's economy, a more direct Government involvement is now more than necessary. For the sake of national security, rational investment decisions and managerial opportunities to enable Nigerians to take effective control of the oil industry eventually, it has become mandatory that the Government should be directly involved in the oil industry. To this end, during the Plan period, Government will participate in the three phases of the oil industry, viz., exploration and mining, refining, and distribution and marketing. A National Oil Corporation together with associated public-owned companies will be established for this purpose".<sup>125</sup> During the second year of the Second National Development Plan period (1971), the National Oil Corporation was established. Earlier in 1969, Decree 51 of November 1969 made provision for government participation in exploration, but since no further explanation was given, no one took the question of participation seriously until the establishment of the Nigerian National Oil Corporation (NNOC) in 1971. The main purpose of the NNOC is to search for, discover

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<sup>124</sup>R. F. Mikesell, et al, Foreign Investment in the Petroleum and Mineral Industries, John Hopkins Press, Baltimore, 1971, p. 26.

<sup>125</sup>Second National Development Plan, Ministry of Information, Lagos, 1970, p.p.163-4.



and produce oil in Nigeria. In addition, the Corporation will also represent the government in all participation agreements with new and old oil companies operating in Nigeria. The first company that NNOC took an interest in was the French SAFRAP in which NNOC acquired a 35 per cent interest in April 1971 before the company was allowed to continue to operate in Nigeria. This move by the Nigerian government was seen as a retaliation for the French involvement in the Nigerian civil war. The participation agreement with SAFRAP stipulated that, if and when production reaches 250,000 b/d, NNOC's share should rise to reach a maximum of 50 per cent at a level of 400,000 b/d. In September 1971, NNOC acquired a 33.1/3 per cent interest in AGIP to fulfil AGIP's original licensing agreement expressly providing an option for future government participation. Between October 1971 and March 1972, when several new companies obtained concessions, the majority share interest in all discoveries by NNOC was specifically written into all agreements. NNOC was to secure 51 per cent share in oil produced by Occidental, Japanese Oil Company, Henry Stephenson & Sons, Deminex, Monsato and Delta Oil in the areas covered by their licences. As soon as the last of these new companies received its licence, it was announced that no further oil concessions are to be granted by the Federal Government. All areas not covered by existing mining leases and prospecting and exploration licences were vested in the NNOC which retains the right to select oil companies to co-operate with it as contractors or minority partners.

In March, 1972, OPEC met in Beirut to discuss the problem of ownership interests in oil companies and it was agreed at the meeting that OPEC members could seek a minimum of 20 per cent equity participation from the oil companies, if they so desire. On his return to Lagos from the OPEC meeting in Beirut, the Nigerian Commissioner for Mines and Power announced that Nigeria would start immediate negotiations with oil companies prospecting

in the country for a minimum 20 per cent participation in all concessions. This announcement should not have surprised anyone, since Nigeria had already obtained substantial interests in two oil companies already producing oil in the country, and also has a major interest in all concession agreements with seven new oil companies. Apart from the statement of the Commissioner for Mines and Power, nothing seemed to happen for over a year in the negotiations between the Nigerian government and the oil companies. Meanwhile, Libya was at first asking for a 51 per cent participation agreement with the oil companies, but later Colonel Gaddafi was seeking 100 per cent interest in all companies operating in Libya. Up to June 1973, no agreement has been reached. Elsewhere in May 1973, Iran reached an agreement with the oil companies which gave the companies a 20-year contract for the purchase of "substantial quantities" of oil from the National Iranian Oil Company which will provide the capital needed for the development of the oil fields. The oil companies will become contractors, initially providing the technical staff while production operations will be brought under the control of NIOC. <sup>126</sup>

In June 1973, it was revealed in the London Times that Nigeria has signed a participation agreement with Shell-BP which will give the Nigerian government a 35 per cent initial stake in Shell-BP's operations in the country. Writing about the significance of the agreement, the Times correspondent declared "For the European oil-consuming countries the new agreement is important since Nigeria is one of their major suppliers of crude. It removes any lingering uncertainties about the future of relations between the companies and the local government. The effect of this will be to give the thriving oil industry in Nigeria a new lease of life. Output is certain to surge ahead again and the atmosphere for concluding agreements for a new oil refinery and projects to export natural

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<sup>126</sup>The Financial Times, May 25, 1973.



gas in liquefied form, probably to the United States, is much improved".<sup>127</sup> Shell-BP has established a participation agreement precedent for other oil companies operating in Nigeria and in the not distant future Nigeria will sign a participation agreement with all the oil companies operating in the country. By the time this happens, Nigeria would then have achieved a considerable stake in its petroleum development without the trauma that accompanied Algeria's take-over of oil companies.

There are several reasons why it took Nigeria about fifteen years from the time of the first shipment of crude oil in 1958 to acquire ownership stakes in the Nigerian petroleum industry. The first reason was the lack of knowledge, finance and skilled manpower to make any participation agreement with the oil companies beneficial to Nigeria. The acquisition of ownership interest in existing oil companies requires large financial resources to pay for the acquired businesses. In addition to large financial resources, skilled manpower is required to carry on the operations of the acquired companies. Nigeria, already short of finance and skilled manpower for other developmental projects, had to wait until financial resources and skilled manpower <sup>were</sup> available to make the participation agreement worthwhile. The second reason is the organization of the petroleum industry. The petroleum industry is vertically integrated and as a consequence, the oil companies which produce crude oil, refine, distribute and market the final products. Under this circumstance, even if a country were able to continue to produce crude oil after nationalization, the country might find it difficult to market the oil in the buyers' market which operated some few years ago. However, the situation has changed and crude oil is in high demand by the importing countries and the situation of a sellers' market which now exists will ensure that a country can sell its crude oil in the international market

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<sup>127</sup> The Times, London, June 12, 1973.

without going through the oil companies. The timing of Nigeria's participation in the petroleum industry was based on a carefully calculated strategy; so that the ability to exploit the participation to the fullest possible advantage of the country would not create a bottleneck in other development projects. Since the creation of the National Oil Corporation and the acquisition of interests in oil companies operating in Nigeria, the National Oil Corporation has accumulated several thousand barrels of crude oil and the Nigerian government invited bids for its purchase, in October 1973. More than 100 applications were received and, early in December 1973, Nigerian officials confirmed the report that the Government's National Oil Corporation had accepted a record offer of \$/16.80 a barrel for 300,000 barrels a day from an American oil company, the Texas-based Coastal States Gas and Oil Corporation, and others.<sup>128</sup> What this means is that while the oil companies will continue to use the posted price of \$/8.310 per barrel to calculate payments made to the Nigerian authorities, the crude oil obtained through the ownership stakes in the oil companies will be sold in the free market at very high prices.

#### FUEL POLICY IN NIGERIA AND THE WORLD ENERGY CRISIS

Nigeria is lucky in the sense that the country has an abundant supply of energy far in excess of its domestic consumption. The four energy sources in Nigeria are coal, natural gas, petroleum and hydro-power. The existence of these sources of energy has not been matched by a rational fuel policy. In the early 1960s, coal and petroleum together accounted for over 90 per cent of Nigeria's energy consumption. By the end of 1970, coal consumption had become negligible, while hydro-power became an important source of energy. Table 5.21 shows the share of the various sources

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<sup>128</sup> West Africa, December 3rd, 1973.



of energy in the energy consumption of Nigeria. Prior to 1966, the two main sources of energy in Nigeria were coal and petroleum. After 1966, coal became unimportant as a source of energy and as from 1969 onwards, hydro-power and petroleum products became the main source of energy.

TABLE 5.21

SOURCES OF ENERGY CONSUMPTION IN NIGERIA (PERCENTAGES)

SOURCE	1963	1964	1965	1966	1967	1968	1969	1970	1971 <sup>a</sup>
Coal	25	24	22	17	3	-b	-b	2	4
Hydro-Power	3	3	2	3	3	3	19	22	20
Natural Gas	2	3	6	8	10	9	4	5	7
Petroleum Products	70	70	70	72	84	88	77	71	69
TOTAL	100	100	100	100	100	100	100	100	100

SOURCE: CENTRAL BANK OF NIGERIA, ANNUAL REPORTS, 1966-71.

NOTES: a: Provisional

b: Negligible.

The shift from coal to hydro-power was a deliberate policy by the Nigerian government to construct a dam for the supply of hydro-power. It is, however, doubtful whether this policy was sound, given the circumstances at the time when the decision was made. Prior to 1969, Nigerian electricity was generated by coal and gas. The other consumer of coal was the Nigerian Railway Corporation. Nigeria has abundant supplies of gas which is produced in association with crude petroleum. As early as 1961, it had been established that there exist large quantities of gas in Nigeria. Despite the existence of large deposits of coal and large quantities of gas which could be cheaply used for the generation of electricity, both for commercial and domestic uses, in 1964 Nigeria embarked on the construction of a £72 million dam on the River Niger at Kainji, some 64 miles north of Jebba. The World Bank and various governments such as the Italian, Netherlands, U.K. and U.S.A. governments contributed substantially to the construction of the dam, which was completed in 1969 at a cost of £80 million.

When the Kainji hydro-electric dam was commissioned on 15th February, 1969, it immediately became the source for the generation of electricity in Nigeria. Coal and gas lost their role and their relative unimportance as a source of energy was due to the construction of the Kainji dam.

The question that readily comes to mind is why the dam was constructed at all, when there was, and still is, no other use for the large quantities of gas which until now flare away in Nigeria. As a source of energy, there was no economic justification for the construction of the dam. At the moment, the Kainji dam merely operates to one-third of its designed capacity and the much-heralded justification for the construction of the dam - to make available for industrial and domestic users a cheap and steady source of energy - has not been realized. Far from being a cheap and steady source of energy, electricity costs have not only been a major burden to industrial and domestic users, but the frequent power cuts and the erratic nature of supplies have also damaged industrial and commercial plants and made production plans and projections very arduous tasks. The construction of the Kainji dam has three immediate consequences: (a) it has led to the existence of excess capacity in the dam itself which has resulted in high electricity prices, (b) it has depressed the Nigerian coal industry by taking away its most important function of generating electricity, and (c) it has led to the excessive wastage of the existing large quantities of gas which can be used at no cost for the generation of electricity which is currently being generated by power from the dam.

The Kainji dam has been constructed and all that can be done is to find ways of utilizing its excess capacity so that cheap and steady supplies of electricity can be made available to consumers. As the Nigerian government has indicated, "where economically and politically feasible, export of electricity from Kainji to neighbouring countries will also be promoted".<sup>129</sup>

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<sup>129</sup> Second National Development Plan, p. 161.



Rigorous search for consumers outside Nigeria and the persuasion of the neighbouring countries to utilize electricity generated by the Kainji dam ought to receive more attention than before. The Nigerian coal industry is in a depressed state. The only consumer of coal in Nigeria is the Nigerian Railway Corporation. Apart from the gross inefficiency of the Corporation, its services are so limited that apart from being a small consumer of coal, the frequent break-downs of its engines reduces the consumption of coal further still. The possibility of increasing the domestic consumption of coal is limited and all that can be done is to find an export market so that additional foreign exchange can be earned. The complete disregard for the use of the large quantities of gas, which has been allowed to flare away in Nigerian oil fields, has been the most important defect of the Nigerian fuel policy. Until now, only a very small proportion of the Nigerian gas is used both by industrial and domestic consumers. The few industries which use gas are those located in the oil producing areas like the Ughelli glass factory, Lever Brothers Soap factory at Aba, the textile mills, Associated Industries and the Nigerian Breweries factory, all at Aba; the Nigerian Petroleum Refining Company's refinery at Alesa-Elleme in Port Harcourt and the Trans-Amadi Estate. The domestic consumers of gas are limited to the few who can afford to buy gas cookers. Although the number of domestic consumers is increasing very rapidly, despite this fact, the proportion of Nigerian gas consumed domestically will still remain very small. At the moment, more than 1000 million cubic feet of gas is flared in Nigerian oil fields. Several international companies have shown interest in the Nigerian gas and they include such companies as the Italian ENI, ELF, Shell-BP, Total, I.C.I. and American and Japanese companies. The Nigerian government has received several proposals for developing viable liquefied natural gas projects and two agreements have been signed with Guadaloupe Gas Products of Houston, Texas, and Shell-BP. Further agreements are not likely to be signed until the

Nigerian government is satisfied that adequate markets can be obtained for the large quantities of gas produced in association with oil. It must be added, however, that the signing of agreements does not mean much until the contents of the agreements have been turned into feasible end-projects. The earlier work begins on the planned projects for liquefaction gas plants, the better it will be for Nigeria to be gaining from an important source of energy at this period when the world seems to be facing an energy crisis. The previous discussions emphasize the basic fact that Nigeria has, and produces, more energy than it can consume. This situation is, of course, true of other energy producing countries of the world located in less-developed areas - as Table 5.22 will show. Table 5.22 shows the production and consumption of energy in selected countries. The big five, U.S.A., Japan, France, Germany and the U.K. produced 39.6 per cent of total world energy in 1967, and by 1970 their share has dropped to 35.8 per cent. The developing countries, eleven of them, listed in the table, increased substantially their share of total production of energy between 1967 and 1970. On the consumption side, the big five increased their share of world energy consumption from 43.9 per cent in 1967 to 49.9 per cent. The share of the world energy consumption in the eleven developing countries fell between 1967 and 1970. Although energy consumption in each of the developing countries on Table 5.22 increased in this period, nevertheless, their share in world energy consumption fell because the actual energy consumption increase in these countries was smaller than in advanced countries. Another important point to note is the big gap between production and consumption in the developing countries as shown in the Table. In the big five countries, production was not sufficient to satisfy consumption, and, to meet their increasing demand, they have to resort to imports. In the past, it was not difficult to get supplies of energy from abroad, but it appears that world production of energy will be unable to meet demand in the not very distant future.



This is the situation which is currently being referred to as the "World Energy Crisis".

TABLE 5.22

ENERGY PRODUCTION AND CONSUMPTION IN SELECTED COUNTRIES

(QUANTITIES IN MILLION METRIC TONS OF COAL EQUIVALENT AND IN KILOGRAMMES  
PER CAPITA)

COUNTRIES	PRODUCTION		CONSUMPTION			
	TOTAL		TOTAL		PER CAPITA	
	1967	1970	1967	1970	1967	1970
Nigeria	22.32	70.80	1.95	2.49	37	45
Algeria	53.74	66.64	5.06	6.62	386	462
Libya	108.52	210.22	0.83	1.25	476	646
Iran	169.71	264.72	11.87	26.91	451	939
Iraq	78.53	100.42	4.80	5.64	558	597
Kuwait	153.12	184.08	6.20	7.42	10878	9764
Qatar	20.12	22.58	0.10	0.15	1314	1873
Saudi Arabia	169.79	234.57	3.24	7.47	463	965
Indonesia	36.79	59.05	10.61	13.47	96	111
Venezuela	251.94	265.19	21.00	25.97	2245	2498
Abu Dhabi	24.09	49.32	0.10	0.15	705	806
U.S.A.	1817.90	2053.77	1962.60	2282.32	9880	11144
Japan	60.50	54.88	225.04	331.90	2253	3210
France	66.72	59.30	156.89	192.79	3163	3794
Germany	160.75	174.63	249.76	314.70	4171	5112
U.K.	179.62	163.55	270.03	299.36	4893	5362
<b>WORLD TOTAL</b>	<b>5764.09</b>	<b>7000.07</b>	<b>5616.07</b>	<b>6843.25</b>	<b>1644</b>	<b>1889</b>

SOURCE: UNITED NATIONS, STATISTICAL YEAR BOOK 1971, NEW YORK, 1972.

The present anxiety about world energy supply in the future is brought about by the prediction that the world petroleum oil will be exhausted by the year 2000 at the latest. According to the B.B.C. programme entitled "The Oil Crunch" of 12th June, 1973, the prediction that the world petroleum will be exhausted by the year 2000 did not receive attention until recently. Of the world total energy reserve, Nigeria is estimated to have 1.7 per cent while Algeria and Libya have 1 per cent and 2.6 per cent respectively.

The rate at which Nigeria exploits its oil is so rapid that the oil wells are likely to dry up before the year 2000. It is appropriate to consider at this stage whether there is any justification for the rapid exploitation of Nigerian crude oil as at present. As shown in Table 5.22, Nigeria's production of energy increased from 22.32 million tons in 1967 to 70.80 million tons in 1970. Consumption of energy which was only 8.7 per cent of total production in 1967 fell to 3.5 per cent in 1970. This means there has been a rapid increase in the production and export of energy in and from Nigeria. Oil is the major source of energy in Nigeria but as previously shown, there are other sources of energy. The rapid increase in the production of energy in Nigeria since 1967 is the result of the rapid exploitation of Nigerian crude oil. Average daily production of crude oil increased from 319,073 barrels in 1967 to over 1 million barrels in 1970 and this means that petroleum production trebled between 1967 and 1970. At the end of 1973 crude oil production in Nigeria was nearly 3 million barrels per day.

The rapid exploitation of Nigerian crude oil does not seem to be the most desirable economic and energy strategy to follow. The rapid production of crude oil means that more money is readily available for the government than before, especially now that the price of oil has more than doubled during the last year. This availability of money raises many questions: (a) Is the country capable of absorbing the enormous capital? (b) what plans are there for the absorption of the capital? (c) can the available resources be related to the level of economic development in the country? (d) can the government leaders be prudent in their expenditure as they would be under austerity? The answers to these questions do not seem to support the current rapid exploitation of Nigerian crude oil. The availability of enormous resources coming from oil has enabled the government to pursue some industrial and social projects which are of no economic



significance to a large number of Nigerians. The large number of turnkey projects which could provide an avenue for corrupt officials to misappropriate public funds, and for foreign contractors to dress themselves in bogus technical garb in order to swindle the country have been made possible by the enormous financial resources emanating from the oil industry. Apart from large-scale road-building programmes, there appear to be no specific development plans to which financial resources can be diverted. The rapid exploitation of Nigerian crude oil and the associated increase in government revenue will lead to a criminal waste of resources, where there are no specific plans to absorb the available financial resources, which will only be regretted when the oil wells dry up.

There are other aspects of the story which require consideration. The rapid exploitation of Nigerian crude oil reduces the thorough consideration of ways of exploiting the enormous linkage effects of the petroleum industry. It has been said earlier that more than 1000 million cubic feet per day of natural gas is currently being flared in Nigeria, and that can be blamed partly on the rapid production of crude oil. Petroleum is known to be capable of yielding over 2000 compounds of petro-chemicals, forming over 50 per cent of total organic chemicals production. In addition to petrol, diesel and lubricating oil, the following are capable of being produced from crude oil: bitumen, petroleum coke, paraffins, fertilizers, solvents, protein, drugs, dyes, insecticides, plastics, synthetics, nylon and other textiles and detergents. It is also possible to carry the effects of crude petroleum further still by developing other products from the secondary products. As an example, the following products can be obtained from bitumen alone: Linoleum, roofing felt, pipe-coating, water-proofing, electrical appliances like electrodes and carbon carbides, and various forms of electrical insulators. Not only will the setting up of a petro-chemical complex provide a nucleus for industrial development through secondary investments, but more jobs will also be

provided for a large number of Nigerians. The prospect of setting up a petro-chemical complex in Nigeria is very bright, for apart from Nigeria being the second largest crude oil producer in Africa, the other country, Libya, which is the leading crude oil producer in Africa, does not seem to be interested in exploiting the linkage effects of crude oil. In addition, the Nigerian large domestic market will not only provide a steady market for petro-chemical products, but it will also be possible to export these products to the whole of West and Central Africa. It is regrettable that it has taken the Nigerian government so long a time to be aware of the numerous advantages of a petro-chemical complex. However, the Nigerian government has recently announced the setting up of a petro-chemical complex as soon as an agreement is reached with one of the companies that have shown interest in the project. It is seriously hoped that the petro-chemical complex will be set up as quickly as possible so that the various linkage effects of crude oil can be fully exploited.

There is also the need to speed up the construction of the oil refineries scheduled to be commissioned in Benin and Kano in 1977 and 1980 respectively. Not only will the early construction of the refineries help to mitigate refined oil shortages in Nigeria, but the possibility of getting higher prices for refined oil exports is also likely to increase the foreign exchange resources of Nigeria. Crude oil can be refined in Nigeria at a cheaper rate than in most advanced nations because of the cheap labour costs and energy supply. Refined oil exported from Nigeria will definitely bring more revenue than before since the posted price of such oil will be based on the selling price at the consuming destination. One of the main problems facing developing oil producing countries is how to determine the posted prices of crude oil on which payments to these countries are based. Since the oil companies are likely to base posted prices on transfer prices, oil exporting countries are not likely to get free market prices from such arrangements. It is, however, very difficult



to set the posted prices of crude oil on the selling price at the consuming markets since the oil must be refined at a cost before reaching the market. If Nigeria refines its crude oil before exporting it, it may be easier to set the posted prices.

Perhaps the most important advantage of a policy of slow exploitation of crude oil is that Nigeria is likely to gain more by keeping the oil in the ground, since oil prices have risen so rapidly in the last few years and are likely to rise further still in the future. Between November 1967 and April 1971, the price of Nigerian crude oil increased by about 50 per cent from ~~/\$~~ 2.17 a barrel for 34<sup>0</sup> API crude in 1967 to ~~/\$~~3.21 a barrel in April 1971. Between April 1971 and October 1973, the price of Nigerian crude oil rose by 34 per cent amounting to ~~/\$~~ 4.287 a barrel in November (2nd) 1973. On 3rd November, 1973, the price of Nigeria crude oil rose to ~~/\$~~ 8.310 per barrel. There is the additional ~~/\$~~16.8 a barrel agreement with the Texas-based oil company for the purchase of the crude oil accruing to the Nigerian government from its 35 per cent to 51 per cent ownership interests in the oil companies operating in Nigeria. In short, the erratic nature of Middle East oil supplies, the tough bargaining power of Libya and OPEC, and the predicted world energy crisis are factors likely to continue to put high premiums on Nigerian crude oil the longer it stays in the ground. Though there is no doubt that the quicker the oil is exploited for developmental purposes, the more rewarding it becomes because Nigeria can earn compound interest on the productive activities in which the resources are put, the fact is that the oil resources are likely to be wasted and as such, it is better for the oil to stay in the ground. In the final analysis, the rate at which Nigerian crude oil is produced should be closely related to the rate of economic development in the country. When important developmental projects which can be of particular relevance to the life of the majority of the population have been planned and their economic viability determined,

if finance is to be the major obstacle to the execution of such projects, oil production can then be speeded up to provide the required finance.

### CONCLUSION

The United Kingdom has been the main source of foreign capital in the Nigerian petroleum industry. The U.K. investment undertaken solely by Shell-BP Petroleum Development Company amounted to nearly £400 million in 1972 and this represented about two-thirds of the total cumulative investment in the Nigerian petroleum industry. Shell-BP began the search for oil in 1937 and it was not until 1956, when the first oil discovery was made, that the company was optimistic about the future of the petroleum industry in Nigeria. Further discoveries were made, and, by 1958, the first shipment of oil took place. Shell-BP dominates the Nigerian petroleum industry. Apart from being the only crude oil producer in Nigeria between 1958 and 1964, the company also produced about 77 per cent of the total crude oil produced in Nigeria during the 1958-1970 period.

Shell-BP investment in the Nigerian petroleum industry has been beneficial to Nigeria in many vital respects. Investments by Shell-BP have created employment for Nigerians both directly and indirectly, but the level of investment created has been very small indeed compared with the level of Shell-BP's investments. This is not surprising, since the petroleum industry is capital-intensive and as a result only very limited numbers of people can be employed. In 1972, for example, Shell International employed 174,000 people in its operations all over the world.<sup>130</sup> When the level of this employment is compared with the total operational costs of

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<sup>130</sup> Annual Report of the Shell Transport and Trading Company Ltd., 1972.



£4151 million and total revenue of £5743 million, the capital intensity of the petroleum industry will be clearly highlighted. Indirectly, however, Shell-BP creates employment for a large number of people through contracts. Although foreign companies predominate among its contractors, nevertheless, Shell-BP offers contracts to a number of Nigerians who also employ an army of contractors and labourers.

Foreign private capital, especially for contracting establishments, has also been attracted to Nigeria through the initial investment of Shell-BP. Small firms to cater for the needs of the large numbers of small towns and communities which have grown up around the oil fields have been established in large numbers. In addition, the gas produced by Shell-BP has supplied energy to many industries. The Nigerian refinery also uses gas as its main energy and since the refinery came into operation in 1965, the Nigerian oil import bill has been cut by about 75 per cent. Despite these linkage effects of U.K. investments in the petroleum industry, Nigeria will not reap substantial secondary benefits from the investments until the proposed liquefaction gas plants and the petro-chemical complex are commissioned.

The export of crude oil has the effect of improving the Nigerian balance of payments through the foreign exchange provided. Shell-BP contributed over two-thirds of the petroleum industry's contribution to the Nigerian balance of payments. There is no doubt that the current favourable balance of payments enjoyed by Nigeria at the present time is due largely to the petroleum industry and to Shell-BP in particular.

As a source of government revenue, the petroleum industry has been the most important. In 1972, the petroleum industry accounted for over 40 per cent of the government's total revenue and Shell-BP contributed more than half. In 1970 over £60 million was paid to the Nigerian government by Shell-BP. These revenues provided finance for balancing the public budgets and for financing economic development.

The knowledge gained from Shell-BP's explorations is of vital importance. Exploration requires land and aerial surveys in difficult and uninhabited parts of Southern Nigeria. Considerable geographical, geological and sociological information is obtained through these activities and insofar as this information is made available to the public, Shell-BP increases people's knowledge about Nigeria. Shell-BP has also provided accommodation, health and recreational facilities for its employees while road building, bridge construction and improved inland waterways have contributed to economic development in Nigeria. Out of the £4.5 million cost of dredging the Bonny Bar to deepen it from 28 feet to 35 feet so that larger tankers can use it, Shell-BP contributed £1.5 million. The contribution of Shell-BP towards improved technology, training and education in Nigeria will be dealt with in the next chapter.

Until now, the decision about how fast to exploit Nigerian crude oil deposits has been left to the oil companies operating in the country. With the recent acquisition of ownership interest in Shell-BP and other oil companies by the Federal Government, the Nigerian authorities are likely to play a more active role in determining the exploration, production, refining, distribution and marketing of Nigerian crude oil. In recent years it looks as though the rate at which Nigerian crude oil is being exploited is too fast. Given the recent anxiety about the looming world energy crisis, there is a necessity for Nigeria to examine very carefully its oil strategy both from the global and domestic point of view. In the final analysis, the rate at which Nigerian crude oil ought to be exploited needs to be related to the rate of economic development in the country, for only in this way can unnecessary wastes be avoided and maximum benefit possible be derived from oil finances.



## CHAPTER VI

### BRITISH DIRECT INVESTMENT AND THE TRANSFER OF TECHNOLOGY AND MANAGERIAL

#### SKILLS TO NIGERIA

This chapter is concerned with how British multi-national companies have helped to upgrade technical and managerial skills in Nigeria. Attention will also be focussed on the role of British companies in the development of technical, scientific and managerial education.

#### INTRODUCTION

The growth of interest in the diffusion of knowledge stems from the belief that modern and adapted technologies are important requisites for rapid economic development. From the global point of view, the enormous resources devoted to the discovery of technical knowledge calls for a dynamic policy which will widen the use of that knowledge among a large number of people. The distinguishing feature of knowledge also supports its widespread acquisition and use: when knowledge is transferred from one person to another, or from one sector of an economy to another, or even from one country to another, the owner of the knowledge is not denied its use as a result of this process of transference. The problem of diffusion of knowledge will not arise if it is uniformly distributed among people, between the different parts of an economy and between countries. However, because of the different rates at which technical knowledge is accumulated in different sectors of an economy and in different parts of the world, it has been argued that, by exchanging technical knowledge, and thus widening its use, may in fact encourage specialization. But the diffusion of technical information or knowledge

has much more to it than mere specialization. The transfer of technical information within an economy can lead to increased efficiency in production and the introduction of new products, which in turn may allow a country to be more competitive in the international market. Also, the widening of the use of technical information may reduce the costs incurred by a firm or a country in the process of search, by spreading costs over a large number of its purchasers. This is essentially an economies-of-scale argument.

At the international level, the transfer of technical information from one country to another may not only increase specialization, but it may also enable a country deficient in the stock of useful knowledge to gain access to the resources of other countries "which enables it to achieve high productivity" and thus reduce the "international inequalities in productivity".<sup>131</sup> From the foregoing discussion, it must have become clear that the transfer of technical knowledge can be divided into two parts: (a) transfer at the national level, that is, the transfer of knowledge between the different sectors of an economy and (b) transfer at the international level, which is concerned with the transfer of knowledge between countries. This chapter, as we have pointed out earlier, is specifically concerned with the latter part - the transfer of technical knowledge between Britain and Nigeria through direct investments.

The transfer of technology between countries is not new. In the Middle Ages the transfer of technology was usually accomplished through migration. Thus, the migration of the Huguenots from France to England in the Middle Ages quickened the spread of new technologies into the woollen industry. It is necessary to add, however, that the national governments of those days frowned on the migration of skilled men, and it was not uncommon to legislate against migration. During the nineteenth century,

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<sup>131</sup> K. J. ARROW, *Essays on the Theory of Risk-Bearing*, North-Holland Co., Amsterdam 1971, p. 172.



however, the transfer of technology at the international level was seldom looked on as unusually problematic. The "right" strategy was simply that which spread it from country to country. In the early twentieth century, it became very clear that no country can be self-sufficient in technical knowledge. Countries began to supplement their stock of technology with the technology purchased in international markets. Thus, it is not uncommon nowadays for countries to rely on the purchase of technical know-how from abroad, instead of devoting enormous resources to an already discovered knowledge. The economic development of Japan from the period of the fall of Tokugawa Shogunate and the Meiji Restoration of 1868 to the outbreak of the First World War in 1914 can be described as one of complete reliance on foreign technology.

#### FOREIGN TECHNOLOGY IN NIGERIA THROUGH BRITISH DIRECT INVESTMENT

If there is one area where there is a general consensus among commentators on the theory of international investment, it is in the belief that direct foreign investment is an important agent for the transfer of technical information. This belief has led many writers on the contributive effects of foreign direct investment to emphasize the technical and managerial skills associated with such investment. Professor Penrose, for example, observes that "there are two types of benefits realized from foreign investment; additional supplies of capital, on the one hand, on the other, new techniques of production and management, entrepreneurial skill, new products, new ideas ... But it is primarily in the second category of benefits that the special advantages of direct investment lie. The benefits of direct foreign investment, when it takes the form of the establishment of new foreign firms, the introduction of new technology and the provision of experienced managerial and technical services can hardly be exaggerated".<sup>132</sup>

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<sup>132</sup>E. T. Penrose, "Foreign Investment and the Growth of the Firm" in *International Investment*, edited by J. H. Dunning, Penguin Books Ltd., Harmondsworth, 1972.

In his discussion of the benefits of private foreign investment, G. M. Meier notes that "especially significant is the merit that foreign direct investment has in carrying with it an integral ingredient of technical assistance - the managerial and technical knowledge which are usually in even shorter supply than capital. As an instrument for transmitting technical and organizational change, integrating technical and financial assistance, and helping to overcome the skill and management limitations in development, the private foreign investment has a distinct advantage over foreign public capital.<sup>133</sup> Opinions, however, differ among commentators as to the relative importance of transferred technology as a contributive effect of direct investment. Some commentators like Behrman<sup>134</sup> regard the transfer of technology as the most important effect of direct investment, while others like Jack Baranson regard technology as just another contribution the importance of which depends on the area of investment, the type of technology transferred and the ability of the host country to adapt the new technology to its new environment.

Whatever may be the differences of opinion as to the relative importance of transferred technology associated with foreign direct investment, the fact remains that most writers believe that such direct investments are an important vehicle for the transfer of technology. The emphasis which most writers place on foreign direct investment as an important agent for the transfer of technology to countries stems from the fact that direct investments overseas are largely undertaken by private companies of developed nations. These private companies are said to be more favourably placed to transfer technology abroad because they are big and efficient, possess a large stock of varied technological know-how and also have access to international markets, capital and technology.

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<sup>134</sup> J. N. Behrman, "Foreign Investment and the Transfer of Knowledge and Skills" in U.S. Private and Government Investment Abroad, edited by R. F. Mikesell, University of Oregon Books, Eugene, Oregon, 1962; J. Baranson, "Transfer of Technical Knowledge by International Corporations to Developing Economies", American Economic Review, Supplements, 1966.



If one assumes a private ownership of technology, since private-sector companies are a going-concern and their knowledge and experience increase from day-to-day operations, it seems reasonable to presume that the major mechanism for the transfer of technology is through private direct investment. The present discussion on the transfer of technology to Nigeria through British direct investment will be divided into three sections: (a) R & D performance of British companies in Nigeria (b) Licensing agreements between British companies operating in Nigeria and their parent companies and (c) Learning by doing within and without British companies.

#### RESEARCH EFFORTS OF BRITISH COMPANIES IN NIGERIA

In the absence of large-scale applied research in the public and indigenous sectors of the Nigerian economy, the necessary inventions and innovations for accelerating the rate of economic development can either emanate from the research efforts of British and other foreign companies operating in Nigeria or be imported from abroad. Research activities of foreign companies in Nigeria are very limited indeed. A large number of British companies in Nigeria do not perform any research. There are several reasons for this: first, a large number of British companies operating in Nigeria are too small to conduct their own research. At the end of 1968, there were about 190 British companies with investments in Nigeria and, in that year, when total British investment amounted to N£261.2 million, 174 companies accounted for £93.6 (sterling) million. The remaining £209.4 million (sterling) were concentrated in about ten companies in the petroleum industry, banking and insurance.<sup>135</sup> Of the ten companies responsible for the £209.4 million (sterling) out of the total British investment in Nigeria in 1968, Shell-BP accounted for over 90 per cent and it was the only company performing any form of R. & D. among the ten companies.

<sup>135</sup> Central Bank of Nigeria's exchange rate in 1968 was N£1 = £1.16.

TABLE 6.1

## NUMBERS AND VALUES OF BRITISH DIRECT INVESTMENTS BY FORM OF ORGANIZATION

IN NIGERIA AT THE END OF 1968 (£MILLION)

LARGE INVESTING COMPANIES		SMALL INVESTING COMPANIES		TOTAL ALL COMPANIES	
NUMBERS	VALUE (£MILL.)	NUMBERS	VALUE (£MILL.)	NUMBERS	VALUE (£ML.)
114	86.4	60	7.2	174	93.6

SOURCE: BOARD OF TRADE JOURNAL, 23rd September, 1970.

Table 6.1 shows the number of British companies responsible for the £93.6 million investment in the manufacturing, distribution and agricultural sectors. The 114 companies owned by large British companies were responsible for £86.4 million of the total investment in Nigeria at the end of 1968. This represented an average investment of £757,890 per company. The remaining £7.2 million were invested by sixty subsidiaries, branches and associates of small British companies and this represented an average investment of £120,000 per company. The average total investment of each of the 174 British companies operating in Nigeria at the end of 1968 was £537,930. Table 6.1 will tend to suggest that British companies operating in Nigeria are very small indeed. The degree of their smallness would be even more notable when one realizes that five of the 174 companies - the United Africa Company Ltd. (including Unilever), John Holt Limited, Nigerian Tobacco Company, Dunlop Ltd. and Cadbury (Brothers) Ltd. accounted for over 75 per cent of the total U.K. investment in Nigeria excluding oil, banking and insurance investments. It is reasonable, therefore, to postulate that, because a large number of British companies in Nigeria are very small indeed and do not perform a sizeable organized research, they do not contribute to new inventions and innovations in Nigeria. This hypothesis would imply that only large and medium-sized firms are responsible



for new inventions and innovations. However, the findings of two major studies have emphasized the importance of small firms as innovators. Jewkes in his pioneering study of 60 major 20th century inventions showed that a large majority were made outside the R. & D. departments of large firms.<sup>136</sup> The United States Department of Commerce<sup>137</sup> study adopted an essentially similar view of the importance of private investors and small firms, but with less empirical supporting evidence. These two studies can be criticised on a number of grounds. Jewkes' analysis excluded some important corporate inventions from his investigation and, more significantly, since 1930, the contribution of large firms has become much more important.<sup>138</sup> The U.S. Department of Commerce study lacks empirical evidence to support the conclusion reached. In his study of the size of firm, R. & D., and innovations, Professor Freeman came to the conclusion that it is reasonable to postulate that small firms may have some comparative advantage in the earlier stages of inventive work and in the less expensive, but more radical innovations, while large firms have an advantage in the later stages and in improvement and scaling-up of early break-throughs.<sup>139</sup>

The conclusions of Jewkes and Professor Freeman do not in any way refute the writer's hypothesis about British firms in Nigeria. Inventions, whether radical "primary" inventions or secondary "improvement" inventions, do not originate in a vacuum. Since very many British companies are by nature very small and do not perform any organized research, it is difficult to see how they can contribute anything to primary and improved inventions in Nigeria.

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<sup>136</sup> J. Jewkes, et al., "The Sources of Inventions", Macmillan, London, 1958

<sup>137</sup> U. S. Department of Commerce, "Technological Innovations, its Environment and Management", Washington, 1967.

<sup>138</sup> OECD, "Problems of Science Policy", Paris, 1968.

<sup>139</sup> C. Freeman, "Size of Firm, R. & D., and Innovations", Sussex University, 1970.

The second reason why a large number of British companies operating in Nigeria do not perform R. & D. is that many of them do not invest in industries characterized by large-scale R. & D. Science-based and capital goods industries such as computers, chemical, electrical, mechanical, aircraft, plastics, pharmaceutical industries account for the largest proportion of R. & D. activities in most countries. Apart from the fact that many of these industries are not in existence in Nigeria, those that are in existence are in their infancy. As has been shown in Chapter IV, over 80 per cent of British investment in Nigeria, excluding oil investments, is concentrated on consumer goods and the remaining 20 per cent on intermediate products. Since British companies do not invest in science-based and capital goods industries, it should therefore not be surprising that they perform limited R. & D. A large majority of British companies in Nigeria are conservative and dislike venturing into new and risky undertakings which may turn out to be very profitable in the end.<sup>140</sup> As Arrow has noted, "any unwillingness or inability to bear risks will give rise to a non-optimal allocation of resources in that there will be discrimination against risky enterprises as compared with the optimum."<sup>141</sup> Risky ventures are usually clouded with uncertainty and undertaken in a fog of ignorance about their outcomes. "Technological progress", we are told, "is in the first instance the reduction in uncertainty". As a consequence, "Research and development is thus intimately connected with the problems of uncertainty reduction which have been the objects of research in mathematical statistics and information theory".<sup>142</sup> Since British companies operating in Nigeria do not move away from their established lines of production into new and risky ventures, there is very limited need for

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<sup>140</sup> More will be said about the business attitudes of British investors in Chapter VII.

<sup>141</sup> K. J. Arrow, *Ibid.*, p. 147.

<sup>142</sup> K. J. Arrow, *Ibid.*, p.p. 166-167.



them to perform R. & D.

The last reason why many British companies in Nigeria do not perform research is the fact that they rely on their parent companies in the U.K. The majority of the firms interviewed considered it an unnecessary duplication of resources to maintain two research programmes, in the U.K. and in Nigeria. Some firms emphasized the limited nature of their operations in Nigeria as not conducive to the performance of a sizable research programme in which economies of scale can be achieved.

As a result of the three reasons given above, a large number of British companies in Nigeria do not perform any organized research and the few British firms which devote some resources to research do so only in few cases where there is a necessity for such organization before products can be successfully marketed.

The few British companies that perform R. & D. are to be found in the petroleum, food, tobacco, beverages, chemicals, drugs and medicines, soap, perfumes and other toilet preparations, cement and timber industries. The most important performer of R. & D. among British companies in Nigeria is the UAC group of companies. According to Mr. Buckle of the UAC Group in London, UAC research efforts are concentrated on four major areas of drugs, food, drink and timber. UAC's research activities in drugs and medicines are carried out by Kingsway Chemist in Lagos, where various forms of drugs and medicines are prepared, tested and sold. Food products are manufactured by the West African Cold Storage Ltd. at Apapa and in order to ensure good quality products, research is carried out for testing, selecting and combining suitable raw materials for appropriate final products. The Group's activities in the Brewing industry are carried out by the Nigerian Breweries Ltd., and Guinness (Nig.) Ltd., both the manufacturers of beer and stout. In the timber industry, the African Timber and Plywood (Nig.) Ltd. has its research laboratory in Sapele, where, in collaboration with scientific workers in England, investigations are carried out into

how a tree grows, the fundamental properties of wood, the life cycle of wood-boring insects; the habits of fungus spores and the precise nature of the changes that take place in maturing timber. All these research activities have led to improvement in the quality of Nigerian timber and also to an increase in the timber species from one in the 1950s to about twenty now.

Lever Brothers (Nig.) Ltd., a subsidiary of the Unilever Company and a member of the UAC group of companies performs intensive research in its soap and detergent factories at Aba and Lagos. These research activities have not only led to an improvement in the use of Nigerian palm oil for the manufacture of soap, they have also enabled a variety of soap and detergent products to be offered for sale in Nigeria. Second in importance among the British companies performing R. & D. in Nigeria is the Shell-BP Development Company Ltd. Oil-well drilling requires an intensive geological survey of Nigerian soils to discover areas with oil deposits potential. The analysis of the Nigerian soils is carried out in Shell-BP's geological laboratory, largely staffed by Nigerians. When crude oil has been discovered and production begins, the qualities of the crude oil from various wells are tested in order to ensure that oils of the same quality are mixed together. This function is performed in Shell-BP's Production Control laboratory at Warri, which also has a large number of Nigerians on its staff. By its research activities in these laboratories, the Shell-BP company has provided a training ground for Nigerians to acquire various skills in the conduct and analysis of research.

The Nigerian Tobacco Company has its research laboratory at Ibadan where various studies into the growing, curing and blending of tobacco are carried out. Studies in the genetics of tobacco plant breeding, and of growing and curing practices, are directed towards improving the quality of leaf tobacco, and studies of the control of smoke composition through



blending, manufacturing processes and the use of filters and flavours are aimed at the continual improvement of smoking qualities. The entire staff of the laboratory is Nigerian. Other British companies with small research programmes in Nigeria include Dunlop, I.C.I., Cadbury Brothers, Nicholas, W. J. Bush, Reckitt and Colman, Pinchin Johnson (W.A.) Ltd., Glaxo Laboratories (Nig.) Ltd., and Tate & Lyle. We have seen in earlier sections that only few British companies operating in Nigeria perform organized research and that the research activities of these few companies are limited in scope, with the result that the research activities of British companies have little or no effect on the economy of Nigeria. Because there are no indigenous enterprises which can gain from their research activities, the benefits originating from such research activities are limited to British companies alone.

#### LICENSING AGREEMENTS

If many British companies operating in Nigeria do not perform any R. & D., it is not because they are unaware of the financial rewards which may arise as a result of successful inventions and innovations. The importance of research cannot be over-emphasized as a continuous source of new products, processes and techniques. As Behrman tells us, "Research is the keystone of growth providing both the new products and the new techniques which raise industrial productivity."<sup>143</sup> To keep abreast of new developments, many British companies operating in Nigeria have relied on the results of the research and development activities of their parent companies in the U.K. by signing licensing agreements. These are agreements which permit a licensee to manufacture and sell specific products which incorporate inventions and processes developed and owned by the licensor. Thus, the knowledge which is incorporated in the patented

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<sup>143</sup> J. N. Behrman, op. cit.

product or process and monopolized by the patent holder is passed on to the licensee. Usually, the licensor will be required to provide technical services and to ensure a continuous flow of information to the licensee. The licensee, as well as being charged an amount dependent on the value of the agreement, may be required to restrict the sales of the licensed products to certain areas, to adhere to certain quality control and packaging requirements, and to maintain certain levels of production.

Many British companies operating in Nigeria have signed licensing and technical agreements with their U.K. parent companies which have resulted in the provision of much information about specifications, product lay-outs, product mixes, designs, trade-marks, formulae, manuals, copyrights and manufacturing rights. In return for these services, U.K. subsidiaries in Nigeria are obliged to pay royalties to their parent companies. The table below shows the payments made by Nigerian manufacturing firms to U.K. companies for licensing and technical agreements.

TABLE 6.2

ROYALTY PAYMENTS BY NIGERIA TO U.K.<sup>1</sup> (£ MILLION)

1964	1965	1966	1967	1968	1969	1970
0.3	0.5	0.7	0.6	0.5	0.5	0.7

SOURCE: SUPPLIED BY THE BOARD OF TRADE, STATISTICS SECTION, LONDON.

NOTE: 1: Figures do not include allowance for non-response.

Table 6.2 shows that only a small amount was paid yearly by Nigeria to the U.K. for technical and licensing agreements and this is, of course, an indication of the limited number of agreements. Given the level of industrial development in Nigeria and the fact that until recently, attention has been focussed on consumer goods industries, the demand for licensing and technical agreements in Nigeria has been low. However, as far as the



U.K. licensors are concerned, the money received from licensing agreements to Nigeria is a windfall arising from their control on patents. It is a form of rent for the use of monopolized know-how. There is, however, one basic difference between the return on licensing agreements, and conventional rent. The first difference is that the licensing of an invention does not prevent the licensor from its use, as automatically happens with the renting out of a house or any other commodity.

In addition, it is in the best interest of U.K. parent companies to license patented products and processes to their daughter companies in Nigeria for two major reasons. The first is that the more they license new processes and products to their Nigerian subsidiaries to increase their efficiency, the higher the profits these subsidiaries are likely to earn and repatriate to the head offices. The second is that whether they license patented products and processes to their subsidiaries in Nigeria or not, their sales in Nigeria cannot be affected in any way since most of them do not export goods to Nigeria and Nigerian subsidiaries of U.K. companies produce for the Nigerian domestic market. The main reason why most U.K. companies began local production in Nigeria was the tariff wall which made export prospects bleak. If U.K. companies enter into licensing agreements with their subsidiaries in Nigeria, they will not only be helping to increase the profitability of these companies to their own benefit, but also the royalties received will be a windfall resulting from their monopoly over patented know-how. Although the payments made to U.K. companies for licensing new processes, techniques and products to Nigerian companies have not been substantial, nevertheless, British companies operating in Nigeria received a large proportion of these since it can be reasonably assumed that their parent companies are more willing to license new processes to them than to other rival companies.

LEARNING BY DOING THROUGH TRAINING WITHIN AND WITHOUT BRITISH COMPANIES

There are three main conditions which Chief Awolowo stipulated for the admission of foreign investment into Nigeria. "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".<sup>144</sup> Of the three conditions listed above, only the first condition has been seriously enforced by the Nigerian leaders. General education and vocational training are normally regarded as the responsibility of the government. The rate at which the demand for technical personnel rose in Nigeria during the first decade of the post-independence period outstripped the capacity of the Nigerian government to match it with an increased supply both in terms of numbers and quality. The efforts of the government have been hampered by the shortage of finance and the scarcity of qualified instructors and so the government initially resigned itself to providing training in basic skills. Under these circumstances, it has been necessary for British and other foreign companies operating in Nigeria to train their own personnel for specific positions rather than to poach the few available qualified Nigerians, who were needed for public services. To-day, a large number of British companies operating in Nigeria have a comprehensive training programme for their employees. The essence of training is the acquisition of

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<sup>144</sup>AWO: The Autobiography of Chief Obafemi Awolowo, Cambridge University Press, London, 1960, p. 315.



knowledge through learning by doing. Knowledge arises not only from the observations incidental in other activities, but also from deliberate seeking, which is essentially what learning by doing entails. As Arrow has told us, in learning by doing, "the motivation for engaging in the activity is the physical output, but there is an additional gain, which may be relatively small, in information which reduces the cost of further production".<sup>145</sup>

By far the most important among British companies with comprehensive training programmes for their employees in Nigeria is the United Africa Company Group. Having realized the importance of training Nigerians both as a sound public relations exercise and the fact that it is cheaper to use indigenous personnel than foreign personnel; the UAC Group of companies did not wait for the government to exert any pressure before embarking on a comprehensive training for its Nigerian employees. The Company first envisaged the possibility of setting up its own training schools in Nigeria in 1948 but this idea was abandoned until 1952 when the survey of the company's requirements for skilled personnel was made. The first training school was opened in Burutu in Northern Nigeria in 1954. Other training schools were quickly opened subsequently and by the end of 1958, the UAC group had five training schools in Nigeria as shown in Table 6.3. The Table shows the variety of technical training offered to Nigerians in UAC's technical schools in Nigeria. In addition, the UAC were instrumental in launching a scheme enabling a number of Nigerians to receive training as Deck Officers and Engineering Officers on ocean-going ships. The scheme is operated in conjunction with the Nigerian Ports Authority, Elder Dempster Lines Ltd. and Guinea Gulf Line Ltd. Cadets wishing to become Deck Officers, after an initial period of six months' training under the

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<sup>145</sup> Arrow, Ibid., p. 168.

TABLE 6.3

## THE UAC GROUP TECHNICAL TRAINING SCHOOLS IN NIGERIA, 1958

LOCATION	MAIN TRADES TAUGHT	CAPACITY OF SCHOOL AND NATURE OF TRAINING	INSTRUCTORS
Burutu	Mechanical Trades concerned with marine and plant engineering	90 indentured apprentices (5 yr. course). 10 trade trainees (2 yr. course)* Booster & Evening Classes for up to 74 members of existing staff per year.	1 European Chief Instructor. 4 African Assistant Instructors
	Mechanical Trades for General Engineering Equipment including caterpillar vehicles	54 indentured apprentices (3 yrs. course followed by 2 years in Lagos School)	1 European 2 African Assistants
Burutu	Handling of River Craft and tows	8 deck cadets (8 yr. training leading through Quartermaster to Rivermaster's Certificate)	
Kano	Mechanical & Electrical trades for motor vehicles & for petrol and diesel driven mobile and stationary plants	85 indentured apprentices (5 yr. course) * 24 trade trainees (2 yr. course) Booster & evening classes for up to 32 members of existing staff per year.	1 European Chief 1 European, 2 African Assistants
Aba	Motor vehicle maintenance (petrol and diesel)	70 indentured apprentices (5 yr. course). 24 trade trainees (2 yr. course)* Booster & evening classes for up to 32 members of existing staff per year.	1 European Chief 1 European, 2 African Assistants
Lagos	Mechanical trades for general engineering equipment including caterpillar vehicles	36 indentured apprentices (from Burutu school for last 2 yrs. of apprenticeship) 18 trade trainees (1-2 yr. course) Booster & evening classes for up to 46 members of existing staff per year.	1 European Chief 1 African Assistant
	Radio Servicing	16 trade trainees (1-3 yr. course)*	1 African
	Scales and weighing Machines	32 trainees (2 yr. course) *	1 European

Cont./...



TABLE 6.3 (Cont.)

LOCATION	MAIN TRADES TAUGHT	CAPACITY OF SCHOOL AND NATURE OF TRAINING	INSTRUCTORS
Sapele	General Electrical engineering	15 indentured apprentices (5 yr. course). Booster & evening classes are available for existing staff.	1 European

SOURCE: UAC LTD., STATISTICAL AND ECONOMIC REVIEW, 22 JANUARY, 1959.

Nigerian Naval Force, spend six years at sea. Training for Engineering Officers consists of a two months' induction course in the dockyards of the Nigerian Ports Authority, followed by 2 years' full-time study at technical colleges in the United Kingdom; 1½ years at sea as apprentice engineers, and 1½ years dockyard training and part-time study.

The Group is concerned not only with training its technical staff but also with management development and training. The UAC Group set up a training college in Nigeria to provide a centre similar in principle to Unilever's Four Acres in Britain, running courses for the group's Management staff. The training college, opened in March 1961, was formerly at Igbobi in Lagos but was moved in 1967 to its permanent site at the Niger House in Lagos Island. Originally it involved a capital outlay of £84,000 and to-day it costs approximately £110,000 a year to run. The college has provided courses in specialist and functional subjects, including Accounts, Work Study, Marketing, Commercial Management, Industrial Relations, Engineering Design and Network Analysis, and it also runs a regular programme of senior staff and Management Development courses. By November, 1969, about 2015 members of the UAC Group staff had attended the college and by the end of 1972, the total was expected to have exceeded 3,000. In addition, in order to provide an adequate training facility for newly-recruited graduates from the universities and technical colleges, a special

UAC Group Management Development Scheme was introduced in 1965, similar in concept to Unilever's Management Development Scheme. An average of about 20 graduates a year are engaged and trained under this scheme. Another important development was the setting-up in 1965 of a management review system which annually assesses each unit's needs in terms of its present and projected organization over the ensuing three to five years, and considers training plans for individual managers during the next twelve months.

Visits have frequently been arranged for the Nigerian employees of the UAC to visit the U.K. for advanced training. These are carefully planned according to the nature of each individual's work, and the length of time spent in the United Kingdom varies between six months and two years. Several hundreds of Nigerian scientists, engineers and managers have come to the United Kingdom for training in research and development, in refrigeration, product knowledge in the fields of business equipment, pharmaceuticals, photographic materials and in electrical and mechanical engineering. In addition, many people come for special courses such as General Management, Marketing Development, Market and Sales Management, Management Services and Negotiating Procedures. In order to enable Nigerians to assimilate and acquire the skills and knowledge embodied in many of the items of machinery and equipment used in the UAC Group, Nigerians have not only acquired on-the-job training, but, prior to the introduction of new equipment, they are brought to the U.K. for training in their operation and repairs. For example, a large number of technical staff in the UAC motor assembly plant at Apapa in Lagos have been brought to the United Kingdom for training with the British Leyland Motor Corporation, the Vauxhall and Lucas manufacturing organizations. Visits to Europe and the U.S.A. are arranged occasionally.

In addition to the UAC'S central training programmes, there are other units within the UAC Group which have their own training centres. These



units include African Timber & Plywood (Nig.) Ltd., Niger Motors Ltd., and UAC (Technical) Ltd., T. & E. Division. The extent of the UAC Group training programme in recent years can be viewed from the figures for 1969 shown in Table 6.4.

TABLE 6.4

NIGERIAN STAFF OF UAC UNDERTAKING TRAINING IN 1969

TYPE OF TRAINING	NUMBER
a) Group staff attending formal courses organized centrally by the Group and its associated companies	620
b) Staff attending outside courses	40
c) Staff undergoing training on the job	Exact number not known but is extremely high.

SOURCE: UAC LTD., TRAINING DEPARTMENT, "TRAINING IN NIGERIA", London, 1970.

If one puts the training programme of UAC into money terms, they will surely gross up to several thousands of pounds annually. The training budget for Nigeria for 1970/71, for example, was about £200,000, according to Mr. Arden-Clarke of the UAC Group in London in an interview. This amount, however, included the cost of sending Nigerian staff to the U.K. but excluded some technical training undertaken by trade investment companies.

Another British company which has, through its operations in Nigeria, transferred modern technologies and skills to Nigeria is the Shell-BP Development Company. Oil exploration is a hazardous and complex task, requiring a high level of performance and competency on the part of the people engaged in it. The standard required of the personnel of oil companies has been made much more demanding by the fact that the oil industry is capital-intensive employing very advanced technology.

In order to meet its demand for competent personnel, the Shell-BP company has relied on the importation of foreign personnel to train Nigerians within the company and on courses and assignments overseas. Training within the company is divided between training on the job, which is a continuous process carried out in all departments, and training courses at the company's training centres. There are training centres at Ughelli and Port Harcourt for technical trainees, and technical and administrative courses are conducted in Lagos. The Ughelli Drilling Training Centre operates a year-long course of alternating theory and practice, and trainees admitted on this course are expected to possess the Higher National Certificate, Higher National Diploma, Ordinary Technical Diploma or the full Technical Certificate of the City and Guilds of London. Also at Ughelli, there is a training centre for future production foremen, instrument mechanics and other artisans. There are about eighty-eight men undergoing various courses at the two training centres at Ughelli. Some of these students at the training centres are not employees of the Shell-BP company and there is no undertaking that they should work for Shell-BP at the end of their training. At the Port Harcourt training centre, courses are being conducted along similar lines to those at Ughelli training centres for production foremen, instrument fitters and other trades. In addition to training within Nigeria, some employees of Shell-BP Development Company of Nigeria Ltd. have been sent for training abroad to the Shell International Petroleum Company in London and also in the Hague. Some employees have been sent to other parts of the world, such as New York, Tokyo and some Arab countries, to get themselves acquainted with the latest developments in the petroleum industry. Shell-BP Company also conducts a training scheme for marine deck officers and engineers, and sixteen Nigerians are working for their officers' certificates under Shell-BP sponsorship. Their training is with Shell Tankers, and they are serving their apprenticeship in tankers travelling to various parts of the world.



Another British company with a comprehensive training programme for its employees is the Nigerian Tobacco Company. The company operates a training centre at Ibadan where most grades of staff are trained in their own particular field and also receive a grounding in the tobacco industry as a whole. While the training centre has grown to become the central training establishment for the company, it also serves NTC's associated companies in West Africa. Pioneer Tobacco Company of Ghana and Aureol Tobacco Company of Sierra Leone sometimes share the training facilities provided at Ibadan. These facilities have been considerably expanded in recent years. A large number of technical courses have been launched, a new Management Course for West Africa has been introduced, and Finance Appreciation and Product Appreciation courses have been developed; but training is not limited to formal courses at Ibadan. Training on the job is a continuing process within the company. For the more advanced or specialized training, NTC technicians and managers are sent to England. Technical and management training courses are held regularly at the B.A.T. Management Training Centre at Chelwood Vachery, a large country house in Sussex, England, where nationals from over 50 countries attend courses. Several Nigerian employees of the NTC have taken part in these courses since the training centre was opened in 1956. Besides other specialist courses and conferences, the two main types of training provided at Chelwood are the Management Training Course and the Management Development Programme. The former is a six weeks' introduction to the principles and practices of management and the latter, lasting a month, is for men of greater experience. The average number of nationalities represented on these courses is fifteen. Advanced technical training is also provided to Nigerian employees of NTC on attachment to associated companies in some other countries where the group operates.

Other British companies operating in Nigeria have some form of training programmes for their employees, and these vary from company to company.

For example, John Holt Ltd., the second largest merchant company in Nigeria, relies on three months' on-the-job training for its newly recruited managers and after some years of working with the company, each manager is sent to Ashbury Management College for a month's training in management techniques. Many companies, on the other hand, have not only made extensive use of on-the-job training, but a large number of top executives in these companies have also been sent to the U.K. for advanced management and technical training. It must be added that the training programmes carried out by British companies could be very expensive and some companies have been spending several thousands of pounds on training every year. Dunlop (Nig.) Ltd. spent about £20,000 on training Nigerians in 1971. For the 1972 financial year, the company budget for training its Nigerian staff is £35,000.

#### OTHER CONTRIBUTIONS TO SCIENCE, MANAGEMENT AND TECHNICAL EDUCATION IN

#### NIGERIA BY BRITISH COMPANIES

In addition to providing training within their companies both in Nigeria and in the U.K., British companies have also contributed to the growth of knowledge and skills, not only by sending their employees to Nigerian and foreign institutions of higher learning, but also by granting donations and offering scholarships to the Nigerian Universities and schools. It is a common practice for Nigerian universities and Polytechnics to organize specialized management and technical courses for Nigerian and foreign executives. British companies have always sent their executives to attend such courses, some of which are expensive. Nigerian and foreign employees of British firms frequently give lectures in some of the courses. The Nigerian Institute of Management also organizes management and marketing courses which British companies in Nigeria support by sending their employees, and also by supplying lecturers. Individual British companies have employed



the services of Nigerian institutions to design specialized courses for their employees. Such courses are tailor-made to the requirements of the company employing the services of the institution. In 1969, for example, the Group Textiles Division of UAC employed Kaduna Polytechnic to design and conduct a special full-time study course in textile technology and science for some employees of the Division.

Scholarships for secondary and university education in Nigeria and overseas are annually awarded by British companies operating in Nigeria. The United Africa Company Group has done more than any other company in this field. The Group awards 15 secondary school scholarships annually and, up to the end of 1969, the Group is estimated to have spent £16,650 at an estimated cost of £90 per annum for a secondary school scholarship. Apart from the Group's awards, it is understood that awards are made annually by some companies within the UAC Group, including G. Gottschalck & Company Ltd., G. B. Ollivant (Nig.) Ltd., Guinness Nigeria Ltd., and Vono Products Ltd. The UAC Group's higher education scholarship scheme which provides for awards to suitable candidates for study in various institutions of higher learning began in the 1957/58 academic year; by the beginning of the 1960/61 academic year, ten scholarships had been awarded for courses in the U.K., Nigeria and Ghana. The scheme, which was initially administered in London, was transferred to Nigeria in 1964 and since that time awards became tenable only at Nigerian Universities. By the end of 1969, 43 University scholarships had been awarded by the UAC Group at an estimated cost of £51,600. Generous donations to the Nigerian Universities have been made by the UAC Group; notable among such donations was a sum of £61,000 for the building of Trenchard Hall at the University of Ibadan.

Shell-BP Development Company of Nigeria Ltd. has also awarded scholarships and given donations for the advancement of science education in Nigeria. The company's scholarship scheme has been expanded, and, by 1970, 164 Nigerians holding Shell-BP scholarships were studying in universities and

technical colleges. Out of these, 78 were studying in Nigeria and 86 were overseas.

For many years the company has actively encouraged the development of educational facilities within Nigeria and pursues a continuing policy of granting donations and offering scholarships to all universities and to various schools throughout the country. The Shell Petroleum Company Ltd. and the British Petroleum Company Ltd. donated £250,000 each to the Federal Government of Nigeria to mark Nigeria's political independence on October 1st, 1960. This was intended to extend government facilities for training Nigerian technicians. Shell-BP Development Company has also given financial aid to the Geology Department of the University of Ibadan, to the Petroleum Institute of the University of Lagos, and for the expansion of the Yaba Technical Institute in Lagos and Benin University. In September 1972, Shell-BP company also gave £12,000 to the Rivers State for the development of science education. The amount represents the second instalment of the £60,000 promised by the company to assist in the payment of six science teachers, and the development of science teaching in the State.<sup>146</sup>

A large number of other British companies operate scholarship schemes and make donations to educational institutions for the advancement of technical and science education in Nigeria; these include the Nigerian Tobacco Company and John Holt Ltd., which have expanded schemes for secondary and university education.

British companies operating in Nigeria have frequently acted as management contractors, engineering, construction and management consultants and through these functions, they have transferred skills and technology to Nigeria. The UAC's partnership with Taylor Woodrow Construction Group brought to Nigeria one of the world's largest building, civil and mechanical engineering groups. Comprehensive industrial installations - power stations, refineries, pipelines, docks, tunnels and factories - have made an essential

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<sup>146</sup> West Africa, 2.10.72.



contribution to the economies of scores of countries, while thousands of homes, together with hospitals and hotels, universities and schools, airports and motorways and whole new town centres have vastly improved their amenities. In Nigeria, where Niger House, the UAC Group Headquarters, was completed at Lagos in 1967, Taylor Woodrow's contracts through the years have included such varied operations as the Law Courts in Lagos, Kaduna textile mill and Hamdala Hotel, several hundreds of tarred roads all over the country, Port Harcourt's harbour extensions and Alesa-Eleme refinery pipeline structures, together with the establishment of plant hire and other "support" companies for the construction industry. Richard Costain Ltd. a British construction firm, was brought to Nigeria through its partnership with John Holt Ltd. Costain has constructed many roads and bridges and has also tarred several hundred miles of roads and built houses in Nigeria. These British engineering and construction companies, through their operations in Nigeria and the employment given to a large number of Nigerians, have provided a forum for the acquisition of knowledge and skills in their allied industries.

## OBSTACLES TO THE TRANSFER OF TECHNOLOGY AND MANAGERIAL SKILLS TO NIGERIA

### BY BRITISH COMPANIES

This section is concerned with why technology may not flow to Nigeria, and, if it does flow, why it may not be properly absorbed or make any contribution to the economic efficiency of Nigeria. Even if foreign technology does flow into the country, it may be impossible for such technology to contribute to the attainment of a high level of economic growth unless there exists (a) scientifically and technically qualified manpower in large numbers to absorb and adapt the new technology to the environment, and (b) a domestic market large enough to absorb the increased supply of products resulting from technological innovations. It is therefore clear

that the obstacles to the transfer of technology are not simply those preventing technology from leaving its sources, but also those which reduce its advantages to both the supplier and the recipient. This section is concerned specifically with the latter; those which prevent maximum advantages to be reaped from transferred technology. The obstacles which prevent British firms from transferring technology to Nigeria will be dealt with in Chapter VII, under the obstacles to foreign investment.

One of the main reasons why technologies transferred to Nigeria by British companies may not significantly contribute to economic development in Nigeria is that such technologies may be unusable there. Technologies transferred to Nigeria by British companies are developed in a socially and physically different environment. The differences in the nature of the soils make it impossible for the same type of food crops and fruits to exist in both regions. It is only through the exchange of goods and services that the crops grown in the tropics can be made available to the people of the temperate zones, and vice versa. It is therefore clear that it is not easy to transfer the technologies and the sciences of agriculture, horticulture, animal husbandry, medicine and public health practices developed in advanced nations to Nigeria. The same view was expressed by Streeten when he declared "the impact of the MPE will be strongest in those sectors in which the know-how of the foreign firm can be applied. Sectors like tropical agriculture, small-scale production, traditional crafts, the processing of local raw materials, the use of local by-products and subsistence farming have no parallels in advanced industrial countries and will therefore remain untouched by foreign investment, or may be destroyed by it, except insofar as their transformation feeds the activities of the international firms".<sup>147</sup> Industrial complexes

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<sup>147</sup> P. Streeten, "Costs and Benefits of Multi-national Enterprises in Less-Developed Countries" in *The Multi-national Enterprise*, edited by J. H. Dunning, Allen & Unwin, London 1971, p. 252.



require different climatic conditions in different parts of the world. Some machines are designed to function under low temperature conditions and above certain degrees of heat they may not function. For this reason, machines specifically designed for the U.K. may not function properly in Nigeria except after modifications.

One observable phenomenon, which may serve to confirm the above-mentioned facts is that television sets and radiograms which function in the U.K. will not work in Nigeria. Also, watches that work in Nigeria throughout the year round will not function in the winter in Britain. It is therefore clear that the technologies for making radios, television sets and other consumer durables for the British market will not, without modifications, be appropriate for goods destined for the Nigerian market.

The above discussion makes one point clear and that is, if technologies developed in the U.K. and other advanced nations are to contribute to economic growth in Nigeria, there is a need for their adaptation to the Nigerian economy. British companies operating in Nigeria are either not willing or are unable to adapt their technologies to fit the Nigerian environment. The most sophisticated and up-to-date technology is adopted by the Nigerian Tobacco Company in its factories at Ibadan, Port Harcourt and Zaria. The same feature is the hall-mark of other British companies like Lever Brothers, Tate & Lyle, Pilkington Glass Ltd., Dunlop, Cadbury Brothers, I.C.I. and other companies in the UAC Group operating in Nigeria. This lack of adaptation on the part of British companies has many unfavourable effects on both the Nigerian economy and British companies. Firstly, the lack of adaptation ensures that capital goods used by British companies and the technology embodied in them, as well as the training provided to Nigerians in the course of operating the machines, are not an effective means of transferring technology to Nigeria. Insofar as there are no parallels to the sophisticated machines used by British companies in other parts of the Nigerian economy, the knowledge gained by an operator in a

British company becomes useless once he leaves the company since there will be no opportunity for him to put the knowledge into practice elsewhere. Secondly, many of the manufacturing establishments of British companies are irretrievably tied to the importation of raw materials for processing because the machines chosen are unadaptable to the peculiar characteristics of similar local raw materials. Lastly, the basic raw materials are exported from Nigeria to the U.K. and other advanced nations where scientists and technologists in these countries work on them and develop the intermediate raw materials which Nigeria imports for use in her industries. The last two factors have had three results: (a) the leakage of scarce foreign exchange resources overseas; (b) because foreign scientists and technologists develop Nigerian basic raw materials in their countries for Nigeria to import as intermediate inputs for industries, there is no opportunity for Nigerian scientists and technologists to gain experience in the process of adaptation, hence there is a leakage of scientific experience abroad; and (c) this lack of regard for the necessary modifications in technology and machinery to suit the Nigerian environment explains why some of the poor quality goods manufactured in Nigeria are by British companies who produce better quality goods in the U.K. There are, therefore, two basic problems facing British companies in Nigeria. The first problem is how to sell the inferior goods they produce: because Nigerians do not buy the goods British companies produce, as a result of their poor quality, and instead buy foreign goods, smuggled into the country in most cases, there is likely to be excess capacity in many factories as there will be no need to produce articles that cannot be sold. This is the case with most British textile plants in Nigeria to-day. The second problem is that British companies cannot rely on their parent companies in the U.K. to export goods to Nigeria in order to satisfy domestic demand because of the high tariff walls erected against imported goods in Nigeria.



The Nigerian authorities wish to develop domestic industries on a large scale, hence they often discourage imports. The above discussions have shown quite clearly that if the technologies transferred to Nigeria by British companies are to have a significant effect on the development of the Nigerian economy, imported technologies need to be adapted and modified to fit into the Nigerian environment.

However, the adaptation and absorption of modern technologies requires the existence of skilled manpower, scientifically and technically competent to select, investigate, analyse and maintain imported technologies. As R. Solow has told us, "advanced technologies are based, in considerable part, on the knowledge of science. Hence to exploit the corpus of information upon which advanced technology rests requires the competence of the scientist or the science-trained engineer".<sup>148</sup> In Nigeria, there is a dearth of scientifically and technically experienced qualified manpower. Scientists and technicians in the country, until recently, were less than three hundred to a million of the population. This state of affairs is in itself a reflection of under-development and the meagre resources devoted to research and development. The need for Nigeria to conduct more research is great, because not only would it be able to build up the urgently required scientific manpower, but experience gained in the performance of R. & D. may also stimulate the quick absorption of foreign technologies. In addition, the information collected in the process of conducting R. & D. may be a useful source for new discoveries, for as Arrow has said, "Information is not only the product of inventive activity, it is also an input - in some sense, the major input apart from the talent of the inventor".<sup>149</sup>

Another obstacle to successful adaptation of imported technologies in Nigeria is the lack of interest on the part of British companies to

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<sup>148</sup>R. Solow, "The Capacity to Assimilate an Advanced Technology", American Economic Review, Supplement, 1966, p.p. 91-97.

<sup>149</sup>

K. J. Arrow, Ibid., p. 154.

employ Nigerian scientists and technologists who, in addition to their scientific knowledge, can also add their knowledge of the local surroundings to carry out research and development experiments for successful adaptations. Despite the fact that there has been a dearth of scientists and technologists in Nigeria, in recent years, Nigerian engineering and other science graduates have tended to go into teaching in secondary schools because they cannot be absorbed in industry. The explanation given by British companies for not employing Nigerian engineering and science graduates is that they lack experience. But these science graduates cannot get experience without being employed by these companies. The few Nigerians employed in some British companies have frequently been forced to resign or been dismissed. The dismissal of Nigerian senior executives became so frequent in the Shell-BP Development Company Ltd. that, in March, 1972, the Nigerian Commissioner for Mines and Power warned oil companies to stop dismissing Nigerian senior executives or trying to get them to resign "voluntarily". In a circular to all companies and marketing firms, the Commissioner pointed out that some of them "have openly been flagrantly frustrating government policy on Nigerianisation" and instructing that no further dismissals of senior Nigerian staff could be effected before the Ministry of Mines and Power had considered each case.<sup>150</sup>

In place of Nigerians not employed or sacked, British companies have in the past employed expatriates. If these expatriates are qualified and have the necessary experience, the result of their employment on Nigeria could have been great since they will be able to impart their knowledge to Nigerians. But in retrospect, Nigerian officials of the Ministries of Trade and Industry, and External Affairs, have discovered

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<sup>150</sup> West Africa, 24th March, 1972.



that not only did many of the foreign experts lack the required experience but, in most cases, they possessed no academic qualifications in the fields in which they were employed as experts. A Nigerian petroleum engineer writing about his experience declared that "The service companies and oil operators employ a large number of expatriate never-do-wells who are negrophobists right to the core! Nigerian engineers, technicians and geologists cannot work alongside or sit at table with them. Once an expatriate driller in an offshore location used a whip to flog the floor men for failing to set or pull slips with rhythmic precision or to back up a tool joint in good time. In a contractor's yard at Warri, a Nigerian staff member, no matter how highly placed, cannot share the same toilet with the expatriates. I was once working on a project with an expatriate boss, who was said to be a trained "financial expert" in the oil industry. Later it was discovered that the "finance expert" was a butcher somewhere in Europe prior to his coming to Nigeria. It was also discovered that he had little or no education. But to him, a Nigerian professional is of low IQ and is the "son of a bitch". Nigeria has more than her fair share of "fake experts" ".<sup>151</sup> The increasing discovery of fake experts, who are neither competent nor qualified nor interested in training replacements for themselves has led the Nigerian government to limit and to screen foreign experts coming into Nigeria.<sup>152</sup> The expatriates employed by British companies in Nigeria can contribute to the transfer of technology to the country by (a) training their teams of colleagues, (b) by assisting in the achievement of top professional standards and (c) by applying their own high skills. The expatriates

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<sup>151</sup> 'Foreign Experts' rule Nigeria's oil industry, Daily Times, July 8, 1972, Lagos.

<sup>152</sup> More will be said about the control of expatriates coming into Nigeria in Chapter VII.

can only contribute to the transfer of technology if they have some experience and technical know-how in their fields of specialization. If, however, some of these expatriates have neither skill nor experience, it will be difficult to see what they can usefully transfer to Nigeria that will contribute to economic development in the country.

Another obstacle to the transfer of technology to Nigeria is the limited size of the Nigerian market brought about by artificial barriers created by regional rivalry. Although Nigeria has a large market, the unhealthy rivalry among the regions was an important factor in its fragmentation. Considered as an entity, Nigeria, with a population of over 60 million people and, steadily rising in incomes, should provide a growing market for commodities meant for domestic consumption. However, prior to the army take-over of the government of Nigeria, the politically independent regional governments within the Federation of Nigeria frequently insisted on the location of factories in their regions if goods produced by a company located in another region were to be sold there. This fragmentation of the Nigerian market meant that a factory located in one region can only produce for the inhabitants of that region. The scale of production which can be absorbed by each region is therefore limited. The inadequacy of demand in the quantitative sense gives rise to scale problems. Because demand is small, the scale of production is also small, and this gives rise to short production runs and high costs. Economies of scale cannot be reaped and the resulting high costs are reflected in high prices which further depress demand. The excessive duplication of production in the fragmented markets means that the scarce managerial and technical manpower cannot be adequately utilized in a concentrated form since it might have to go from one region to another and this might reduce efficiency. The majority of the companies interviewed expressed a growing fear about the effects on their operations of



the creation of twelve states in Nigeria. All these companies have expressed the hope that the creation of the twelve states would not lead to the creation of twelve fragmented and isolated markets. Closely associated with the fragmentation of the Nigerian market is the inability of companies located in certain states to employ personnel from other states.

The inability of some British companies located in the Rivers and South-Eastern States to employ skilled personnel from the East-Central States has either brought their factories to a halt or substantially reduced plant capacity and production. The resulting disadvantages from regional rivalry in Nigeria have not only affected British companies operating in the country, but they have also put a brake on some of the national development projects. The Nigerian iron and steel complex, for example, planned for the 1962-1968 period and later incorporated in the Second National Development Plan 1970-74 has not, up to the present moment, come into operation due to the rivalry among regions over its location. The problem of market fragmentation therefore requires an urgent solution. The Federal Government can provide the necessary leadership in solving the problem by declaring the whole country a free zone so that goods, services and labour can move beyond States boundaries irrespective of where they come from within the country.

Another barrier to the transfer of technology is the inadequacy, and the erratic supply, of electricity, water and transport and communication. The growth of industrial productivity needed to exploit imported technology and to stimulate a greater inflow of modern technology is hampered in Nigeria by an acute shortage of water (especially in areas of concentrated industrial establishments), an erratic supply of electricity, and deficient transport and communication facilities. Many industrial machines have been damaged by the fluctuating voltages of the national power supply system for a large number of industries at Ikeja Industrial Estate, where

there is a large concentration of industries, electricity supply is said to be available for only 6 hours in any one day. Incidentally, some of these industries run three shifts a day and consequently they either have their stand-by generators to rely on or are forced to lay-off their employees when power fails. The acute shortage of water needed to keep production going in many factories, particularly in Lagos where they are mostly concentrated, have become a perennial problem. Guinness (Nig.) Ltd. for example, requires 30,000 gallons of water hourly to operate satisfactorily in order to meet market demand, but at the moment, it gets only 10 per cent of its water requirement from public sources. Industrial establishments in many parts of Nigeria have been faced with the twin problems of stagnation and excess capacity as a result of the problems in the supply of electricity and water. Necessarily, an important technology will contribute to economic growth only if it is exploited to the level where substantial advantages can be derived from it. The Nigerian authorities are aware of the acute shortages of electricity and water not only for modern industrializing technologies, but also for domestic uses. No one knows why the Nigerian government has done nothing about the situation, until recently, despite the almost daily criticisms in the national newspapers. It is hoped that with the statement of intention to improve the supply of electricity and water throughout Nigeria, the teething problems facing industries and domestic consumers will be mitigated in the not very distant future.

Perhaps more important than other obstacles to the transfer of technology is the fact that the majority of British companies in Nigeria are monopolistic and oligopolistic and their relatively secured positions may damp down their interest to innovate. From the interviews conducted, a large number of British companies operating in Nigeria control between 60 and 100 per cent of the Nigerian market. For a large number of commodities, British companies are the sole producers. From these findings,



it is possible to postulate that because British companies control a large proportion of the Nigerian market, there may not be enough pressure on them to modernize and innovate. Such a complacent attitude could act as an obstacle to the transfer of technology. This postulate ties in with the theories of Downie, Carter and Williams and Arrow. For Downie, the pressure to innovate is a function of the competitive process.<sup>153</sup> Therefore, firms in a competitive market cannot afford to relax or stray away from modernizing, rationalizing and innovating to earn enough profit in order to stay in business. Carter and Williams have postulated that successful and rapidly growing firms are those that innovate.<sup>154</sup> Among the factors emphasized by them as compelling firms to innovate, competitive pressure, they say, is the most important. Arrow puts his case bluntly: "The only ground for arguing that monopoly may create superior incentives to invent is that appropriability may be greater under monopoly than under competition. Whatever differences may exist in this direction must, of course, still be offset against the monopolist's disincentive created by his pre-invention monopoly profits".<sup>155</sup> For Arrow, therefore, the incentive to innovate is smaller under monopolistic than under competitive conditions.

Schumpeter<sup>156</sup> and Galbraith, on the other hand, have asserted that monopolists and oligopolists are more favourably placed to innovate. The reasons given to support the view were that (a) costs of innovating are so exorbitant that only large firms can afford them, and (b) for innovation to be worthwhile, a firm must have sufficient control over the market in order to reap the rewards. Galbraith, in putting the case, declared "thus

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<sup>153</sup> J. Downie, *The Competitive Process*, Duckworth, London, 1958.

<sup>154</sup> C. F. Carter and B. R. Williams, *Investment in Innovation*, Oxford University Press, London, 1958.

<sup>155</sup> K. J. Arrow, *Ibid.*, p.p. 159-160.

<sup>156</sup> J. Schumpeter, *Capitalism, Socialism and Democracy*, Allen & Unwin, London, 1954.

there can be little doubt that oligopoly, both in theory and in fact, is strongly oriented towards change. There can be no serious doubt at all that the setting for innovation, which is so favourable in this market structure, disappears almost entirely as one approaches the competition of the competitive model.<sup>157</sup> On one hand is the view that the possibility of establishing monopoly and oligopoly can lead, and often leads, to innovative ability: on the other is the opposite view that there are situations of monopoly and oligopoly without innovation because there is not enough competitive pressure.

The monopolistic position of many British companies operating in Nigeria can largely be explained by their long association with Nigeria. As a former colony of the United Kingdom, British companies have been operating in Nigeria long before the establishment of the country. In fact, it was a group of British companies operating in the country that gave it the name "Nigeria". As a result of their long association with Nigeria, many British companies have created for themselves a special position vis-à-vis other competitors. Their knowledge of the country, the people and the market has offered them a unique advantage concerning the areas of investment in Nigeria. The knowledge, the experience and the wealth accumulated through several decades when there was no rival meant that British companies enjoyed absolute cost advantage and economies of scale. They created barriers to competition through these advantages. However, since 1960, other foreign companies have been coming into Nigeria and the monopolistic position of British companies is currently being rigorously challenged by American, Dutch and Italian firms. The competitive pressure mounted by these new companies from other parts of the world has acted and is likely to continue to act as an incentive to innovate.

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<sup>157</sup> J. K. Galbraith, *American Capitalism*, Hamilton, London, 1957, p. 90.



The Nigerian Tobacco Company provides a good example of a British company that was forced to innovate through competition. Prior to 1964, the Nigerian Tobacco Company (NTC) controlled 100 per cent of the Nigerian tobacco market. There were few brands of cigarettes available to customers and the quality of the brands was poor. In 1964, Philip Morris, the fourth largest U.S.A. tobacco company, came to Nigeria to form a partnership with the UAC for the manufacture of tobacco products. Shortly after Philip Morris started cigarette production, a price war began between the company and the NTC. After several price cuts from both sides, the NTC decided to concentrate on pleasing its customers through high quality products. As a consequence, new brands were introduced, the quality of previous cigarettes was improved and Nigerians were rapidly trained to replace expatriates in order to reduce the costs of production. At the end of 1972, despite the enormous resources devoted to advertising by Philip Morris, the NTC still controlled 88 per cent of the Nigerian cigarette market. The Nigerian situation seems to support the theories of Arrow, Downie and Carter and Williams because those British companies that still control over 80 per cent of the market in which they operate, like Lever Brothers and Tate & Lyle, have not introduced improved products to the Nigerian market in the past decade. It can therefore be reasonably argued that once a firm is well established and sees no threat to its position through an exposure to fierce competition, it can afford to relax and be sluggish in its modernization programmes. This type of complacent attitude would be inimical to the transfer of technology.

#### RESEARCH AND DEVELOPMENT IN NIGERIA

There are two ways by which Nigeria can increase its stock of technology and improve the existing stock. The first method is for Nigeria to harness its domestic resources for the improvement and the development of existing and new technology through a dynamic research and development

programme. The second method is for Nigeria to rely on the importation of foreign technologies. The third alternative is the combination of the two methods, that is, while resources could be devoted to R. & D. for new and improved technology, domestic efforts can be supplemented with foreign technology.

Anyone believing in self-reliance may argue that Nigeria should rely on its own research and development programme for the supply of improved and new inventions and innovations necessary for rapid economic development. Although it is a good argument, on the face of it, it cannot be carried very far since Nigeria has a very poorly organized research and development programme. Very few resources are devoted to organized research and development. In this respect, Nigeria is in the same bracket as many developing countries which perform little or no R. & D. Table 6.5 shows the financial resources devoted to science and technology by Nigeria and some selected countries. Except in Nigeria and Botswana, the national expenditure on science and technology is below 0.5 per cent of the gross national product. It has been found that the average expenditure on research and development for developing countries is about 0.2 per cent of gross national product.<sup>158</sup> This figure compares unfavourably with an amount which varies from 1.5 per cent to 3 per cent of the gross national product devoted to R. & D. by developed countries.

The meagre expenditure on R. & D. by developing countries has reflected itself in the manpower available in these countries for science and technology.

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The Sussex Group, "Science, Technology and Underdevelopment: The Case for Reform", Science Policy Research Unit, Sussex University, Brighton, 1970.



TABLE 6.5

## NATIONAL EXPENDITURE ON SCIENCE AND TECHNOLOGY BY SELECTED COUNTRIES

COUNTRY	DATE	NATIONAL EXPENDITURE ON SCIENCE & TECHNOLOGY	EXPENDI- TURE AS A % OF GNP
Iran	1966	20-30 Million U.S. \$ (dollars)	0.3
Iraq	1966	0.5-0.7 Million U.S. \$	0.02
Botswana	1967	317500 Rand	0.8
Malawi	1967	-	0.35
Nigeria	1966	9,770,000 ₦Nigeria	0.6
Argentina	1966	38,996,000 U.S. \$	0.35
Bolivia	1966	721,000 U.S. \$	0.24
Brazil	1966	30,383,000 U.S. \$	0.18
Chile	1966	512,000 U.S. \$	0.01
Colombia	1966	11,835,000 U.S. \$	0.4
Ecuador	1966	805,000 U.S. \$	0.08
Peru	1966	2,795,000 U.S. \$	0.13
Venezuela	1966	13,450,000 U.S. \$	0.16

SOURCES: 1. Structural and Operational Schemes of National Science Policy, UNESCO 1966: (2) The Promotion of Scientific Activity in Tropical Africa, UNESCO 1967: (3) Principles and Problems of National Science Policy, UNESCO 1966: (4) Meeting of the Inter-American ad hoc Science Advisory Committee, General Secretariat of the Organisation of American States: (5) Year Book of National Accounts Statistics, 1968, Vol. II, U.N.

Table 6.6 shows the stock of manpower for science and technology in selected countries. The figures for Nigeria should be interpreted with caution because a large proportion of the country's stock of scientists, engineers and technicians in the three eastern states were not included in the figures. Despite this limitation, the fact still remains that there is a deficiency of science personnel in Nigeria. The large number of scientists, engineers and technicians in the U.S.A., Japan, France, Germany and the U.K. shows the degree of attention paid to science and technology in these countries. What is important, however, is the number of people engaged in research and development, for it is this proportion that would determine the number of inventions and innovations emanating from research efforts. The percentage of total stock of scientists, engineers and technicians engaged in R. & D.

TABLE 6.6

## THE STOCK OF MANPOWER FOR SCIENCE AND TECHNOLOGY

COUNTRY	DATE	TOTAL STOCK		NO. ENGAGED IN RE- SEARCH & EXPERI- MENTAL DEVELOP- MENT	
		SCIENTISTS & ENGINEERS	TECHNICIANS	SCIENT- ISTS & AND ENGINEERS	TECHNI- CIANS
Botswana	1967	180	606	10	6
Ghana	1966	5137	27893	167	551
Malawi	1967	1253	5028	14	-
Nigeria	1969	3964	7000	1723	-
Argentina	1969	240000	1,500000	10827	6097
Chile	1969	-	-	4904	1329
Malaysia	1966	9885	14774	348	1011
Iraq	1969	-	-	116	27
U.S.A.	1969	1,694300	911700	535500	232000
Japan	1970	-	-	286439	80475
France	1968	190000	534000	55650	79150
Germany	1969	-	-	76332	72885
U:K.	1968	211231	621860	43588	106426

SOURCE: STATISTICAL YEAR BOOK 1971, UN, NEW YORK 1972

in developing countries varies from 1 per cent in Argentina to 5.5 per cent in Malaysia. The corresponding percentage for advanced nations varies from 18 per cent in the U.K. to 34.7 per cent in the United States. Since the advanced nations have a larger stock of scientists, engineers and technicians than the developing countries, and since a large proportion of their stock are engaged in R. & D., it will, therefore, not be surprising that 98 per cent of the world R. & D. expenditure outside the socialist countries is made in the developed market economies.<sup>159</sup> The United States is said to account for 70 per cent of the world R. & D. expenditure while

<sup>159</sup> The Sussex Group, op. cit.



only 2 per cent of the world expenditure on R. & D., outside the centrally planned economies, is made in the less-developed countries. Since Nigeria is not one of the few less-developed countries which devote substantial amounts to research and development, such programmes in Nigeria are very limited indeed.

Apart from the meagre resources devoted to R. & D. in Nigeria, efforts are so badly organized and concentrated that nothing substantial can be achieved. In Nigeria, R. & D. efforts are concentrated in the universities and in a few government departments. In 1966, out of the £9.7 million devoted to R. & D. in Nigeria, the government was responsible for about 60 per cent of the total amount. The indigenous firms do not perform R. & D., and only a few foreign firms devote resources to organized R. & D., and only in cases where there is a necessity for such organization before products can be successfully marketed. The concentration of R. & D. efforts in the universities and in a few government laboratories and institutes has certain consequences. Because a large part of the scientific manpower is trained in advanced nations, there is usually a re-orientation of research efforts towards problems which are totally irrelevant to Nigeria's environment. Also, universities and government laboratories concentrate their research efforts, in most cases, on fundamental research, which is research undertaken primarily for the advancement of knowledge, and without a specific practical application in view. This set-up has resulted in marginal "split-over" from research to marketable end products. In few instances, however, "short-term and immediate needs require that we concentrate on those aspects of applied research which can clearly show quick results in economic development".<sup>160</sup> These few cases of applied research are carried out largely by the Federal Institute of Industrial Research at Oshodi in Lagos. Established in 1956, the Institute has

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<sup>160</sup> A Statement made by a Nigerian official in "Scientific Research in Africa, National Policies; research Institutions", UNESCO, 1967, p. 65.

three main functions: (a) to carry out basic research into the raw materials available in Nigeria for use in industry, and the processes which can be used most effectively to convert them; (b) to carry out pilot-scale trials of processes found in the laboratory to be technically feasible; and (c) to calculate by means of large-scale tests or otherwise the probable viability of such processes if established on a commercial scale.<sup>161</sup> Since its establishment, the Institute has investigated over forty projects and has published a large number of technical booklets summarizing its findings. Despite the intensive activities of the Institute, only very minor results have accrued to the Nigerian economy. There are several reasons for this observation. First, there is the shortage of scientific and technical manpower to investigate a large number of the Institute's projects. Since the manpower requirements of the Institute cannot be met from domestic sources, the enthusiasm for foreign personnel to fill the vacant posts has been suppressed by the inability to pay the high salaries which foreign experts demand. As a consequence, a large number of research posts in the Institute had never been filled. Following from the first reason is the constraint which the shortage of manpower should have on the R. & D. programmes of the Institute.

As one might have expected, the shortage of manpower should act as a limit on the number of research projects undertaken by the Institute but instead, the Institute has pursued a large number of projects which its limited resources cannot cope with. The ultimate result has been that adequate attention and resources cannot be devoted to all the projects. The thinly spread<sup>of</sup> resources over a large number of projects is hardly the best way to allocate scarce resources. It is therefore not surprising that only little practical result has derived from the

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<sup>161</sup> Annual Report of the Department of Commerce and Industries, 1956-57, Lagos, p. 26.



research efforts of the Institute. Perhaps the major reason for the meagre effects of the Institute's research programmes on the Nigerian economy is the complete absence of any effective "coupling" of its research with production, marketing and organization activities. Apart from the fact that there is no systematic channel of communication between the Institute and other research bodies such as the universities and government departments, there is also no communication between the Institute and its major customers - the private sector and the Development Corporations. The results of a research programme can affect the economic development of a country only when the new inventions emanating from the research programme are put into marketable end products. Since the Development Corporations and the private sector are not always aware of the activities of the Federal Institute of Industrial Research, it is difficult to see how the results of its research programmes can spill over into the Nigerian economy. Despite the above-mentioned limitations on the activities of the Institute, it must be conceded that the Institute is still the most important body conducting R. & D. in Nigeria and also responsible for the importation and the adaptation of modern technology to the Nigerian environment. As the Director of the Institute, Dr. Akinrele, has said, "The Federal Institute of Industrial Research, Oshodi, has already demonstrated this role in a number of ways. It has (a) successfully imported modern technology, modified and adapted it to the traditional process of gari making from cassava. The resultant technology has already started diffusing back into international technology markets and making a glorious impact for the image of the country; (b) exploded the myth that tropical hardwood timbers are not suitable for pulp and paper-making, and (c) established that an adequate weaning food can be produced entirely from local vegetable sources.<sup>162</sup>

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<sup>162</sup>A. Akinrele, "Obstacles to the Growth of Modern Technology", Daily Times, March 22, 1972, Lagos.

The previous discussions have shown quite clearly that the problem of research in Nigeria is not simply one of the infinitesimal level of resources devoted to it, but also the problem of organization. However, there is an urgent need for Nigeria to devote more resources to R. & D. for three main reasons. The first reason is that unless Nigeria performed R. & D., there cannot be a reservoir of personnel to select and adapt foreign technology to the Nigerian environment. The second reason is that the sophisticated technology of the Western World is not particularly suitable to Nigeria for Western technology has specific personnel to service it. Unless Nigeria performs R. & D., the most appropriate type of technology - intermediate technology - required by the country cannot be made available. It has already been shown earlier in this chapter that British companies, as well as other foreign companies, are not interested in adapting their technology to fit the Nigerian environment if such an adaptation is not needed before products can be adequately marketed. However, it is difficult to blame foreign companies operating in Nigeria for not adapting their technology to the Nigerian environment if it is not in their interest to do so. The adaptation of modern technology to fit Nigeria must be achieved by Nigeria herself and thus Nigeria must design its own R. & D. The third reason is that, since no indigenous firm performs R. & D., the government's R. & D. will not only encourage some of the indigenous firms to perform R. & D. in future, but many environmental and health problems requiring research, which may not appeal to the private sector, can be dealt with in the government's research establishments. In the final analysis, if Nigeria devotes more resources to R. & D., improved and new technologies may result from these increased activities with a beneficial effect on the rate of economic development. For, as Jack Baranson has said, "investments in new and adapted technology can serve economic development strategies in a number of ways. New technologies afford an opportunity to by-pass historical stages in



technological development. This may be especially applicable to social overhead investments in transportation, communications, and the development of energy resources. For example, new transport technologies (hovercraft) may successfully avoid premature investments in roadbeds and bridges; new communication techniques (satellite television) may help to overcome critical shortages in teachers and educational facilities, and modular design techniques can help overcome the diseconomies of small-scale production in a wide range of manufacturing industries. New technologies can also find economic use of "national" resources to supply essential foods, fibres, energy and housing".<sup>163</sup>

In order to co-ordinate research efforts in Nigeria, the National Council for Science and Technology has been created. The main aim of the Council is to conduct research, co-ordinate research efforts of other bodies and to adapt foreign technology to the Nigerian environment. The Council has set up various research councils in many fields of science and technology, to control, co-ordinate and harmonize research programmes. This is aimed at eradicating ineffective prosecution of research projects and wasteful deployment of financial resources. The research councils set up include the Industrial Research Council, the Medical Research Council and the Natural Research Council. In the final analysis, the National Council for Science and Technology aims to promote serious research into local raw materials to determine their suitability for industrial products, and to ensure selective importation of technology in such a way that it is capable of being redesigned, redeveloped and adapted to the Nigerian environment. It is much too soon to assess the functions and the effectiveness of the Nigerian National Council for Science and Technology since it was established just a little over a year

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<sup>163</sup> J. Baranson, "Industrial Technologies for Developing Economies", Praeger, New York 1969, p. 5.

ago. The research councils to be set up by the National Council have not been completed and the last of the three already created, the Natural Research Council, came into being early in 1973. It is hoped, however, that the Research Councils will be able to function properly without unnecessary executive interference and the bureaucratic defects which have been the hall-mark of Nigerian public bodies.

The Nigerian government has been doing all it can to widen the scope of science and technical education in the country. Priorities are being given to technical education in particular in the country's educational programmes. There were about 17 trade centres and technical colleges in the country at the end of 1972 and their scope has been considerably widened in recent years. There are also five polytechnics and colleges of technology where advanced technical courses are studied. In addition, the six Nigerian universities have been considerably expanded and student population in the universities has increased from ten thousand in 1969/70 to nearly twenty thousand in the 1972/73 academic year. Apart from the faculties of administration and education, the science faculties are the most rapidly expanding areas of Nigerian educational systems. The shift in emphasis from arts to science is due to two main reasons. The first reason is the government's generous award of scholarships to science students. The second reason is that science graduates get higher salaries than arts graduates through a deliberate policy by the Nigerian government to encourage science education. Higher salaries have in turn acted as an incentive to students willing to enter Nigerian universities to pursue science subjects.

#### TRAINING IN NIGERIA

The training of Nigerians for their jobs has always been considered necessary for increasing efficiency. This being so, many government departments and public corporations have their own training programmes



for their employees and these departments include the Ministry of Works and Survey, the Ministry of Post and Telegraph, the Nigerian Electricity Corporation, the Nigerian Railways Corporation, the Ministry of Agriculture and the Nigerian Ports Authority. In addition to the special training centres established to meet the needs of each public corporation and Ministry, short courses and seminars have been attended in both Nigeria and abroad by the employees of these public bodies.

In the private sector, only large foreign firms have training programmes for their employees. A large number of Nigerian-owned firms and small foreign firms have no training programme. In order to meet this important gap in the manpower development of Nigeria, in 1971 the Nigerian government established an Industrial Training Fund for the centralized training of employees in the country. Decree 47, which established the fund, provides that every firm, whether foreign or indigenous, employing twenty-five people or more must contribute 3 per cent of its annual payroll or 1.1/2 per cent of its annual turnover towards the running of the scheme. The Decree says, "The fund may be utilized to promote and encourage the acquisition of skills in industry or commerce with a view to generating a pool of indigenous trained manpower sufficient to meet the needs of the economy".<sup>164</sup> The scheme is aimed at providing training in all fields, especially where there is an acute shortage of skilled manpower. While making use of training facilities in existing universities, polytechnics and colleges of technology, the scheme also hopes to set up its own training centres staffed with efficient and competent experts and personnel. The Federal government intends to pay £500,000 to the industrial training fund to supplement contributions from the private sector.

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<sup>164</sup> Daily Times, November 6, 1971, Lagos.

With the growing importance of the petroleum industry and the formation of the National Oil Corporation, the need to train Nigerians for the petroleum industry has become more urgent than ever before. As a first step, the Federal Government stipulated in the 1969 Petroleum Decree that recipients of mining leases must guarantee that within 10 years of their operation in the country they would employ Nigerians in 75 per cent of management, professional and supervisory positions, and in 100 per cent of all other jobs. In addition, holders of future prospecting licences were required to submit a detailed programme for the recruitment and the training of Nigerians within the first year of operation. In order to carry out the contents of the Petroleum Decree of 1969, the government has been putting pressure on existing oil companies to train and employ Nigerians, and new oil companies have been made to contribute towards the training of personnel for the petroleum industry. As an example, in February, 1972, when Henry Stephens & Sons, a wholly Nigerian-owned private company, was granted an oil exploration licence, in addition to paying a premium of £50,000 to the Nigerian government, the company also has to pay a further £15,000 annually in support of petroleum technology educational programmes. In April 1972, the Nigerian government signed an agreement with the Soviet Union for the latter to assist Nigeria in setting up an oil production training centre of £9 million at Warri in the Mid-West State. The centre, when completed, will be run by the Russian agency, Technoexport, which will provide experts and teaching equipment for the centre. The Nigerian government will provide £1 million for the initial construction of the centre and it is hoped that when the centre starts to operate the necessary manpower for the National Oil Corporation will be trained and provided by the centre.



THE EFFECTIVENESS OF POLICIES FOR THE TRANSFER OF TECHNICAL AND MANAGERIAL  
SKILLS TO NIGERIA

The effectiveness of the various channels through which British companies transfer technical and managerial skills to Nigeria varies and is limited in many respects by some factors. The research efforts of British companies are limited in scope and, as a consequence, no radical break-through type of innovation characteristic of large and concentrated R. & D. can emanate from British companies operating in Nigeria. The type of industries where British companies operate in Nigeria - the consumer goods industries - are not industries characterized by large-scale R. & D. Until such time when British companies invest in science-based and capital goods industries, their research activities will be limited in scope and so also will the number of innovations resulting from their research efforts be small. There are two particular areas of concentrated research where Nigeria is likely to benefit in the future. The first is the research programme of the African Timber and Plywood Company on the Nigerian timber and plywood. Nigeria is rich in timber but the major disadvantage of Nigerian timber is that it is too hard. In order to eradicate this disadvantage, the UAC, through its company - African Timber & Plywood (Nig.) Ltd., began to conduct research into the possibility of cross-breeding trees in order to get soft wood timber and the company was successful. From one hard timber in early in the 1950s, the number of timber species has grown to over 50 at the present time. The Nigerian government did not begin to take an interest in forestry and the various species of wood in Nigeria until after the success of UAC had been demonstrated. The Ministry of Agriculture and Forestry is now responsible for conducting research into the development of woods in Nigeria and there is a cross-fertilization of ideas, both formal and informal, between the various Ministries and the African Timber & Plywood (Nig.) Ltd. The preservation of Nigerian forests

and the development of many timber species have been due, in no small measure, to the demonstration by the African Timber & Plywood Ltd. that other species of timber can be developed successfully in Nigeria. In addition, the research programmes of the African Timber & Plywood Ltd. are directed and carried out by Nigerians. If these Nigerians are required by the Nigerian government, they can easily be lured away with big salaries. If the African Timber & Plywood Ltd. winds up its research programmes in Nigeria, there will be no loss suffered by its Nigerian employees, since they can easily be absorbed into the research laboratories of the various States governments.

The Shell-BP Company's research programmes are likely to be beneficial to Nigeria in future. The newly-created National Oil Corporation has as its main functions the searching for and the production of crude oil in Nigeria. In order to carry out these functions, the NOC requires experienced geologists, technologists, engineers, and scientists to conduct research into the soils of Nigeria and to test and control crude oil production, among other things. Nigeria is short of these qualified and experienced personnel and the only way the NOC can get off the ground is for it to poach the Nigerian employees of the oil companies, which it has started to do. The experience gained by Nigerians in the research laboratories of Shell-BP will not only be useful to the NOC activities in the petroleum industry if some of these Nigerians join NOC, but their geological knowledge can be utilized to locate other mineral deposits in Nigeria.

The licensing agreements between parent and subsidiary companies are not an important method of transferring technology to Nigeria. As it has been shown, the number of licensing agreements between Nigeria and Britain as indicated by royalty payments is limited and small. This state of affairs should not be surprising, given the low level of industrial development in Nigeria. As the level of industrial development increases in the future, so will the number of licensing agreements between Nigeria



and Britain increase. While British companies operating in Nigeria will continue as before to conclude licensing agreements with their U.K. parents, there is a need for Nigerians to shop around the world before concluding agreements. What the level of industrial development in Nigeria at the moment requires is intermediate technology and as a consequence, licensing agreements conducted ought to be those designed to meet this requirement. By shopping around, not only are Nigerians afforded the opportunity to select the best and the most appropriate technology, but they may well conclude some of the agreements at low bargaining prices. However, the ability of Nigerians to do this depends on the existence of experienced and competent Nigerian scientists and technicians who can analyze, select, investigate and master new techniques quickly. It must be added that Nigeria does not have many competent and experienced scientists and technicians at the moment. This is, of course, a reflection on the meagre R. & D. programmes of Nigeria and the lack of opportunities for Nigerian science graduates to acquire the much-needed experience. In order to tackle these problems, not only should more resources be devoted to R. & D., but increased opportunities must exist for the accumulation of experience. The Nigerian Institute of Industrial Research could have provided limited places for the acquisition of knowledge and experience, but, since the authorities are not prepared to provide the necessary finance for the employment of personnel, there is very little the Institute can do about it. The short-sightedness of the Nigerian authorities is also reflected in the recent expansion of university and science education in Nigeria. At the end of 1973, there were over 20,000 students in Nigerian universities. The question that readily comes to mind is, where and how these students will be employed when they graduate. Even when the student population of Nigerian universities was less than 10,000, there were many qualified graduates unemployed and now the number has doubled in less than five years. Large-scale graduates unemployment is increasingly becoming a very serious

possibility. In addition to the student population in Nigerian universities, it is estimated that over 3,000 qualified Nigerian graduates, a third of whom have higher degrees, are in the United States. They cannot go back to Nigeria because there are no jobs for them. Despite the bleak prospects for employment among Nigerian graduates, the Nigerian authorities are planning to establish more universities in the country in the future. It must be added, however, that a policy of educational expansion, be it of science or arts, not tailored to meet the specific needs of the country, is fraught with all sorts of dangers, of which social unrest, violent demonstrations, and the creation of a pool of criminals, are but a few.

The most effective channel through which British companies have transferred technology and managerial skills to Nigeria is the training provided to Nigerians in and out of Nigeria. Learning by doing has been seriously favoured by most British companies as an important method for acquiring skills. By establishing training centres with alternating courses at the centres and practice at establishments, and the continuous large-scale on-the-job training offered to Nigerians, British companies have helped to upgrade the level of technical and managerial skills in Nigeria. The management courses and training provided to Nigerians, in England and elsewhere, have been beneficial to Nigeria in many respects. The most competent Nigerian managers in the country to-day are those employed by British companies. Not only are some of them visiting professors in Nigerian universities, but also the Nigerian Institute of Management, designed to upgrade managerial skills through publications and journals, is dominated by Nigerian managers in British companies. In addition, some of the Nigerian managers employed in British companies act as consultants, investigating major problems for the Nigerian public institutions.

The contributions of British companies to the development of science and managerial education in Nigeria have been beneficial to a large number



of Nigerian educational institutions and students. The major criticism of British companies in this respect is the training of Nigerians at institutions of higher learning in Nigeria and abroad without employing them at the end of their courses. What is the point in training people if there is no opportunity for putting their knowledge to the benefit of the society? If British companies can give direct donations to the universities instead of awarding scholarships to students themselves, a better utilization of the donations may result in the provision of improved facilities, such as libraries, books, accommodation, food and laboratory equipment for existing students.

#### CONCLUSION

British direct investment has, so far, been the most effective method of transferring technical and managerial skills to Nigeria. Although British companies have transferred technology to Nigeria through various channels, learning by doing has proved to be the most effective channel. The various channels through which British companies transfer technology to Nigeria have been frequently obstructed by factors which have reduced the contributions of the transferred technology. The most important obstacles are the inability of British companies to adapt their technology to the Nigerian environment, the employment of fake experts, deficient infrastructure in Nigeria, the relatively secure positions of British companies vis-a-vis other competitors and the dearth of scientifically and technically qualified manpower in Nigeria. The shortages in the supply of scientists and technicians are the result of the meagre R. & D. programme executed in the country. The non-availability of a central body to co-ordinate research efforts has also meant that no adequate control has been exercised on the selection and the importation of foreign technology. Whenever the government wanted to undertake new projects, it had frequently gone abroad in search of technical partners, who have acted as management contractors

and management agencies. The results of such marriages have been to provide opportunities for corrupt officials to mis-appropriate public funds, and for foreign contractors to charge exorbitant fees for turnkey projects, which, up to the present moment, have represented a criminal waste of public funds. Most of the British companies interviewed have justifiably emphasized their disapproval of many of the unscrupulous management contractors employed by the Nigerian government as representing a threat to their operations in Nigeria. The bad publicity given to turnkey projects has reduced their number in recent years. The Nigerian authorities have taken the useful step of establishing the National Council for Science and Technology, which, in the future, will screen all foreign technologies imported into the country and encourage their adaptation to the Nigerian environment. Perhaps more important than these functions is the fact that the Council will carry out organized R. & D. activities. The inability of British companies as well as other foreign companies to transfer technology to Nigeria in a comprehensive way stems from the fact that these companies concentrate on consumer goods and produce a limited range of products. Under these circumstances, it is to be expected that foreign companies operating in Nigeria will not undertake major R. & D. projects geared towards the development of technologies suited to Nigerian conditions. It is in this context that the R. & D. programmes undertaken by the National Council for Science and Technology become very important. In addition, attention can be specifically focussed on intermediate and labour intensive technologies which foreign companies have taken no interest in developing.



## CHAPTER VII

### OBSTACLES TO BRITISH INVESTMENT IN NIGERIA

This chapter is concerned with those factors which may limit the economic efficacy of existing British direct investment in Nigeria and with showing why more British capital may not flow to Nigeria. The obstacles to British investment can be divided into two broad groups: (a) there are those obstacles associated with the attitudes and business practices of British investors which may provoke unfavourable reactions from other foreign investors and the Nigerian Government and these could act as a deterrent to both existing and future investments; and (b) there are those obstacles associated with Nigeria, ranging from political instability and poor infrastructure to government economic policies. It ought to be emphasized that the division of obstacles into two groups becomes blurred where one development leads to chain reaction that may act as an obstacle to investment. If, for instance, British companies prefer foreign personnel to indigenous personnel, the Nigerian government may pass legislation restricting the employment of foreigners, and this may provoke British companies into designing ways of beating the legislation. This attempt by British companies to neutralize the effect of the government's legislation may be discovered by the Nigerian immigration officials, and this may further provoke a restriction on the issue of entry permits to British nationals willing to come to Nigeria. This may, in turn, lead to the rejection of visa applications from genuine investors. Before discussing the obstacles, it is perhaps worthwhile to enumerate the greater advantages which British companies enjoy over other foreign companies.

#### THE MAJOR ADVANTAGES BRITISH COMPANIES ENJOY IN NIGERIA

British investors have several advantages over their European and North American rivals, first of which is the language. English is the

medium of expression in Nigeria and as a consequence, British investors who come to Nigeria can easily understand the people and be understood. This is not the case with other European investors who cannot speak English. This being so, Nigerians in general, both in private and public organisations, prefer to do business with the British. The second advantage is distance. The American and Canadian investors who can speak English come from greater distances than the British. The third advantage is the Nigerian legal system which is similar in almost every respect to the British legal system. This is because the Nigerian system was inherited from the British and also because most of the architects of the post-independence laws were trained in England. The similarity between the two ensures that British companies have an easy understanding of Nigerian company laws since laws governing their activities in Nigeria are, in most cases, verbatim copies of similar English laws. The last advantage is the fact that most Nigerian "top people" and businessmen have their bank balances in London. These people also often spend their annual holidays in England. These two factors facilitate easy and quick transactions with the British.

The four advantages listed above derive in part from the long association between the United Kingdom and Nigeria, which dates back to the period when Nigeria was a colony of Britain. In its appraisal of the importance of these advantages, the Confederation of British Industries declared, "It must be appreciated that the British start with enormous advantages. The Nigerians have inherited our language and much of our education and legal system. The Nigerians respect our institutions and the British way of life. They are friendly, hospitable, warm-hearted and humourous, qualities to which British visitors and residents respond readily. The Mission was told repeatedly that the Nigerians prefer to deal with the British whenever they can, because of this feeling of mutual understanding and confidence".<sup>165</sup> The advantages listed above confer on British investors

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<sup>165</sup> C.B.I., "Nigeria 1970" (no date) London, p. 7.



rare opportunities which are rapidly being wasted by the business attitudes of British companies - as will be explained below.

### THE BUSINESS PRACTICES OF BRITISH FIRMS AND THEIR EFFECTS

The business attitudes and practices of British companies operating in Nigeria have no doubt acted as an important impediment to British investment in the country. British companies are over-cautious and lethargic in their investment programmes. They loathe the idea of being "first" in many fields of industrial activities even in cases where the Nigerian public corporations and governments are prepared to form partnerships with them and to provide the risk capital. Examples of the over-cautiousness and conservative attitudes of British companies abound in number, but two examples will suffice to emphasize the main line of argument. The first example concerns the British Associated Portland Cement Manufacturers (APCM), who were invited by the Nigerian Federal Government in 1950 to participate in a joint-venture to establish a local cement plant at Nkalagu in Nigeria. After two years of negotiations and surveying, APCM declined the government's invitation. The Nigerian government then went to Europe and America to search for a partner and, after nearly three years of searching, F. L. Smidth of Denmark was recruited as a technical partner. In 1957, the Nigerian Cement Company, a joint-venture of the Nigerian government and F. L. Smidth, was formed to operate a factory at Nkalagu. Once the cement factory at Nkalagu was commissioned, the British Associated Portland Cement Manufacturers (APCM) were faced with the problem of how to protect its Nigerian market. As a consequence, the APCM which had earlier rejected a joint-venture with the Nigerian government set up a syndicate with the Western Nigeria Development Corporation to establish the West African Portland Cement Company, which began operating a cement factory at Ewekoro, Abeokuta in 1961. By the end of 1961, there were two cement factories in Nigeria; one operated by F. L. Smidth and the Nigerian

government at Nkalagu, and the other by the British Associated Portland Cement Manufacturers and the Western Nigeria Development Corporation at Ewekoro in Abeokuta.

There were two reasons why the APCM rejected the first offer of a joint-venture with the Nigerian Government. Firstly, there was the APCM's desire to continue to supply the Nigerian market from its efficient factories in England. While the APCM would be able to enjoy economies of scale in its factories in England, this would not be likely to be the case at the initial stage of operating a new factory in Nigeria. The Nigerian government, on the other hand, was not interested in the economies of scale argument of the APCM. The main concern of the government was to start cement production in Nigeria. There was therefore a clear divergence of interest between the Nigerian government and the APCM. The second reason was the APCM's belief that the Nigerian market was not large enough for a cement factory, and also the APCM's objection to Nkalagu as the site of the factory on the grounds that it would be difficult to supply the Lagos-Ibadan area from Nkalagu. The APCM has been proved wrong by the inability of the seven cement factories now in existence in Nigeria to meet the demand of the Nigerian market. In addition to the two factories at Nkalagu and Ewekoro, five more cement factories have been established since 1962, but the demand for cement remains insatiable. The above example shows how a new company, F. L. Smidth, was brought into Nigeria as a result of the attitude of the APCM.

The second example concerns Dunlop, which came to Nigeria in 1960, shortly after the arrival of Michelin, to begin discussions with the Nigerian government about the possibility of setting up a tyre factory in the country. Not long after Nigeria broke diplomatic relations with France over the atomic tests in the Sahara, Dunlop was asked to go ahead



with its project by the Nigerian government. However, instead of going ahead with the project, now that the threat of Michelin had been turned aside Dunlop did not show any interest. It was not until March 1961 when the French Company, Michelin, had quietly and cunningly obtained the backing of the Eastern Regional government and announced the commencement of a tyre factory in Port Harcourt did Dunlop become aware of the reality of the situation. Faced with the prospect of being shut out of the Nigerian market by a tariff wall, Dunlop launched a tyre factory at Ikeja in October 1961, despite a statement by one of the company's directors in the FBI's Mission to Nigeria in 1960 that the Nigerian market could only support one tyre factory.<sup>166</sup>

The two examples show how British companies had enabled other competitors to gain earlier footholds in the Nigerian market. Whereas the profitability of the cement companies was not affected by the existence of two or more cement factories, Dunlop was not able to make profits at the early stage of its operation in Nigeria. Despite the existence of tariffs to shield off imports, the existence of two tyre factories to serve Nigeria was enough to reduce the profitability of Dunlop. It is also worth noting that the ability of the APCM and Dunlop to start domestic production in Nigeria, after they had already rejected an offer and permission from the Federal Government of Nigeria, was due to the existence of autonomous Regional Governments. Presumably, if all the Regional Governments of Nigeria were to have a central body negotiating joint-ventures with foreign investors, the APCM and Dunlop could have been shut out of the Nigerian market for good.

The complacent attitudes of British investors have not only opened the Nigerian market to other European and American investors, but the

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<sup>166</sup> Federation of British Industries, Nigeria, An Industrial Reconnaissance, London 1961, p. 12.

fact that British investors have let the Nigerian authorities down on a number of occasions makes them unattractive as partners in joint-ventures. It is clear that only if ventures are truly worthwhile for all parties will British companies take part, but the fact remains that, even when British companies obtained permission to set up wholly-owned establishments, they tended to sit back until other foreign competitors had launched their own ventures. In recent years, there does not seem to have been any radical change in the attitudes of British investors towards investment in Nigeria. During his visit to the U.K. in June 1973, at a luncheon given by the Lord Mayor of London, General Gowon, the Nigerian Head of State, made a categorical reference to the lethargic and complacent attitudes of British investors. In an obvious reference to Britain, General Gowon spoke with regret of the "overcautiousness of some foreign investors, particularly those with historical connections with us, who know us well and who ought to be able to appreciate our bona fide aspirations".<sup>167</sup>

The risk-aversion attitudes of British companies in Nigeria are based on three main factors. The first is underestimation of the size of the Nigerian market. The second factor is fear about the long-term political stability of Nigeria, and last is the inability of the companies to predict how government policies towards foreign investment will change in future. Given these uncertainties, British companies have always preferred projects with short-term pay-offs to long-term projects. It must be added, however, that the risk aversion attitudes of British companies are likely to change in future as Nigeria becomes more industrialized. At present, the leading role of the British as Nigeria's most important foreign investor is yielding quite dramatically to the aggressive, pushful challenges and the willingness to take risks of the American, Dutch,

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<sup>167</sup> The Financial Times, London, June 14, 1973.



French and Italian investors who continue to expand existing businesses and explore new possibilities.

#### POSITION WITHOUT RESPONSIBILITY

The general attitudes of some British companies to their Nigerian employees have been, and will continue to be, a major obstacle to their investment in Nigeria. Some British managers employed by British companies operating in Nigeria frequently treat their Nigerian employees contemptuously. Dismissals and threat of dismissal, assault on employees and discrimination in the distribution of amenities are additional factors which have led to tensions between some British companies and their Nigerian employees. While only very few British companies are engaged in these practices, the fact that such companies are usually exposed in the press tends to exaggerate matters out of all proportion. It is true that a large number of British companies, especially in the UAC Group, frequently receive popular acclamation in the National Press, but there is the tendency in Nigeria to regard these companies as exceptions whenever a few bad cases are exposed. It should be added, however, that most of the practices listed above were widespread during the first few years of Nigeria's independence and that they have almost disappeared now.

Necessarily, the success of British companies in Nigeria depends on a relationship between the companies and Nigerians based on mutual trust and respect. Given the fact that Nigeria was a colony of Britain for a number of years, a large number of British in Nigeria, shortly after the country obtained independence were used to giving instructions and being obeyed. After independence, the relationship started to change; Nigerians wanted to be treated as equals by their previous bosses.

Under these circumstances, tensions between some Nigerians and their British employers were bound to develop. In the course of time, a stable and friendly relationship developed between British companies and

their Nigerian employees and at present, British companies are among the best employers in Nigeria.

There is, however, still one aspect of the attitudes of British companies which has received a bad press and official condemnation in Nigeria, and this is the practice of creating top positions for Nigerians without giving them the accompanying responsibilities and authority. The occupation of top management positions without the accompanying responsibility and authority has frequently been referred to in Nigeria as "window-dressing". The knowledge and the feeling that Nigerians employed in top management positions by British companies were not being given the authority and responsibilities commensurate with their positions became widespread in the late 1960s. The pressure on foreign companies to indigenize their personnel began shortly after political independence in 1960. By the end of 1965, almost all the junior management positions were occupied by Nigerians but the majority of the top and middle management positions were occupied by expatriates. The Nigerian government has always believed that one of the main benefits of foreign investment is the creation of employment opportunities for Nigerians, and if the employment thus created is taken by foreign personnel, Nigeria would not be reaping the benefits. This belief re-inforced by the availability of highly qualified Nigerian personnel, competent and capable of holding responsible positions, prompted the Nigerian government to intensify the pressure on foreign companies to employ Nigerians at middle and top management levels. As a consequence, an increasing number of Nigerians began to be promoted and employed in middle and top management positions. They soon discovered that apart from an increase in their salaries (when such promotions are accompanied by an increase in salaries, which in some cases did not happen), their middle and top management positions often carried no higher responsibility or authority than those of junior management positions. "One of the factors which tend to reduce the benefits of



industrialization in Nigeria is the employment of a large number of foreign nationals who receive considerable sums in form of salaries and allowances. In order to reduce this 'earnings leakage', Government will intensify its efforts to ensure, not only that high-level Nigerian personnel are employed by private industry, but also that they are given responsibilities commensurate with their training and experience. Hitherto, many firms have placed a good number of Nigerians in management positions. But it is widely known that many of these indigenous 'managers' are not given management functions to perform, and are in effect little more than glorified clerks put up for "window dressing".<sup>168</sup>

There are two main reasons why companies engage in this practice. Firstly, a British company may promote a Nigerian to a middle management position without the commensurate salary but with the commensurate responsibility in order to avoid any increase in the company's wage bill. Since some of these promotions to middle management positions are not accompanied by a reduction in the number of expatriates, the tendency not to pay high salaries becomes very strong. The second reason why Nigerians employed in top management positions are not given the commensurate authority and responsibility may be (a) to avoid the excessive use of power which is very common among top Nigerians and (b) to prevent Nigerians from knowing the major secrets of their companies, especially in circumstances where relationships are based on "mutual suspicion". When Nigerians are employed in middle and top management positions, they seldom take important decisions, the power to do so normally being vested in a British manager, who may be "under" the Nigerian manager. This situation is neither good for Nigeria, nor rewarding to British companies engaged in such practices. A large number of Nigerians apply for positions in the private sector and, as such competition is very keen; this ensures that only the most competent and qualified Nigerians are employed in British companies. If these highly qualified and competent Nigerians are not used to their full capacity,

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<sup>168</sup> Second National Development Plan, 1970-74, Lagos 1970, p. 288.

then it follows that the human resources of Nigeria are being grossly under-utilized. The policy of "window dressing" among some British companies is detrimental to their business interests in several ways. Firstly, Nigerians holding top positions without the commensurate authority and responsibility become suspicious of their British colleagues and co-operation becomes difficult. This is one of the main reasons why the relationship between top Nigerian managers and British managers in many British companies operating in Nigeria is based on "mutual suspicion". Secondly, collective responsibility becomes difficult to enforce as Nigerian managers tend to take an independent line on major issues, disassociating themselves from certain decisions of the company, especially when adverse results become publicised. Thirdly, negotiations with the Nigerian authorities become difficult as Nigerian managers stand aloof and fail to show their companies the various tactics they could adopt to get what they wanted. This is also the main reason why malpractices in some British enterprises are readily leaked to the Nigerian authorities and to the Nigerian Press as Nigerian employees are always prepared to speak against a company in which they regard themselves as "strangers". Of all the Nigerian and top managers employed by one big British company interviewed between 1971 and 1972, a majority of them had nothing good to say. This, however, was not the case with the Nigerian managers employed by the UAC and the NTC, a majority of whom were prepared to associate themselves with their companies and to defend them against "external" forces, whether Nigerian or foreign. The foregoing discussions have highlighted the necessity for many British companies to take their Nigerian managers into their confidence for, it is only by doing so that a genuine relationship based on mutual trust and confidence can develop.



## THE MAJOR BARRIERS TO ENTRY

Among the major obstacles to British investment in Nigeria are the barriers to entry which established firms erect against new and potential investors. The barriers to potential British investors could emanate from three sources: (a) from already established British firms; (b) from established foreign firms and (c) from joint-ventures between British or other foreign firms and the Nigerian governments. According to Joe Bain, three types of barriers exist for new entrants. They are

- "1. Product differentiation advantages of established over potential entrants;
2. Absolute cost advantages of established over potential entrant firms;
3. Advantages of established over potential entrant firms due to economies of large scale firms".<sup>169</sup>

The barrier advantages listed above may accrue to an established firm as a result of its control over the sources of raw materials, the preference of buyers for its brands, control of distribution outlets, control over superior product designs and production techniques, cheap and easy access to bank loans and overdraft and large-scale advertisement.

These advantages are real enough to prevent a potential competitor from entry into an industry as the following examples will show. In Nigeria, Lever Brothers, a subsidiary of British Unilever, is the major soap and detergent producer. Apart from the company's large-scale advertisements, which have made the brands a house-hold word, Lever Brothers' exclusive dealing which involves the cutting off from suppliers of a customer who sells another company's soap products has made it impossible

for other companies to break into the market. In the tobacco industry, the Nigerian Tobacco Company (NTC) controls about 88 per cent of the Nigerian market. In addition to the NTC's control over the sources of raw materials, excessive branding and advertising supported by exclusive dealings and control over distribution outlets have made it impossible for other companies to break into the Nigerian tobacco industry. An attempt by a joint-venture between the UAC and Philip Morris to break into the tobacco industry in 1964 met with fierce competition, which later resulted in price wars. In the end, Philip Morris was forced to concentrate its operations in the North-Western half of Nigeria not fully served by the NTC. The large-scale advertising by Philip Morris in an attempt to get a larger share of the Nigerian tobacco market reached its height in 1971, when the leading Negro soul singer, James Brown, was brought from the U.S.A. to boost the company's sales. Despite all the efforts, Philip Morris controls only 10 per cent of the Nigerian tobacco market.

Another important barrier to potential investors is the prohibition by the government of new entrants into an industry. The prohibition may result from the government's desire to check and prevent over-saturation in certain fields of industrial activities or to protect a joint-venture in which the government has a stake. Another obstacle associated with the government's prohibition is the use of cunning, unscrupulous methods to get permission to establish in certain industries at the expense of other competitors. One of the leading British investors in Nigeria said in an interview that "competition with other companies willing to establish the particular industry we are interested in and getting it through unscrupulous methods" is one of its major obstacles to investment. However, it should be pointed out, as the petroleum industry has shown, that it is in the best interest of Nigeria to ask for bids from as many companies as possible when an industry is to be established. By so doing Nigeria can



strike a favourable bargain in dealings with these powerful multi-national companies.

### THE MAJOR OBSTACLES ASSOCIATED WITH NIGERIA

Investors have usually been wary about the recipients of international investment, especially when such investment takes place in a less-developed country. Reasons for this wariness have been summarized into four groups by the American Department of Commerce as follows: "(a) the imbalance and dislocation in trade and currency relationships leading to controls over the amount of and purposes for which capital may be invested and the rate at which earnings and capital may be repatriated; (b) economic nationalism in the under developed countries accompanied by unfavourable reactions on the part of the public and domestic business, and by an increasing stringency and number of controls by governments over the entry and conduct of foreign investments; (c) insecure and unstable political and social conditions which cause uncertainties and lack of confidence on the part of investors; (d) low levels of economic development as reflected in inadequate basic facilities, shortage of trained labour, lack of allied industries, and shortage of local venture capital".<sup>170</sup>

The four factors listed above have frequently been mentioned by British companies as limiting their investments in Nigeria. It is necessary to point out, however, that these factors not only act as obstacles to foreign investment in Nigeria, but they also act as constraints on economic development. Some of the obstacles already mentioned in Chapter VI and at the beginning of this thesis, in Chapter I, include poor and insufficient health facilities, bad and narrow roads, inadequate and erratic

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<sup>170</sup> Dept. of Commerce, "Study of Factors Limiting American Private Foreign Investment", Washington, D.C. July 1953, reproduced by G. M. Meier & R. E. Baldwin in "Economic Development", Wiley & Sons, New York, 1963, p. 423.

supplies of water and electricity, housing shortages and exorbitant rents, poor and inefficient post and telecommunications systems and the administrative laxity of the civil servants.

Over the past decade, political instability has been the major obstacle to British investment in Nigeria. Beginning with the elections of 1963 and the coup and counter coup of 1966, Nigeria was plunged into a civil war and between 1967 and 1970 murder, looting, arson, theft and other criminal offences were committed not only by Nigerians against Nigerians, but also by Nigerians against foreigners and their businesses. Apart from the four Italian oil men killed during the civil war, British enterprises were the major casualties of the Nigerian political instability. The installations of Shell-BP were damaged and the company's activities were completely halted for eleven months during the 1968-69 period. Large-scale damages to properties and businesses owned by the UAC, Lever Brothers, John Holt, the CDC, and the Nigerian cement company added up to several thousand pounds. Not only were expansion programmes by British companies put off but new British investors were reluctant to invest in Nigeria out of fear for the safety of their lives. Although things returned to normal, the aftermath-effects of the civil war were still much in evidence. One British company said in an interview that its matchet factory in Port Harcourt was still at a standstill (August 1972) because the River State would not allow the Ibo employees of the factory to return, even though the State lacks the necessary manpower for the factory. However, confidence has returned with the end of the civil war and the ensuing boom. With the division of Nigeria into twelve States and the lessons to be learnt from past mistakes political chaos is likely to become a thing of the past. Economic policies of Nigeria have frequently been resented by foreign investors, because they are a function of economic nationalism, social and political unrest and balance of payments consideration. Economic policies in Nigeria can be categorised in many forms:



"manipulation of foreign exchange rates to discriminate against remission of profits, royalties, or other income on foreign investments; against repatriation of capital; and against imports of primary or semi-processed materials required for production deemed 'non-essential' by the authorities".<sup>171</sup>

The above mentioned regulations were brought about as a result of social and political unrest, and the balance of payments considerations during the Nigerian civil war when the government needed large funds to prosecute the war, and also to prevent a balance of payments crisis. It can be argued therefore that, given the circumstances under which these economic policies were pursued, they were sound. Before the beginning of hostilities in Nigeria, foreign companies were allowed to repatriate all their profits. After 1964, a restriction was imposed on the repatriation of profits. Between 1965 and 1967, foreign companies operating in Nigeria could repatriate their profits, but only with the permission of the Central Bank of Nigeria. There was a complete ban on the repatriation of profits between 1968 and 1970. Since the end of the civil war and the resumption of petroleum exports on a large scale, the Nigerian Government has relaxed its foreign exchange regulations and British companies, as well as other foreign companies, have been allowed to repatriate some of their profits, capital and royalties. It should be added that unlike the 1960-1964 period when foreign companies could repatriate all their profits, the amount of profits they can now repatriate in any one year is announced in the budget speech. This amount is determined by the foreign exchange resources available. As an example, during the 1973/74 financial year, foreign companies were allowed to remit arrears of dividends in 1971 in full, and 25 per cent of dividends in 1972.

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<sup>171</sup>Peter Gabriel, "The International Transfer of Corporate Skills", Harvard University Press, 1967, p.p. 15-16.

The economic policies now being rigorously pursued by the Nigerian government include regulations to prevent the dismissal of labour, indigenisation or the insistence on local participation and the restrictions on the employment of expatriates. The dismissal of Nigerians by foreign companies has been dealt with in Chapter VI. The regulations embodied in indigenisation will be dealt with at a later part of the chapter. Before dealing with the restrictions on foreign personnel, it is necessary to refer briefly to the Companies Decree of 1968. Promulgated on 16th October, 1968, the main provision of the Companies Decree is the incorporation in Nigeria of all companies operating in the country. The Decree also stipulated that foreign-owned companies not prepared to incorporate in Nigeria should wind up. The main aim of the Decree was that of regulating the activities of foreign companies, while at the same time forcing them to identify themselves with Nigeria. The Decree has had very little effect on British companies operating in Nigeria as most of them were already incorporated in the country. As an example, only three out of over twenty companies within the UAC Group were affected by the Decree. The CDC, however, was seriously affected as its operations in Nigeria were undertaken by the CDC of the U.K. The problem has already been resolved as the CDC's operations in Nigeria are now vested in the CDC (Nigeria) Ltd.; a wholly independent subsidiary.

The practice of limiting the employment of foreign personnel in Nigeria, as well as in many less-developed countries, has been widely criticised. As far as Nigeria is concerned, one important aspect of the matter has never been adequately considered, and that is the fact that foreign firms are always allowed to employ foreign personnel at the early stages of their operations in the country. It is only after sufficient time has elapsed for Nigerians to have gained enough experience and so attain good posts that limitations on the employment of foreign personnel are imposed. No one argues that foreign personnel should not be employed;



Nigeria has always welcomed foreign personnel in those fields of activities where there is a deficiency of qualified and experienced Nigerians.

The Expatriate Quota Division of the Federal Ministry of Internal Affairs was designed to give foreign firms permission to recruit foreign personnel required for their operations when such personnel as required cannot be recruited in Nigeria. However, it must be conceded that some foreign firms - British and others - have often preferred foreign personnel to Nigerians, even though the latter may be as equally qualified and experienced as the former. The preference of British companies, as well as other companies, for expatriates has led them to design various methods of beating the Expatriate Quota System of the Nigerian Federal Ministry of Internal Affairs. The discovery of such illicit practices has led to the tightening up of the granting of entry permits to British nationals who want to go to Nigeria. When the rigorous screening processes of applicants for entry permits were combined with the administrative incompetence of the Nigerian Embassy officials in London dealing with passports, entry permits and visas, the result has often been long delays. The problem was acute enough to warrant the CBI Mission to Nigeria drawing the attention of the Nigerian Government to it. "...But you will, we hope, soon clear away some of the more venationous of them such as entry permit delays, which give the visitor such a bad impression before he has even left London".<sup>172</sup>

One of the main attractions of international investment in Nigeria is the employment it is likely to create for the nationals of the country. The Nigerian Government is not prepared to accept any policy that will reduce this contributing effect "One of the reasons for encouraging private investment (foreign and indigenous) is the expectation that investment activities will generate employment opportunities for Nigerian nationals. The Government cannot therefore continue to tolerate a situation in which

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<sup>172</sup>CBI, "Nigeria 1970", London (no date) p. 67.

high-level Nigerian personnel educated and trained at great cost to the nation, are denied employment in their own country by foreign business establishments".<sup>173</sup> The CBI's Mission to Nigeria in 1970 seemed to agree with the Nigerianisation of employment as the statement below will show. ".....It follows that we recognise and sympathise with the aspirations of our host country and its wish to determine its own independent destiny. We believe for example that your policy of the Nigerianisation of employment is entirely right - in any case expatriates are expensive".<sup>174</sup>

There is no doubt, however, that British companies operating in Nigeria will be able to employ management and technical personnel from abroad, provided they can make a strong case for their employment. What the Nigerian Government is not likely to accept is the employment of expatriates in positions which can be suitably filled by Nigerians. Such employment not only reduces the opportunities for Nigerians to acquire experience, but it may represent a substantial foreign exchange leakage overseas. In addition, it must be emphasized that the major problem facing Nigeria at the present time is large-scale unemployment. Not only is there a large pool of unskilled labour in Nigeria, but the number of qualified unemployed has risen very sharply in the last five years, and it is still rising. The number of qualified Nigerian graduates overseas is estimated to be over 12,000, out of which three thousand are in America.<sup>175</sup> In Nigeria itself, the large number of graduates turned out by the country's six universities are finding it increasingly difficult to get employment. As the problem of unemployment becomes more accentuated, so also will the rigour with which the ban on the employment of foreign personnel is enforced.

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<sup>173</sup> Second National Development Plan 1970-74, Federal Ministry of Information, Lagos, 1970, p.p. 288-289.

<sup>174</sup> CBI, Nigeria 1970, London, p. 66.

<sup>175</sup> West Africa 3/12/73.



DECREE NO. 4: NIGERIAN ENTERPRISES PROMOTION (NEP) DECREE

Apart from the Nigerian civil war, the most hotly and seriously debated aspect of the post-independent Nigeria has been the recent Decree No. 4 - The Nigerian Enterprises Promotion Decree - promulgated on the 23rd February, 1972. The Decree raised many fundamental questions about Nigerian participation in commerce and industry to the extent that group discussions and seminars have been held on the major issues. It is perhaps true to say that the Decree even raised more fundamental questions about the role of foreign investment in Nigeria up to the point of provoking comments from international newspapers.

THE MAIN PROVISIONS OF DECREE NO. 4

The Nigerian Enterprises Promotion Decree, which has been heralded as being the most radical step towards the indigenisation of the Nigerian economy ever taken by any post-independent Nigerian Government, was promulgated in February 1972. In an article on the Decree, a correspondent declared, "The decree was significant because it was the first time that the Nigerian Government had ever tried to intervene in the fast-growing jungle of private commerce and business, with its mushroom growth since the Nigerian civil war, where Nigerians were already running small scale enterprises alongside a vast army of foreigners including Lebanese, Syrians, and Greeks and even Britishers left behind after the tidal wave of colonialism had passed".<sup>176</sup> There are two main reasons for the Decree. Firstly, to speed up the complete control of small businesses by Nigerians. Nigerians "were already well on the way to capturing the small business sector in their country when the Federal Government decided in March 1972 to hurry the whole process along by promulgating the Nigerian Enterprises Promotion Decree".<sup>177</sup>

<sup>176</sup> The Times, London, October 1, 1973.

<sup>177</sup> The London Times, op. cit.

Secondly, to force foreign investors out of the consumer goods industries into intermediate and capital goods industries. As has been shown in Chapter IV, over 80 per cent of British investment in the manufacturing industry is concentrated on consumer goods. Other foreign investors also concentrate their investments in manufacturing on consumer goods. This state of affairs arose in response to the wish of the post-independence Nigerian government to develop import substitution industries. As more foreign investors come to Nigeria to invest in consumer goods industries, the Nigerian Government decided it was time to develop intermediate and capital goods industries. In addition, Nigerians have now gained enough experience to be able to operate successfully in consumer goods industries.

The main provisions of Decree No. 4 are the exclusive reservation for Nigerians of the twenty-two enterprises listed in Schedule 1 and the partial barring to aliens of another thirty-three enterprises listed in Schedule 2. As specified in the Decree: "(1) All enterprises specified in Schedule 1 of this Decree are hereby subject to the provisions of this Decree, exclusively reserved for Nigerian citizens or associations, and accordingly - (a) as from the appointed day, no person, other than a Nigerian citizen or association, shall be the owner or part owner of any such enterprise on or after the date of commencement of this Decree shall be established in Nigeria. .... All enterprises specified in Schedule 2 of this Decree are hereby, subject to the provisions of this Decree, barred to aliens, and accordingly, no alien shall, as from the appointed day, be the owner or part owner of any such enterprise -



SCHEDULE 1ENTERPRISES EXCLUSIVELY RESERVED

1. Advertising agencies and public relations.
2. All aspects of pool betting business and lotteries.
3. Assembly of radios, radiograms, record changers, television sets, tape recorders and other electric domestic appliances.
4. Blending and bottling of alcoholic drinks.
5. Blocks, bricks and ordinary tiles manufacture for building.
6. Bread and cake making.
7. Candle manufacture.
8. Casinos and gaming centres.
9. Cinemas and other places of entertainment.
10. Clearing and forwarding agencies.
11. Hairdressing.
12. Haulage of goods by road.
13. Laundry and dry-cleaning.
14. Manufacture of jewellery and related articles.
15. Newspaper publishing and printing.
16. Ordinary garment manufacture not combined with production of textile materials.
17. Municipal bus services and taxis.
18. Radio and television broadcasting.
19. Retail Trade (except by or within the departmental stores and supermarkets).
20. Rice milling.
21. Singlet manufacture.
22. Tyre retreading.

SCHEDULE 2ENTERPRISES BARRED TO ALIENS UNDER CERTAIN CONDITIONSITEMLIST OF ENTERPRISES

1. Beer brewing.
2. Boat building.
3. Bicycle and motorcycle tyre manufacture.
4. Bottling soft drinks.
5. Coastal and inland waterways shipping.
6. Construction industries.
7. Cosmetics and perfumery manufacture.
8. Departmental stores and supermarkets.
9. Distribution agencies for machines and technical equipment.
10. Distribution and servicing of motor vehicles, tractors and spare parts thereof or other similar objects.
11. Estate agency.
12. Fish and shrimp trawling and processing.
13. Furniture making.
14. Insecticides, pesticides and fungicides.
15. Internal air transport (Scheduled and charter services).
16. Manufacture of bicycles.
17. Manufacture of cement.
18. Manufacture of matches.
19. Manufacture of metal containers.
20. Manufacture of paints, varnishes or other similar articles.
21. Manufacture of soaps and detergents.
22. Manufacture of suitcases, briefcases, handbags, purses, wallets, portfolios and shopping bags.
23. Manufacture of wire, nails, washers, bolts, nuts, rivets and other similar articles.



SCHEDULE 2 (Cont.)ITEMLIST OF ENTERPRISES

24. Paper conversion industries.
25. Passenger bus services (inter state).
26. Poultry farming.
27. Printing of books.
28. Production of sawn timber, plywood, veneers and other wood conversion industries.
29. Screen printing on cloth, dyeing.
30. Slaughtering, storage, distribution and processing of meat.
31. Shipping.
32. Travel agencies.
33. Wholesale distribution.

(a) where -

(i) the paid-up share capital of the enterprise does not exceed £200,000, or

(ii) the turnover of the enterprise does not exceed £500,000, whichever the Board considers to be appropriate and applicable in relation to such enterprise; and

(b) if the paid-up share capital exceeds £200,000 or the said turnover exceeds £500,000 (whichever is appropriate and applicable), where the equity participation of Nigerian citizens or associations in the enterprise is less than 40 per cent, and no alien enterprise shall be established, on and after the date of commencement of this Decree, as respects any of the said enterprises, or continue to be operated otherwise than as permitted under this Decree." 178

<sup>178</sup> Federal Republic of Nigeria Official Gazette, Lagos, 28th February, 1972, No. 10, Vol. 59, p.p. A13-A14.

The Decree also established the Nigerian Enterprises Promotion Board to advise the Federal Commissioner for Industries on clearly defined policy guide-lines for the promotion of Nigerian enterprises and to see that the provisions of the Decree are carried out and obeyed. As a watch-dog for the Board in each state, a Nigerian Enterprises Promotion Board was also created for every state to see that all alien enterprises affected by the Decree comply with its provisions. Inspectors of enterprises were selected from the Federal Public Service to inspect Buildings, premises and businesses in order to determine whether the provisions of the Decree were being circumvented or /and breached.

In addition, a fine of £7,500 or 5 years' imprisonment, or both, for any breach of the provisions of the Decree was provided. Perhaps more important from the point of view of foreign investors is the ability to seek exemptions from the provisions of the Decree. As stipulated in the Decree "The Commissioner may, without prejudice to the powers exercisable under Section 5 above and subject thereto, with the prior approval of the Federal Executive Council, by an order published in the Federal Gazette exempt any existing enterprise from all or any of the provisions of this Decree and may (subject as aforesaid and with such approval) impose in relation to any exemption such conditions as he may think fit".<sup>179</sup> The foregoing discussion is in essence a brief summary of the Nigerian Enterprises Promotion Decree, 1972.

Shortly after the end of the Nigerian civil war in January 1970, the Military Government made it abundantly clear that it intends to increase Nigerian participation in the national economy. In the Second National Development Plan, 1970-74, the emphasis was on increased ownership by Nigerians of the resources of the Nigerian economy. "...it is vital, therefore, for Government to acquire and control on behalf of the Nigerian society, the greater proportion of the productive assets of the country.

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<sup>179</sup> Op. cit., p. A.16.



To this end, the Government will seek to acquire, by law if necessary, equity participation in a number of strategic industries that will be specified from time to time. In order to ensure that the economic destiny of Nigeria is determined by Nigerians themselves, the Government will seek to widen and intensify its positive participation in industrial development".<sup>180</sup> Throughout the whole document, words and phrases like "control", "self-reliance", "participation" and "economic independence" appeared with such frequency that foreign observers were led to describe the policy measures as economic nationalism. The Federal Government, however, gave some justifications for its policy. "Experience has shown through history, that political independence without economic independence is but an empty shell. The validity of this statement derives from the fact that the interests of foreign private investors in the Nigerian economy cannot be expected to coincide at all times and in every respect with national aspirations. It will be naive, indeed dangerous, to hope that in the process of industrial development, a set of national objectives will automatically be achieved by their mere declaration. A truly independent nation cannot allow its objectives and priorities to be distorted or frustrated by the manipulations of powerful foreign investors".<sup>181</sup> The announcement in June 1971 of the government's intention to indigenise certain sectors of the private sector and the Nigerian Enterprises Promotion Decree that followed in 1972 should be regarded as a continuation of the government's desire to carry out one of the strategic aims of the Second Development Plan which seeks within national limits to indigenise ownership, management and employment in certain areas of the Nigerian economy. "Those who have studied the Second National Development Plan can testify that the Enterprises Promotion Decree is in line with the

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<sup>180</sup>Second National Development Plan 1970-74, Federal Ministry of Information, Lagos, 1970, p. 289.

<sup>181</sup>Second National Development Plan, p. 289.

objectives of economic nationalism that is aimed at supplementing the political autonomy of Nigeria with the economic independence that would make Nigerians masters in their own home, and architects of their economic destiny".<sup>182</sup>

Foreign reactions to the Nigerian Enterprises Promotion Decree have been mostly unfavourable and critical of the Nigerian Military Government to a level that brought forth a sharp rebuke from the permanent secretary, Federal Ministry of Economic Development and Reconstruction, who declared:

"It is instructive to observe the orchestrated reaction of the foreign press particularly the British Press to the indigenisation policy and other recent measures of the Federal Government. Predictions about the political future of the country have been pumped out at an increasing rate by these journals reminiscent of their activity during the civil war. These reactions clearly show that the actions of the Federal Government to adjust the economic situation to the advantage of its national is not viewed with favour. Even diplomatic envoys have been known to make unprecedented pronouncements on the provisions of internal legislation. The whole thing is aimed at shaking national confidence and seeks to obtain through any disorder which may ensue what could not be obtained through diplomatic representations and other forms of persuasion. If we do not wish to see the failure of our policies, then we shall have to close ranks and not allow any divisive tendencies to be exploited in the interest of foreigners".<sup>183</sup>

The Nigerian Embassy in Bonn was forced to protest to the West Germany newspaper, "Die Welt", over its reporting of the Decree. The newspaper was headed "Africanisation Decree also in Nigeria - Lagos offends foreign investors - projects endangered".

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<sup>182</sup> Professor Gani Jawando, The Philosophy behind Indigenisation Decree, Daily Times, April 18, 1972, Lagos.

<sup>183</sup> J. J. Ebong, How does indigenisation policy affect national growth? A paper presented to the 10th Annual National Management Conference at Ibadan, March 1972.



The adverse foreign publicity accompanying the publication of the Nigerian Enterprises Promotion Decree was based on the misconception that the Decree was a form of nationalisation. The Nigerian government has never believed in nationalisation and the statements made by the late Prime Minister in 1964 were still much applicable to the country. "Believing, as we do, in an economy in which free enterprise and private capital can play their full part," the late Prime Minister said to the House of Representatives, "we welcome the investment of private foreign capital in productive areas of the economy, and we recognise that the investor is entitled to look for a reasonable return from his investment". The Prime Minister continued, "We acknowledge the role which foreign firms have played over the years in building up the nation's commerce and, in more recent years, by their contribution to the establishment of many industries. We have never concealed our belief that Nigerian enterprise and Nigerian capital must play an ever increasing part in the economic life of the nation. It must be obvious that no Nigerian can be content so long as any major sector of the economy is controlled by foreigners. But we are realists and we say that so long as there is a dearth of Nigerian capital, so long must there be opportunity for foreign capital in Nigeria. We do not seek the withdrawal of foreign capital from any area of the economy before Nigerian enterprise is able to replace it. When the time for withdrawal has come, due notice will be given".<sup>184</sup> If anything, the Nigerian Enterprises Promotion Decree is a mere interpretation of the speech made in 1964 by the late Prime Minister, in the light of economic development in Nigeria in 1972.

Two important points are also worthy of note. The first point is that Decree No. 4 of 1972 is not a nationalisation decree. Added to this

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<sup>184</sup> West Africa 18/4/64.

is the complete freedom of foreign investors affected by the Decree to repatriate the proceeds of businesses sold should they decide not to invest in other areas of the economy not affected by the Decree. The Decree is emphatically not an attempt to deprive foreign investors of their businesses which they have in most cases taken several years to build up. The second important point to note is the length of time given to affected foreign investors to design ways of adapting to the provisions of the Decree. It was in June 1971 that the Military Government first gave an indication of its intention to indigenise some sections of the Nigerian economy. When the Nigerian Enterprises Promotion Decree No. 4 was promulgated in February 1972, foreign investors operating in Nigeria were not shocked by the central issue of indigenisation but were relieved of the anxiety about which areas would actually be affected when Schedules 1 and 2 were published. It should be added also that Decree No. 4 will not take effect until April 3, 1974, which means foreign investors affected have over two years in which to reorganise their businesses so that they do not conflict with the provisions of the Decree.

Apart from the ability of foreign investors aggrieved by the provisions of the Decree to seek exemptions, the two points discussed above are indicative of the sincerity of the Nigerian Authorities in reducing to the minimum the disruptions that may accompany the adaptation of companies to the provisions of the Decree, and to give foreign investors a fair deal. Equally important and internationally recognised is the fundamental right of a national government to make laws and regulations within its national boundaries designed specifically to confer advantages on its nationals vis-a-vis foreigners. The economic and social histories of England and many other European countries abound with examples of laws and regulations designed to confer advantages on the nationals of these countries vis-a-vis their foreign competitors. Notable examples in the case of England would be the Mercantilist Laws of the 16th and 17th centuries which conferred



exclusive trading and shipping rights on the British vis-à-vis other nationals. In recent years, many developed countries of Europe and Asia have been very reluctant to allow foreign investments in certain sectors of their economies. Thus, until 1972, for example, many sections of the Japanese economy were exclusively reserved for the Japanese businessmen and barred to foreign investors. The Nigerian Enterprises Promotion Decree, when viewed against the background of international economic policies, transcends the boundary of economics and enters equally into the political, social and national security fields.

Just as the reactions of the foreign Press have been unfavourable and unrealistic about Decree No. 4, so also have the reactions of some Nigerians been favourable and unrealistic. Dressing themselves in bogus patriotic garbs, they argued that Decree No. 4 did not go far enough; they insisted that the Decree ought to embrace more industries. Patriotism has never and can never be a useful alternative to a sound economic policy. A government whose economic policies hinge upon patriotism is likely to face the detestable consequences of frustration and failure. A closer look at the enterprises listed in Schedule 1, which are exclusively reserved for Nigerians shows that the majority of them require simple technical and managerial know-how which Nigerians can easily acquire and many of them have actually acquired. As a consequence, and as can be expected, a large majority of firms operating in the areas of activities listed in Schedule 1 are Nigerian-owned. What Decree No. 4 aims to do as far as the activities listed in Schedule 1 are concerned is simply to quicken the pace at which Nigerians take over the remaining part of the activities still in foreign hands. Predominant among the foreign companies operating in the areas of activities exclusively reserved for Nigerians by Decree No. 4 are Syrian, Greek, Levantine, Lebanese and other Arab companies. Most of these companies are engaged in retail trade and can be found in the major cities of the Federation operating their small shops. These retail

trading companies will have to sell their stocks, order no more and then move their capital into those areas of activities not reserved exclusively for Nigerians, or repatriate their capital into their respective countries.

As for British companies operating in Nigeria, very few of them are in those areas exclusively reserved for Nigerians. The two leading British merchant firms, the UAC and John Holt, withdrew from retail trade in the early 1960s and concentrated on wholesale trade. Apart from the retail trade carried out in John Holt's West African Drugs Company and in UAC's Kingsway stores and G. B. Ollivant, in Lagos, British companies have moved out of retail trading. In addition, John Holts' Haco Company - a manufacturer of candles, some few companies assembling electrical goods and appliances, a few others engaged in running advertising agencies and public relations businesses, must be added to the list of the few British companies that will cease to exist as a result of the enterprises exclusively reserved for Nigerians. The Commonwealth Development Corporation (N.) Ltd., which is likely to be affected because one of its subsidiaries in the Northern Nigeria, Northern Nigeria Investment Limited, a joint-venture between the CDC and Northern Nigerian States' governments, has invested a larger part of its resources in enterprises exclusively reserved for Nigerians. Since exemptions can be sought from the provisions of the Decree, the CDC(N) Ltd. has started negotiations with the Nigerian government to present its case for exemption to be granted to its Northern Nigerian subsidiary. It is very unlikely that other British companies affected by Schedule 1 provisions will try to seek exemptions.

The thirty-three enterprises listed in Schedule 2 which are barred to foreigners under certain conditions are enterprises requiring more capital, advanced technology, management and technical know-how than those exclusively reserved for Nigerians. Despite these requirements, Nigerians have got a very good foot-hold in a large number of activities



listed in Schedule 2, but it must be conceded that foreign companies predominate, especially in those activities requiring large capital outlay and advanced management and technical know-how. A large number of British companies will be affected by the provisions of Schedule 2 of the Decree. They include such big companies as the UAC, John Holt, Elder Dempster Lines Ltd., I.C.I., all the British Paint companies operating in Nigeria, Unilever and Richard Costain Ltd. However, there are still some areas of activities not covered by the Decree in which British companies are operating, and such companies include the Nigerian Tobacco Company (NTC), Pilkington Brothers Ltd. and Tate & Lyle. There are two ways open to British companies affected by Decree No. 4 to adapt to its provisions: firstly, they can offer their shares to the Nigerian public until 40 per cent of their equity is in Nigerian hands. This is all that is required from British companies operating enterprises listed in Schedule 2 since most of them have paid-up share capital and turnover in excess of the £200,000+ and £500,000 respectively stipulated in the Decree. Those companies with £200,000 paid-up capital or less will have to expand their businesses above the £200,000 level before offering 40 per cent equity shares to Nigerians. Alternatively, they could sell their businesses and re-invest in other parts of the economy not embraced by the Decree. So also, the second alternative for British companies whose paid-up capital exceeds £200,000 but do not want to offer 40 per cent of their equity to Nigerians, is to sell their businesses and re-invest in other fields if they choose to do so or repatriate their capital to the U.K. It is not possible at the moment to predict how large a number of British companies will adapt to the provisions of the Decree. In the interview conducted in 1972, many British companies explained that they would require clarification of some points before they would know what to do. They were however, not prepared to say which points needed clarification in the Decree.

Others were still undecided as they explained that they would have to wait until 1974 before knowing what to do. It must be added that there was great anxiety all round. In the final analysis, it appears that what most British companies affected by Decree No. 4 want is a reassurance from the Nigerian government about their future in Nigeria should they decide to expand existing businesses or move into new areas of activity in order to obey the provisions of the Decree.

In recent months, there has been a spurt of activities both by foreign and Nigerian companies as a result of Decree No. 4. A large number of foreign companies such as the Union Trading Company, Nigerian Bottling Company, Leventis Motors, Aluminium Manufacturing Company, Associated Industries, Berec (Nigeria) Ltd., the United Africa Company Ltd. and John Holt Ltd., to mention a few, have floated shares and these have been bought by individual Nigerians and associations. Some of these foreign companies, especially the UAC and John Holt, had already been offering shares to the Nigerian public long before the promulgation of the Nigerian Enterprises Promotion Decree in February 1972. Nigerian businessmen have also been taking an advantage of the chances created by the Decree to invest and establish companies for the purchase of expatriate businesses affected. In Kano State, for example, seventy-two new indigenous companies, with a total share capital of £3 million have been established since the publication of the Nigerian Enterprises Promotion Decree.<sup>185</sup>

The real effects of Decree No. 4 cannot be fully appreciated and analysed until several months after the Decree has taken effect. What can be said with every degree of certainty is that there is a great apprehension among British companies operating in Nigeria, and in the immediate future, the economic effects of the Decree are likely to be detrimental to the Nigerian economy for the reasons to be analysed below.

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<sup>185</sup> West Africa 14/4/72.



Shortly after the promulgation of the Nigerian Enterprises Promotion Decree in February 1972, Dr. Nnamdi Azikiwe, Nigeria's ex-President, at the quarterly luncheon of the Nigerian Guild of Editors in Lagos, criticised the "woeful inexperience, culpable incompetence, gross inefficiency and unwarranted ministerial interference" of the Nigerian nationalised industries. He criticised the Nigerian Enterprises Promotion Decree as a phase of nationalisation and would like to see statutory corporations and ancillary concerns run by management agencies on a commercial basis "If we nationalise indiscriminately we shall be obliged to experience disappointments as other nations who were pressured into nationalising their enterprises by doctrinaire ideologists and armchair eggheads".<sup>186</sup> Earlier, Chief Obafemi Awolowo, one of the architects of Nigeria's independence had written on the gross inefficiency of Nigeria's public corporations: "With very few exceptions, Nigeria's public corporations are veritable hotbeds of criminal waste of natural and human resources. This is due mainly to fraud, corruption, and unspeakable inefficiency on the part of the Nigerians and, sometimes, non-Nigerians, who manage these corporations".<sup>187</sup> As said earlier, the Nigerian Enterprises Promotion Decree is not a nationalisation decree and the above quotations from Nigeria's most popular politicians are designed to show some of the characteristics of the Nigerian society to-day.

Three conditions have been emphasized by Dr. Adedeji, the Federal Commissioner for Economic Development and Reconstruction as necessary for successful indigenisation. The first is the need for the emergence of a high breed of Nigerians ready to take risks. Second, there should be concentration on productive rather than speculative investment. The third is the necessity for ploughing back profit rather than indulging

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<sup>186</sup> West Africa, 14/4/72.

<sup>187</sup> Chief O. Awolowo, *The People's Republic*, Oxford University Press, Ibadan, 1968, p. 306.

in conspicuous consumption. In short, successful indigenisation requires the existence of people with management and technical know-how and high-calibre entrepreneurs, capable and competent, able and willing to take risks and expand production into new fields. The majority of Nigerian entrepreneurs lack business acumen and their general attitudes with regard to investment are negative to industrial development. The preference for short-lived speculative investments where profits are probably surer and quicker rather than for taking risks by investing in productive ventures with long gestation periods are attitudinal traits widespread among Nigerian businessmen. The ploughing back of profits is necessary for future expansion and diversification into other areas. A large number of Nigerian businessmen prefer to lavish their profits on women, expensive foreign-made cars, foreign holidays and estate developments. The character and the attitudinal traits of many Nigerian businessmen make it almost certain that most of the businesses they will take over from foreign investors affected by Decree No. 4 will be short-lived.

Managerial incompetence and lack of technical know-how are two further obstacles to the success of Decree No. 4. As Chief Awolowo has observed, "Excessive waste of resources, due to injudicious investment arising from lack of technical and managerial incompetence on the part of Nigerian private businessmen, abound everywhere".<sup>188</sup> Professor Gani Jawando was also equivocal about the ability of Nigerian businessmen to take the opportunities created by Decree No. 4. "Much as one would have wished it otherwise, we should face up to the fact that there is no guarantee whatsoever, especially in view of what we already know, that some of our indigenous businessmen would not let us down in future. We can only pray that the majority would be much more patriotic, and that they would think first

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<sup>188</sup> Ibid., p. 306.



about the national welfare before pursuing their selfish ends", the professor declared.<sup>189</sup>

One of the immediate likely effects of Decree No. 4 is that some of the sectors of the Nigerian economy may stagnate. Indigenisation is a mere transfer of existing enterprises from foreign to local entrepreneurs and in that sense, it cannot lead to the expansion of existing units or the creation of additional units. Owing to the character traits of many Nigerian businessmen, most of the enterprises bought from foreign investors are likely to be short-lived. Nigerian businessmen are status oriented not achievement oriented. They take long leisure time-offs, an indication of high status in Nigeria, with the result that adequate attention to supervising their businesses receives secondary attention. The desire for high profits leads in most cases to shoddy, and trashy products which cannot find a steady market. The resulting effect being the closing down of businesses after some few years of operation. Decree No. 4 is also likely to lead to disinvestment as foreign investors aggrieved by the new regulations repatriate their capital overseas and slow down the rate of expansion in other fields.

It is necessary to emphasize the huge amount of capital required to purchase foreign-owned business affected by the Decree. Chief Fajemirokun, the President of the Nigerian Associations of Chamber of Commerce, Mines and Industries, said early in 1973 that the Federal Military Government needed more than £250 million to aid indigenous businessmen to take over foreign-owned companies affected by the Nigerian Enterprises Promotion Decree.<sup>190</sup> The Managing Director of the Nigerian Industrial Development Bank (NIDB) Mr. Danjyan refuted Chief Fejemirokun's estimate on the ground

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<sup>189</sup> Ibid.

<sup>190</sup> New Nigerian, 18/1/73.

that even though "the exercise will involve plenty of money", no one can really say how much would be needed for the take-over.<sup>191</sup> The Federal Government estimated that £100 million would be needed for the smooth take-over of the businesses affected.<sup>192</sup> The extravagant consumption patterns of some Nigerian businessmen make it certain that many of them would require financial help to buy foreign-owned companies affected. Instructions have already gone to the commercial banks that they should help indigenous businessmen to buy businesses affected by the Decree. Also, the Nigerian Government's compulsory take-over of 40 per cent equity share in three foreign-owned commercial banks, two of which are British, with effect from January 1, 1973 was directed towards influencing, among other things, the loans-policy of these banks. In addition, the Nigerian Bank for Industry and Commerce was established to start operating on April 1, 1973, with an initial capital of £31 million contributed as follows: Federal Government 60 per cent; Central Bank 20 per cent; the commercial banks 20 per cent. The bank was established purposely to aid Nigerian businessmen and institutions in buying from aliens small and medium-size businesses.

By the end of 1974 when foreign-owned businesses would have been taken over by Nigerians under the provisions of Decree No. 4, the Federal Military Government would have spent over £100 million in aiding Nigerian businessmen. The question that easily comes to mind is: how much has been spent to make life convenient for the lower classes? The answer to this question can easily be deduced from an observation of a lecturer at Keele University who in September 1973 was on a visit to Nigeria. In the conversation, the lecturer who has spent over nine years in Nigeria previously told the writer that grumbling on a wide scale is the main feature of the

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<sup>191</sup> New Nigerian 22/1/73.

<sup>192</sup> West Africa, 12/3/73.



Nigerian society at the present time. Apart from the dangerously inadequate water and electricity supply and poor health facilities, which many millions of Nigerians have resigned themselves to, bad roads, lack of employment opportunities and roaring inflation abound everywhere throughout the Federation. What is even more puzzling is the fact that at a time when the world press and the Nigerian Press are immersed in the euphoria about Nigeria's oil boom and prosperity, millions of Nigerians, especially in the rural areas, are finding it extremely difficult to get the three main meals a day. The writer's foremost objection to the Nigerian Enterprises Promotion Decree is the fact that it represents nothing but an upper class policy which is sure to increase the dangerously wide gap between the rich and the poor in Nigeria. Those Nigerians who have amassed wealth during the Nigerian civil war through corruption and smuggling have been provided with an opportunity to increase their dubious wealth. The enterprises affected by Decree No. 4 will necessarily be bought by rich Nigerians and therefore, the Decree can be viewed as a measure for the redistribution of wealth to Nigerians who are already rich.

The Nigerian Enterprises Promotion Decree is likely to result in unemployment and social discontent. There is a deep-seated anxiety among Nigerian employees of the businesses to be taken over by Nigerian businessmen as to their future. Although a large number of foreign companies are bad employers and pay ridiculously low wages, Nigerian employers are likely to be worse. At present, wages paid in a large number of Nigerian-owned companies are below those paid in foreign-owned companies. Added to that are the twin diseases of favouritism and the demand for money before employment, which are prevalent in the Nigerian society. One would have expected a Decree which gives so much to the Nigerian businessmen to contain codes of conduct about wages, employment, quality of products, annual holidays and hours of work, but the absence of such codes of conduct is an important gap in the Nigerian Enterprises Promotion Decree.

Tax evasion is a chronic and common disease among Nigerians in general but it is worse among Nigerian businessmen. Many of them do not keep accounts so that it is difficult to assess the profitability of their businesses. Also, many of them engage in other profitable activities which are neither registered for tax purposes nor regarded as taxable activities by the Nigerian governments. Such activities include housing businesses, transport operation and retail trade. As a consequence, a large number of Nigerian landlords and transporters who are mostly businessmen operating other enterprises and retail traders, both men and women, make thousands of pounds every month on which no tax is paid. Salary-earners bear the brunt of the Nigerian tax system; a junior clerk earning £20 a month pays about £2 in tax and another £2 towards a provident fund, leaving him only £16 for the month, while a retail trader who makes over £1,000 in a month pays no tax. Given the tax evasion ability of Nigerian businessmen, the Nigerian Enterprises Promotion Decree is likely to result in a decrease in the government's revenue emanating from the businesses bought over from aliens.

It is certain that the Nigerian Enterprises Promotion Decree will create a foreign exchange problem for Nigeria as foreign entrepreneurs embark on transferring the proceeds from the sale of their businesses to their countries. Unless the Nigerian government sees that the repatriation of capital is well spaced and effectively co-ordinated, in the short-run, Decree No. 4 is likely to lead to a foreign exchange bottleneck which can precipitate a balance of payments crisis. The latter, in turn, can and will slow down the rate of economic development. It is being argued that in the long run Decree No. 4 will have a favourable effect on the Nigerian balance of payments as Nigerian businessmen take over foreign-owned businesses and will not need to repatriate profits abroad. This argument is based on the assumption that those Nigerians who will take over from foreign investors enterprises affected by Decree No. 4 are patriotic, high-



calibre businessmen who will not attempt to beat Nigeria's foreign exchange regulations to have their money in foreign banks nor extravagantly lavish their money on foreign holidays, expensive foreign cars and goods. From what has been said about Nigerian businessmen, and in the absence of any code of conduct to curb malpractices, it is difficult to imagine how they will contribute favourably to Nigeria's balance of payments as a result of Decree No. 4. One can only hope that Nigerian businessmen will allow the national interest to override their fetish selfish interests so that they can contribute favourably to the country's balance of payments in the long run.

There is the likelihood that the Nigerian Enterprises Promotion Decree will have an unfavourable effect on foreign investments in the country. Apart from the fact that existing investments may be adversely affected as foreign investors wind up their businesses to repatriate their capital to their countries of origin, new and prospective investors are likely to be discouraged. As for British investors already in Nigeria, one can sum up their feelings with two statements made in interviews. "What we are anxious about is how it (Decree No. 4) is going to be implemented for it is this that is going to determine whether investment will be put off", said the representative of one of Nigeria's leading foreign investors. "Much as we would like investment to continue as before I am afraid that the indigenisation decree will put off many foreign investors". The latter statement echoed the feelings of a large number of British companies interviewed. Since the Nigerian Enterprises Promotion Decree has not yet taken effect it is impossible therefore to know whether British companies will actually curtail their investments as they have indicated in interviews. While the Decree may discourage new investors, its effect on already established British investors in Nigeria is likely to be marginal. Given the large domestic market of Nigeria and the rapidly growing income levels,

unlimited opportunities exist for foreign investors in those activities not covered by Decree No. 4. Provided British investors as well as other foreign investors are assured of the safety of their investments in other fields, they are likely to push ahead with their investment programmes.

In conclusion, there can be no doubt about the intention of the Nigerian Enterprises Promotion Decree to increase the participation by Nigerians in their economy by reserving for them certain fields of activities which they are capable of managing, and by enforcing participation in more sophisticated fields controlled by foreigners, which Nigerians have not got sufficient technical and management know-how to control on their own. Although foreign investors may not like the limitations imposed on them by Decree No. 4, it ought to be realised, however, that the threats posed to the national and economic security of a country whose economy is controlled by foreigners are real enough to call for the type of regulations envisaged by the Nigerian Enterprises Promotion Decree. In the final analysis the aims of a National government and those of foreign investors are not always complementary and, in most cases, are incompatible for, while the former strives to increase the welfare of its people, the latter are preoccupied with how to increase the rate of return on capital invested. It is however, questionable whether the Decree would increase the welfare of many Nigerians. As the Decree only involves the take-over of existing businesses by Nigerians, new employment opportunities are not likely to result. In addition, new and improved products and better services are not likely to accompany the implementation of the Decree either. What would most likely emerge, given the attitudinal and character traits of many Nigerian businessmen, are shoddy products, unemployment, and inefficient management of the businesses taken over. Perhaps the most detestable aspect of the Nigerian Enterprises Promotion Decree is the concentration of economic power in few, selfish and extravagant hands. The latter in turn will widen



the enormous gap between the rich and the poor and increase the already noticeable tension between the two classes.

If the Nigerian government wants maximum benefit to accrue to the mass of the people from the opportunities created by Decree No. 4, certain measures require urgent attention. Firstly, a code of conduct rigorously enforced to regulate Nigerian business practices on matters like wages, holidays, employment, the quality of products and services ought to be formulated as a deterrent for the malpractices of some Nigerian businessmen. Secondly, there should be a compulsory registration of all foreign businesses taken over to help the government in the collection of taxes. This should be accompanied by a declaration by their Nigerian owners that the business will not be wound up within the next ten years of their purchases without the permission of the Federal Commissioner for Industries. This will discourage speculative investors. Thirdly, the Nigerian government should intensify its management and technical training programmes so that the vacuum left by the departing foreign managers and technicians can be easily filled with little disruption to the economy. The training programmes of the Industrial Training Fund and the Federal Administrative College should be broadened and widened, while occasional management courses should be designed for Nigerian entrepreneurs. Lastly, the Nigerian government should evolve a clear policy on foreign investment so that foreign investors may know which areas to invest in and how long they could operate in the areas before the insistence on domestic participation. This will go a long way to reduce the anxiety of foreign investors and convince them that the intention of the Nigerian Enterprises Promotion Decree is not to drive them out of Nigeria but "to get the talented foreigner out of petty trading into large-scale manufacturing where he can still retain control and make good profits while gradually passing on his skill to Nigerians".<sup>193</sup>

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<sup>193</sup>The Times, London, October 1, 1973.

## CONCLUSION

The advantages conferred on British investors by the long association between Britain and Nigeria are substantial enough to stand British investors in a better stead vis-a-vis other competitors in Nigeria. Although British investors have exploited these advantages in the past, the existence of a number of obstacles created by British investors themselves, as well as by Nigeria, is constantly reducing their ability to gain substantially from the advantages. The attitudes of British investors to their investment programmes and to the Nigerian society are a great impediment to their investment in Nigeria. The lethargic, conservative and overcautious attitudes of British investors have not only enabled other foreign competitors to be invited to Nigeria, but they have also shaken the Nigerian authority's confidence in their reliability. British companies should strive to pursue aggressive investment programmes and take their Nigerian employees into their confidence in order that they may retain their leading position among foreign investors in Nigeria. While the economic policies regarding the restriction on the repatriation of profits, the employment of expatriates and indigenisation can be defended on the grounds of social and political expediency, the same cannot be said about administrative delays and insufficient infrastructure. The damage done by these obstacles to the Nigerian economy is real enough to warrant their immediate removal with an ultimate beneficial effect on economic development and the inflow of foreign capital.



## SUMMARY AND CONCLUSIONS

Despite the limitations imposed on this study by the non-availability of some statistics, certain specific conclusions on the role of British direct investment in the economic development of Nigeria can be reached. As a first step, it is desirable to point out that the effect of British direct investment depends, to a large extent, upon the fields of activity into which it flows. As we have pointed out in Chapter II, British direct investment was not widely diversified throughout the Nigerian economy during the period covered by this study. A sectoral analysis of investment showed that over 95 per cent of the total direct investment was concentrated in petroleum extraction, distribution and manufacturing. Investments in petroleum extraction accounted for over two-thirds of British direct investment during the 1955-1972 period. Until after 1968, the retail trade and distribution sector was the second most important absorber of British capital investment. The fall in the profit margins of the British merchant firms brought about by fierce competition from Nigerian distributors and foreign manufacturers, and the political pressure applied together with the incentives for industrialisation provided by the Nigerian government, encouraged the redeployment of capital from distribution into manufacturing on a large scale after 1969. As a consequence, the manufacturing sector became the second most important absorber of British capital investment from 1969 onwards. Perhaps the most important sectoral feature of British direct investment between 1955 and 1972 was the insignificant proportion of the total investment concentrated in the agricultural sector. The existence of a large number of peasants in the Nigerian agriculture made the plantation system which is most suitable for foreign investors uneconomic and incompetent. In addition, the policy of the British Colonial Government, which prohibited

the ownership of land in Nigeria by foreigners, and the repressive pricing policy of the Nigerian Marketing Board were enough to make direct investment in Nigerian agriculture both impossible and unattractive to British investors. Therefore British firms were willing to undertake direct investments only in those few cases where the domestic production of raw materials could serve as input for industries and so offer them substantial advantages, as with palm oil and rubber plantation investments. As a result of the low level of direct investment, the contribution of British direct investment to Nigerian agriculture has been largely indirect; the research into crop diseases; the making available to farmers of the results of such research and the granting of loans and credits to farmers; the supply of agricultural implements and the purchase of agricultural products for use in industries.

#### THE OVERALL BENEFITS OF BRITISH DIRECT INVESTMENT TO THE NIGERIAN ECONOMY

From the sectoral distribution of British direct investment in Nigeria, certain specific areas of contribution can be identified. British direct investment has made some net addition to capital formation during the period under consideration. Between 1955 and 1963, only a marginal contribution was made to capital formation since buildings, civil engineering works, land and agricultural development, mainly undertaken by the Nigerian Government and private Nigerians, accounted for over 80 per cent of the total capital formation during the period. Since 1964, investments in plant, machinery and equipment, largely financed by foreign-owned companies have become the most important constituent of capital formation. Investments in plant, machinery and equipment rose from 27.7 per cent of the total capital formation in 1964 to 53.7 per cent in 1972. However, since there were many foreign and indigenous investors responsible for the investments in plant, machinery and equipment, the contribution of British direct investment to capital formation can best



be visualized by the level of capital inflows. Between 1962 and 1967, British capital inflows, of which over 90 per cent were retained earnings, accounted for 8.8 per cent of the total capital formation during the period and this tends to emphasize the limited nature of the contribution.

Although, since 1970, there has been a substantial increase in British direct investments, the contribution to capital formation is still likely to be marginal since there has been a substantial increase in investments all round.

British direct investments have made only marginal contributions to employment in Nigeria. In 1972, the total number of Nigerians employed by British companies was about 50,000, a drop in the ocean out of a working population of nearly 30 million. The proportion was in fact only 0.17 per cent of the working population. The limited employment created by British direct investment was due to the following reasons: (a) the concentration of direct investment in the petroleum industry, which is by nature very capital-intensive; (b) the concentration of investments in other sectors on capital-intensive projects and (c) the adoption of labour-saving techniques in some sectors. Notwithstanding the low level of employment directly generated, it must be conceded as R. S. May has concluded that British direct investment "has made an important contribution to the extension of wage employment in Nigeria".<sup>194</sup> Although British direct investment accounted for only 3.3 per cent of the total wage employment in Nigeria in 1972, such a proportion cannot be dismissed as insignificant since the public sector accounted for nearly 80 per cent of the total. Therefore, British direct investment generated around 16 per cent of the total wage employment in the private sector.

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<sup>194</sup> R. S. May, "Direct Overseas Investment in Nigeria 1953-1963: Some Aspects of its Constitution and Contribution to Nigeria's Economic Development", *Scottish Journal of Political Economy*, November, 1965.

In its contributions to the transfer of technology and to government revenue, British direct investment has been of particular importance to Nigeria. British direct investment has served as an instrument for the transfer of technology which was most significant in the manufacturing and the petroleum industries. Not only did British direct investment lead to the upgrading of human skills, but the transfer of modern technologies to Nigeria also provided the opportunities for the acquisition of new skills through learning by doing. It must be added, however, that the concentration of British direct investment on petroleum extraction, distribution and consumer goods, the last two sectors of which are not research-oriented, necessarily reduced the research and development activities of British companies in Nigeria. The fact that the majority of British companies have no research establishment in Nigeria needlessly reduces the opportunity for Nigeria to gain the much-needed research and development experience.

The contributions associated with British direct investment have been the most important component of the Nigerian government's revenue during the 1955-1972 period. In a country where a large majority of indigenous businesses keep no account to facilitate tax assessment, and tax evasion is acute and widespread, tax incidence in Nigeria falls very heavily on salary earners and foreign companies, who usually keep accounts. As a consequence, British companies contribute a substantial portion of the Nigerian government's revenue. It is the petroleum industry, however, which bears the brunt of the government's taxation policy. In 1971, for example, nearly 32 per cent of the Nigerian government's revenue emanated from the petroleum industry. Shell-BP has always been the major contributor towards the petroleum revenue because of its dominant position in the Nigerian petroleum industry. In 1970, for example, out of the £88 million revenue from the petroleum industry, it is estimated that Shell-BP contributed £65 million which was not only 73.9 per cent of the petroleum revenue,



but also 16.6 per cent of the total Nigerian government's revenue for the year. In addition, the personal income tax payments of British companies' employees were also an important source of public finance.

As a source of foreign exchange, British direct investment, excluding the investment in the extraction of crude oil, has a "once and for all" effect. Apart from the net addition to Nigeria's foreign exchange when the initial investment took place, British direct investment has not been an important source of foreign exchange. During the 1961-1968 period, the net capital inflow to Nigeria emanating from British direct investment amounted to £142.3 million. Out of this amount, unremitted profits were £125.6 million. This means that retained earnings accounted for 88.3 per cent of the total net capital inflow during the period, and that during this nine-year period, the net addition to Nigeria's foreign exchange resources added up to £16.7 million. The low level of contribution to the foreign exchange resources of Nigeria is likely to continue as British investors resort more to internal financing for their expansion programmes.

It follows from the above discussion that if the inflow of capital associated with British direct investment was not an important source of foreign exchange, then the foreign exchange earnings associated with British direct investment's exports must be substantially greater than the cost of imports before such investment could make a significant contribution to the Nigerian balance of payments. Apart from petroleum investment, British direct investment was concentrated on goods and services meant for domestic consumption and as such, was not a source of foreign exchange. But such direct investment was a source of balance of payments problem for Nigeria, since it entailed a substantial amount of imports which was not matched by a corresponding amount of generated exports. As shown in Chapter VI, exports of crude petroleum by Shell-BP exceeded its imports by only £12.1 million during the 1938-1964 period. Although crude oil export began to exceed the imports associated with petroleum production in

1961, it was not until after 1964 that the value of such exports was substantial enough to swamp the effect of the substantial imports associated with British direct investment in other sectors. It is, therefore, clear that between 1955 and 1964, British direct investment did not contribute favourably to Nigeria's balance of payments.

The above conclusion does not, however, agree with the one reached by May on the effects of British direct investments on the Nigerian balance of payments during the 1953-1963 period. May concluded that "direct investment by overseas companies has helped Nigeria's Balance of Payments very considerably."<sup>195</sup> May arrived at his conclusion by considering the exports associated with direct investments, of which tin and crude oil were the only two. He then asserted that a substantial amount has been saved from import substitution in Nigeria. He compared capital inflow with the value of Nigerian exports and in the end, noted that the profits of U.K. companies were "moderate" and as such, could not and did not create any balance of payments problem for Nigeria. May's analysis of the contribution of direct investment to Nigeria's balance of payments was based on the equation :

$$CB = E + C + S - R_p \dots\dots (1)$$

where CB is the contribution to balance of payments

E is the value of exports associated with investment

C is capital inflow

S is the saving on import substitution

and  $R_p$  is the repatriated profits.

Thus, during the 1953-1963 period  $E + C + S > R_p$ ,

hence British direct investment contributed considerably to the Nigerian balance of payments.

May's analysis can be criticised on a number of points. The first criticism is the omission of vital statistics from his analysis. It is true that

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<sup>195</sup> R. S. May, op. cit.



British direct investment gave rise to tin and crude oil exports but, during the 1953-1963 period, such exports were marginal since the agricultural sector accounted for over 90 per cent of the Nigerian total exports during the period. But, even if the value of tin and crude oil exports were substantial during the period, what is important from the point of view of balance of payments contribution is the net foreign exchange earnings, after deducting the imports associated with exports. May's failure to consider the imports associated with tin and crude oil export is an important gap in his analysis.

The second criticism of May's analysis is his treatment of the effect of import substitution on Nigeria's balance of payments. May asserted that the savings from a reduction in imports associated with import substitution industries were a benefit to the Nigerian balance of payments. As has been shown in Chapter IV, import substitution in Nigeria, far from being beneficial to the Nigerian balance of payments has created foreign exchange problems in two ways. Firstly, there is the substantial imports of raw materials and capital goods associated with import substitution which could not be paid for by the exports of manufactures. Secondly, the dissatisfaction with the import substitution goods has resulted in a high level of smuggling in Nigeria, which has also leaked Nigerian foreign exchange overseas.<sup>196</sup>

In addition, the problem of estimating the foreign exchange savings associated with import substitution is enormous since the domestic production of goods in itself generates a demand which has nothing to do with imports. As a consequence, a comparison of the increase in domestic production and import levels cannot be regarded as a reliable indication of what will happen to imports in the absence of domestic production. But domestic

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<sup>196</sup> See Chapter III for the foreign exchange cost of smuggling Nigerian primary products overseas.

production, through its income effect, can have a worsening effect on the balance of payments. An increase in domestic production will necessarily increase the wages and salaries of employees, which will, in turn, leak foreign exchange resources overseas through an increase in the demand for imports and an increase in the amount of salary expatriates repatriate to their countries.<sup>197</sup>

Also interesting is May's treatment of the effects of profits repatriated on the Nigerian balance of payments. The earnings of British investment in Nigeria (excluding oil and except for 1963, insurance) according to May, averaged only 6.4 per cent on a total net asset value of investments over the period 1958-1963. This low level of profit was enough for May to conclude that "in view of the moderate profit rate achieved, the size of current payments in respect of direct investment has not been a problem item in Nigeria's Balance of Payments."<sup>198</sup> It has been shown in Chapter II that as long as companies use transfer prices to hide the level of their profits in order to avoid public outcry when published profits are high,<sup>199</sup> and to avoid tax payment, the profits shown by companies on their profit and loss account are likely to be low.

The difference between the writer's and May's estimate of the effect of direct investment on the balance of payments is clear-cut. The writer's estimate is based on the equation:

$$CB = E + C + S - Rp - W - I \dots (2)$$

where  $W$  is the foreign exchange leakage as a result of expatriates sending some parts of their wages and salaries home,

$I$  is the value of imports associated with direct investments

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<sup>197</sup> The proportion of their salaries which expatriates are allowed to send home is estimated as a percentage of their salaries, which falls or rises with a decrease or an increase in their total earnings.

<sup>198</sup> R. S. May, op. cit.

<sup>199</sup> See E. T. Penrose, "Foreign Investment and the Growth of the Firm", *Economic Journal*, June 1956, for the reaction of Australia to the high profit made by General Motors-Holden's Ltd.



and CB, E, C, S AND Rp having the same identity  
as in equation (1)

Thus, the contribution to balance of payments is positive if

$$E + C + S > R_p + W + I$$

During the 1953-1963 period,  $E + C + S < R_p + W + I$

and therefore, the balance of payments effect of British direct investment on Nigeria was negative. Since 1965, however, the crude oil exports of Shell-BP have been large enough not only to pay for the imports associated with British direct investments in other sectors, but also to make a substantial net contribution to foreign exchange reserves of Nigeria. Therefore, between 1965 and 1972, British direct investment made a favourable contribution to the Nigerian balance of payments.

British direct investment has also made some contribution to the Nigerian Gross Domestic Product. In 1962-63, for example, mining, manufacturing and distribution contributed 2 per cent, 5.8 per cent and 12.2 per cent respectively to the GDP. The proportions have increased to 18.5 per cent, 8.5 per cent and 11.5 per cent respectively in 1971-72. Since British companies predominate in these three sectors, the contribution of British direct investments to Nigerian GDP in 1971-72 could be of the order of 19 per cent.<sup>200</sup> In addition, although British direct investment as a proportion of total foreign investment in the manufacturing sector has been falling since 1960, nevertheless British direct investments were, in large part, responsible for the rapid and substantial growth and the diversification of industrial production during the 1955-1972 period.

#### THE LIMITATIONS OF DIRECT INVESTMENT

British direct investment would have contributed more to economic development in Nigeria were it not for the following limitations. The

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<sup>200</sup> This estimate is based on the assumption that British companies were responsible for over two-thirds of mining's contribution to the GDP and one-third of the contributions of manufacturing and distribution sectors.

first is that associated with the high import-content of most of the direct investments. Excessive dependence upon imported raw materials and capital goods should be emphasized as one of the main features of British direct investments, and this explains why, during the 1960-1971 period, capital goods and raw materials accounted for nearly 60 per cent of the Nigerian total imports. On average, more than 65 per cent of the value of British direct investment's manufacturing output is accounted for by the cost of imported raw materials and capital goods. The corresponding proportion for the Nigerian economy as a whole is 45 per cent.<sup>201</sup>

As a second limitation, apart from mining investment, British direct investment was concentrated on the production of goods and services for domestic consumption, and not for export. When the first and the second limitations are combined, two further results come out quite clearly and these are (a) the limited nature of the linkage effects of British direct investment, and (b) the constraint imposed on the foreign exchange resources of Nigeria through an over-dependence on imports which could not be matched by export earnings.

The third limitation is the concentration of direct investment in the manufacturing sector on final products. During the period under consideration, over 80 per cent of British manufacturing investment was concentrated on final consumption goods. This means that the linkage effects of such investment were invariably very limited. The intermediate goods sector even now accounts for only 18 per cent of the Nigerian industrial production, while the capital goods sector accounts for 23 per cent. The obvious conclusion to be drawn from the third limitation is that British direct investment has not helped much in the deepening of the Nigerian economy. Until such time when the end uses of goods associated with British direct investment are not for consumption,

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<sup>201</sup>p. C. Asiodu, op. cit.



but to serve as input for industry, British direct investment will not have substantial linkage effects and contribute to the deepening of the Nigerian economy.

The last limitation is the specificity of certain direct investments. This prevented the maximum utilization of the resources under the control of British companies to the greater advantage of Nigeria. An instance of this particular case is the petroleum industry; Shell-BP undertook the major investments for the sole aim of supplying crude oil to the international market, thus neglecting the possibility of a petro-chemical complex and the economic use of the natural gas produced in conjunction with crude oil. In 1970, over 700 million cubic feet/day of associated gas were flared in the Nigerian oil fields and the amount has increased to over 1000 million cubic feet/day recently. In an editorial headed "Making use of our Gas Resources", the Nigerian Daily Times notes that "over 1000 million cubic feet of gas associated with oil-production is now being burnt daily at the well heads in the oil-producing areas", while "importations of gas run into about N£15 million a year".<sup>202</sup> The gas flared by Shell-BP must have represented a substantial loss of revenue to the Nigerian economy.

#### THE EFFECTIVENESS OF U.K. AND NIGERIAN GOVERNMENTS' POLICIES TOWARDS

##### BRITISH DIRECT INVESTMENT IN NIGERIA

Nigeria has, over the period under consideration, adopted an open-door policy towards foreign investments and deliberately encouraged direct investments by various incentives such as tax holiday, accelerated depreciation, initial investment allowances and tariff protection. Given the limitations associated with British and other foreign investments in Nigeria, some of the incentives were neither necessary nor effective.

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<sup>202</sup> West Africa, 29 October, 1973.

Excessive tax concessions to foreign investors not only deprived the Nigerian Government of substantial revenue, but they also encouraged capital-intensive production techniques as capital equipment could be written off during a short period of time. Presumably, if the incentives to foreign investors had taken the form of wage subsidies, more Nigerians could have been employed.

The effectiveness of the various incentives was never investigated and, as a consequence, a large number of the incentives were often a case of giving something for nothing. As an example, the tax incentives were so ridiculously generous that they not only allowed foreign investors to write off their capital equipment within 2 - 5 years of their purchase, but they also allowed some companies who made substantial profits during their early years of operation to get away completely untaxed. In addition, two further features of the government's incentives policy, which were very unsatisfactory were (a) the differences in the period for which tax relief is granted to investors, and (b) the differences in the level and amount of relief granted to investors in the same industry. If differences were to exist, and they should in fact exist, then the importance of such differences ought to be investigated and demonstrated. One could conclude that the Nigerian Government's policies are unsatisfactory as the policies have (a) not been important in attracting foreign investors and (b) have offered unnecessary protection to inefficient firms at the expense of the more efficient ones.

Given the fact that a large number of British investors in Nigeria were former exporters to the Nigerian market, and were also existing investors diversifying to related and new lines of profitable productive activities, the non-existence of many of the allowances could have had little or no effect on their investment programmes. In actual fact, there was a general consensus among the British companies interviewed that only two of the



government's incentives were considered important and these were (a) the accelerated depreciation allowances and (b) tariff protection. According to P. C. Asiodu, the rapid growth in industrial production in Nigeria during the past decade was due to the size of the Nigerian market giving rise to a high level of investment opportunities to meet increasing demand.<sup>203</sup> Asiodu's conclusion seems to tie with the findings of R. S. May and with the results of the interview of 37 British companies conducted by the writer on the motivation to invest in Nigeria in which 38 per cent emphasized the inherent strength of the Nigerian economy and the long-term prospects for industrial investments. It is likely, therefore, that the most important incentive for foreign investment in Nigeria is the existence of profitable opportunities resulting from the rapidly growing market of Nigeria.

It is in the light of the natural market incentive of Nigeria that the government's industrial policy and incentives ought to be re-appraised to halt the generous hand-out to investors, both Nigerian and foreign alike. It must be added, however, that a large number of infant industries in Nigeria require tariff protection at the early stages of their development. Once these industries are well-established, the government should be able to remove the tariffs gradually, for the sake of increased efficiency. Over and over again, British companies interviewed emphasized the need for tariff protection. The problem associated with tariff protection is that once introduced, protected industries tend to want it to stay on for ever. Yet, it can be demonstrated that excessive protection tends to be detrimental to the national economy of the country offering the protection. As Harry Johnson has shown, tariff protection, even when accompanied by technical progress, can reduce the

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<sup>203</sup>p. C. Asiodu, "Industrial Policy and Incentives in Nigeria", NJESS, July 1967.

country's real income by increasing the resources shifted towards the industry where the progress occurs. This can happen through the excess cost of additional protected production of import substitutes which may more than absorb the increase in potential output per head.<sup>204</sup> This, of course, has been the case with the Nigerian textile industry. Shielded from international competition, the high cost of textile production and the resulting high prices for final textile products have made it impossible for the Nigerian textile industry to sell the goods it produced. In addition, tariff protection can result in the production of inferior and shoddy goods which can neither get into the domestic market nor into foreign markets.

Two further points are also worth noting. Firstly, tariff protection for infant industries in developing countries is based on the premise that these countries do not have at their disposal the modern production technology which can enable them to compete on an equal footing with developed countries. It seems therefore that tariff protection for firms from advanced societies, who have access to the most modern forms of technology, may represent an unnecessary subsidy, and that may be detrimental to the welfare of the developing country offering the protection. Secondly, tariff protection has been so widely offered by many developing countries that foreign investors have had to take more important factors into consideration before deciding whether or not to invest in a particular country. Such important factors include the availability of supplementary and co-operating factors like labour, land and domestic capital, the nature and the resources endowment of the country, the forms and characteristics of economic and social institutions and the level of development in the economy. While these factors seem to be more important in attracting

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<sup>204</sup> H. Johnson, "The Possibility of Income Losses from increased efficiency or factor accumulation in the presence of Tariffs", *Economic Journal*, March 1967.



foreign investment than tariff protection, Nigeria cannot unilaterally remove the tariff protection offered to firms without putting itself at a disadvantage vis-a-vis other developing countries who still retain the protection. The developing countries, when attracting foreign investment do not collude to offer uniform incentives to prospective investors. Instead, there is usually a cut-throat competition in offering generous incentives, which, on the aggregate, makes nearly all of them worse off. There seems to be no easy solution to this problem because there does not exist an organisation which can foster the collusion. Even if there were such an organisation, its efficiency and effectiveness would depend on (i) a general consensus by developing countries to honour agreements and (ii) a uniform distribution of gains among developing countries. While such an organisation exists for petroleum investments (the OPEC), and has enjoyed a measure of success, it is doubtful whether an organisation comprising all the developing countries will be able to achieve as much as the OPEC. Until such time when the developing countries will agree among themselves to remove the unnecessary subsidies offered to foreign firms, Nigeria will just have to behave like others in formulating its incentive policies. However, the advantage conferred on Nigeria, where foreign exchange is not a constraint, must ensure that foreign investments are not admitted on any term and that more fundamental contributive factors are taken into account when granting concessions to foreign investors. In the final analysis, while new industries require tariff protection at the early stages of their establishment, the Nigerian authorities should review the cases of each industry from time to time, in order to reduce tariffs when appropriate so as to increase industrial efficiency through exposure to foreign competition.

As for the British government's policies, they have had little or no effect on the flow of investments to Nigeria. Nigeria, being a member of

the Commonwealth is in the Sterling Area and until 1965, the British Government has not objected to direct investments in this area. When the British Government has regulated the supply of currency available for direct overseas investments, usually during periods of balance of payments crises, the effect on Nigeria has been marginal because most British firms rely on internal financing for their expansion. In addition, the Lagos Stock Exchange, although young, provides an opportunity for raising additional capital through share issues. The commercial banks, the most important of which are British (Barclays and Standard) have offered, and will continue to offer generous loan facilities to British firms.

THE FUTURE ROLE OF BRITISH DIRECT INVESTMENT IN THE ECONOMIC DEVELOPMENT  
OF NIGERIA

The main conclusions of this study are (a) that British direct investment has been beneficial to the Nigerian economy by making a positive contribution to economic development; (b) that the contribution was made possible largely by the petroleum investments; (c) that the level, kind and extent of contributions were determined and limited in various ways by the nature of some investments, by the industry where they took place, by the end uses of final products and by the type of market the investments serviced, and (d) that the effects of the limitations can be ameliorated by a change in the investment strategy of British investors and by particular government policies.

It would be interesting to consider the conclusions of this study in the light of the future role of British direct investment in Nigeria. If anything, this study emphasizes the basic fact that British direct investment has not helped much to solve the major problems facing Nigeria at the present time. The first is how to feed the rapidly growing population adequately. The second is how to employ the large pool of healthy but



unemployed labour which could be a threat to economic order. The last problem is how to redistribute the national income and wealth of the country so as to bridge the enormous gap between the rich and the poor. While British direct investment has contributed both directly and indirectly to food production and employment in Nigeria, such contributions have been marginal, given the nature and the extent of the problems. But it must be added that British direct investment has not contributed to a reduction in inequality; it has in fact helped to create a class of satellite bourgeoisie, thus only increasing the number of the few vultures among myriads of sparrows. It is necessary to add, however, as Professor Seers has said that "If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development', even if per capita income doubled. This applies, of course, to the future too. A 'plan' which conveys no targets for reducing poverty, unemployment and inequality can hardly be considered a 'development plan'".<sup>205</sup>

It must be emphasized that it is not the duty of British direct investors or any other foreign investor to solve the problems facing Nigeria. As we have pointed out in Chapter II on the motivation to invest in Nigeria, not one British company mentioned as its aim the desire to solve Nigerian problems. There is clearly a divergence of interests between a foreign investor and the national government of a country receiving that investment. On one hand is the aim of the foreign investor to get as high a return as possible on his capital, and on the other, is the aim of the recipient of investment to utilize the inflow of capital to solve problems of poverty, unemployment and so on. The existing divergence of interests clearly shows

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<sup>205</sup>D. Seers, "The Meaning of Development", Institute of Development Studies, Sussex University, 1970, p. 5.

that the Nigerian Government cannot rely on foreign investment to solve the problems facing the country. If Nigeria is interested in development, then it must be done by Nigerians. As a consequence, Nigerians can only rely on foreign investment playing a subsidiary role in the economic development of their country.

The functions which foreign investors can perform in their subsidiary role include feasibility studies, project evaluations, the supply of technology and the provision of management services. All these functions can best be performed through collaboration, which may take the form of joint-ventures, management contracts, and technical co-operation. The major advantages of foreign collaboration are flexibility, cheapness and efficiency in stimulating domestic production. These advantages have been turned into reality in many developing countries. "The main advantage of foreign collaboration has been to increase rapidly the production of items covered by the agreements, and to bridge the technological gap between India and advanced countries. Foreign collaboration has been one of the main factors leading to the rapid diversification of the industrial structure of India.....The main cost to India has been the remittance of royalty payments".<sup>206</sup> The rapid pace of industrial development in many Latin American countries, especially, Argentina and Brazil, is due, in no small measure, to collaboration between these countries and the United States.<sup>207</sup> In the final analysis, foreign collaboration seems likely to offer more benefits to Nigeria than the random inflow of foreign investment since the Nigerian Government will only seek collaboration in projects necessary for the rapid economic development of the country.

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<sup>206</sup> I. A. Litvak and C. J. Maule, editors, *Foreign Investment: The Experience of Host Countries*, Praeger Publishers, New York 1970, p. 299.

<sup>207</sup> See F. J. Tickner, *Technical Co-operation*, Hutchinson, 1965; and P. Gabriel, *The International Transfer of Corporate Skills*, Harvard University Press, 1967.



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