PROGRAM OF DEVELOPMENT STUDIES
121 Sewall Hall
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Houston, Texas 77001

Paper No. 27

Indigenisation of Industry and Progress of the Second Nigerian National Development Plan

by

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Fall, 1972

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In the last 25 years there have been two broad nation-building movements sweeping over Africa. The first was primarily political and aimed at establishment of political independence. Its chief objective, national sovereignty free from colonial tutelage, was formally achieved for the majority of African countries by about 1960. The second movement, which is an essential complement to the first, aims at economic independence. Its primary objective is national control over the development and management of a country's economic resources.

Almost inevitably, the movement for economic independence could not get under way until after the achievement of political independence. In general, it was not until the second half of the 1960s that African countries developed systematic policies aiming at gaining effective control over their economic destinies. Among these policies, indigenisation of industry plays a major role. Indigenisation of industry takes two forms: the first is indigenisation of ownership of industrial assets, which may be public or private ownership; the second is indigenisation of management of foreign owned or foreign controlled industries. The purpose of this article is to review Nigerian indigenisation policy under the 1970-74 Plan and to examine the progress made during the first two years of the Plan.

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*The author was Program Adviser for the Ford Foundation in Nigeria from 1969 to 1972. He wishes to express his gratitude to the Ford Foundation, the Nigerian Institute of Management and Mrs. Carolyn C. Stremlau for assistance in collecting local data on indigenisation. Mrs. Stremlau, who carried out a local survey, is a doctoral candidate at the Fletcher School of Law and Diplomacy.

Policy of the Plan

The Second National Development Plan 1970-74 is an important landmark in the development of indigenisation policy not because it introduced any radical shifts in existing policy, but because for the first time it clearly specified indigenisation as a top priority policy objective for the country. The chief author of the Second Plan had criticized the First National Development Plan for its laissez-faire open economy orientation, and its consequent failure to formulate policies that were responsive to the socio-political needs of the country. Nevertheless, important policy changes had taken place during ten years of independence. The government had begun to establish the position that it expected Nigerians to play an increasing role in the economic affairs of the country. Foreign companies were told that they were to cut the number of expatriate staff and to hire and train more Nigerians. It was in 1966/67 that the present Expatriate Quota Allocation Board was established. These were mild measures, partly, no doubt, because the Civil War soon began to absorb the attention of the government.

The authors of the 1970-74 Plan were highly critical of the accomplishments of indigenisation policy before 1970. The Plan notes that "the main weakness of Nigerianisation policy in the past was the absence of an enforcement agency, with the result that each employer decided how fast and how far it would go on the path of Nigerianisation. At best, all that was available was moral suasion. Beginning with the present Plan, the government will establish an agency whose sole responsibility will be to ensure that all employers (public and private) conform to the Nigerianisation policy to which the nation has long been committed." (p. 288) To enable the Quota Board to function properly, it needed the kind of clear-cut mandate that the Second Plan provided and the supporting implementation measures that were instituted under the Plan.

Before turning to an examination of the implementation of Nigerian indigenisation policy, it will be fruitful to analyze briefly the basic strategy of this policy. The Nigerian government has adopted a strategy which tries to combine increased economic control by nationals with maintenance of an inflow of foreign capital and skills. It is a strategy which seeks to increase both ownership and employment of nationals in skilled decision-making positions. The planners were very explicit on this issue: "The Government...cannot continue to tolerate a situation in which high-level Nigerian personnel educated and trained at great cost to the nation, are denied employment in their own country by foreign business establishments..."(p. 289). It is also a strategy which puts certain constraints on the kind of industries in which foreigners may invest, but the government has emphasized that "Foreign Investment is still welcome and will for a long time be welcome as an important component in Nigeria's economic development. In fact many business incentives operating in the country today are aimed at encouraging private foreign investment in Nigeria. What indigenisation seeks to do is to delimit areas in which private foreign investors will operate." [First Progress Report on the Second National Development Plan, Lagos, 1972, p. 36].

It is quite clear that it is not the intention of the government to sacrifice the progress of the economy for the sake of indigenisation. The First Progress Report on the 1970-74 Plan warns that "it is important to insure that indigenisation does not slow down the rate of economic growth." (p. 36). This warning should be interpreted in the proper context. It undoubtedly means that the planners are convinced that if adequate supporting measures are taken, there is no need for indigenisation to harm the growth rate. Crucial among these supporting measures are manpower development and capital and technical assistance to indigenous entrepreneurs. The Second National Development Plan foresaw the need for such measures and made a number of important recommendations. These include capital assistance measures as well as assistance to training, such as the Industrial Training Fund and the Center for Management Development. Governing bodies for both of these institutions have been created.

Implementation

Two years is a short period for an evaluation of the implementation of a long-run policy such as indigenisation. This is especially true with regard to indigenisation of industrial ownership. It is possible, nevertheless, to point to some important first steps in this area. By far the most important of these has been the Nigerian Enterprises Promotion Decree of 23 February, 1972. This decree, as is well known, seeks to promote indigenisation by reserving certain industries exclusively for Nigerian ownership and by limiting the role of foreign enterprise in other industries.

Schedule 1 of the Decree, which lists the 22 kinds of enterprises reserved exclusively for Nigerian ownership, comprises those industries like road haulage, retail trade, laundries, and bakeries in which Nigerian enterprise already plays a dominant role and where capital and skills requirements can be met from Nigerian sources without much difficulty. Schedule 2 lists 33 industries in which foreign ownership is excluded if the paid-up share capital of the enterprise does not exceed £200,000, or if the turnover of the enterprise does not exceed £500,000. If the capital or turnover exceeds the stipulated sum, foreign ownership is limited to a maximum of 60 percent of the equity capital. The industries of schedule 2 are those which often require considerable capital investment and technological or managerial know-how

Since the provisions of the decree will not come into force until 31 March, 1974, it is difficult at this stage to foresee all of their ramifications. The initial response of the Nigerian public has been very favorable to the decree. Some reservations were expressed in the press with regard to the length of time allowed before the decree takes effect, but it is difficult to see how it could be carried out in a shorter period and still permit an orderly transfer of ownership. With respect to the 22 industries reserved exclusively for Nigerians, relatively few difficulties of execution are expected, since these are likely to be taken over and managed by indigenous businessmen already active in these industries. The 33 industries of schedule 2 are likely to pose more difficult problems. They will require much more elaborate enforcement measures. There will necessarily be a substantial expansion in the trading of capital shares, which will put a considerable burden on the country's rather thin financial market. Since up-to-date records of current share ownership is essential for enforcement of the decree, it will be necessary to devise more effective mechanisms than those currently in existence. These and many other technical difficulties will have to be resolved by the Enterprises Promotion Board and the Enterprises Promotion Committee of each State, which were set up to administer the Decree.

Aside from the Enterprises Promotion Decree, government has taken a number of other steps aiming at spreading Nigerian industrial ownership. On the side of public ownership we should mention the creation of a National Oil Corporation and the growing government participation in foreign oil companies operating in the country. Furthermore, the government is taking steps to expand its participation in other industries such as banks, oil refining, and automobile assembly plants. Under the Plan the government has also reserved certain strategic industries such as petrochemicals, and iron and steel, for public ownership, but major projects in these fields are for the most part still in the preparatory stage.

To promote private indigenous ownership of industry, the government has initiated various steps to increase the availability of capital to indigenous enterprises. The Nigerian Industrial Development Bank has substantially increased the percentage of its loans made to Nigerian owned or controlled enterprises. It is studying the possibility of creating, in cooperation with the ministries of industry and trade, a sizeable loan fund reserved to small indigenous enterprises. There are apparently other financial measures the Federal Government is considering to assist in the implementation of the Enterprises Promotion Decree. The Central Bank has taken the indigenisation objectives of the Plan into account when it issued its credit control regulations. It established a specific percentage of commercial bank loans made in each industry that must be allocated to indigenous enterprises.

The efforts of the Federal and State governments to promote small industry can be seen as an aspect of indigenisation policy. Under the Plan, the Federal Government for the first time established a small industries promotion policy. The Federal Government has taken over the financing, management and development of the industrial Development Centers of Zaria and Owerri, and is preparing the creation of similar center in the West. A Small Industries Division has been created within the Federal Ministry of Industries. Its task is to promote the national Small Industries Policy and coordinate the efforts of the states. As foreseen in the Plan, both the Federal and the State governments have created special small industries loan funds. Combined with the technical and managerial assistance to be provided through the Industrial Development Centers, these loan funds, especially if they are further enlarged, will play an important role in the development of indigenous industrial ownership and entrepreneurship.

We turn now to the implementation of management indigenisation. As recommended in the Plan, there has been a considerable tightening of the quota allocation system over the last few years. Prior to 1967, the quotas were administered by the Ministry of Internal Affairs. The present Expatriate Quota Allocation Board has representatives from eight Federal Ministries (Industry, Economic Development and Reconstruction, Mines and Power, Labour, Trade, Finance, External Affairs, and Internal Affairs) and from the Nigerian Industrial Development Bank. The composition of this Board is indicative of the government's concern to take into account the needs of industry and the manpower dimensions, as well as the implications for external and internal policy.

The Board issues new quotas and revises existing quotas. In the past, quotas had been issued on a very liberal basis, for indefinite periods. Under present policy, quotas are issued for specific positions and usually for limited periods of time, ranging from two to five years. Only in the case of positions like those of managing director are quotas issued on a "permanent until reviewed basis." It is not legal for a company to switch individuals into quota positions which do not correspond to their work qualifications. In other words, a quota position for an accountant cannot legally be filled by a marketing manager who is not an accountant. The Board thus looks not only at the total number of expatriates employed in a company but also, and primarily, at the kind of work they are doing. Only those positions for which no indigenous personnel with the needed experience and training are available are entitled to expatriate staff.

When the Board reviews a company's expatriate quota positions, it assigns dates by which positions presently filled by expatriate personnel will have to be Nigerianised. This is a difficult task. The Board has to take many factors into account in making its decisions, including the growth rate of the company, the total number of expatriates in the company, the positions they occupy, the firm's record of indigenisation, the number of years it has been operating in the country, the technical requirements of the positions, and the firm's efforts in training local personnel. All of these factors have to be weighed against the availability of indigenous qualified manpower. The Board's decisions, therefore, vary depending on the technical skills and experience required.

The two main problems facing the Board are the size of the task in relation to the staff available to the Board, and the difficulty of obtaining reliable information on the real requirements of the firms and the real qualifications of both expatriate and indigenous staff. The Board is expected to make decisions regarding the number of indigenous personnel who can replace expatriates in a given industry or company without impairing productivity and economic growth. Under present circumstances it has to rely very heavily on information provided by the companies whose quota is under review. The companies have a predictable interest in presenting mainly the kind of information that favors their requests for a particular size quota. It is not unusual for them to overstate the degree of technical skill required to perform a certain job and the length of time required to acquire such skills. The companies may also exaggerate the difficulties of finding qualified Nigerians for certain positions. Such claims do not necessarily indicate ill will on the part of the companies. Managers naturally seek to leave themselves as much freedom as possible in the face of uncertainty regarding future needs and supplies of qualified manpower.

It is obviously not possible for the Board, even if it had a substantially larger staff, to investigate and check out the details of every claim. The Board has to make judgments in the light of its experience and the record of similar industries facing comparable situations. Aside from making quota decisions, the Board also has to see to it that its decisions are observed. The enforcement of decisions is assisted by the requirement that each employed expatriate in the country is in possession of a work permit. Such permits are now issued only to individuals who possess skills that are judged to be scarce in the country. While there are no doubt violations of the Board's rulings, casual observation indicates rather general compliance, especially in the larger manufacturing enterprises and in highly visible organizations like oil companies. While by no means perfect, the Nigerian approach seems to be more effective than similar efforts in other African countries.

Current status of indigenisation

Without a complete census of industry and trade showing ownership and employment by nationality, it is difficult to provide accurate estimates of the extent to which the economy is indigenised at the present time. Some idea of the status of management indigenisation may be obtained from a survey of 75 firms carried out by the Lagos office of the Ford Foundation in cooperation with the Nigerian Institute of Management to develop guidelines for management training.[1] The firms are located in Lagos, Kano,

[1] A more extensive report on this survey is contained in Gaston V. Rimlinger and Carolyn C. Stremlau, Indigenisation and Management Development in Nigeria, to be published by the Nigerian Institute of Management.

and Kaduna, and represent the major industries in the country in which expatriates are employed. All but two of the firms were foreign-owned, in terms of majority stock ownership. Their total employment was 67,764, of whom 2,217 were expatriates. In other words 3.27 percent of employment was expatriate. This percentage is not too different from what we estimated to be the overall employment of expatriates in the modern sector of the economy. Based on fragmentary data obtained from the government and foreign embassies, we calculated that there are roughly 20,000 expatriates employed in the modern sector, leaving out teachers, missionaries and doctors. The Plan estimated that by the end of 1970 there were about 765,000 persons employed in the modern sector, which would give us 2.6 for the percentage of expatriates. With the inclusion of the groups left out the percentage should be in the neighborhood of 3 percent.

As indicated by Table 1, the ratio of expatriates to total employment varies widely between industries. In petroleum producing 16.6 percent of employment is expatriate, while in the beer and soft drinks industry the percentage is only 1.6, or one-tenth as high. These figures indicate only relative concentration of expatriates. They are not indicative of responsiveness to indigenisation policy. In making judgments on responsiveness one has to take into account such factors as the technology of the industry, the length of time it has been established in the country, its current rate of expansion, and the availability of qualified indigenous personnel of the type needed by the industry. In general, the ratio of expatriates to total employees tends to understate the role of expatriates in industries which employ large numbers of unskilled or semi-skilled workers, who are normally nationals.

TABLE 1: Number of Employees and Number of Expatriates by Industries

Industry	No. of firms	Total emp.	No. of expatriates	Average ratio* of expatriates/ total employment
Banking	7	6,744	270	1:18
Beer & soft drinks	7	4,644	86	1:61
Enamelware	5	4,050	80	1:52
Metal fabricating	10	2,802	62	1:48
Petr. marketing	7	2,680	108	1:25
Petr. producing	6	3,661	622	1:6
Pharmaceutical	7	1,742	31	1:48
Textiles	9	21,750	428	1:47
Trading	6	10,235	382	1:37
Miscellaneous	11	9,456	147	1:71
Total	75	67,764	2,217	

Source: Rimlinger and Stremlau, *op. cit.*

*Ratio calculated separately for each firm, then average taken for industry.

In order to understand how much progress indigenisation has made in a firm or industry, one must analyze not merely the numbers of expatriates and nationals employed, but also the positions they occupy and the responsibilities they have. One firm may have fewer expatriates than another, but the expatriates of the first firm may play a more pervasive and controlling role, to the exclusion of nationals, than the larger number of expatriates in the second firm.

One way of gauging the progress of indigenisation is to examine the type of work done by expatriates. Table 2 provides information of this kind in terms of management functions. Expatriates in top management positions (Managing Director, General Manager, Assistant Managing Director, Assistant General Managers) are grouped separately in the first column. One of the noteworthy aspects of the table is the high concentration of expatriates in

TABLE 2: Distribution of Expatriate Personnel by Functions and by Industries *

Industry	MD, GM AMD, AGM	Finance	Marketing/ Sales	Prod/ Tech	Adm.	Total
Beer & soft drinks	10%	5%	21%	56%	8%	100%
Enamelware	8	4	1	84	3	100
Metal Fabr.	18	10	11	58	3	100
Petr. marketing	8	17	32	31	12	100
Petr. producing	1	6	0	75	18	100
Pharmaceutical	29	7	50	11	3	100
Textiles	4	2	1	90	3	100
Trading	3	5	55**	35***	2	100
Average	10.1	7.0	21.4	55.0	6.5	100

*The table excludes banking because positions in this industry are not easily categorized according to this scheme.

**Non-technical goods

***Motors and technical goods

Source: Rimlinger and Stremlau, *op. cit.*

the production area, which includes technical sales and servicing requiring technical skills. This concentration is indicative of the fact that there may be a shortage of nationals with the required technical skills and experience. It shows also where the major opportunities are for further indigenisation of existing jobs. It is not surprising that the smallest percentage of expatriates is in administration, since this category includes personnel matters, legal affairs and public relations. These are jobs which tend to be indigenised more quickly, partly because nationals often are better suited for these jobs than expatriates.

As an alternative to looking at functions, it is revealing also to look at the level of management occupied by expatriates and by nationals. At the time of the survey, about 80 to 85 percent of the really senior management positions were held by expatriates. The 15-20 percent of positions held by Nigerians were not evenly distributed among firms: almost one-half of the firms (36) had no senior Nigerian manager. Only one of the 75 firms surveyed had a Nigerian chief executive, and one other firm had a Nigerian at the level of assistant managing director.

Other senior level positions were distributed as follows. As chief financial officer forty-two of the firms surveyed had an expatriate and only four had a Nigerian. The other firms had no comparable position. Of the 33 firms which reported to have a senior level person in charge of marketing or sales, 28 had an expatriate and three had a Nigerian in charge. In two firms the position was shared between an expatriate and a national. Of 59 companies engaged in production, the chief production officer was an expatriate in 54 cases and a Nigerian in five cases.

Expatriate presence at middle management level is less pervasive; here expatriates hold approximately 50% of the positions. Only about a dozen firms said they had no Nigerians at this level. Below middle management level there are few expatriates in non-technical positions. A point which deserves to be underlined is that some 800 of the 2,217 expatriates of our survey, nearly one-third, hold technical positions which are not classified as either senior or middle management. This fact brings out again the role of expatriates as technicians and technical supervisors. Most of these technical people are employed in textile and petroleum producing companies, with smaller numbers in enamelware and trading companies (technical sales and service).

Nigerian senior managers are primarily in staff as opposed to line positions. Some are in senior level positions, although not the top ones discussed above, in finance, marketing, or production. Administration is the functional area where the Nigerian presence at senior levels is the strongest. Approximately one-half of the Nigerians classified as senior management are either personnel managers, public relations managers, legal advisors, or company secretaries. Thirty-eight companies reported having a senior level personnel manager,[2] 20 of these 38 officers are Nigerian. Of 14 public relations managers, all but one are Nigerian and all but two of the legal advisors or company secretaries are Nigerian.

Industry responses to Nigerianisation

Recent experience would seem to indicate that overall there has been a positive response by industry to the government's indigenisation policy. Between 1968 and 1971, expatriate staff in the surveyed firms[3] was reduced by 17%. Decreases were registered by 40 companies, while 15 reported increases, and 8 showed no change. Each of the 15 which increased expatriate staff did so due to expansions in operations.

On an industry basis, only pharmaceuticals and textiles showed overall increases (7% and 5% respectively).[4] The largest reduction (36%) was made

[2] Many firms have a staff manager who is not considered to be a senior level manager; this position is almost always held by a Nigerian.

[3] Refers to 63 of the 75 firms surveyed. Not included are the six petroleum producing companies whose operations were seriously affected by the war, four firms established during the 1968-71 period, and two firms which declined to provide information.

[4] In both industries, less than one-half of the firms actually increased their expatriate staffs.

by the petroleum marketing companies. All seven firms in this industry contributed to the reduction. The Nigerianised positions included technicians, junior and middle managers, and a few senior managers.

The banking and enamelware industries also made large decreases (both 32%). Among banks, only three firms actually reduced expatriate staff; the other four either showed increases or held firm. Most of the positions affected were at junior to middle officer level. In the enamelware industry, three firms account for the decrease; the other two firms surveyed were not operating in 1968 and, hence, are not included in the statistics. The Nigerianised positions were largely those of factory technicians.

TABLE 3: Change in Number of Expatriate Staff, 1968-71

Industry	Number of Companies: Decrease	Increase	No change	% Change in exp. staff of ind.
Banking	3	2	2	-32
Beer & soft drinks	5	1	0	-23
Enamelware	3	0	0	-32
Metal fabricating	8	1	1	-21
Petr. marketing	7	0	0	-36
Pharmaceuticals	2	2	3	+ 7
Textiles	4	3	2	+ 5
Trading	4	0	0	-15
Miscellaneous	4	6	0	-13
Total	40	15	8	-17

Source: Rimlinger and Stremlau, *op. cit.*

Conclusion

The recent government emphasis on Nigerianisation undoubtedly has been an important motivating factor behind many of the reductions in expatriate staff. Although some of the reductions would probably have taken place regardless of government policy, for many companies, government "pressure"--either actual or anticipated--has provided that extra bit of needed incentive to send the expatriate home.

Approximately two-thirds of the 75 firms surveyed have had their quotas reviewed within the past few years, and most of those have been given termination dates for certain positions. Some of the reductions in expatriate staff have been made as a direct result of termination dates for the positions in question coming due. Since reductions are staggered, however, and there is usually a grace period of one or two years before the first one, most of the termination dates had not yet taken effect at the time of the survey. Even so, some of the firms had begun reducing ahead of schedule, preferring, as one manager put it, "to stay a step ahead of the government," at least in the initial stages.

There is thus no doubt that while the effects of the indigenisation policy are beginning to be felt, most companies so far have not found it particularly difficult to comply. In part, this is because the most easily indigenised positions are indigenised first. Many managers, however, have expressed fears that in the future compliance will be more painful.