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**AGRICULTURAL INVESTMENT IN NIGERIA:  
THE OPPORTUNITIES AND REALITIES  
FOR U.S. AGRIBUSINESS COMPANIES  
PART I**

January, 1981

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## SUMMARY

### THE OPPORTUNITIES

Nigeria offers U.S. agribusiness firms significant opportunities for profitable joint ventures. Attractive trading opportunities in commodities and equipment also exist both as part of joint ventures and as direct sales. Nigeria's economy is vital and market oriented. Business is viewed with high regard by most Nigerians. The economy is growing at an annual real rate of about 6%.

Much of this growth is driven by revenue from oil exports. Nigeria currently produces about 2 million barrels of oil each day. Oil reserves are estimated at 21 billion barrels and should continue to drive the economy for at least 25 more years. Foreign exchange reserves are large compared to other developing countries: almost \$10 billion as of late 1980.

The country's large population (80 million by most estimates) provides an almost insatiable market for goods. This market is expanded further by Nigeria's leadership in the Economic Community of West African States (ECOWAS) which includes 16 member countries. One out of four black Africans is Nigerian; one out of two black Africans is a citizen of an ECOWAS country.

Nigeria is the world's fourth largest democracy. The Government is modeled after the U.S. system and peacefully assumed authority from the military in January, 1979. President Shagari was elected President and leads a Government which is fiscally conservative, favors foreign investment and promotes free enterprise.

Nigeria's overall growth has not been shared by the agricultural sector which is

among the least productive of any in West Africa. To correct this, the Government has declared its intention to give its highest priority to increasing agricultural production and has launched a new development plan called the "Green Revolution." It is expected that this plan will provide the centerpiece for Nigeria's 1981-1985 agricultural development plan. The Green Revolution emphasizes the need to increase the productivity of small farmers by providing them with timely inputs and assistance.

The plan encourages foreign participation in joint ventures with Nigerian companies, both private and government owned, to provide fertilizer, credit, machinery and other resources. Joint ventures in larger farms, poultry, livestock and processing are also encouraged. The Government has said it will spend \$8 billion over the next four years to promote agricultural development. The Government's proposed budget for agriculture in 1981 is \$1.8 billion.

Private and public companies in all of Nigeria's commodity systems express keen interest in doing business with U.S. agribusiness firms. American firms are regarded as being particularly well suited to helping Nigeria achieve its goal of improving agricultural productivity because of their managerial skill, technical expertise, financial resources and proven performance records. To attract foreign firms, the government allows attractive tax breaks, accelerated depreciation schedules, loss carry forward provisions, investment credits, favorable profit repatriation schemes and other financial incentives. The Government also allows foreign firms to own up to 60% of the equity in most integrated agricultural enterprises.

## THE PROBLEMS

While good opportunities in Nigerian agribusiness exist for U.S. firms, problems also exist. The well-known difficulties of doing business in the developing world are present in Nigeria. Inefficiency, corruption, unfamiliar business practices, procurement disruptions, inadequate and inconsistent Government pricing and import/export policies, changing Government policy, poor communications and transportation systems, maintenance problems, difficulties in getting paid, labor strikes and legal complications are all present to a greater or lesser degree. Although many companies successfully overcome these obstacles, they can increase the time, cost and frustration of doing business.

Some U.S. firms will find they have little or nothing to offer Nigeria. Because commercial agriculture in Nigeria is in its infancy, there is little or no use for certain sophisticated technologies, services and products offered by U.S. companies. The differences between farming, processing and marketing in the temperate and tropical environments will limit the application of other products and services. Bans and restrictions--especially in direct trading--will eliminate yet more products.

All foreign companies must share equity with Nigerians. Therefore, the issue of finding suitable partners is an important one. Although many good joint venture partners exist, finding them may not be easy. Joint venture partners should be evaluated professionally and with care and patience.

## CONCLUSION

On balance, the consultants of Agribusiness Associates were strongly impressed with the potential for profitable agricultural ventures. Although Nigeria is not an easy environment in which to do business, the country offers promise for certain U.S. companies who are willing to make the effort and the proper long-term commitment. Nigeria in the future promises to be one of the world's most dynamic markets and deserves close investigation from any agribusiness company with overseas operations.

## PURPOSE AND BACKGROUND OF THIS ANALYSIS

THE PURPOSE OF THIS REPORT IS TO PROVIDE PRIVATE U.S. AGRIBUSINESS FIRMS A REALISTIC DESCRIPTION OF OPPORTUNITIES AND PROBLEMS IN TRADE AND INVESTMENT IN NIGERIAN AGRICULTURE.

1. This document does not present a detailed analysis of either the business environment or of investment in the agricultural sector. By design, the document offers a broad overview of the total business/agribusiness environment. The document is thus most useful to two kinds of companies:
  - Companies who know little or nothing about Nigeria or Nigerian agribusiness.
  - Companies who are moderately familiar with Nigeria and seek an additional objective assessment against which to compare their own perceptions and opinions.
2. This document does not cover all the major commodity systems in equal depth. This was done partly because of the time limits of the project and partly because the consultants believed specific opportunities are best identified in the context of a firm's particular strategy and product line. Some American companies will find sound business opportunities in areas not covered herein. The document is designed to appeal to a broad spectrum of private U.S. agribusiness firms.
3. This report provides the U.S. agribusiness decision maker critical introductory information for agribusiness in Nigeria. This includes a description of the country, Nigeria's recent agricultural performance, Nigeria's agricultural policy, procedures for starting and operating a business in Nigeria, analyses of selected commodity subsectors and advice to U.S. companies seeking joint ventures.

**PROJECT BACKGROUND: THE JACC**

**THIS DOCUMENT WAS WRITTEN TO SUPPORT THE EFFORTS OF THE NIGERIAN AMERICAN JOINT AGRICULTURAL CONSULTATIVE COMMITTEE (JACC). THE PURPOSE OF THE JACC IS TO FACILITATE THE FORMATION OF AGRIBUSINESS VENTURES BETWEEN U.S. AND NIGERIAN COMPANIES.**

- 1. The JACC was formed as a result of a Memorandum of Understanding signed by the Vice President of the United States and Nigeria on July 27, 1980. This Memorandum stemmed from general bilateral talks on matters of importance between the United States and Nigeria, including trade and agriculture.**
- 2. The JACC is a committee with U.S. and Nigerian members. The U.S. members of the JACC include U.S. agribusiness firms, banks and foundations. The Nigerian members of the JACC will include representatives from the private, sector, federal and state agencies and financial organizations.**
- 3. The stated purpose of the JACC is "to provide a mechanism for support of private sector cooperation in agriculture (between Nigeria and the U.S.)."**
- 4. The President of the U.S., the Embassy in Nigeria, the State Department, the USDA and private companies have all strongly supported the initial activities of the JACC.**

5. The USDA's Office of International Cooperation and Development (OICD) has been given responsibility for coordinating and supporting the activities of the JACC. For further information about the JACC and Nigeria, contact:

Mrs. Lynn Kinkead Engstrand  
OICD/USDA  
Room 3047  
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Washington, D.C.

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6. This document was written for both JACC members and non-members who want to explore agribusiness in Nigeria further.

## RESEARCH METHODOLOGY

THIS DOCUMENT WAS PREPARED FOR BUSINESSMEN BY BUSINESSMEN. THE CONCERNS OF U.S. AGRIBUSINESS FIRMS AND THE REALITIES OF DOING BUSINESS IN NIGERIA HAVE BEEN CONSIDERED THROUGHOUT THE PROJECT.

1. Research was conducted principally in Nigeria by a team of consultants from Agribusiness Associates with assistance from the USDA and the U.S. Embassy. Team members included Tom Craig (team leader), Ray Goldberg, Len Wilson, John Young, Bill Mason and Maria Arteta. Vital assistance was provided by Roberta Ferguson, Dorothy Blondin, Lyn Pohl and Andrew Craig (graphics).
2. The attitudes, opinions and objectives of important people in U.S. and Nigerian agribusiness were considered. The consultants benefited from conversations with the following, among others;
  - a. Executives of U.S. firms which have been successful in Nigeria.
  - b. Executives of U.S. firms which have failed in Nigeria.
  - c. Nigerian Federal and State officials, ministers and department heads.
  - d. Executives of European firms currently operating in Nigeria.
  - e. Bankers from U.S., European and Nigerian banks.
  - f. Leaders in agricultural research centers in Nigeria.
  - g. Farmers in Nigeria.
  - h. Consultants, intermediaries, traders, brokers and other third parties in the U.S. and Nigeria.
  - i. Diplomats and officials from the U.S. and Nigeria.

**SECTION II**  
**THE AGRIBUSINESS ENVIRONMENT**



## INVESTMENT VERSUS TRADING

U.S. AGRIBUSINESS FIRMS ARE OFTEN CURIOUS ABOUT THE RELATIVE PROS AND CONS OF DIRECT INVESTMENT VERSUS TRADING. THIS SECTION PRESENTS SOME INFORMATION TO HELP JUDGE THE RELATIVE MERIT OF EACH.

- \* One frequently hears that Nigeria is a nation of traders, buying and selling that which others build. Momentarily disregarding the historical precedent to trading which goes back many centuries, one can make an argument that the decision to trade in Nigeria is a rational economic conclusion to which one arrives after evaluating the pros and cons of trading versus investment (see Box on a following page). Foreign companies have been reluctant to invest in Nigeria in the recent past because of political uncertainty, longer payback times, programs to indigenize assets, and problems of operating businesses inside of Nigeria. Reluctance to invest in agriculture has been aggravated by the apparently low priority this sector has received by past governments.
  
- \* The new civilian government has forcefully expressed its intent to promote domestic investment and the agricultural sector. The Government promises that it will continue to increase the attractiveness of investment and decrease the attractiveness of imports not associated with a business inside of Nigeria. Certain observers believe that future opportunities in trade will be increasingly tied to investment and that those who commit themselves to developing Nigeria's indigenous productive capability will be rewarded consciously or indirectly with trade opportunities. Proposals to control the issuance of import licenses, and new guidelines which require that local content in certain industries are indications that the opportunities for stand-alone trading may diminish.

- \* Assessing government intent is sometimes a difficult task. Skeptics point out that past governments have promised incentives for investments in agriculture which were never delivered. Enforced indigenization to some companies was viewed as a bitter reward for investment and dampened enthusiasm for further investment.
- \* Political risk insurance is available in certain cases from OPIC. PCIA also offers political and commercial risk insurance for certain transactions and projects.
- \* The food deficit described in Section III and the trend in imports suggests considerable future demand for imports. Direct investment will create opportunities to import machinery and equipment. Demand for food commodities above domestic production will be met by sizable imports.
- \* While some argue that trading offers the best opportunity in Nigerian agribusiness others believe that within five years the open door on investment may close. It is conceivable that the next half decade may be the most promising time for U.S. agribusiness investment in Nigeria. Nigeria has simultaneously the potential for rapidly growing markets in almost all products, the ability to provide adequate funding to agriculture and a receptive attitude to new participants in agribusiness. The next five years may present a unique opportunity to preempt market share. If the agricultural sector is on the threshold of unprecedented growth, early participation in the market--admittedly with risks--may now be necessary to benefit from future growth.
- \* Nigerians are quick to point out that other industrial powers are much better represented in their country than the U.S. agribusiness community. The British, Germans, Japanese and French companies are more visible than their U.S. counterparts. Even companies from Brazil, India and the Philippines have come to Nigeria with great enthusiasm, if not in greater numbers, than the U.S. One often detects disappointment that the U.S., a country known for its innovation and agriculture, has not seized a unique opportunity to participate in Nigeria's agricultural development by investing directly.

SUMMARY OF THE PROS AND CONS OF DIRECT INVESTMENT IN NIGERIAN AGRIBUSINESS

PRO	CON
<ul style="list-style-type: none"><li>* The government strongly encourages investment in fixed assets. A venture which invests will gain goodwill from the government which may help them for other business undertakings.</li><li>* Tax laws give benefits to investors through accelerated depreciation and investment credit.</li><li>* A company may be able to make profits by supplying ventures (such as farms) with equipment imported from abroad.</li><li>* Investing in fixed assets may give a company access to import licenses for raw materials. For example, a company with a processing plant might be able to import its feedstock until domestic supply fills demand.</li><li>* A company which invests in fixed assets and creates a domestic supply of a certain commodity may then apply for protection from imports.</li><li>* Investment in fixed assets gives a company greater assurance that it will have continuing business opportunities in Nigeria. There is no assurance that specific trading opportunities will last.</li></ul>	<ul style="list-style-type: none"><li>* Because fixed assets are by definition illiquid, a company which invests in fixed assets increases its risk.</li><li>* As business is now structured, it is much easier to get a high rate of return engaging in short term trading. Margins on imports are high, and it is possible to turn over one's money much faster in trading.</li><li>* It is difficult to obtain financing for fixed assets within Nigeria.</li><li>* Any venture which deals with fixed assets, especially farming, must also address the issue of land use to gain clear title for use of large plots of land for either production or processing.</li></ul>

## ADVICE FOR DOING AGRIBUSINESS IN NIGERIA

THIS SECTION PRESENTS ADVICE TO U.S. FIRMS INTERESTED IN DOING AGRIBUSINESS IN NIGERIA. ADMITTEDLY SUBJECTIVE, THE ADVICE IS INCLUDED BECAUSE THERE EXISTS A STRONG OPINION AMONG MANY OBSERVERS--NIGERIAN, EUROPEAN AND AMERICAN--THAT U.S. COMPANIES MAKE SIMILAR MISTAKES IN THEIR APPROACH TO NIGERIA. AGRIBUSINESS ASSOCIATES HAS COMPILED THIS LIST BASED ON THE MOST FREQUENTLY REPEATED COMMENTS, COMPLAINTS AND SUGGESTIONS IN THE HOPE THAT IT WILL FACILITATE THE FORMATION OF NEW VENTURES.

AS A GENERALIZATION, THE ADVICE GIVEN BY MOST PEOPLE IS TO FOLLOW THE SAME PROCEDURES ONE WOULD NORMALLY FOLLOW WHEN EVALUATING A REGULAR PROJECT IN THE U.S., AND TO BE ADAPTIVE AND FLEXIBLE WHEN IMPLEMENTING IT. ONE FREQUENTLY HEARS ANECDOTES ABOUT THE U.S. BUSINESSMAN WHO MAKES A MILLION DOLLAR DEAL ON A HANDSHAKE AT THE AIRPORT--ONLY NEVER TO GET PAID. OR OF THE U.S. BUSINESSMAN WITH THE POTENTIAL OF DOING A LEGITIMATE MILLION DOLLAR DEAL WHO LOSES IT BECAUSE HE WILL NOT ADAPT TO A DIFFERENT STYLE OF BUSINESS. TO BUSINESSMEN WITH EXTENSIVE EXPERIENCE OVERSEAS, THIS SECTION WILL BE SIMPLISTIC AND OBVIOUS. TO THOSE WITHOUT SUCH EXPERIENCE, IT SHOULD HELP.

### 1. Disregard Rumors; Come See for Yourself

It has been said that many decisions not to do business in Nigeria are made on the golf courses of U.S. corporate suburbia. American companies with business prospects in Nigeria sometimes abandon their investigation because of rumors from friends, bankers and competitors. Although it is true some companies have had bad experiences in Nigeria, many more have had good ones. Companies are well advised to investigate Nigeria on their own by actually visiting the country.

U.S. Agribusiness firms should conduct preliminary research about Nigeria in the U.S. Having identified promising areas in one's business field,

send someone to investigate the business environment in person. Only if there is overwhelming evidence that Nigeria provides no opportunities should companies decide against visiting because the country defies judgment from afar. Some companies will be able to narrow significantly their scope of activity through research in the U.S. Other companies will have to visit Nigeria early in the process to gather needed data and develop initial leads. If one has heard rumors about business practices or bad experiences that competitors have had in one's line of business, verify or discount them scientifically by approaching the people who were involved or are familiar with the facts. Rumors normally distort facts and favor one perspective.

2. Come with Names if Possible

One's early experiences in Nigeria can be improved greatly if one has specific names of contacts or appointments. Letters of introduction are also very useful, especially if one anticipates making unannounced visits. Names of initial contacts can be obtained through several sources, including the various chambers of commerce, the Nigerian Embassy in the U.S., the U.S. Embassy in Nigeria, banks, consultants and other U.S. firms already established in Nigeria. Remember that the business culture is British derived and is sometimes more formal than in the U.S.

3. Allow Enough Time

Business in Nigeria, especially in the development stage of a project, moves slowly. To investigate the situation in Nigeria properly, allow more time than would be typical in the U.S. Broken phones, traffic jams, missed appointments and a generally slower business pace all consume time. U.S. firms sometimes schedule only a few days to "check out Nigeria" and leave unfulfilled, or worse, with a distorted and incomplete impression of the country and business opportunities. Completing three appointments per day as a newcomer is a reasonable objective. It is not unusual to spend a full

day in Lagos without successfully completing one appointment. As a basis for comparison, the record for any member of this report's study team was six. Having a sponsor, e.g., a possible venture partner, who uses his contacts to expedite interviewing can increase one's efficiency. It is not unusual for a person with whom one has an appointment to be out of town or the country without notice. Ask to see the person's assistant if this happens. The assistant may be able to help you.

Two weeks is a good length of time to visit on an initial exploratory trip. In that time, one can become acclimatized and gain a well-balanced first impression of the business environment and opportunities. If this amount of time is unacceptable for a senior executive, (remember it takes at least an additional day to travel each way), it might be advisable to send a junior executive first. The senior executive can follow one week later after the junior has sorted out some of the initial problems (hotels, cars, learning to get around town). This will save the senior executive time.

One should also be realistic about the amount of time it takes to plan and execute a project. U.S. firms are often criticized for spending too little time on the planning stage which causes problems during implementation. Few projects have been completed on time in Nigeria with margins of error for project timing as high as 100-200%.

#### 4. Come as an Equal, Be Willing to Learn

Nigerians complain that U.S. executives sometimes come to Nigeria with an air of superiority. They also complain that U.S. businessmen arrive with a "know-it-all" attitude. This frequently alienates local businessmen who normally are well-educated and sensitive to their own business needs and options. Although Nigerian firms gladly admit the technical and managerial superiority of U.S. firms, they are offended when foreign firms disregard

their accumulated experience in the local environment. The traditions, customs and style of Nigerian business are different from those in the U.S. The U.S. firm that does not learn from his Nigerian counterpart is likely to encounter problems. Nigerians have a strong sense of their own independence and prerogatives and appreciate recognition of this.

## 5. Study Your Market

Before committing substantial resources to a joint venture, undertake a complete feasibility study which examines the market in detail and analyzes how one's particular business relates to that market. U.S. companies have a reputation among some observers as being too cautious in the early stages of a project and too careless and impatient in the implementation of the project. A cautious attitude throughout the project will help avoid serious problems. Careful market analysis will often reveal subtle distinctions in a market which can affect profitability. For example, although eggs sell at a very high price throughout most of the country (about \$3.50 a dozen), which might lead one to conclude an egg farm would be a good venture, there have been instances where local egg gluts have depressed prices below the cost of efficient production. A study which examined local conditions would reveal this. Normal project selection criteria used in the United States should be used for project feasibility studies in Nigeria including consideration of price, labor, management, local and national politics, Government policy, location, logistics, cash flow--to name but a few.

Be sensitive to ulterior motives that partners might have for favoring a particular project (e.g., it is located in his home state, his friend controls the land), and do not hesitate to suggest alternatives.

When studying a project, do not make assumptions about important links in the project, such as ownership of assets, access to markets, licensing and

sources of capital. Sometimes U.S. companies are unwilling to get involved in important parts of the business which they do not understand. Rather, they take their partner's word that particular conditions for the project have been met. Some U.S. companies take leaps of faith in Nigeria that they would never take for a project in the U.S. and have subsequently poor experiences. Objectively identify and analyze which aspects of the project have been relegated to the partner and request empirical verification of their completion. For example, a partner who says he has access to land should be asked to present a Certificate of Occupancy. A partner who claims to have sources of financing for the project should be asked for a bank statement. A partner whose "well placed friend" will buy 50% of your production should present his friend for discussions or contract negotiations. As simple as it sounds, naive assumptions have spoiled more than one venture in Nigeria.

#### 6. Follow Procedures Correctly

The American philosophy that the shortest distance between two points is a shortcut does not work in Nigeria. One of the vestiges of the British colonial system is a set of bureaucracies that operate by well-defined procedures. Whereas in the U.S. business ventures can often be expedited by short-circuiting or innovating with procedure, in Nigeria this usually causes problems. For any venture, identify what steps must be taken, the order in which they must be taken and then proceed meticulously along that path. Although it is possible to avoid or delay certain steps in the process of establishing and operating a business in Nigeria, such shortcuts will normally cause complications in the future.

#### 7. Follow the Spirit of Government Policy

Related to the issue of procedure is the issue of supporting the spirit of the law as well as its letter. Businesses in the U.S., as a rule, are geared to satisfying the nominal requirements of law and policy. In

Nigeria, U.S. firms are well advised to follow and act consistently with the spirit of what the Government is trying to accomplish. Foreign ventures are visible and are looked to by the Government to help pioneer and implement the country's development objectives. Moral suasion is often used by the Government with foreign firms. Firms can greatly ease their experience in Nigeria by anticipating, interpreting and supporting Government objectives. This process is sometimes complicated by the promulgation of laws which are difficult to obey and hence, are sometimes disregarded (e.g. price controls). Properly interpreting the importance of laws and deciding how to act to support them is a skill which can be acquired only through experience. Nigerian partners are a good source of advice on this issue.

#### 8. Commit Yourself

Another complaint about U.S. firms is that they do not adequately commit themselves to projects. Commitment can be measured by either financial participation, physical presence or attitude. The venture partners or government will probably require some type of financial participation, either in equity or debt. The amount of financial commitment a firm is willing to assume can best be judged by the specific firm. More important, however, is physical presence and attitude. Some U.S. firms try to manage their operations in Nigeria from home. A physical presence either through full-time U.S. personnel or third-party expatriates (e.g., Indian or British) greatly improves the chances of a project's success.

#### 9. Remain Sensitive to Local Politics

Nigeria has a long history of tribal and political rivalry. Today, the rivalries continue in varying degrees and sometimes strongly influence economic relationships. Any U.S. company planning business in Nigeria should be sensitive to the dynamics between the State and Federal governments, the political parties and local traditional leaders. By allying oneself too closely with a particular interest group, one risks complications if a particular aspect of one's business later depends on cooperation by rivals. By building a staff which represents all major political groups and by avoiding the appearance of associating oneself too closely to a particular power base, one can avoid such complications.

## IT'S GETTING BETTER ALL THE TIME

EVIDENCE SUGGESTS THAT IT IS BECOMING EASIER TO DO BUSINESS IN NIGERIA AND TO ESTABLISH NEW VENTURES. THE FOLLOWING LIST PRESENTS SOME OF THIS EVIDENCE:

- The amount of time required to establish a Letter of Credit (LC) is decreasing. In the past, opening an LC took as long as 6 months. Now it usually takes one to three months (the primary cause for this delay is the requirement by the Central Bank that information on the beneficiary of the LC be provided). Many companies who trade regularly with the same party (and thus do not have to furnish information) open LCs in less than a week. Some companies open LCs in 2 days if their contacts in banks are good.
- The delay on profit repatriation has been reduced. It takes an average of about 6-12 months to repatriate profits, whereas formerly it took about two years. The Ministry of Finance says it will work to reduce further the amount of time required to remit profits for foreign partners.
- The Government has created an Interministerial Industrial Development Coordination Committee to facilitate and expedite the approval of investments. Although this committee is new, and therefore has no record by which it can be judged, its formation reflects the Government's interest in facilitating joint ventures between Nigerians and U.S. companies.
- The Government plans to expand significantly the Investment Information and Promotion Center of the Ministry of Finance. This department was created to help foreign companies learn about Nigerian investment and find partners. The Center plans to open several investment information offices in the United States in the near future. The agency cites agribusiness as one of its high priorities.

- \* The country's infrastructure is improving. Companies that have been in Nigeria for a long time all acknowledge that recently it has become easier to do business in Nigeria. Telephones now work better, especially for international calls; traffic in Lagos, once congested to the point of crisis, now moves at a better pace thanks to the completion of several new highways; waiting time for ships in Lagos, once as long as ten months, is now an acceptable 5-7 days; international travel is now easier because of the completion of the new international airport; and credit for agriculture, once nearly impossible to obtain, is found more readily because of regulations that require banks to commit a certain percentage of their loan portfolio to this sector.
- \* Observers of Nigerian business cite examples of procedural problems by foreign firms that have been unblocked quickly by government intervention when the foreign firms complained.
- \* The Government has unofficially announced its intent to streamline the process of obtaining visas to visit Nigeria.

## COMMENTS BY U.S. COMPANIES

TO BALANCE ADVICE GIVEN IN THE PREVIOUS SECTION, THIS SECTION SUMMARIZES SOME FREQUENTLY HEARD COMMENTS FROM U.S. FIRMS ON AGRIBUSINESS IN NIGERIA:

1. There is confusion over issues of law, politics and procedure. Some firms find the system cumbersome and difficult to deal with. Delays in approvals and finding crucial information in the decision making process are commonly cited problems.
2. Nigerian partners have a "trader mentality" and avoid projects which do not provide quick payback.
3. Nigerian partners are hesitant to provide financing to projects either for feasibility studies, fixed assets or working capital. U.S. firms sometimes feel their partners have the attitude that 'being Nigerian is good enough to deserve 40-60% of the company.'
4. U.S. companies also complain about contradictory requirements between Nigerian agencies and departments. Inter-agency rivalry, jealousy and politics can frustrate even the best intentioned company.
5. U.S. companies often complain about the difficulty in doing even the simplest business task, be it hotel accommodations, availability of transportation, problems with financial transactions, broken phone systems or the cost of a project.
6. Many U.S. agribusiness firms say that they are reluctant to enter any land-based project because of land tenure, long paybacks, and the many points of vulnerability in production and marketing.

## FINDING A PARTNER

NIGERIAN LAW REQUIRES THAT ANY BUSINESS IN NIGERIA BE PARTIALLY OWNED BY NIGERIANS, THE PERCENTAGE OF OWNERSHIP BEING GUIDED BY A SET OF PUBLISHED GUIDELINES (SEE SCHEDULES ENCLOSED IN THIS REPORT). FINDING A PARTNER IS THEREFORE AN ISSUE WHICH ALL FOREIGN COMPANIES MUST ADDRESS. UNFORTUNATELY, FINDING A SUITABLE PARTNER MAY NOT BE AN EASY TASK. AS IN ANY COUNTRY, THE MOTIVATIONS, ABILITIES, RESOURCES AND ASPIRATIONS OF POTENTIAL PARTNERS VARY WIDELY. ONE CAN, HOWEVER, FIND EXCELLENT PARTNERS WITH A REASONABLE AMOUNT OF EFFORT IF ONE APPROACHES THE TASK PATIENTLY AND WITH RIGOR.

### 1. There are three major categories of partners in Nigeria:

#### \* Federal and State Organizations

Federal and State organizations, including the parastatals, make attractive partners because they have access to funding, usually have a strong commitment to developing agriculture, are normally involved in realistic projects and can facilitate some of the procedural problems of doing business in Nigeria. Drawbacks may include an inability to move quickly in business decisions, a confusion about which projects make the most sense on a commercial basis--versus pushing projects because they fit into national development plans--and a lack of organizational and managerial strength.

#### \* Non-Government Public and Private Companies

There are several large business entities in Nigeria which comprise another class of business partner. In this class there are two major groups. The first group encompasses the large companies which were built during the colonial era and continue to operate under joint expatriate and Nigerian ownership. Examples of these companies are United Africa Company (sales of \$1.3 billion), CFAO and John Holt.

Once privately held, these companies are now public and have considerable experience in Nigeria. The second group is the indigenous conglomerates such as the Henry Stephens Group, Dantata Group, Ibru, Panz, Rabiu Isiyaku and others. The advantages this second group has include generally good asset and financial base, political clout and involvement in many aspects of the economy. Disadvantages include the tendency to be dominated by a few individuals, inadequate planning, and a tendency to pay out retained earnings too quickly to shareholders. Some of these groups are short of cash and even default on loans.

• Small Companies or Private Individuals

Perhaps the largest pool of potential partners is the smaller companies and individuals. The advantages of this type of partner are that they will usually take a new joint venture very seriously since it probably represents a relatively large proportion of their activities, they may have a unique market or business competence, they may have special access to information or resources, there are fewer decision makers to deal with and they are likely to defer to the recommendation of the foreign partner. Problems with this type of partner include the difficulty in finding reliable information in order to assess them, difficulties in obtaining proper background information on the venture they may be proposing, financial and management problems, lack of political clout and a lack of familiarity with business procedures and norms for sophisticated projects.

2. A problem to which U.S. agribusiness firms should be sensitive is the "Johnny Come Lately" syndrome. Agriculture has only recently received the type of attention that indicates the government is truly serious about improving it. Nigerians are responding very rapidly to the new agricultural imperative, and many are actively seeking opportunities to invest in this sector. Many of these looking have no experience in agriculture. Yet some are anxious to sign a contract with foreign companies. As a

representative of U.S. agribusiness, one is frequently confronted with impromptu proposals by clerks, middle managers, taxi drivers, businessmen and casual acquaintances to develop a particular project. Recall the advice given under "Advice for Doing Business in Nigeria", and properly investigate not only the partner but the project. Select only those partners who have either experience in agriculture or sufficient experience in other aspects of business to suggest that they will succeed in agriculture.

3. Be sure your partner is philosophically aligned with the project. Although equity shares will formally determine whose opinion ultimately stands as policy, informally it is critical that you and your partner agree with the philosophy and implementation plan for the project. Even if the Nigerian partner assumes a passive minority role, the U.S. company will most likely depend on the local partner to influence other Nigerians critical to the success of the project. For example, the number of expatriates one can bring in to work on a project can be influenced by the persuasiveness of one's Nigerian partners about the need for such employees.
4. U.S. companies are well advised to seek help in selecting partners unless they are strongly impressed with a specific early contact. U.S. companies sometimes comment that they are unable either to locate or to rate partners. This problem is aggravated by the poor availability of published information on company activities, financial ratings, reputation and future plans. Although various lists have been compiled ostensibly describing and rating potential partners in Nigeria, few are revealing or up-to-date.

Despite the dearth of published formal information on potential agribusiness partners, there is an extensive informal network of information about Nigerian companies. U.S. companies can benefit from this informal--and usually accurate--information by enlisting the services of a third party who is familiar with the Nigerian business environment. This information can be obtained casually in exploratory conversations with banks, other

U.S. companies and other companies in one's line of business. Or, one can more actively seek such information by hiring a consulting firm to select a partner.

5. U.S. companies should be warned that few Nigerian partners have substantial financial backing. Although the country is sometimes portrayed as a land of millionaires desperate to find U.S. firms to help them spend their money, reality is different. No more than a small handful can easily produce more than a million naira for equity. Certain partners, however, have strong influence with local banks and may bring substantial debt financing to a project.
6. There are special credit reporting organizations in Nigeria (e.g., representing the P.C.I.A.) who can provide detailed information on company's financial situation. The commercial section of the U.S. Embassy in Lagos may also provide insights into the characteristics of partners.

## CRITERIA FOR SCREENING AGRIBUSINESS PROJECTS

ONE SET OF CRITERIA FOR SCREENING AGRIBUSINESS PROJECTS IS LISTED BELOW:

1. There must be a satisfactory agribusiness framework. The political, social and economic environment should be acceptable. Realistic investment incentives are essential. Adequate infrastructure, i.e., transport, communications, water development, etc. is also important.
2. Market prospects must be clearly identified. This includes both domestic and foreign opportunities.
3. Raw materials should be adequate to meet production, processing and marketing objectives.
4. Project should be a realistic size--large enough to justify the time and effort required and take advantage of economies of scale and small enough to use management effectively.
5. If agricultural production is a component of the project, there should be sufficient preliminary crop and/or livestock trials to justify project implementation.
6. Investment and technical partners should be compatible. The investing partners should be objective, recognizing that bottom line results are the main objective of the project, and the possible sale of an investing partner's product or services is only a secondary benefit.

7. Management fees charged by the technical partner should stimulate good performance but still remain compatible with the economics of the project. It is preferable if the technical partner has some equity in the project.
8. A complete feasibility study is essential.
9. Subsidies, available guarantees, and social benefits are also attractive features, but should not be the main impetus for making the investment.
10. Financing, both debt and equity, should be lined up before the project is implemented.

## LABOR AND MANAGEMENT

FOR SOME AGRIBUSINESS VENTURES, LABOR WILL BE A MAJOR CONCERN. AN ADEQUATE SUPPLY OF LABOR IS AVAILABLE FOR MOST UNDERTAKINGS, AND THE COUNTRY FACES WIDESPREAD UNEMPLOYMENT. HOWEVER, SHORTAGES OF AGRICULTURAL AND SKILLED LABOR ARE BECOMING AN INCREASING PROBLEM. NIGERIA'S UNIONS ARE CURRENTLY PUSHING FOR A LARGE INCREASE IN THE MINIMUM WAGE, AN INCREASE WHICH IS WIDELY RESISTED. THE TOP ECHELON OF NIGERIAN MANAGEMENT IS USUALLY EXCELLENT. TOP NIGERIAN MANAGERS ARE WELL EDUCATED, ARTICULATE AND FLEXIBLE. MIDDLE AND LOWER LEVEL MANAGEMENT IS GENERALLY FAR LESS QUALIFIED. MOST COMPANIES HAVE CREATED PROGRAMS TO IMPROVE THE QUALITY OF THEIR WORKERS AND MANAGEMENT.

1. The former military government rationalized Nigeria's labor movement into forty-two unions under a single labor federation, The Nigerian Labor Congress (NLC). However, historical divisions within the labor movement have impacted on the effectiveness of the NLC in pressing for concrete benefits and has left a strain between the NLC and some of the member unions.
2. Pent up labor demands which had been held in check by the military government surfaced relatively quickly with the transition to civilian government: Between October 1979 and June 1980, there were almost 250 officially registered trade disputes which resulted in the loss of over one million work days. A frequent grievance in many of the industrial actions is the failure of the government and private firms to implement the 100 Naira minimum wage. Other work actions have focused on such issues as car, housing and transport subsidies.
3. In 1980, the government established a new minimum wage for government employees of 100 Naira per month. This wage has set a de facto floor for

all sectors of the economy, including the agricultural sector. Most agricultural workers receive compensation, including benefits, equal to about 120-140 Naira per month. This wage represents a significant increase over previous levels and has seriously challenged the viability of any labor-intensive agricultural undertaking.

4. Observers agree that agricultural projects in Nigeria usually become more labor intensive than planned. Machinery failures which require human substitution, productivity below expectations and problems in monitoring labor participation in projects are some examples of why labor requirements exceed plans.
5. Although the NLC is currently pressing for a 300 Naira minimum wage, the government and even some trade unions regard this as inflationary and it is not likely to be implemented. However, it is likely that labor costs will continue to rise in the near future. Other worker demands include:
  - \* Free medical care
  - \* Rent subsidies of at least 40 Naira per month
  - \* A doubling of the minimum annual pension
  - \* Better housing
  - \* Increased worker participation in decision making
  - \* Car loans
  - \* Transportation subsidies

6. The attractiveness of urban living has induced a migration from rural areas. The declining rural work force makes it difficult to fill agricultural labor requirements in certain areas, especially at peak demand times such as harvest and planting.

## THE BANKING SECTOR AND AGRICULTURE

PRIVATE BANKS IN NIGERIA ARE GENERALLY HAVING DIFFICULTY MAKING LOANS TO THE AGRICULTURAL SECTOR. THE LACK OF ATTRACTIVE COMMERCIAL PROJECTS, THE INHERENT RISKINESS OF AGRICULTURE, THE ATTRACTIVENESS OF ALTERNATIVE SECTORS, THE POOR RECORD ON LOAN REPAYMENTS AND THE LACK OF A DEVELOPED BANKING IN THE HINTERLAND ALL CONTRIBUTE TO THESE DIFFICULTIES. HOWEVER, GOVERNMENT REGULATIONS REQUIRE THAT A CERTAIN PERCENTAGE OF A BANK'S LOAN PORTFOLIO BE COMMITTED TO AGRICULTURE. THIS HAS LARGELY CHECKED THE NATURAL SKEPTICISM OF THE BANKING SYSTEM. CONTRARY TO THE MAJORITY OPINION, SOME BANKS ARE ACTIVELY SEEKING AGRICULTURAL LOANS AND BELIEVE THAT THE AGRICULTURAL SECTOR OFFERS PROMISE FOR FUTURE GROWTH.

1. There are two major classes of private banks: the commercial banks and the merchant banks.
2. Bank loans are divided into two categories: the preferred sectors and the less preferred sectors. The Central Bank publishes yearly guidelines on how much of a bank's portfolio can be in each sector. These guidelines are listed below:

	<u>Preferred Sector</u> <u>(Minimum %)</u>	<u>Less Preferred Sector</u> <u>(Maximum %)</u>
Commercial Banks	75%	25%
Merchant Banks	74%	24%

3. Agriculture is in the preferred sector. The percentage of a bank's loan portfolio which must be committed to agribusiness is summarized below:

	<u>Agricultural Production</u>	<u>Agro-Allied Industries</u>
Commercial Banks	88	38
Merchant Banks	58	58

4. Banks which do not satisfy these percentages lose the difference between the percentage of their portfolio committed to agriculture and the required percentage. The difference is removed at the Central Bank from deposits and with the Central Bank and deposited in the Nigerian Agricultural Bank (a government bank which makes loans for agriculture).
5. Interest rates are controlled. Thus the cost of debt capital for agribusiness ventures is relatively low. Agricultural production is a 'favored sector' which lowers maximum lending rates further. The current maximum lending rate to preferred sectors is 9.5%. The current maximum lending rate for agricultural production and agricultural credit guarantees is 6%.
6. Loan guarantees are available for most agricultural projects. The guarantees do not eliminate all risk since they cover only 75% of the loan, and payments on defaulted loans are made only after claims have been made against certain hard-to-claim assets of the venture.
7. The banking system is centered in the large cities. There are only 750 bank branches throughout Nigeria. Few rural areas are served by banks. It takes a long time for transactions in the hinterland to clear the central urban branch. The absence of a rural banking system requires that agribusiness ventures away from the cities manage large amounts of cash. This has posed security and logistic problems for some companies.

## EMPLOYING EXPATRIATES IN NIGERIA

MOST JOINT VENTURES IN NIGERIA WILL REQUIRE THAT EXPATRIATES BE EMPLOYED AND LIVE IN THE COUNTRY. TECHNICAL EXPERTISE AND MANAGEMENT SKILLS ARE SOME OF THE PRINCIPAL CONTRIBUTIONS WHICH VENTURE PARTNERS SEEK FROM FOREIGN COMPANIES. ESTABLISHING AN EXPATRIATE IN NIGERIA CAN BE DIFFICULT, ESPECIALLY IF ONE'S COMPANY DOES NOT ALREADY HAVE A PRESENCE. ESTABLISHING AN EXPATRIATE IS EXPENSIVE BUT USUALLY COST EFFECTIVE.

1. The cost of establishing an expatriate employee in Lagos, Nigeria, is about \$500,000 the first year. Maintaining an expatriate in Nigeria costs about \$200,000 per year. The high cost of expatriate employment is caused by several factors:
  - Real estate of a suitable quality for U.S. employees is scarce. If a company does not already have access to housing, it must enter the inflated open market. Landlords usually require a cash deposit equal to 3-4 years rent. Housing is the single greatest first year cost of establishing a U.S. employee.
  - The cost of living in Nigeria is extremely high. The naira is over-valued which artificially inflates goods and services in Nigeria paid for in converted dollars. Imported consumer goods are subject to high tariffs or are banned. High markups on most goods further increase the costs.
  - To induce good employees to work in Nigeria, it is often necessary to offer them bonuses or hardship allowances.
  - Double taxation to U.S. parent companies who provide cost of living adjustments or hardship allowances increases the cost of employing a U.S. citizen in Nigeria by 30% according to some estimates.

To put these costs in perspective, one should note that most foreign companies believe they can justify these costs and indeed often seek to increase the number of expatriate employees in Nigeria.

The cost of living as an expatriate outside of Lagos is significantly less.

2. Because there is a very high fixed cost to establishing expatriate managers in Nigeria, most experts recommend that only the best managers be sent. By sending fewer managers and technical experts of a high caliber, one can reduce one's total expense on personnel.
3. Companies who cannot find suitable American employees or who do not wish to pay the large amount of money required to maintain a U.S. manager can pursue one of two alternatives.
  - \* Hire a third party expatriate. Non-U.S. expatriates generally are less costly than U.S. employees. But non-U.S. expatriates may not adequately understand the company's objectives, preferences and operating style.
  - \* Attempt to manage the enterprise from the U.S., using occasional visits to Nigeria. In the opinion of many observers, this is a risky alternative since many ventures without direct supervision do not succeed.

## PAYMENTS

THIS REPORT, IN RECOGNITION OF THE FACT THAT OPINIONS DIFFER ON THE MORALITY AND ACCEPTABILITY OF TRANSACTIONS, SUCH AS LARGE COMMISSIONS, INFLATED FEES, GIFTS AND KICKBACKS WILL REFER TO SUCH TRANSFERS AS 'PAYMENTS'. MANY BUSINESSMEN STRESS THAT BRIBERY, A WORD WITH HEAVY MORAL OVERTONES, MISREPRESENTS THE NATURE OF SUCH PAYMENTS, WHICH ARE REGARDED BY SOME AS A NORMAL PART OF DOING BUSINESS IN NIGERIA. MOST U.S. BUSINESSMEN WILL EVENTUALLY FACE THE PROBLEM OF PAYMENTS RELATED TO BUSINESS WHICH ARE COMMON IN NIGERIA.

ONE MUST FIRST STRESS THAT MOST BUREAUCRATS, BUSINESSMEN AND OFFICIALS PERFORM THEIR JOBS WITHOUT SOLICITING OR EXPECTING EXTRA REMUNERATION. OTHERS DO. MANY WORKERS REGARD PAYMENTS AS A NECESSARY SUPPLEMENT TO THEIR LOW SALARIES. OTHERS REGARD IT AS A COMMISSION FOR EXTRA WORK IMPOSED ON THEM BY THE PAYING PARTY. YET OTHERS REGARD IT AS A DESIRABLE INDICATION OF GRATITUDE WHICH HAS A STRONG PRECEDENT IN A TRADITIONAL SOCIETY.

REGARDLESS OF THE RATIONALE OR JUSTIFICATION BEHIND PAYMENTS, U.S. FIRMS MUST BE CONCERNED ABOUT THE ISSUE. OF GREAT IMPORTANCE IS THE ISSUE OF THE LEGALITY OF PAYMENTS UNDER U.S. LAW. THE FOREIGN CORRUPT PRACTICES ACT, LEGISLATED IN 1977, HAS IMPOSED STRICT REGULATIONS ON BUSINESS PAYMENTS. THIS ACT MAKES IT CRIMINAL TO MAKE CERTAIN PAYMENTS INTENDED TO INFLUENCE BUSINESS DECISIONS. THE ACT IMPOSES STRICT DISCLOSURE REQUIREMENTS ON CERTAIN TYPES OF PAYMENTS. AMERICAN BUSINESSMEN SHOULD ANTICIPATE THE ISSUE OF PAYMENTS AND ADOPT POLICIES ON HOW TO HANDLE IT.

1. Payments are best viewed as belonging to one of two categories:
  - A. The first category is small payments (e.g., \$1-100) to clerks, petty bureaucrats and low-level officials to expedite routine transactions. Dash, as it is commonly known in Nigeria, is the grease which keeps the

cogs and wheels of business moving. Dash, which in most instances is no more than generous tipping, is accepted by most people as an inevitable fact of life which can be handled according to the preferences of the individual.

B. The second category is large payments to businessmen and officials to obtain preferential treatment for licenses, tenders for contracts, or business deals. For U.S. companies this second category of payment will complicate business in Nigeria.

2. Companies can take action to avoid payments. A frequently heard suggestion is to follow procedures meticulously. As discussed under "Advice for Doing Business in Nigeria", U.S. companies sometimes shortcut procedures. Whether it be entering the country prior to the 10-day incubation period for yellow fever shots, neglecting to file an application for permission to repatriate profits or not having proper airplane reservations, businessmen can force themselves into a position where they ironically must dash to correct the situation. Thus, one can reduce the likelihood of making payments by carefully following procedures and regulations governing a circumstance.

Patience and persistence are necessary partners to procedural attentiveness. Even if one scrupulously follows procedure, one may find it takes much longer to accomplish tasks without dashing bureaucrats and clerks. Ignoring or refusing requests for dash may precipitate a sudden lunch break for a shipping clerk. Applications may be repeatedly relegated to the bottom of the pile at the expense of those which were accompanied by an inflated application fee. To some, the length of time it takes to complete a service without payments may be unacceptably long.

3. The problem of large payments is far more serious. In cases where awards are made on the basis of subjective factors--as opposed to cases which involve only procedure, a company will have a difficult time avoiding the issue of payments merely by following procedure and having patience. A significant proportion of large project, licenses and service contracts involve payments to people involved in the selection process.
  
4. Assuming that a company which negotiates a payment to a decision-maker has a greater probability of being awarded a contract compared with one which does not, then a company which adopts a policy of never making payments to influence contract awards will be at a disadvantage. But not necessarily a fatal disadvantage. Certain analysts believe companies may be more likely to succeed in doing business in Nigeria without making large payments if one's product, be it a good or service satisfies one or more of the following conditions:
  - \* The product is required by the country.
  - \* The product is clearly superior to alternative products or is proprietary
  - \* The product falls within the nation's priorities

All agricultural projects fall inside the nation's priorities. Additionally, certain U.S. firms may be uniquely qualified to satisfy certain needs of Nigeria's agriculture. Therefore, some U.S. agribusiness firms may find themselves less susceptible to having to make payments.

5. To help put the issue in perspective, many U.S. businessmen claim they can compete in Nigerian business without making any payments illegal under U.S. law. Once having established an ongoing business which does not depend heavily on outside decisions or awards, one becomes less vulnerable to payments.

## BUSINESS PROCEDURES

THIS SECTION PRESENTS A SUMMARY OF IMPORTANT PROCEDURES THAT FOREIGN BUSINESSMEN MUST FOLLOW TO ESTABLISH A NEW VENTURE IN NIGERIA. THE SPECIAL CONDITIONS AND PRIVILEGES ALLOWED TO AGRIBUSINESS VENTURES ALSO HAVE BEEN OUTLINED IN THIS SECTION. U.S. BUSINESSMEN ARE SOMETIMES FRUSTRATED BY THE CONFUSION ASSOCIATED WITH FORMING A NEW BUSINESS. BY BETTER UNDERSTANDING THE PROCEDURES AND INCENTIVES FOR AGRIBUSINESS INVESTMENTS BEFORE ONE BEGINS ACTIVITIES, ONE CAN AVOID MOST OF THE PROBLEMS COMMONLY ENCOUNTERED. A MAJORITY OF THE PROBLEMS FOR NEWCOMERS ARISE BECAUSE THEY DO NOT TAKE ACTIONS IN THE INITIAL PHASES OF ESTABLISHING A BUSINESS WHICH, ALTHOUGH NOT IMPORTANT AT THE TIME, TAKE ON FAR GREATER SIGNIFICANCE IN THE FUTURE. IT IS POSSIBLE TO ADVANCE THROUGH THE FIRST PHASES OF A PROJECT WITHOUT SATISFYING CERTAIN PROCEDURES. HOWEVER, IN NIGERIA, SOME OF THE CRITICAL CONDITIONS TO A PROJECT'S SUCCESS ARE CONDITIONED UPON HAVING METICULOUSLY SATISFIED PREVIOUS REQUIREMENTS. SEVERAL AMERICAN COMPANIES WHO OPERATE IN NIGERIA COMMENT THAT LAWYERS AND ACCOUNTANTS MAY BE MOST USEFUL AT THE BEGINNING OF A PROJECT. THE BRASII AGRIBUSINESS ENTREPRENEUR WHO WANTS TO BEGIN BUILDING, EXPORTING OR ADVISING IMMEDIATELY WILL INEVITABLY ENCOUNTER PROBLEMS.

THIS SECTION IS DIVIDED INTO THE FOLLOWING PARTS:

1. DOCUMENTS WHICH MUST BE FILED WHEN STARTING A BUSINESS
2. SPECIAL INCENTIVES FOR AGRIBUSINESS VENTURES
3. OWNERSHIP AND INDIGENIZATION

1. DOCUMENTS WHICH MUST BE FILED WHEN STARTING A BUSINESS:

ITEM	WHAT FORMS TO COMPLETE	NUMBER OF COPIES	WHERE TO OBTAIN FORMS	WHERE TO SUBMIT COMPLETED FORMS	FEES
1. Immigration approval or clearance of Business Permit with or without expatriate status allocation	Immigration T/1	Two	Permanent Secretary Fed. Min. of Internal Affairs Federal Government Secretariat Ikeja Lagos	Permanent Secretary Fed. Min. of Internal Affairs Federal Government Secretariat Ikeja Lagos	None
2. Additional expatriate status	Immigration T/2	Two	"	"	"
3. Incorporation of company (the applicant proprietors obtain professional legal assistance.) (Again, incorporation is a statutory requirement.)	Forms C.O.1, C.O.6 and C.O.7 Printed memorandum & Articles of Association	One of each form Four copies	Bankers Self printed and completed	Registrar of Companies Federal Ministry of Trade Lagos	Subject to assessment and professional charges
4. Registration of Business Name (Also good for sole proprietorship, partnerships & professional practices)	Form 1 or Form 2	One	Companies Registry Federal Ministry of Trade Lagos	"	N5.70
5. Residential Permit (Permission for an alien to reside in Nigeria for an extended period of time to given to firms with expatriate status.)	A letter from the Nigerian company requesting permission to employ an expatriate.	Two plus valid passport	Immigration Department via Consular Authorities	Consular Authorities	According to nationality of applicant
6. Valid entry Visa	Immigration T2	One plus valid passport and letter from employer	Fed. Min. of Internal Affairs Immigration Department Lagos	Chief Federal Immigration Officer, Immigration Dept. Fed. Min. of Internal Affairs Lagos	"
7. Exchange Control Approval	Letter of application issued on Federal Ministry of Finance authorization	Two	Exchange Control Officer Federal Ministry of Finance Lagos	Exchange Control Department Federal Ministry of Finance Lagos	None
8. Notification of intention to incur capital expenditure	Form 1	Two	Fed. Min. of Industries Industrial Inspection Division 11, Kofe Abayomi Road Victoria Island, Lagos	Director Industrial Inspection Division 11, Kofe Abayomi Road Victoria Island, Lagos	None
9. Application for Finance Stamp	API/1 Finance Industry; API/2 Finance Certificate	Five	Fed. Min. of Industries Broad Street Lagos	Permanent Secretary Federal Ministry of Industries Broad Street Lagos	N100 deposit

**THREE COMMENTS ON PROCEDURE ARE APPROPRIATE TO A BUSINESSMAN IN THE EARLY STAGES OF AN AGRIBUSINESS PROJECT IN NIGERIA:**

1. Nigerian business depends on prior approval. The expeditious resolution of requests can only be expected if certain conditions were satisfied in the past. For example, repatriation of dividends depends on having received approved status in the early phases of the project. Issues which require prior approval include the following:
  - Repatriation of dividends, royalties and interest
  - Bringing in expatriate managers
  - Payment on Technical Service Agreements
  - Repatriation of equity or loan capital
2. When filing an application, do it right the first time. Some U.S. companies, out of their eagerness to begin business, rush their applications. The most common cause of undue delay in the approval process for new businesses is problems on the application. Omissions, vague or incomplete data, or evasive explanations are almost certain to detain the processing of a document. Once the document has been removed from normal channels, it is unlikely that it will reenter them until the filing party makes inquiries as to its whereabouts or the bureaucracy requests clarification or supplemental information--something which may take a long time.
3. The support of the Nigerian partner is crucial in processing applications and filing proper documents. The Nigerian partner usually will be able to monitor the progress of an application and unblock problems far more effectively than the U.S. partner.

## 2. SPECIAL INCENTIVES FOR AGRIBUSINESS VENTURES

THE GOVERNMENT OF NIGERIA OFFERS ATTRACTIVE INCENTIVES FOR COMPANIES TO INVEST IN AGRICULTURE. TO TAKE ADVANTAGE OF SOME OF THESE INCENTIVES, COMPANIES MUST APPLY TO THE PROPER ORGANIZATION. THE MOST IMPORTANT INCENTIVES ARE LISTED BELOW:

- \* Pioneer Companies To encourage investment in specific industries, the Government allows certain companies remission on their income taxes for a period of three years. Tax relief can be extended for two years, contingent on certain conditions. The following agricultural industries have been declared pioneer;

- cultivation and processing of food crops, vegetables and fruits
- manufacture of cocoa products
- processing of oilseeds
- integrated dairy production
- cattle and other livestock ranching
- bone crushing
- fishing
- manufacture of starch from plantation crop
- manufacture of animal feedstuff
- manufacture of leather
- manufacture of rubber goods and rubber production

- processing of local wheat and flour milling
  - oil palm plantation and processing
  - gum arabic plantation and processing
  - integrated wood projects
  - manufacture of fertilizers
- \* Approved Users Scheme This scheme allows many agribusiness companies to import raw materials at no or concessionary duty rates. Raw materials must be used for an approved purpose.
  - \* Accelerated Depreciation Agribusiness companies can depreciate their assets against profits at an accelerated rate.
  - \* Excise Duty Holiday Agribusiness companies are eligible for substantial concessions in excise duty payments if the Ministry of Industries is satisfied that they are fully integrated and use the maximum amount of locally available materials.
  - \* Majority Ownership for Foreigners Integrated agricultural production and processing has been shifted to Schedule III from Schedule II of the Enterprises Promotion Act. This allows foreign companies to have a majority ownership in their ventures.
  - \* Loss Carry Forward Losses can be carried forward indefinitely until they can be written off against profits.
  - \* Loan and Borrowing Breaks Interest on loans to agricultural ventures are exempt from taxation. Agricultural ventures can borrow from commercial banks at a low rate, 3-6%. Such loans are guaranteed by the Agricultural Credit Guarantee Scheme.

- Availability of Debt Financing Debt financing for worthwhile agribusiness projects is much easier to obtain than formerly because of a national policy requiring banks to put a minimum percentage of their loan portfolio in agriculture.
- Agricultural Equipment Duty All agricultural equipment imported into Nigeria is exempt from duty.
- Investment Allowance Capital expenditure on agricultural plant and equipment is given an additional 10% investment allowance.

### 3. OWNERSHIP AND INDIGENIZATION

THE NIGERIAN ENTERPRISES PROMOTION DECREE OF 1977 WILL DIRECTLY INFLUENCE THE FORMATION OF ANY JOINT VENTURE IN NIGERIA. THE INTENT OF THE DECREE IS TO ENSURE THAT NIGERIANS FULLY SHARE IN THE DEVELOPMENT OF THEIR ECONOMY. IN RECOGNITION OF THE NEED TO DEVELOP THE AGRICULTURAL SECTOR, THE GOVERNMENT ALLOWS U.S. AGRIBUSINESS COMPANIES MAXIMUM OWNERSHIP FOR MOST VENTURES.

1. The Decree contains three schedules which list the required amount of Nigerian participation in any joint venture. The maximum amount of equity which can be held by a foreigner is 60% (Schedule III).
2. The amended Schedules for Agribusiness ventures are presented on the following pages.
3. Foreign companies which held equity in Nigerian businesses prior to the promulgation of the decree were required to sell varying percentages of their stock to Nigerians at prices set by a special committee.
4. Any "integrated" agricultural venture can be 60% foreign owned. Integration is broadly interpreted, which allows U.S. agribusiness firms to hold a majority position in most ventures.
5. A certain flexibility in dividend and voting rights is possible by using different classes of stock.

**AGRICULTURAL ENTERPRISES IN SCHEDULE I**

**FOREIGN COMPANIES CANNOT OWN EQUITY**

1. Blending and bottling of alcoholic beverages
2. Bread and cake making
3. Commercial transportation (wet and dry cargo and fuel)
4. Commission agents
5. Department stores and supermarkets having annual sales turnover less than 2,000,000 rupees
6. Distribution agencies excluding motor vehicles, machinery and equipment and spare parts
7. Ice cream making when not associated with the manufacture of other dairy products
8. Poultry farming
9. Retail trade (except by or within department stores and supermarkets)
10. Rice milling
11. Wholesale distribution of local manufacturers and other locally produced goods

**AGRICULTURAL ENTERPRISES IN SCHEDULE II**  
**FOREIGN COMPANIES CAN OWN 40% OF THE EQUITY**

1. Banking - commercial, merchant and development banking
2. Beer brewing
3. Bottling of soft drinks
4. Canning and preserving of fruits and vegetables
5. Coastal and inland waterways shipping
6. Department stores and supermarkets having annual turnover of not less than 2,000,000 naira
7. Distribution agencies for machines and technical equipment
8. Distribution and servicing of motor vehicles, tractors and spare parts thereof, of similar objects
9. Fish and shrimp trawling and processing
10. Fertilizer production
11. Grain milling products except rice milling
12. Insecticides, pesticides and fungicides
13. Manufacture of biscuits and similar dry bakery products
14. Manufacture of cocoa, chocolate and sugar confectionery
15. Manufacture of dairy products, butter, cheese, milk and other milk products
16. Manufacture of food products like yeast, starch, baking powder, coffee roasting, and processing of tea leaves into black tea
17. Oil milling, cotton ginning and crushing industries
18. Plantation sugar processing
19. Plantation agriculture for tree crops, grains and other cash crops
20. Slaughtering storage associated with industrial processing and distribution of meat
21. Wholesale distribution of imported goods

**AGRICULTURAL ENTERPRISES IN SCHEDULE III**  
**FOREIGN COMPANIES CAN OWN 60% OF THE EQUITY**

1. Distilling, rectifying and blending of spirits such as ethyl alcohol whisky, brandy, gin and the like
2. Integrated agricultural production and processing industries
3. Manufacture of agricultural machinery and equipment
4. Manufacture of special industrial machinery, such as textile and food machinery, paper industry machinery, oil refining machinery and equipment and the like
5. Ocean transport and shipping
6. Storage and warehousing - The operation of storage facilities and warehouses (included bonded and refrigerated warehouses) for hire by the general public
7. Tobacco manufacture
8. All other enterprises not included in Schedules I and II not being public sector enterprises

**SECTION III**  
**NIGERIAN AGRICULTURE AND AGRICULTURAL POLICY**

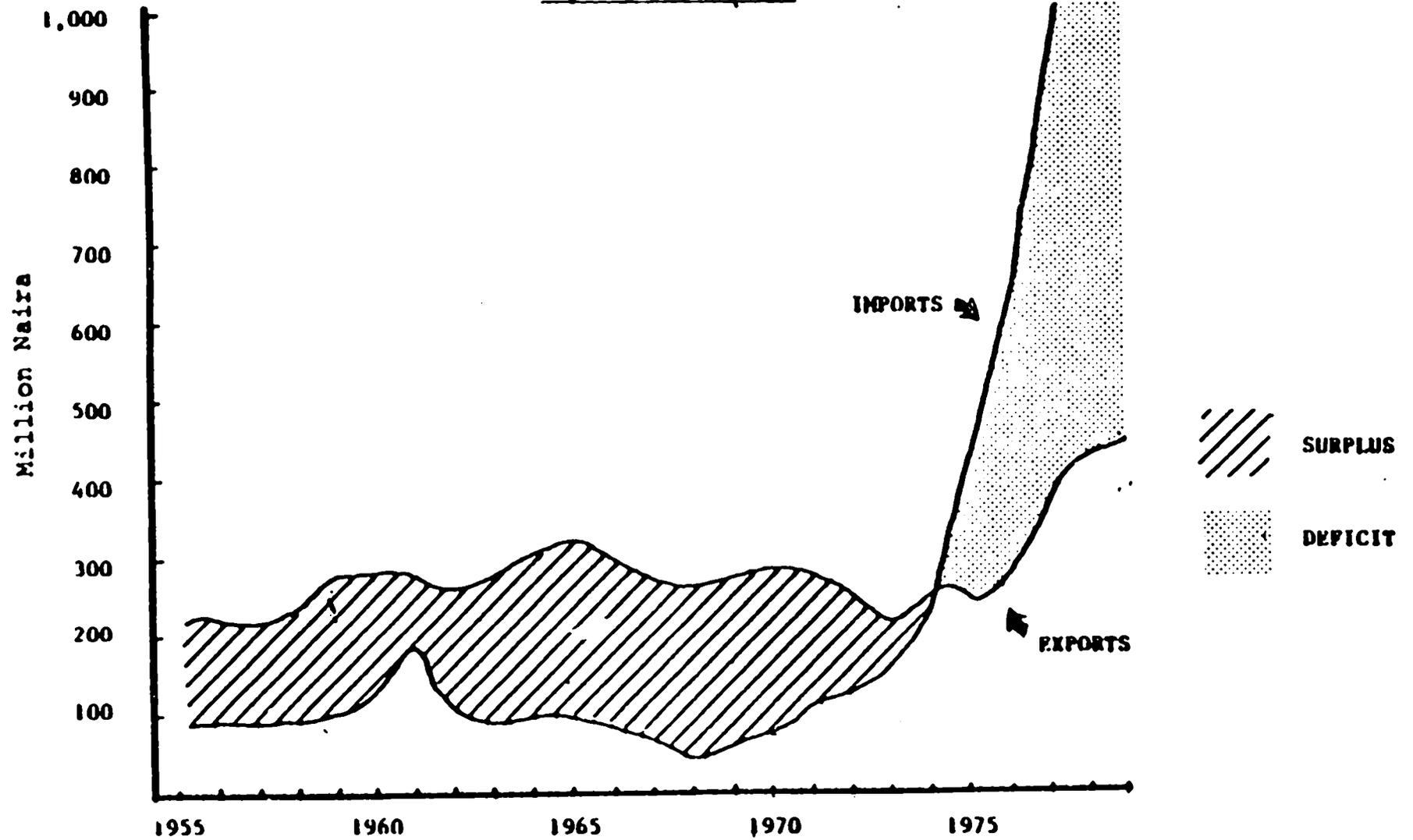
## NIGERIA'S POST-WAR FOOD SYSTEM

NIGERIA'S POST-WAR AGRICULTURAL AND FOOD SYSTEM, ONCE THE LEADING CONTRIBUTOR TO ECONOMIC DEVELOPMENT AND EMPLOYMENT, HAS DECLINED TO WHERE IT IS NOW A BRAKE ON THE ECONOMY, A MAJOR GENERATOR OF INFLATION, AND THE CAUSE OF URBAN MIGRATION. UNTIL THE 1960'S, AN IMAGINATIVE POLICY WHICH FOCUSED ON TRADITIONAL SMALL FARMERS GENERATED BOTH ADEQUATE DOMESTIC SUPPLY AND EXPORTS.

- \* Nigeria once exported substantial amounts of cash crops, including cocoa, palm oil, groundnuts (peanuts) and rubber. After independence in 1960, agricultural production began to falter and decline. Large food deficits arose a decade ago and were aggravated by the neglect to agriculture during the civil war and the first oil boom (1974-1977).
- \* Since independence, and until recently, traditional producers have been ignored. Exports began to decline and Nigeria became a major food importer. With 70% of Nigeria's people still residing in the countryside, the 25% of public spending which has been devoted to the rural sector has been insufficient.

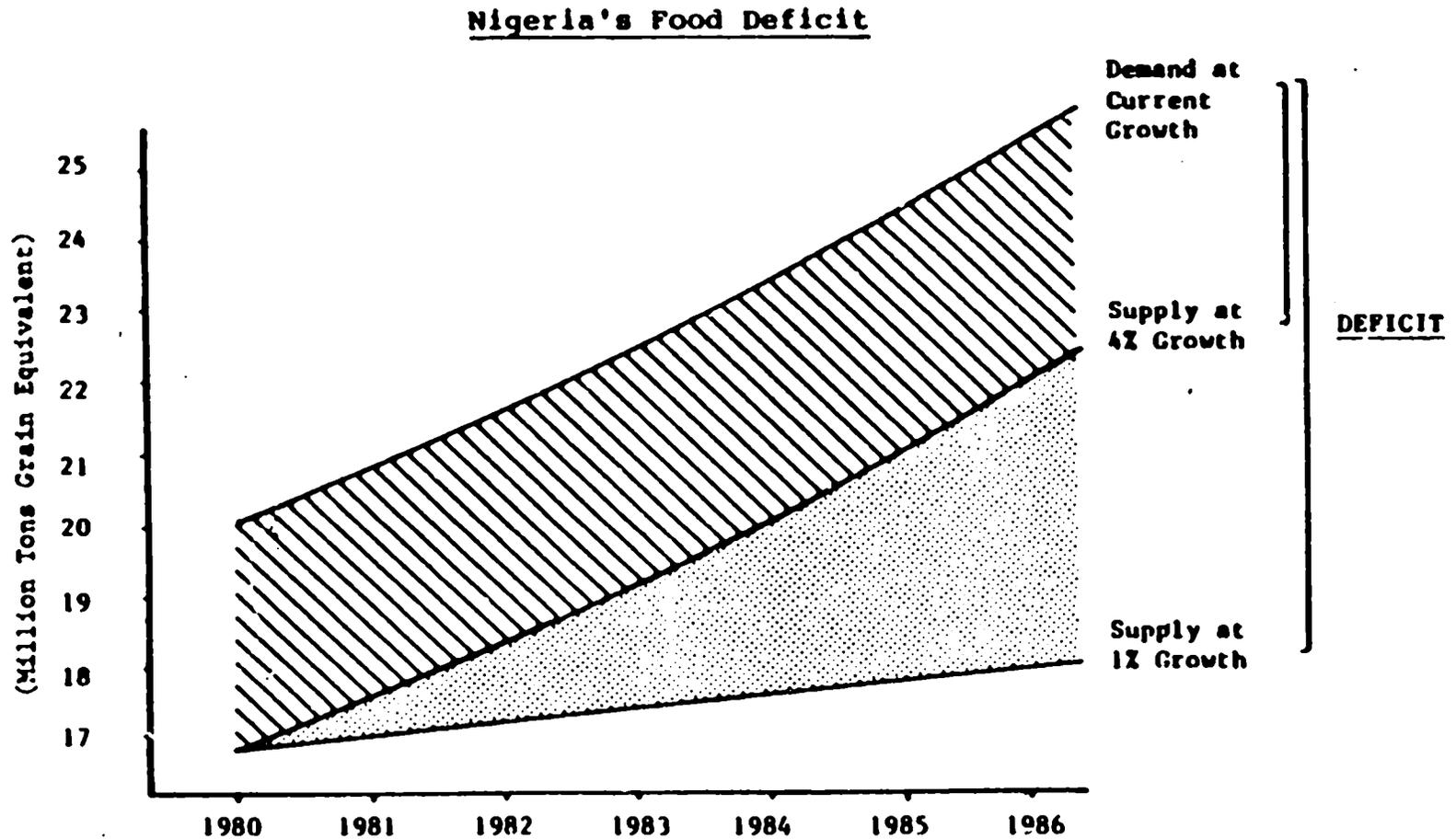
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Nigerian Agricultural  
Imports and Exports



FUTURE DEMAND

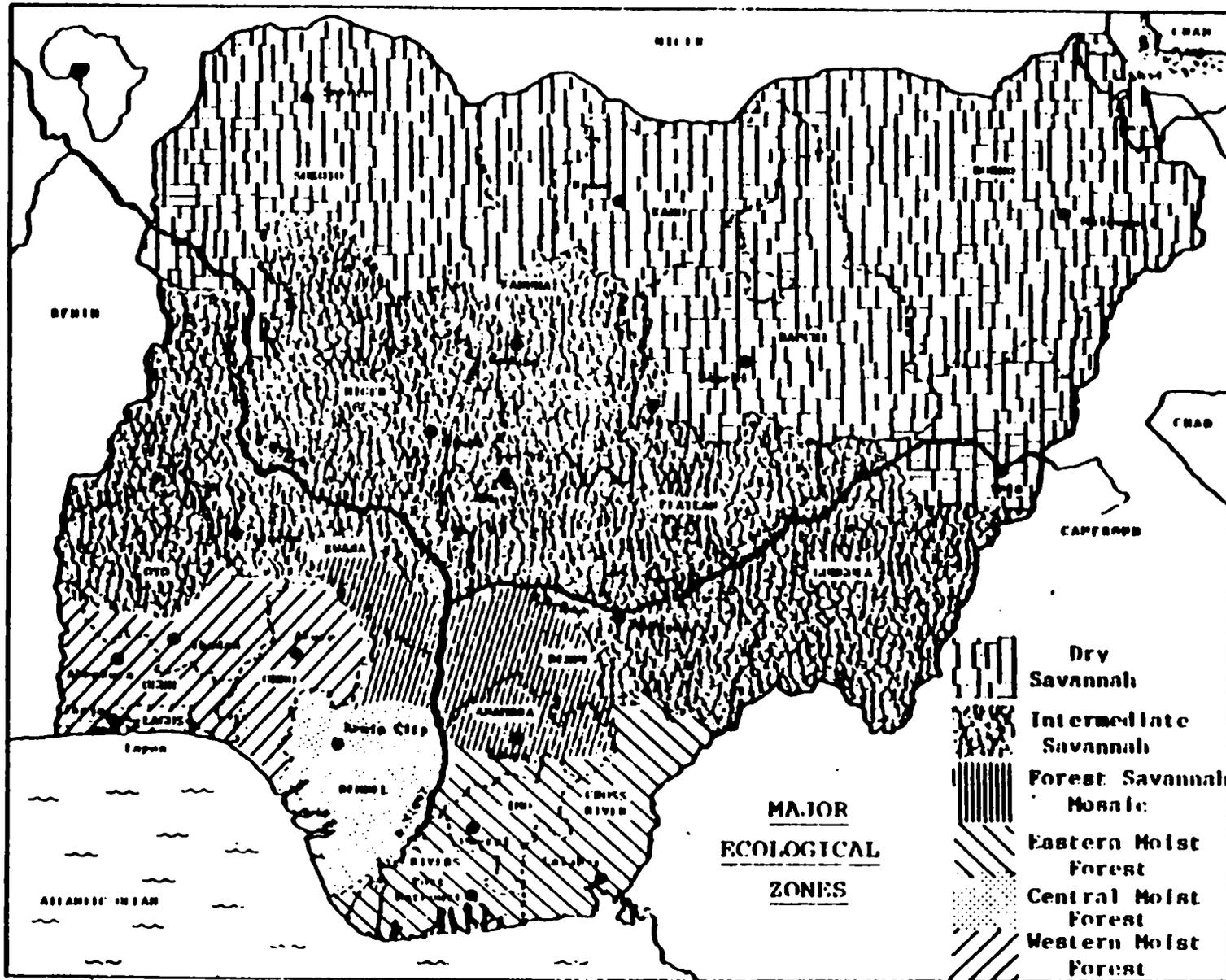
IN THE FORSEEABLE FUTURE, DEMAND FOR FOOD IN NIGERIA WILL CONTINUE TO EXCEED SUPPLY, EVEN IF ONE ASSUMES AN OPTIMISTIC 4% GROWTH RATE IN PRODUCTION. THIS DEFICIT WILL PROVIDE TRADING OPPORTUNITIES AND SHOULD HELP CREATE A RECEPTIVE ENVIRONMENT FOR JOINT VENTURES IN PRODUCTION, PROCESSING AND MARKETING.

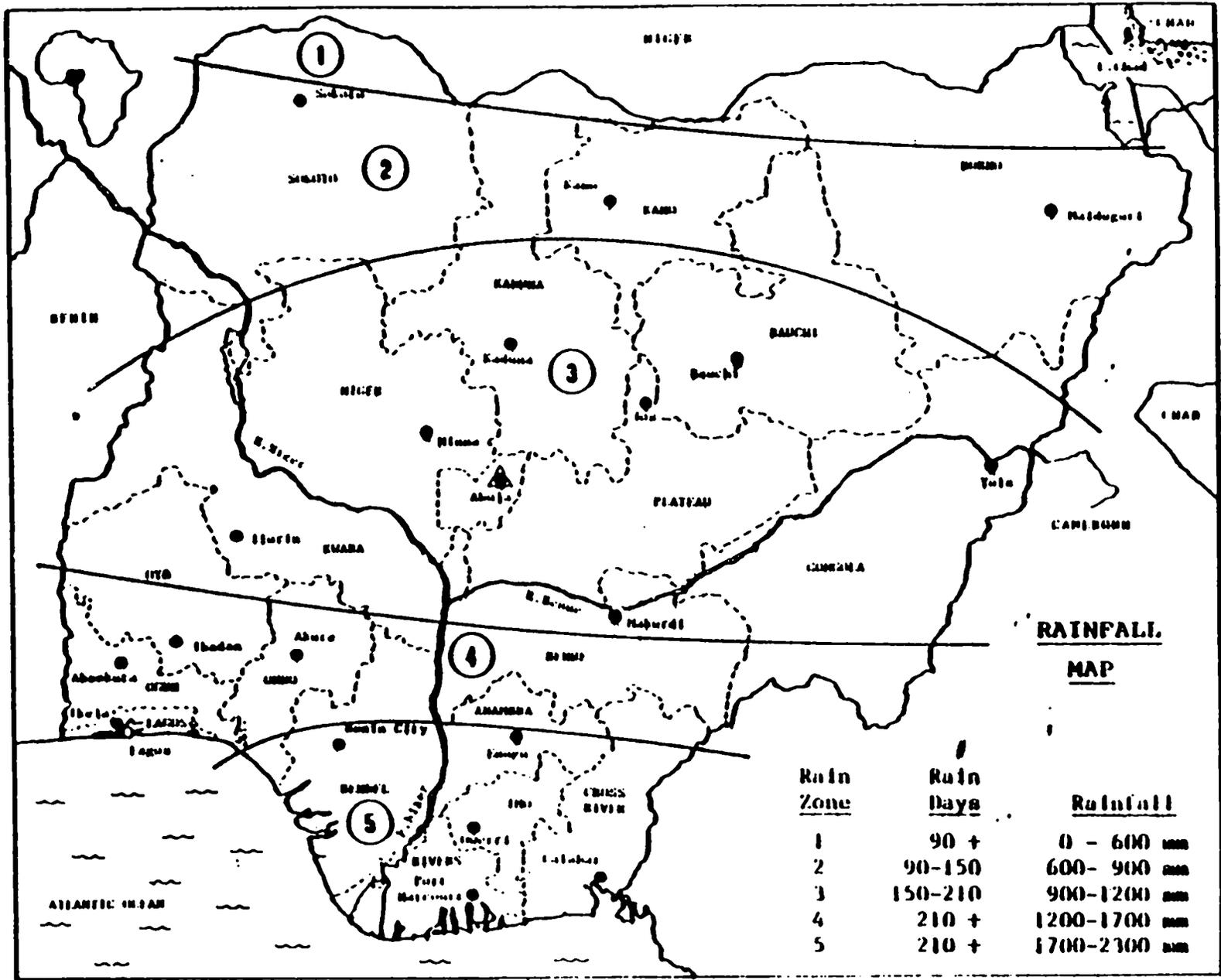


## ECOLOGY

MANY U.S. AGRIBUSINESS VENTURES IN NIGERIA WILL BE CONCERNED WITH THE PRODUCTION CAPABILITIES OF NIGERIAN AGRICULTURE. THE GOVERNMENT STRONGLY ENCOURAGES COMPANIES TO INVESTIGATE DOMESTIC PRODUCTION EVEN IF THE MAIN THRUST OF THE BUSINESS IS ON PROCESSING OR MARKETING. THE STATED OBJECTIVE OF THE GOVERNMENT IS TO SUBSTITUTE CURRENT IMPORTS OF COMMODITIES WHERE THERE EXISTS INDIGENOUS PRODUCTION CAPABILITY. UNDERSTANDING THE NATURAL ENVIRONMENT IN NIGERIA IS THEREFORE USEFUL. THE FOLLOWING SECTION PRESENTS THREE EXHIBITS ON ECOLOGY:

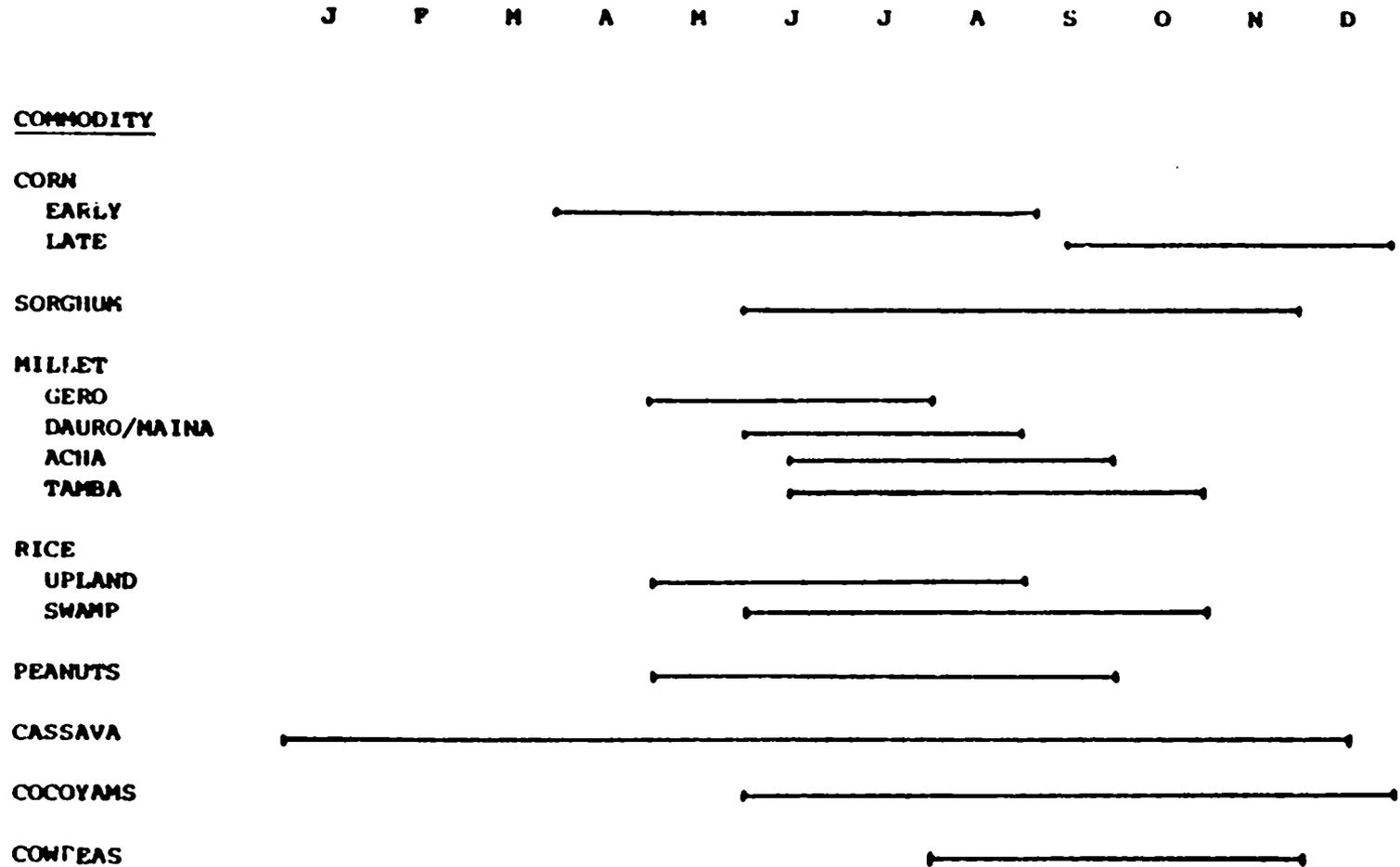
1. ECOLOGICAL ZONES
2. RAINFALL.
3. GROWING SEASONS FOR MAJOR CROPS





**RAINFALL MAP**

GROWING SEASONS FOR MAJOR CROPS IN NIGERIA



## LAND TENURE

THE ISSUE OF LAND TENURE IS IMPORTANT TO ANY U.S. FIRM INTERESTED IN LAND-BASED AGRIBUSINESS VENTURES. UNDERSTANDING AND USING THE SYSTEM TO ONE'S ADVANTAGE IS SOMETIMES NOT EASY. THE SYSTEM CAN BE DIVIDED INTO TWO CATEGORIES: THE NORTHERN SYSTEM AND THE SOUTHERN SYSTEM.

1. Land use in Nigeria is theoretically regulated by the Land Use Decree. This decree establishes two committees to oversee land use and zoning. It also vests power over land use in the State Government. The Land Use Decree has not been enforced although the State Governments play an important role in many land use decisions.
2. Land tenure can be divided into two categories: the northern system and the southern system. Rights to land ownership in the North are vested in the community. The individual does not have any right to land unless he formally applies for a title, something which happens infrequently. Therefore, a company wishing to gain access to land for an agribusiness venture needs to negotiate only with the local authority. The local authority, be it a Chief or council, will negotiate with the individual farmers currently occupying the land to free the land for commercial usage. Land use prerogatives are clearly outlined and disputes over land rights are uncommon.
3. In the South, land is owned by the individual. The southern land tenure system is more complicated and is generally less satisfactory for U.S. companies. Negotiations to use a large tract of land necessarily involve negotiations with many parties. Land tenure is further complicated by unknown relatives who might place demands upon a company for compensation even though the company thought it had negotiated a settlement.

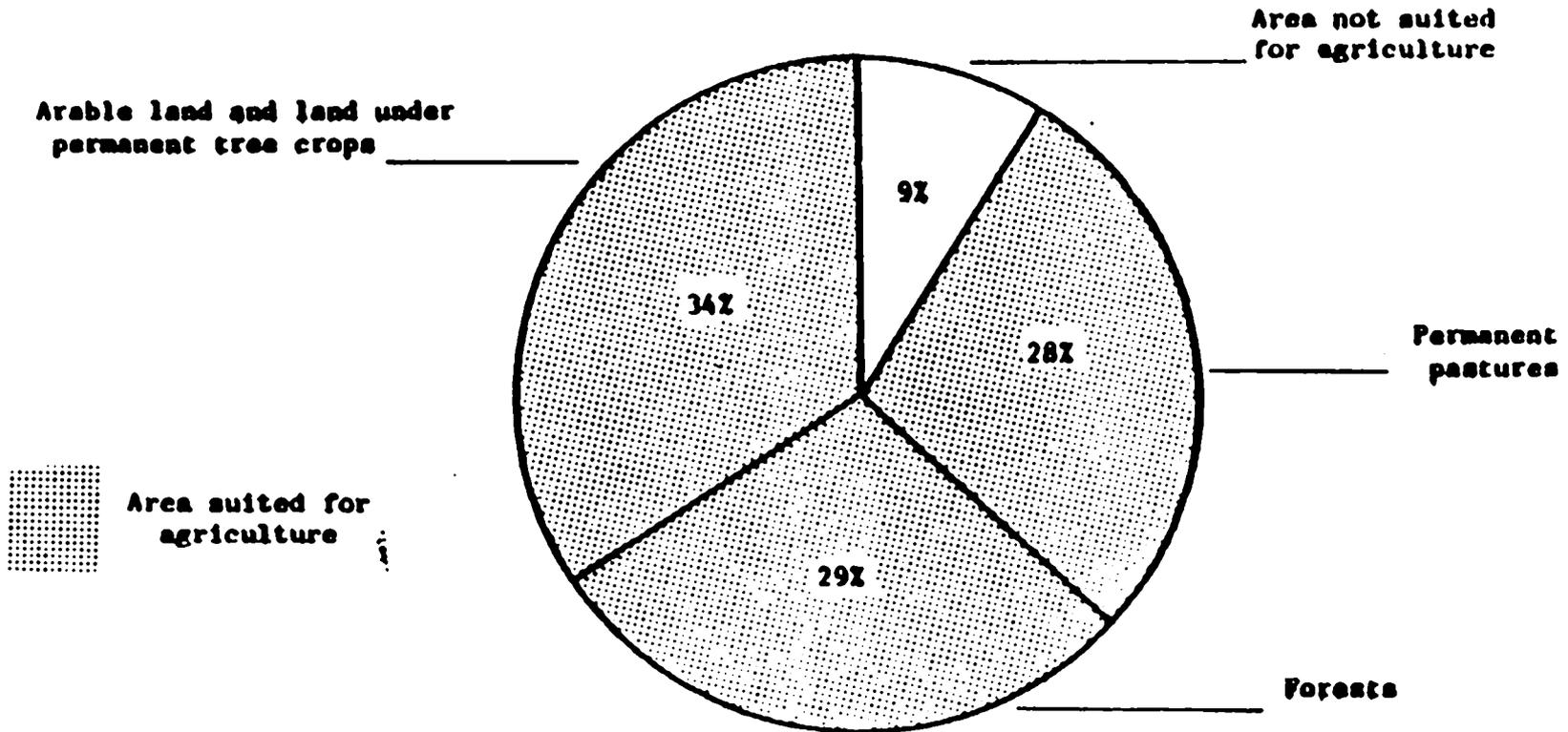
Farming risks can be reduced in the South by securing a written certificate of Occupancy which gives one rights to use the land for a specified time (1-100 years). This certificate is received subject to negotiating a satisfactory compensation package with all concerned parties.

4. Although land tenure in the South complicates agribusiness ventures, it does not present an insurmountable obstacle. Some analysts suggest that agribusiness firms keep the scale of farm projects in the South modest so as to minimize the number of people with which one has to negotiate.

**LAND USE**

**MOST OF NIGERIA'S 92 MILLION HECTARES OF LAND IS SUITED FOR SOME TYPE OF AGRICULTURE. CURRENTLY, ONLY A SMALL AREA IS ACTUALLY FARMED. MOST OF THE PASTURE AND ARABLE LAND IS NOT BEING USED TO ITS POTENTIAL.**

**Analysis of Nigeria's Land Potential**  
**Total Land Area: 92 Million Hectares**



## AGRICULTURAL INSTITUTIONS IN NIGERIA

THE MINISTRY OF AGRICULTURE IS THE PRIMARY FEDERAL ORGANIZATION INVOLVED IN AGRICULTURE. IT IS THE RESPONSIBILITY OF THE MINISTRY TO DEVELOP AND IMPLEMENT AGRICULTURAL POLICY IN CONSULTATION AND COLLABORATION WITH THE VARIOUS STATE AGENCIES AND MINISTRIES. SOME AGRIBUSINESS ACTIVITIES (NOTABLY SOME OF THE PROCESSING INDUSTRIES) ARE REGULATED PRIMARILY BY THE MINISTRY OF INDUSTRY.

1. Following independence, governmental responsibility for agricultural development rested primarily at the regional level. The Federal Government was limited mainly to support of agricultural research. Since 1970, however, the Federal Government has assumed a steadily increasing role:

1970-1974	Federal grants for livestock and fisheries, joint participation with the states in agriculture development projects and national credit institutions.
1975	Created Federal Ministry of Agricultural and Natural Resources. Enacted uniform law for establishment of River Basin Development Authorities (RBDAs).
1977	Expanded role of FMA to include rural development and created new Federal Ministry of Agriculture and Rural Development (FMARD).
1978	Proposed merger of PMWR into a new Federal Ministry of Agriculture and Water Resources.

1979 New constitution further expanded role of Federal Government, primarily through authority to implement agricultural development projects directly as well as in partnership with the states. In addition, state projects must be approved for funding at the Federal level.

1979 Ministry of Water Resources reestablished as separate entity.

2. By contrast, the institutional structure at the state level has changed only moderately since before independence. There has been a proliferation of semi-independent state agencies dealing with agriculture. In a number of states, wholly owned agricultural development corporations have been created to engage in large-scale farming and other commercial ventures.
3. The new constitution also provided for local government councils (LGCs) to work with state agencies in development planning for their respective areas. The LGCs have become heavily involved in agricultural extension at the local level.
4. All multi-crop marketing boards were abolished in 1977 and succeeded by commodity boards for specific crops. They cover domestic food crops as well as traditional export crops. For some crops and for livestock, parastatal national production companies were also established, creating problems of overlapping responsibilities. The parastatals are discussed separately in another section.

The structure, functions and problems of each of the principal agricultural institutions are discussed briefly on the following pages.

FEDERAL MINISTRY OF AGRICULTURE (FMA)

THE FMA IS THE PRIMARY FEDERAL ORGANIZATION INVOLVED IN AGRICULTURE. IT IS RESPONSIBLE FOR DEVELOPING AND IMPLEMENTING AGRICULTURAL POLICY IN COLLABORATION WITH THE STATES. IT ACCOMPLISHES THIS PRIMARILY BY:

- \* Recommending approval of state grants for agricultural projects within the scope of the Five Year plan.
- \* Monitoring performance of state plans and projects.
- \* Participating directly in agricultural development projects--alone or in partnership with the states.

IT SHOULD BE NOTED, HOWEVER, THAT THE FMA HAS NO DIRECT CONTROL OVER STATE PROGRAMS. FURTHERMORE, CERTAIN AGRIBUSINESS ACTIVITIES (NOTABLY SOME OF THE PROCESSING INDUSTRIES) ARE REGULATED BY THE MINISTRY OF INDUSTRY.

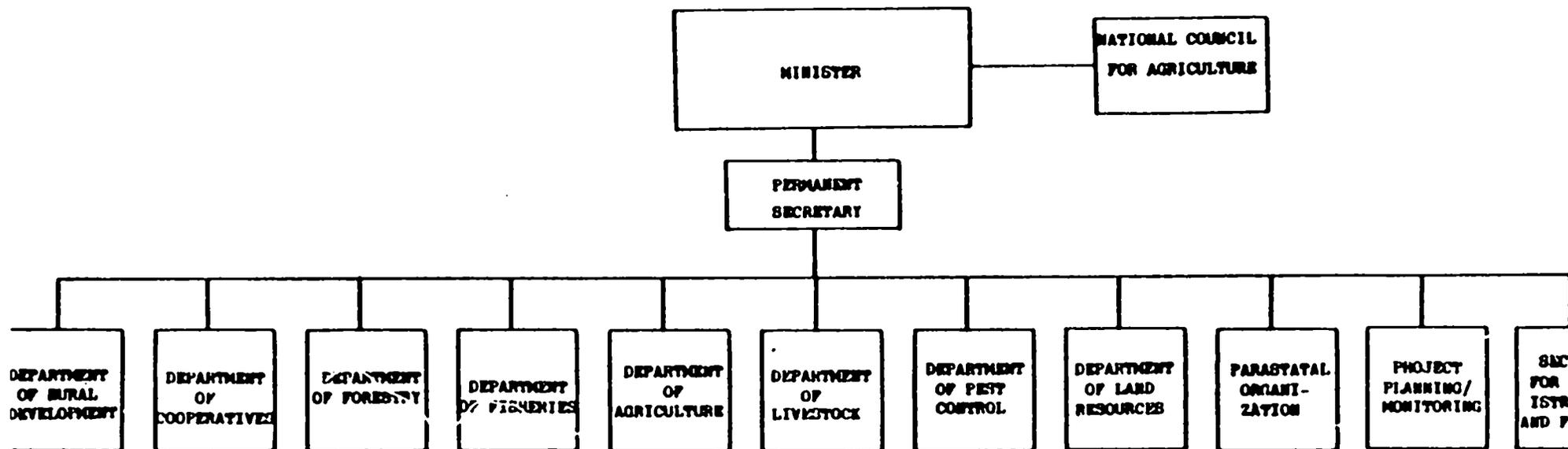
THE ORGANIZATION CHART OF FMA APPEARS ON THE FOLLOWING PAGE. IN ADDITION TO THE FUNCTIONS SHOWN, FMA HAS ASSUMED RESPONSIBILITY FOR AGRICULTURAL COOPERATIVES.

THE MAJOR PROBLEMS WHICH FMA MUST OVERCOME IN CARRYING OUT ITS RESPONSIBILITIES INCLUDE THE FOLLOWING:

1. It may not have sufficient authority as suggested by:
  - \* Its control of state programs is limited to monitoring conformity with the Five Year plan.

- \* It plays only advisory roles in funding decisions for agricultural programs and in establishing producer prices. (Note: Although PMA does not have direct authority over these functions, the Ministry - perspectives influences state projects and commodity pricing.)
- 2. There is a severe shortage of trained manpower, especially at senior levels.
- 3. The private sector appears better suited to carry out many of the commercial activities in which the PMA participates directly.
- 4. Planning, monitoring and evaluating activities are handicapped by lack of reliable data bases and by an inefficient budgeting process.

Organization Chart of the  
Federal Ministry of Agriculture



MINISTRY OF WATER RESOURCES (FMWR)

THE ONE BASIC RESPONSIBILITY OF THE MINISTRY OF WATER RESOURCES IS TO COORDINATE THE ACTIVITIES OF THE REGIONAL RIVER BASIN DEVELOPMENT AUTHORITIES (RBDAs). THE RBDAs ARE BECOMING INCREASINGLY INVOLVED IN AGRICULTURAL AND LIVESTOCK DEVELOPMENT IN THEIR RESPECTIVE AREAS.

THE RESPONSIBILITIES OF THE RBDAs IS HEAVILY ORIENTED TOWARD PLANNING, POLICY ANALYSIS, BUDGETING, EVALUATION AND MANPOWER DEVELOPMENT FOR BOTH AGRICULTURAL AND HYDROLOGICAL DEVELOPMENT PROGRAMS. THEY COORDINATE CERTAIN FEDERAL, STATE AND LOCAL PROGRAMS AND ARE INVOLVED IN PROJECT IDENTIFICATION AND PREPARATION.

## RIVER BASIN DEVELOPMENT AUTHORITIES (RBDAs)

THERE ARE ELEVEN REGIONAL RIVER BASIN DEVELOPMENT AUTHORITIES (RBDAs), ALTHOUGH ONLY THREE IN THE NORTH ARE ACTIVE. THEY ARE FEDERALLY FUNDED AND OPERATE UNDER ESSENTIALLY UNIFORM STATUTES. THEY ARE MANAGED BY BOARDS OF DIRECTORS COMPRISED OF EQUAL REPRESENTATION FROM THE FEDERAL AND THE STATE GOVERNMENTS. MOST OF THE RBDAs CUT ACROSS STATE LINES.

ESTABLISHMENT OF THE RBDAs REFLECTS THE GROWING IMPORTANCE OF LARGE-SCALE IRRIGATION PROJECTS; BUT THEIR RESPONSIBILITIES ALSO INCLUDE WATER SUPPLY, FLOOD AND POLLUTION CONTROL AND RESETTLEMENT PROJECTS. MORE IMPORTANTLY, THE RBDAs ARE CHARGED WITH DEVELOPMENT OF IRRIGATED AGRICULTURE WITHIN THEIR AREAS. THIS IS A BROAD MANDATE WHICH INCLUDES EXTENSION, INPUT SUPPLY AND MARKETING ACTIVITIES FOR CROPS, LIVESTOCK, FISHERIES, FORESTRY AND COOPERATIVES. BY DEFINITION, THE PROJECTS TEND TO BE LARGE-SCALE AND CAPITAL INTENSIVE IN NATURE.

AS THE ACTIVITIES OF THE RBDAs EXPAND, TWO SERIOUS PROBLEMS HAVE EMERGED. FIRST, NEITHER THE JURISDICTIONAL NOR OPERATING MANDATES OF THE RBDAs ARE CLEARLY DEFINED. IN FACT, THEY ARE VIEWED AS A DISTINCT THREAT BY MANY STATE MINISTRIES AND AGENCIES. SECOND, THEY AGGRAVATE THE ALREADY ACUTE SHORTAGE OF SKILLED MANPOWER BECUASE OF THEIR NEED FOR HIGHLY SPECIALIZED ENGINEERING AND AGRICULTURAL PERSONNEL. THE RBDAs HAVE SOUGHT TO MEET THEIR NEEDS BOTH BY EMPLOYING NON-NATIONAL EXPERTS AND BY BIDDING SKILLED PERSONNEL AWAY FROM STATE AGENCIES VIA HIGHER PAY SCALES.

## STATE MINISTRIES OF AGRICULTURE (SMANR)

THE STATE MINISTRIES OF AGRICULTURE ARE THE AGENCIES WITH PRIMARY RESPONSIBILITY FOR PLANNING AND IMPLEMENTING AGRICULTURAL PROJECTS AT THE STATE LEVEL. IN MOST STATES, RESPONSIBILITY FOR AGRICULTURE AND NATURAL RESOURCES ARE COMBINED IN A SINGLE AGENCY (SMANR). THE SMANRS HAVE THREE MAJOR FUNCTIONS:

1. Plan and execute agricultural development projects alone, jointly with PMA or with semi-autonomous bodies such as the World Bank assisted integrated rural development projects. In any event, it is necessary for a state project to be approved for funding at the Federal level.
2. Provide extension service and technical assistance to individual farmers and/or cooperatives. The agricultural services units, including field staff, are the largest within the SMANRs. They are organized along both commodity and functional lines.
3. Coordinate their activities with those of the RBDAs and Local Government Councils (LGCs). In both cases, this has created problems of overlapping jurisdiction and duplication of activities.

### LOCAL GOVERNMENT COUNCILS (LGCs)

LOCAL GOVERNMENT PLANNING COUNCILS (LGCs) HAVE RECENTLY BEEN SET UP IN AN EFFORT TO IMPROVE THE EFFECTIVENESS OF DEVELOPMENT PROGRAMS AT THE LOCAL "GRASS ROOTS" LEVEL. THE AREAS OF RESPONSIBILITY OF THE LGCs AS SPECIFIED IN THE ENABLING LEGISLATION ARE VERY BROAD. THEY INCLUDE EXTENSION SERVICES FOR AGRICULTURE AND LIVESTOCK, RURAL WATER SUPPLY, FEEDER ROADS, MARKETS, ABATTOIRS AND LAND CONTROL UNDER ESTABLISHED TENURE SYSTEMS.

IT SEEMS CLEAR THAT THE LGCs HAVE BECOME INCREASINGLY ACTIVE PARTICIPANTS IN AGRIBUSINESS, ESPECIALLY IN OFFERING TECHNICAL ASSISTANCE AND PROVIDING INPUTS TO LOCAL FARMERS. AS NOTED ABOVE, HOWEVER, THIS HAS COMPLICATED THE PROBLEMS OF COORDINATION WITH STATE AGENCIES. OF ALL THE INSTITUTIONS DIRECTLY INVOLVED WITH AGRICULTURE IN NIGERIA, THE LGCs APPEAR TO HAVE THE GREATEST LACK OF TRAINED PERSONNEL.

## COMMODITY BOARDS (CBs)

SEVEN SPECIFIC COMMODITY BOARDS (CBs) WERE ESTABLISHED IN 1977 TO REPLACE THE EXISTING MULTI-PRODUCT AND REGIONAL MARKETING BOARDS. THE SEVEN WERE:

<u>BOARDS</u>	<u>COMMODITIES</u>
Cocoa	Cocoa, Coffee, Tea
Cotton	Cotton, Tobacco
Groundnut	Groundnuts, Soybeans, Benniseds, Shearnuts, Ginger
Rubber	Rubber
Grains	Sorghum, Maize, Millet, Milled Rice, Paddy
Palm Produce	Palm Oil, Palm Kernels, Copra
Roots and Tubers <sup>1</sup>	Yams, Cassava

<sup>1</sup> Since abolished

1. The CBs recommend minimum prices to be paid to growers based on technical advice received from a Technical Committee on Producer Prices (TCPP), which is chaired by the Permanent Secretary of the Ministry of Finance and relies on the staff of the Central Bank for research and analysis. The FMA is represented on the TCPP along with the Ministries of Industry, Trade and Economic Development plus the Central Bank. Ultimate decisions on pricing policy are the responsibility of the President of the Republic.
2. In the case of exports, the CBs are exclusively responsible for procurement and marketing. For domestic markets, however, the CBs are only obligated to purchase amounts offered at the established minimum prices. In other respects, they compete directly with commercial participants. Although it is intended that the CBs will eventually become self-financing, this seems unlikely due to their role as residual buyers. Seasonal financing is currently supplied by the Central Bank.

3. It appears that at least two fundamental issues must be resolved if the CBs are to function effectively.
  - \* There do not seem to be any clear priorities between long-term objectives of stimulating growth in production and short-term goals of promoting seasonal price stability.
  - \* There appear to be wide disparities in priorities, operating systems, costs and managerial effectiveness among the various CBs.

## INSTITUTIONAL COORDINATION

TWO CONFLICTING PRESSURES HAVE SHAPED THE DEVELOPMENT OF THE INSTITUTIONAL STRUCTURE OF NIGERIAN AGRICULTURE IN RECENT YEARS. ON THE ONE HAND, INCREASED EMPHASIS ON THE AGRICULTURAL SECTOR COMBINED WITH THE ESTABLISHMENT OF NEW POLITICAL UNITS HAS LED TO THE CREATION OF A MULTIPLICITY OF NEW AGENCIES WHOSE ACTIVITIES ARE, AT BEST, UNCOORDINATED AND WHICH COMPETE FOR SCARCE MANPOWER. ON THE OTHER HAND, HOWEVER, THE NEED TO REDEFINE AND CLARIFY RESPONSIBILITIES AND TO MAKE THE INSTITUTIONAL FRAMEWORK RESPONSIBLE TO MARKET NEEDS IS RECOGNIZED BY GOVERNMENT.

SOME PROGRESS IS VISIBLE, AT LEAST IN SPECIFIC INSTANCES. THERE IS STILL A LONG WAY TO GO, HOWEVER, AND THE RATE OF FUTURE PROGRESS WILL BE A MAJOR DETERMINANT OF THE COUNTRY'S ABILITY TO CAPITALIZE ON ITS AGRICULTURAL POTENTIAL. IN THE MEANTIME, IT IS IMPORTANT THAT POTENTIAL U.S. INVESTORS UNDERSTAND THE EXISTING INSTITUTIONS AND MAKE EVERY EFFORT TO WORK WITHIN THE STRUCTURE.

## THE PARASTATALS

NIGERIA HAS CREATED SEVERAL GOVERNMENT OWNED CORPORATIONS TO HELP IN THE DEVELOPMENT OF THE AGRICULTURAL SECTOR, THE PARASTATALS. SINCE THEIR REORGANIZATION INTO PROFIT-ORIENTED COMPANIES, THE PARASTATALS HAVE NO PROVEN RECORD BY WHICH THEY CAN BE JUDGED. IT IS EXPECTED THAT THEY WILL HAVE A CONTINUING ROLE IN THE FUTURE OF NIGERIA'S COMMERCIAL AGRICULTURE.

1. The Parastatals have existed since the early 70's but were reorganized in 1978 into profit oriented organizations. The new companies were formed on the assumption that more commercial government organizations would continue to be ineffective unless they were judged by some verifiable indicator, such as profit.
2. The Parastatals were originally umbrella organizations for previous government development projects. Recently they have begun to promote actively new projects and to concern themselves with making a profit.
3. The Parastatals actively seek joint ventures with foreign companies. Such joint ventures will have a minimum of three equity holders, a number necessitated by the political realities of Nigerian agriculture. These three partners are:
  - \* Parastatals provide expediting, bank guarantees, some financing, farm labor, and access to official channels.
  - \* The State provides access to land. All land in Nigeria is under ultimate control of the states.
  - \* The Foreign Partner provides technical expertise, management, financing and equipment.

The Parastatals also welcome participation of private Nigerian capital but do not require such participation.

4. Several joint ventures have already been formed between the parastatals, the States and foreign partners. Several more are currently under negotiation. Parastatals are anxious for U.S. companies to contact them and to investigate investment possibilities.
5. The two most important parastatal organizations relating to agriculture are listed below:
  - \* The National Grains Production Company (NGPC) The objectives of the NGPC are to expand foodgrain production, to provide efficient storage and handling facilities, to develop foodgrain processing and to develop an efficient marketing system. In pursuit of these goals, the NGPC has undertaken to establish at least one large-scale mechanized farm of 4,000 hectares in each of the 19 states, to build 7 sets of flour mills, rice mills and poultry feed mills throughout the country and to continue building storage facilities throughout Nigeria.
  - \* The National Livestock Production Company (NLPC) The objective of the NLPC is to increase the production of cattle, sheep, goats, poultry, pigs and dairy and to extend commercial undertakings in each of these commodity systems to all States. The NLPC also has authority to participate in processing, distribution and feed activities.
6. President Shagari has set as a goal a 10% return on the capital employed by parastatal and government owned companies. The total book value of assets owned by parastatals was estimated at \$16 billion in 1980.
7. The role of the parastatal organizations in Nigeria's agricultural development has been controversial. Opponents to the parastatals accuse them of inefficiency and waste. The reorganization of the parastatals towards joint ventures and commercial operation is a response to that criticism.

## AGRICULTURAL RESEARCH IN NIGERIA

NIGERIA HAS AN EXTENSIVE SYSTEM OF AGRICULTURAL RESEARCH INSTITUTIONS. THERE ARE 23 INSTITUTIONS LOCATED THROUGHOUT THE COUNTRY. THESE INSTITUTIONS COVER MOST OF THE IMPORTANT COMMODITY SYSTEMS IN NIGERIA. PRIVATE COMPANIES CAN BENEFIT FROM THE ABUNDANCE OF INFORMATION AND ANALYSIS ACCUMULATED BY THESE ORGANIZATIONS.

1. A list of the major research institutions in Nigeria is presented on a following page.
2. The breadth, depth and quality of information available from each organization varies considerably. Although the domestic research institutes in Nigeria have accumulated a wealth of information, they are criticized for ineffective implementation as evidenced by the decline of yields in Nigeria. The research institutes are also troubled by underfinancing, understaffing and improper project management. On balance, however, these organizations command significant amounts of useful information. Several researchers familiar with the body of information on file at the institutes comment that most of the information needed to succeed in Nigerian agriculture has already been researched. The problem is how to put it to use.
3. Some of the research institutes charge for access to their information. These charges compensate employees for time that they must take from their normal duties to satisfy such requests. Those organizations that do charge normally request between \$1,000-10,000 for their services, depending on the project. The price is negotiated in advance.

4. The various research organizations are under the authority of the Agricultural Services Department of the Ministry of Science and Technology. This ministry has committed itself to taking a leading role in developing a research and technological capability for Nigeria and the rest of Africa.
  
5. The International Institute for Tropical Agriculture (IITA), located in Ibadan, Nigeria, is one of a network of international agricultural research centers which were initiated by the Ford and Rockefeller Foundations. The IITA is mandated to provide research which will accelerate the production of tropical food crops so as to increase the standards of living of the peoples in the humid tropics. The efforts of the IITA are divided into three crop improvement programs and one farming system program. The crop improvement programs are summarized below:

Cereals

Maize (corn)  
Rice

Roots/Tubers

Cassava  
Yams  
Sweet Potatoes

Grain Legumes

Cow Peas (black eye)  
Pigeon Peas  
Soybeans

The Farming Systems Program works to design new farming systems based on new machinery, better use and supply of inputs and improved techniques. IITA also has a training program for professionals (a non-degree program) and a program to collaborate with governments on food production planning and extension.

Although IITA is an international organization which cannot show preference for Nigeria, businessmen can benefit from the wealth of quality information available at this organization by independently soliciting it. Since most of IITA's experimentation is conducted in Nigeria, they have experience in field crops which can benefit private ventures.

## AGRICULTURAL RESEARCH INSTITUTES IN NIGERIA

### Food Crops Research Institutes

1. Institute for Agricultural Research (IAR)
2. National Cereals Research Institute (NCRI)
3. National Root Crops Research Institute (NRCRI)
4. National Horticultural Research Institute (NIHORT)
5. Institute of Agricultural Research and Training (IAR&T)

### Station Headquarters

Samaru, Kaduna State  
Ibadan, Oyo State  
Umudike, Imo State  
Ibadan, Oyo State  
Ibadan, Oyo State

### Tree Crops Research Institutes

6. Cocoa Research Institute of Nigeria (CRIN)
7. Nigerian Institute for Oil Palm Research (NIPOR)
8. Rubber Research Institute of Nigeria (RRIN)
9. Forestry Research Institute of Nigeria (FRIN)

Oni Gambari, Oyo State  
Benin, Bendel State  
Iyanomo, Bendel State  
Ibadan, Oyo State

### Livestock Research Institutes

10. National Veterinary Research Institute (NVRI)
11. National Animal Production Research Institute (NAPRI)
12. Nigerian Institute for Trypanosomiasis Research (NITR)
13. Leather Research Institute of Nigeria
14. Lake Chad Research Institute (LCRI)
15. Kainji Lake Research Institute (KLRI)
16. Nigerian Institute for Oceanography and Marine Research (NIOMR)

Vom, Plateau State  
Shika, Kaduna State  
Kaduna, Kaduna State  
Zaria, Kaduna State  
Machoum Fatori, Borno State  
New Bussa, Kwara State  
  
Lagos, Lagos State

### General Services Research Institutes

17. Agricultural Extension and Research Liason Services (AERLS)
18. Nigerian Stored Products Research Institute (NSPRI)

Samaru, Kaduna State  
Lagos, Lagos State

## NIGERIAN AGRICULTURAL POLICY

ANY U.S. AGRIBUSINESS EXECUTIVE WHO HOPES TO SUCCEED IN NIGERIA MUST BE FAMILIAR WITH THE OVERALL POLICY FRAMEWORK INTO WHICH HE IS TRYING TO FIT HIS SPECIFIC VENTURE. THIS SECTION PRESENTS A BRIEF HISTORY OF NIGERIAN AGRICULTURAL POLICY AND AN ANALYSIS OF PROSPECTS FOR THE NEAR FUTURE.

1. Agricultural policies support overall national development plans. These plans are intended to coordinate systematically the activities of various sectors. To date, there have been three such plans (the civil war interrupted the series). A fourth plan will begin in 1981 but has not yet been formally disclosed. The Fourth Plan should be closely scrutinized by any U.S. firm interested in agribusiness ventures in Nigeria when it is published.

First Plan: 1962 - 1966

Second Plan: 1970 - 1974

Third Plan: 1975 - 1980

Fourth Plan: 1981 - 1985

2. As part of the effort to develop the country's agriculture, Nigeria has had three major agricultural umbrella programs. These programs do not strictly correspond to the national development plans listed above. The three programs are as follows:

A. The National Accelerated Food Production Program (NAPPP)

B. Operation Feed the Nation (OFN)

C. The Green Revolution

3. The following paragraphs summarize the first two of these programs. Because the Fourth Development Plan (1981-1985) and The Green Revolution will directly affect agribusiness ventures in the near future, they are analyzed in greater depth in the following section.
- a. The National Accelerated Food Production Program (NAFPP) Introduced during the Second National Development Plan, the NAFPP is intended to stimulate the production of staples including rice, wheat, corn, millet and cassava. This was to be accomplished by promoting the adoption of modern farming techniques. The use of improved seeds, fertilizer, credit marketing systems, storage facilities and processing plants are all components of the program. The goal of the program is to increase national output, provide farmers a fair income and maintain consumer prices at affordable levels. The NAFPP is still in effect.
  - b. Operation Feed the Nation (OFN) This program was introduced in 1977. The main thrust of the program was to increase the people's awareness about Nigeria's food problem and the need to become self-reliant. Extensive media programs and youth work projects were used to support this end. Building on the initial efforts of the NAFPP, OFN distributed large quantities of fertilizer to farmers. Although fertilizer use increased significantly, fertilizer and other inputs were sometimes not available when needed, if at all. The program succeeded in sensitizing Nigeria to the needs of the sector and demonstrating the need for private foreign assistance in the development of agriculture. The OFN is no longer in effect and has been replaced by the Green Revolution.

**THE GREEN REVOLUTION AND THE FOURTH NATIONAL DEVELOPMENT PLAN (1981 - 1985)**

**NIGERIA'S AGRICULTURAL POLICY OVER THE NEXT FIVE YEARS (THE SPAN OF THE FOURTH NATIONAL DEVELOPMENT PLAN) WILL BE MODELED AFTER A NEW FOOD PLAN CALLED "THE GREEN REVOLUTION." THE PROPOSAL FOR THIS NEW POLICY IS DETAILED IN A TWO VOLUME REPORT ENTITLED THE GREEN REVOLUTION: A FOOD PRODUCTION PLAN FOR NIGERIA.**

**THE GREEN REVOLUTION WAS PRECEDED BY A SET OF GENERAL GUIDELINES FOR THE COUNTRY'S FOURTH DEVELOPMENT PLAN ENTITLED GUIDELINES FOR THE FOURTH NATIONAL DEVELOPMENT PLAN, 1981 - 1985.**

**THE HIGH POINTS OF THE GUIDELINES AND THE GREEN REVOLUTION ARE PRESENTED BELOW.**

**1. Guidelines for the Fourth National Development Plan, 1981 - 1985**

- A. The purpose of the guidelines is "to provide the policy framework and resource projections which will serve as an indispensable guide to all those who will be involved in the articulation of projects and programs for inclusion in the Plan."**
- B. The guidelines address all the key areas of concern in the economy, divided into 16 groups, of which agriculture and rural development is one.**
- C. The guidelines analyze the dependence of the Nigerian economy on oil and the implications this has for the country's future development. In the overview, constant reference is made to agriculture and the importance of developing this sector.**

**D. The guidelines cite the following as objectives for the Fourth Plan:**

- increase per capita income;
- distribute income more equitably;
- reduce unemployment and underemployment;
- increase the supply of skilled manpower;
- broaden the economy (i.e., away from oil);
- balance development geographically;
- increase ownership and management by the private sector;
- increase self-reliance;
- develop technology locally;
- reduce immigration to the cities;
- promote a better attitude toward work, and discipline.

**B. Self-reliance, broad participation and an orientation toward people is stressed throughout the document.**

**P. Agricultural production and processing are singled out as the first priority:**

**"In the context of the next Plan, (1981 - 1985), agricultural production and processing will continue to enjoy the first priority in the allocation of scarce resources, for the simple reason that this is the sector that is likely to contribute most toward the achievement of self-reliance."**

G. Some highlights of the Guidelines for Agriculture and Rural Development are listed below:

- \* Objectives for the Plan Period The objectives of the fourth plan are broadly defined and include:
  - increased food production to meet growing demands;
  - increased fish and livestock production;
  - increased production and processing of export crops;
  - expanded employment opportunities to absorb part of the increasing labor force;
  - development of appropriate institutional and administrative apparatus;
  - encouragement of commercial scale production.
  
- \* Government Involvement in Production The guidelines recognize the limited success of past government operated large scale farms and encourages joint ventures between private and public concerns.
  
- \* Agricultural Credit The government is committed to increasing the availability of agricultural credit through the Nigerian Agricultural and Cooperative Bank (NACB), the Agricultural Credit Guarantee Scheme and private bank loans.
  
- \* Agricultural Inputs The government will continue to encourage supply of inputs to farmers to attain higher production.
  
- \* Subsidies The government will continue to subsidize key inputs such as seeds and fertilizers.

- \* Land Use Policy Through the Land Use Decree, the government plans to increase the availability of land for agricultural undertaking.
- \* Mechanization The government recognizes the need for increased mechanization to reduce the tedium of farming. New ways will be sought to give farmers access to both conventional and unconventional (e.g. hand planter) farm machinery.
- \* Rural Development The government will continue to satisfy basic human needs in rural life (e.g., water, health, roads, electricity, and education).

## 2. The Green Revolution

- A. The Green Revolution strategy was conceived and written by a team of Nigerian and World Bank specialists as the model for Nigeria's Fourth Development Plan. The Plan roughly addresses the guidelines, listed above, although it differs on several points and develops concepts not covered in the guidelines.
- B. The Green Revolution suggests the Fourth Plan adopt a national food and nutrition policy. The suggested objectives of the National Food and Nutrition Policy are as follow:
  - \* to provide adequate, reliable, safe and stable food supplies for the country's rapidly rising population at prices which average people can afford.
  - \* to become self-reliant in basic food requirements and thereby minimize the potential threats to national sovereignty from excessive dependence on others for basic food needs as soon as possible.

- \* to raise and stabilize the nutritional standards of all Nigerians with particular emphasis on increasing the share of animal protein in total protein.
- \* to ensure stability in food commodities and input markets and thereby avoid economic, social and, possibly, political disasters.
- \* to ensure fair and reasonable levels and distribution of incomes among food producers.

C. **The suggested guiding principles of the National Food Policy, as written in The Green Revolution, are as follow:**

- \* **One Nation, One National Market** Food Production Plans and Programs should be within the context of one unified national market. Production patterns shall be encouraged along agro-climatological and ecological zones. While the nation strives to be self-reliant and even self-sufficient in some staples, states should be encouraged to produce primarily those crops for which they are best suited, with unimpeded domestic trade taking care of spatial supply-demand gaps.
- \* **The Smallholder as the Centerpiece of Food Production Strategy** The smallholder (small-scale farmer) shall, both from the viewpoints of welfare of the majority and relative production efficiency, continue to be the centerpiece of the nation's food production strategy.
- \* **Focus on Rural Infrastructures** As a supplement to the smallholder strategy, public efforts should concentrate on the provision of physical, institutional and social infrastructures.

D. The specific plan advanced in The Green Revolution is summarized below.

1. The plan relies heavily on small farmers to increase food production.
2. The plan advocates using the private sector to procure and distribute inputs (e.g., fertilizer, seed and credit).
3. The plan advocates using organized farm, extension and marketing units called Accelerated Development Areas (ADA) as the cornerstone to increasing smallholder production.
4. The plan calls for big government spending on rural infrastructure. This includes roads, on farm storage and processing, minor irrigation works and marketing facilities--among others.
5. The plan calls for a consistent and rational system for input subsidies, commodity pricing and agricultural development planning management.
6. The plan finally calls for an expanded agricultural planning capacity, especially with respect to project identification, formulation, appraisal, monitoring, financial control, evaluation and analysis.

## **E. Comments on The Green Revolution**

- **The Green Revolution is a large development plan. The proposal calls for expenditures of 4.36 billion Naira over the next five years on Nigerian agriculture.**
- **The primary focus of the plan is on developing the small farmer through integrated agricultural projects (ADAs). These projects are based on the already successful World Bank integrated rural development projects. Defining a commercial role in the context of a small scale strategy may be unfamiliar to many U.S. agribusiness firms. However, the potential of the market warrants examination of this market.**
- **The role of independent commercial operations (both public and private) is not addressed in detail in The Green Revolution. The Green Revolution takes a positive role toward participation by the foreign private sector firms.**
- **The Green Revolution is skeptical about the parastatals' potential to increase production, even in joint ventures with foreign partners.**
- **Many of the inputs critical to the success of the strategy outlined in The Green Revolution (e.g., seeds, fertilizer, pesticides, herbicides) will be controlled to a greater or lesser degree by the government. Although the participation of the government may be helpful in expediting business activities, the heavily regulated environment may also hinder private business activities. Issues of procurement, pricing, subsidies, payment and discretion over distribution are issues which should concern businessmen.**
- **One should note that several private companies are already organized to supply current World Bank projects (ADP's) with inputs such as credit and fertilizer. Thus, there is a precedent for private participation in decentralized agricultural development projects oriented toward the smallholder.**

## AGRICULTURAL PRICE AND INPUT SUBSIDY POLICY

FOR A VARIETY OF REASONS, NIGERIA IS ATTEMPTING TO USE FISCAL POLICY (VARIOUS PRICE AND INPUT SUBSIDIES) TO STIMULATE AND DIRECT AGRICULTURAL PRODUCTION. CURRENTLY, THE LARGEST INPUT SUBSIDIES GO TO FERTILIZER, THE COST OF WHICH IS 80% SUBSIDIZED TO FARMERS. THE GOVERNMENT DESIRES THAT FERTILIZER THROUGHOUT THE COUNTRY SHOULD BE AVAILABLE TO ALL FARMERS AT THE SAME PRICE. IF CURRENT FERTILIZER SUBSIDY POLICIES CONTINUE, BY 1990 GOVERNMENT SUBSIDIES WOULD AMOUNT TO 200 MILLION NAIRA (U.S. \$160 MILLION), EQUAL TO NEARLY A QUARTER OF ALL PUBLIC EXPENDITURE ON AGRICULTURE.

### Input and Price Subsidy Transfers 1978 and 1985 (Estimated) (Naira Million)

<u>INPUT</u>	<u>1978</u>	<u>1985</u>
Fertilizer	34	100
Seed and Seedlings	2	4
Tractor Hire Service	3	3
Livestock Feed	6	6
Irrigation - O & M*	1	15
- Capital Amortization	-	165
Land Development	9	9
Credit	13	13

\* O & M: Operation and Maintenance

## INDUSTRIAL POLICY AND ITS RELATION TO AGRIBUSINESS

CERTAIN AGRIBUSINESS ACTIVITIES IN NIGERIA ARE REGULATED BY THE MINISTRY OF INDUSTRIES RATHER THAN THE MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT. MOST NOTABLE AMONG THESE IS PROCESSING. TO UNDERSTAND BETTER THE ATTITUDES OF THIS MINISTRY, THE FOLLOWING PARAGRAPHS ANALYZE NIGERIA'S INDUSTRIAL POLICY AND STRATEGY.

1. Several of the stated objectives of Nigeria's industrial policy relate to agribusiness. Most important among these are the following:

- \* Maximization of local value-added. Agro-based industries must fully exhaust efforts to supply themselves with locally produced raw materials. Companies depending on currently imported raw materials will be given a deadline for substituting their feedstock with domestic production unless the Ministry of Agriculture certifies such substitution is not feasible on economic grounds.
- \* Backward Integration. Companies importing semi-finished products which are not available locally will be encouraged to integrate backward into production of these products. Deadlines will be established for such integration.

2. Agro-industry is cited as one of the country's priority industries. Analysts agree that the Federal Government is truly committed to the development of the agro-industry and will help smooth operations when they have power to do so. The Guidelines list the following as examples of industries which are "rated very high by the Government":

Agro-based and food processing industries, e.g., cattle ranching and meat processing; dairy industries; fruit growing and fruit juice production; rice plantation and milling; sugar complexes, plantation and processing of cocoa, groundnuts, coffee, and cotton.

## UNRESOLVED ISSUES

THE GOVERNMENT OF NIGERIA HAS EXPRESSED STRONGLY ITS INTENT TO PROMOTE THE AGRICULTURAL SECTOR AND FACILITATE JOINT VENTURES BETWEEN U.S. AND NIGERIAN COMPANIES. THE EMPHASIS WHICH THE GOVERNMENT HAS PLACED ON AGRICULTURE IN ITS PUBLIC STATEMENTS AND PLANNING EFFORTS WILL BE REASON ENOUGH FOR SOME FIRMS TO JUSTIFY INVESTING IN NIGERIA. ONE CAN FIND EVIDENCE THAT THE BUSINESS ENVIRONMENT IN GENERAL AND THE AGRIBUSINESS ENVIRONMENT IN PARTICULAR HAVE IMPROVED FOR U.S. INVESTORS. HOWEVER, THE EVIDENCE THAT THE INVESTMENT CLIMATE FOR AGRIBUSINESS HAS CHANGED ENOUGH TO JUSTIFY INVESTING FIXED ASSETS IN NIGERIA WILL BE HARD TO ASSESS FOR OTHER AMERICAN COMPANIES.

IN THE OPINION OF AGRIBUSINESS ASSOCIATES, PARTS OF THE NIGERIAN GOVERNMENT ARE TRULY COMMITTED TO IMPROVING THE BUSINESS ENVIRONMENT FOR JOINT VENTURES AND IMPROVING THE AGRICULTURAL SECTOR. YET THERE ARE SEVERAL SPECIFIC POLICY ISSUES WHICH WE BELIEVE MUST BE MONITORED BY U.S. AGRIBUSINESS FIRMS BECAUSE THEY MAY AFFECT THE PROFITABILITY OF CERTAIN VENTURES. ANY U.S. AGRIBUSINESS FIRM CONTEMPLATING INVESTMENT IN NIGERIAN AGRIBUSINESS SHOULD ASSESS THE IMPORTANCE OF THESE ISSUES TO ITS OWN BUSINESS AND MONITOR THEIR PROGRESS.

### 1. Import Policy vs. Domestic Production

Nigeria, like many other countries, is caught in the dilemma of how to balance two contradictory food policy objectives: a cheap food policy versus a domestic production policy. In Nigeria's particular case, subscribing to a cheap food policy becomes tantamount to subscribing to a liberal import policy. This is due to the fact that domestic production does not satisfy demand and most agricultural products can be landed cheaper than they can be produced domestically. By contrast, a policy which promotes domestic production and self-reliance as its primary objective requires that the local market be insulated from imports. Protection from imports can come from import bans, tariffs or licensing.

In the past, the Government of Nigeria has not followed a consistent policy on commodity and material imports. Certain products have been alternately imported freely, banned or licensed. U.S. firms should be concerned about a consistent import policy for two reasons. First, a firm must be concerned about an interruption of imported inputs. In the past, imports of certain materials have been interrupted and have drastically affected certain businesses. (For example, in the late 70's the import of U.S. corn was interrupted and the poultry industry was forced to cull severely its flocks.) Second, a firm must be concerned that its market will not be undercut by cheap imports. Many food products which U.S. firms might want to produce in Nigeria could be imported for less than their local production cost. (For example, the military government in 1978 issued import licenses for broilers after such imports had been banned for several years to promote the local broiler industry. A subsequent wave of cheap broiler imports undercut the domestic market and caused losses for most domestic producers.)

The Government has said it will adopt consistent and clear policies on imports in the future.

## 2. Domestic Pricing Policy

Related to the issue of import policy and domestic production is pricing for commodities. Most commodities in Nigeria are sold at a price determined by market forces of supply and demand. Other commodities, notably palm oil, cocoa, cotton, and rubber, are sold exclusively to government commodity boards at predetermined prices. Commodity boards for grains and groundnuts set purchase prices for producers who may either sell their commodities on the free market or to the commodity boards. Commodity board prices for these commodities thus provide a safety net for the producer, not dissimilar to the function served by the farmer loan program in the United States. Thus, depending on the commodity system in which one is involved, the issue of government prices is important to a lesser or greater degree. The level at which purchase prices are set may determine whether projects

make or lose money. The government has not followed any consistent pattern in pricing for commodities with the commodity boards. On occasion, the government has been short of funds and has not been able to pay farmers for their products.

Any businessman involved in production in one of the controlled commodity systems should be aware that he will depend either directly or indirectly on government agencies for his price. Businessmen should also understand that pricing may not follow any consistent pattern until the government implements its own strategy for domestic price supports. In general, the commodity boards have been increasing their support prices to induce local production. Prices have been announced prior to the planting season for most crops, which aids farmers in planning.

Furthermore, it should be noted that some commodities pass through the hands of several intermediaries who tend to charge significant commissions for their function. As a result, there is often a wide difference between the official price and the actual price received by farmers--a fact which is anticipated by farmers who consequently produce less than the government price setters may assume. The same phenomenon occurs between intermediary and end user who may pay a delivered price at a premium to the "official" price.

### 3. Overall Agricultural Policy

At the time this document was prepared, the Nigerian government had not officially announced its 1981-1985 agricultural development plan. Although guidelines and a tentative plan exist, the specific program is unknown. The new plan will affect the business environment for joint ventures insofar as the venture supports or contradicts the objectives stated therein.

### 4. The Agricultural Budget

Federal and State budgeting for agriculture is also important because it will affect the financing of agribusiness ventures, the infrastructure in

which agribusiness ventures must operate and the overall attitude that Nigerians take toward agriculture in the future. The government has stated that agriculture is among its top priorities and has made some specific budget proposals. But the level of this commitment cannot yet be verified since the budget has not been approved. Nor can it be affirmed which sub-sectors of agriculture will receive the most attention and financing. Part of this uncertainty will be allayed when the new development plan is published, more when the budget for the upcoming year is finalized. Nigeria is simultaneously debating the issue of allocation between State and Federal budgeting and the proportion of each of those budgets which will go to agriculture. The issue of public finance is important because some private U.S. firms may have to rely on public funding, loan guarantees or participation from government-financed and owned companies.

5. Business Expediting

Foreign investors are sometimes discouraged by delays in approvals of investment projects. The government has recently created an inter-ministerial committee which is designed to facilitate and expedite the approval of new ventures, including joint ventures. Since the committee is new, it is too early to judge its effectiveness. It is encouraging however, that the present government recognized the need to facilitate investment.

6. Technical Realities

A final issue which concerns U.S. agribusiness firms is the debate over which production and processing technologies are appropriate in Nigeria. Although the individual firm is usually most qualified to judge the relevance and feasibility of specific technologies, many firms will want to turn to local experts to evaluate technical problems. On many technical issues, opinions as to what is feasible or advisable vary greatly and are often mutually exclusive. For example, there currently is a debate among experts in Nigeria about the suitability of large-scale mechanized farming on tropical soils. Such contradiction and controversy may make it difficult to design projects.

**SECTION IV**  
**COMMODITY SYSTEM REVIEW**

## INTRODUCTION TO NIGERIA'S COMMODITY SYSTEMS

"BEAUTY IS IN THE EYES OF THE BEHOLDER" IS AN EXPRESSION WHICH CAPTURES THE PHILOSOPHY WITH WHICH THIS SECTION WAS WRITTEN. ONE OF THE INITIALLY STATED GOALS OF THIS PROJECT WAS TO ANALYZE PROJECTS AND SUBSECTORS OF NIGERIAN AGRIBUSINESS IN WHICH U.S. COMPANIES CAN PARTICIPATE. ALTHOUGH CERTAIN REASONABLE GENERALIZATIONS CAN BE MADE ABOUT OPPORTUNITIES IN NIGERIAN AGRIBUSINESS, AGRIBUSINESS ASSOCIATES HAS PURPOSELY AVOIDED MAKING STRONG RECOMMENDATIONS FOR OR AGAINST SPECIFIC SUBSECTORS. THIS PHILOSOPHY WAS ADOPTED FOR SEVERAL REASONS:

1. CIRCUMSTANCES IN A COMMODITY SYSTEM WHICH MAY PRESENT AN INSURMOUNTABLE OBSTACLE FOR THE MAJORITY OF U.S. AGRIBUSINESS FIRMS MAY NOT BE A PROBLEM FOR A SPECIFIC COMPANY.
2. THERE IS ROOM FOR INNOVATION IN NIGERIAN AGRIBUSINESS WHICH MIGHT BE STIPLED BY PRESENTING FOREGONE CONCLUSIONS ABOUT THE OPPORTUNITIES.
3. CIRCUMSTANCES IN SOME COMMODITY SYSTEMS VARY SIGNIFICANTLY BETWEEN REGIONS OF THE COUNTRY. BROAD STATEMENTS ABOUT A COMMODITY SYSTEM MIGHT OBSCURE PROBLEMS AND OPPORTUNITIES IN PARTICULAR REGIONS.
4. THE QUALITY OF INFORMATION AVAILABLE TO AGRIBUSINESS ASSOCIATES VARIED FROM ONE COMMODITY SYSTEM TO ANOTHER. IN THE TIME FRAME OF THIS PROJECT, IT WAS IMPOSSIBLE TO CONDUCT THE KIND OF IN-DEPTH RESEARCH NECESSARY TO CHOOSE OR REJECT A PARTICULAR COMMODITY SYSTEM. SOME COMMODITY SYSTEMS WILL REQUIRE DETAILED FEASIBILITY STUDIES BEFORE PRUDENT DECISIONS ABOUT WHETHER TO INVEST OR NOT CAN BE MADE.

THERE ARE INDISPUTABLE CIRCUMSTANCES AND FACTS WHICH ARGUE FOR AND AGAINST U.S. PARTICIPATION IN NIGERIA. IN THE FOLLOWING SECTION, CONCLUSIONS AND RECOMMENDATIONS ARE DERIVED FROM SUCH HARD INFORMATION INSOFAR AS POSSIBLE. OPINIONS ARE USED IN OUR ANALYSIS ONLY WHEN OUR RESEARCH REVEALED A STRONG CONSENSUS ON AN ISSUE.

SUBJECT TO THE PRECEDING CAVEATS, AGRIBUSINESS ASSOCIATES HAS IDENTIFIED THE FOLLOWING AREAS AS AMONG THE MOST PROMISING TO U.S. FIRMS FOR DIRECT INVESTMENT:

- \* INTEGRATED POULTRY (EGGS AND BROILERS)
- \* FERTILIZER AND SEED DISTRIBUTION
- \* PROCESSING (SUBJECT TO THE AVAILABILITY OF RAW MATERIALS)
- \* MILLING AND BAKING
- \* FRUITS AND VEGETABLES
- \* SMALL SCALE PRODUCTION AND DISTRIBUTION OF FRESH PRODUCE
- \* INTEGRATED RICE PRODUCTION/PROCESSING
- \* PRODUCTION OF GRAIN LEGUMES, NOTABLY COWPEAS

## STRUCTURE OF NIGERIA'S AGRI-SYSTEM

NIGERIAN AGRICULTURE IS MARKED BY A DIVERSITY OF OUTPUT. NIGERIA'S ECOLOGY FOSTERS A WIDE RANGE OF CROPPING PATTERNS, FROM TREE CROPS IN THE RAINY SOUTH TO GROUNDNUTS, COTTON AND LIVESTOCK IN THE NORTH. IN BETWEEN, THE CENTRAL ZONE PRODUCES MAIZE, CASSAVA, RICE AND YAMS. DESPITE THIS CROPPING VARIATION, ACCORDING TO IBRD SOURCES, NO MORE THAN 20% OF NIGERIA'S FOOD PRODUCTION IS MARKETED, MOST OF IT FROM THE CENTRAL FOOD CROP BELT TO THE DEFICIT AREAS IN THE SOUTH.

LAND IS NOT A CONSTRAINT TO NIGERIAN AGRICULTURE. OF NIGERIA'S TOTAL LAND AREA OF 228 MILLION ACRES, THE WORLD BANK FEELS 84 MILLION ARE JUDGED TO BE OF MEDIUM AND HIGH PRODUCTIVITY AND REASONABLY SUITED FOR AGRICULTURE. WITH MODERN TECHNOLOGY, "THIS AREA COULD POTENTIALLY BE INCREASED TO ABOUT 179 MILLION ACRES." UTILIZATION OF THESE LAND RESOURCES IS LOW: ONLY 30% OF THE CURRENTLY USABLE LAND. WITH ADEQUATE RAINFALL THROUGH MUCH OF NIGERIA, THE BULK OF OUTPUT GROWTH WILL LIKELY COME FROM BOTH INTENSIFICATION AND EXPANSION IN RAINFED AGRICULTURE. THE WORLD BANK CALCULATED THAT, EVEN ON VERY OPTIMISTIC ESTIMATES, NO MORE THAN 500,000 ACRES CAN BE BROUGHT UNDER IRRIGATION BY 1985, CONTRIBUTING AN INCREASE IN AGRICULTURAL OUTPUT OF ONLY 3%. THE SAME RESULT CAN BE ACHIEVED WITH LESS INVESTMENT BY EXTENDING THE AREA CROPPED UNDER RAINFED CULTIVATION.

FARM POWER IS PRIMARILY HUMAN AND ANIMAL, WITH ABOUT 10,000 SERVICEABLE TRACTORS WORKING ON NIGERIA'S FARM HOLDINGS.

FARM UNITS IN NIGERIA ARE SMALL, TYPICALLY 2-3 HA. YET 90-95% OF AGRICULTURAL PRODUCTION COMES FROM THESE HOLDINGS. RATHER THAN MAKING SERIOUS EFFORTS TO STIMULATE THIS SECTOR, NIGERIA OPTED IN THE 70'S TO INVEST IN LARGE SCALE IRRIGATION AND MECHANIZATION SCHEMES. THERE IS A BODY OF OPINION THAT THESE SCHEMES WOULD BE BETTER RUN BY PRIVATE COMMERCIAL CONCERNS, LEAVING NIGERIA'S SCARCE AGRICULTURAL MANPOWER TO UNDERTAKE THE CHALLENGE OF RAISING PRODUCTIVITY ON THE SMALLHOLDER SECTOR.

**THE GRAIN SYSTEM**

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## THE GRAIN SYSTEM

CEREALS ARE AN IMPORTANT COMPONENT IN THE NIGERIAN DIET, PROVIDING 42% OF THE TOTAL CALORIES AND 49% OF THE TOTAL PROTEIN. CEREAL CONSUMPTION VARIES BY REGION; SORGHUM AND MILLET ARE THE MOST IMPORTANT CEREALS. MAIZE IS CONSUMED PRIMARILY IN THE SOUTH, ALTHOUGH RECENTLY IT HAS GROWN IN POPULARITY THROUGHOUT THE COUNTRY.

### Cereal Consumption in Selected Regions (Kg. Per Capita Per Year)

<u>CEREAL</u>	<u>LAGOS</u>	<u>KADUNA</u>	<u>KANO</u>	<u>OYO</u> <u>ONDO</u> <u>OGUN</u>	<u>RIVERS</u>
SORGHUM	n	100	93	1	n
MILLET	n	76	99	1	n
MAIZE	2	4	N	8	8
RICE	3	1	1	3	6

n indicates negligible

Source: G.I. Abalu and B. D'Silva's "Nigeria's Food Situation Problems and Prospects"

## 1. CURRENT PRODUCTION

NIGERIAN FARMERS, 95% SMALLHOLDERS, CROP 16 MILLION HECTARES. AVERAGE HOLDINGS APPROXIMATE 3 HA. PRODUCTIVITY IS LOW, AT ABOUT 600 KGS. OF GRAIN PER HA. YET, THE POTENTIAL FOR PRODUCTIVITY INCREASES ON THESE SMALL FARMS IS GOOD AND, IN SOME INSTANCES, EXCELLENT. IN THE GUINEA SAVANNAH ZONES, ON-FARM MAIZE DEMONSTRATION PLOTS INDICATED THAT, WITH FERTILIZER, MAIZE YIELDS OF UP TO 6 TONS (6,000 KGS) WERE REALIZED.

- The main grains produced in Nigeria are sorghum, millet, maize and rice. Rice has been the best performer (4.6% growth annually) primarily due to the widespread adoption of a variety called OS-6, whose introduction and spread in the 1960's and 1970's is "one of the great success stories of Nigeria's research and extension service."

PRINCIPAL NIGERIAN FOOD CROPS (1976)

	AREA ( '000 HA)	YIELDS (KG/HA)	PRODUCTION (1,000 M TONS)
<u>GRAINS</u>			
MAIZE	1,470	840	1,244
MILLET	4,769	500	2,349
SORGHUM	3,977	650	2,579
RICE	705	1,200	878
WHEAT	6	1,500	7
<u>TUBERS</u>			
YAMS	1,055	7,000	7,453
CASSAVA	988	6,500	6,412
COCOYAN	406	3,900	1,601
<u>OTHER</u>			
GROUNDNUTS	1,163	580	683
COWPEAS	2,953	270	800

SOURCE: IBRD, FAO, FEDERAL OFFICE OF STATISTICS

## PROJECTED GRAIN DEMAND

MOST PROJECTIONS CONCLUDE THAT NIGERIA WILL FACE A VERY LARGE FOOD DEFICIT BY THE END OF THE 1980'S. IF THIS DEFICIT OCCURS, FOREIGN EXCHANGE OUTLAYS FOR FOOD WILL EQUAL ONE-THIRD OF IMPORTS AND BE ABOUT TRIPLE INTERNAL GOVERNMENT OUTLAYS FOR AGRICULTURAL DEVELOPMENT.

THE ESTIMATES OF "CURRENT TREND" DEFICITS INDICATE A CEREAL GRAIN EQUIVALENT FOOD DEFICIT OF 20 MILLION TONS BY 1990:

	<u>ESTIMATED SUPPLY</u>	<u>ESTIMATED DEMAND</u>	<u>ESTIMATED DEFICIT</u>
		(000 TONS)	
IPPRI	19,304	36,414	17,110
WORLD BANK	22,800	41,900	19,100

OVERCOMING THIS ANTICIPATED FOOD DEFICIT WILL BE ONE OF NIGERIA'S GREATEST POLITICAL AND ECONOMIC CHALLENGES IN THE COMING DECADE. IT IS INTERESTING TO NOTE THAT NIGERIA HAS TWICE SINCE THE SECOND WAR DEMONSTRATED ITS CAPABILITY TO REACT TO AGRICULTURAL NEEDS AND TO STIMULATE THE SMALLHOLDER SECTOR TO PRODUCE FOOD, ONCE FOR EXPORT (1940-1960) AND ONCE FOR INTERNAL USE (1960-1970).

## GRAIN IMPORTS

STATIC INTERNAL PRODUCTION AND A BOOMING URBANIZATION HAVE LED TO SIZABLE GRAIN IMPORTS (ESPECIALLY WHEAT AND RICE) TO FEED THE CITIES. URBAN DISTRIBUTORS AND BAKING HOUSES ARE BETTER PLACED TO HANDLE A GRAIN-LIKE WHEAT FOR BAKING INTO BREAD THAN MORE TRADITIONAL, LESS MOBILE PRODUCTS. RICE HAS ALWAYS BEEN AN URBAN STAPLE OF WEST AFRICA BUT RECENTLY HAS GAINED IN POPULARITY.

THE URBAN FOOD SYSTEM FINDS IT EASIER TO SUPPLY ITSELF WITH GRAINS VIA IMPORTS RATHER THAN TO INTEGRATE BACKWARD TO RURAL NIGERIA TO PROCURE RICE, ETC. FROM THE MYRIAD OF SMALLHOLDERS IN THE COUNTRY. GIVEN THE INADEQUATE PROCESSING FACILITIES FOR ROOTS AND TUBERS (ESSENTIAL FOR SUCH CROPS AS YAMS AND CASSAVA), URBAN FOOD DISTRIBUTION AND BAKERS HAVE TENDED TOWARD THE EASIER GRAIN IMPORTS.

### VALUE OF BASIC GRAIN IMPORTS

(1972-1977 MILLION NAIRA)

	WHEAT	RICE	MAIZE
1972	22	1.0	0.4
1973	33	0.3	0.2
1974	52	1.5	0.6
1975	54	2.4	0.4
1976	98	20.0	1.4
1977	52	66.3	3.3

## GRAIN MARKETING AND STORAGE

NIGERIA IS RAPIDLY DEVELOPING TWO LARGELY INDEPENDENT FOOD GRAIN DISTRIBUTION SYSTEMS, ONE INCREASINGLY BASED ON IMPORTS, THE SECOND ON TRADITIONAL SYSTEMS. CONTINUED LACK OF RURAL INFRASTRUCTURE (FEEDER ROADS AND STORAGE) AND TRANSPORT INCREASE THE TIME FARMERS MUST COMMIT TO MARKETING. ACCORDING TO ONE OBSERVATION, IT TAKES ABOUT A WEEK TO DISPOSE OF ONE TON OF GRAIN.

THE WORLD BANK FEELS THAT GRAIN-MARKETING PROBLEMS IN THE 1970'S ARE ADDING 30% TO FOOD PRICES ANNUALLY. THIS SYSTEM IS CHARACTERIZED BY MANY SMALL-HOLDER SELLERS AND LARGE NUMBERS OF SMALL ASSEMBLERS, LINKING FARMERS AND THE FINAL CONSUMER IN A COMPLEX AND INCREASINGLY COSTLY SYSTEM FOR DISTRIBUTING DOMESTICALLY PRODUCED FOOD. SINCE THE BULK OF DEMAND IS URBAN-BASED, THE EASIEST WAY TO FULFILL THIS NEED IS VIA BULK IMPORTS.

- \* Commercial grain production ventures have several alternatives for marketing and distribution of their product:
  - Use the grain internally through integration. Milling or poultry operations are two examples of internal use.
  - Sell the grain to the marketing boards, subject to the availability of funds to buy the grain and the availability of a buying agent.
  - Market the grain oneself by arranging with a local merchandiser to buy the grain or by delivering the grain on one's own trucks to an urban market.
  
- \* Grain storage capacity in Nigeria is low. Although the Grains Board is planning to expand capacity in the near future, commercial ventures rely on their own storage capacity. By storing grain for several months, one can raise average revenues significantly since seasonal variations in price are great. Storage loss from insects and rot is a serious problem for certain crops (notably the grain legumes).

- \* Attractive agribusiness opportunities exist in providing technical expertise and building for the government grain processing and storage system.
- \* The domestic and imported grain marketing systems do not significantly overlap. Most of the grains consumed in or near the urban areas are imported, although some of the grain produced in the middle region of the country moves toward the major urban areas, mostly south. Most domestically produced grains are consumed in the immediate vicinity of production.

## OPPORTUNITIES IN GRAIN PRODUCTION

THE ADVISABILITY OF ENTERING BASIC GRAIN PRODUCTION IN NIGERIA IS A CONTROVERSIAL SUBJECT. FARMING ANYWHERE IN THE WORLD IS DIFFICULT AND IN NIGERIA IT IS AS HARD AS ANYWHERE. MOST ANALYSTS AGREE THAT THE ECOLOGY OF NIGERIA IS SUITED TO PRODUCING A VARIETY OF CROPS. HOWEVER, THERE IS CONTROVERSY ABOUT THE PROPER MEANS OF TAKING ADVANTAGE OF THIS POTENTIAL. QUESTIONS OF LARGE SCALE PRODUCTION VERSUS SMALL SCALE PRODUCTION, MECHANIZATION VERSUS LABOR INTENSIVE TECHNIQUES, TRADITIONAL TILLAGE VERSUS MINIMUM TILLAGE, MARKET PRICING, INPUT PRICING AND AVAILABILITY, LAND TENURE AND MANAGEMENT ARE ONLY SOME OF THE ISSUES WHICH ONE MUST ADDRESS IN ANALYZING PRIMARY PRODUCTION.

THE FOLLOWING CHART SUMMARIZES SOME OF THE PROS AND CONS OF ENTERING LARGE SCALE MECHANIZED FARMING, THE KIND OF FARMING THAT MOST U.S. AGRIBUSINESS COMPANIES WOULD CONSIDER IN NIGERIA.

## A SUMMARY OF THE ADVANTAGES OF LARGE SCALE MECHANIZED FARMING IN NIGERIA

- The government has acknowledged the need to build large scale mechanized farms as an element of Nigeria's overall effort to increase agricultural production. Many high-level government officials express strong interest in developing such farms as a supplement to smallholder improvement, including members of the Green Revolution Committee.
- The National Grain Production Company has been mandated to develop a 4,000 hectare large scale farm in each of the country's 19 states. The NGPC is actively seeking U.S. partners to contribute to joint ventures in large scale mechanized farming. Several farms have already been developed, and several others are being negotiated--primarily with non-U.S. companies.
- These ventures can be highly leveraged. Officials at the NGPC stated that most large scale mechanized farms will cost about 7-8 million Naira of which it is anticipated 1 million Naira will be equity and 6-7 million Naira is bank debt financing (guaranteed by the NGPC).
- U.S. partners are believed by a number of private and public officials to be the best partners for the development of such large farms. Nigerians believe that U.S. farm technology is unsurpassed.
- Many farm experts believe that large scale farming in Nigeria is agronomically feasible although they acknowledge the problem of thin soil and erosion. These experts believe there is potential to develop farming techniques which will reduce erosion in those areas where it is a problem. In the north central areas of Nigeria where the land is flat and the rainfall moderate, erosion is not a serious problem.
- Some of the largest commercial groups in Nigeria (e.g., Ashamu Holdings) have begun extensive large scale farming and are committed to developing such farms into profitable ventures.

- Large scale farming may be one of the most promising ways to tackle the problem of rapidly escalating labor costs. Although mechanized farms will require a high labor content in their early phases, the long term potential for lowering dependence on expensive labor is greater.
- U.S. companies can make a profit on supplying imported machinery, technical consultancies and replacement equipment as part of a turnkey large scale farm. Machinery can be used as a contribution toward equity.
- There is a probability that prices of major grains and other farm crops will remain very high which will help the profitability of large scale farms.

## A SUMMARY OF THE DISADVANTAGES OF LARGE SCALE MECHANIZED FARMING IN NIGERIA

- \* There exists a body of opinion among experts that traditional large scale farming which depends on cultivation and tillage is not a viable method for food production in the tropics. Because the topsoil is so thin and the rains so hard, water erosion can devastate cleared land if it is not very carefully managed. Most large scale mechanized farms suffer at least 10% erosion.

Traditional land clearing techniques also badly damage tropical land. By destroying the root systems and making holes in the ground, one increases the chances of erosion.

- \* The performance record of the NGPC as a joint venture partner in profitable commercial large scale farming is not encouraging. Ongoing operations of the NGPC have not maintained any Income Statements or Balance Sheets, so it is impossible to determine the profitability of such operations. Most analysts agree that these farms have probably lost money in the past.
- \* The NGPC has said that it intends to start one 4,000 hectare farm in each of the country's 19 states. The NGPC will doubtlessly be an important influence in many large scale farms over the next few years. The NGPC has wants to build one farm in each of the states before it builds two farms in the same state. Thus, early ventures will probably claim the best opportunities, and the NGPC may push less desirable projects to later foreign partners. Some of the most desirable areas (Kaduna, Kano, Bauchi) already have ventures planned on them and will not be available for other projects with the NGPC for a long time. However, ventures in these more desirable states can be made with private companies.
- \* Current commercial farming efforts by U.S companies (e.g., Tiffany and Texaco) have had problems. However, the lessons learned by these pioneer efforts may help future projects make money.

- Large scale mechanized commercial farms are exposed to more potential problems than almost any other type of venture: land tenure problems, problems of obtaining and applying inputs in a timely manner, market vulnerability, poor access to communications and facilities, difficulties in finding competent experts who are willing to live in the hinterland, etc.

Examples of Projects Between the NGPC and Foreign Partners

<u>Name of Project</u>	<u>Foreign Partner</u>	<u>Location (State)</u>
Elero Mechanized Farms, Ltd.	Greenland Company	Oyo
Jenad Mechanized Farms, Ltd.	Cotia	Kaduna
Maiwa Mechanized Farms, Ltd.*	(Brazil)	Bauchi
Imo Grains Farms, Ltd.*	(Canada)	Imo
Gaya Mechanized Farms, Ltd.*	(Denmark)	Kano

\* Had not begun operations as of January, 1981.

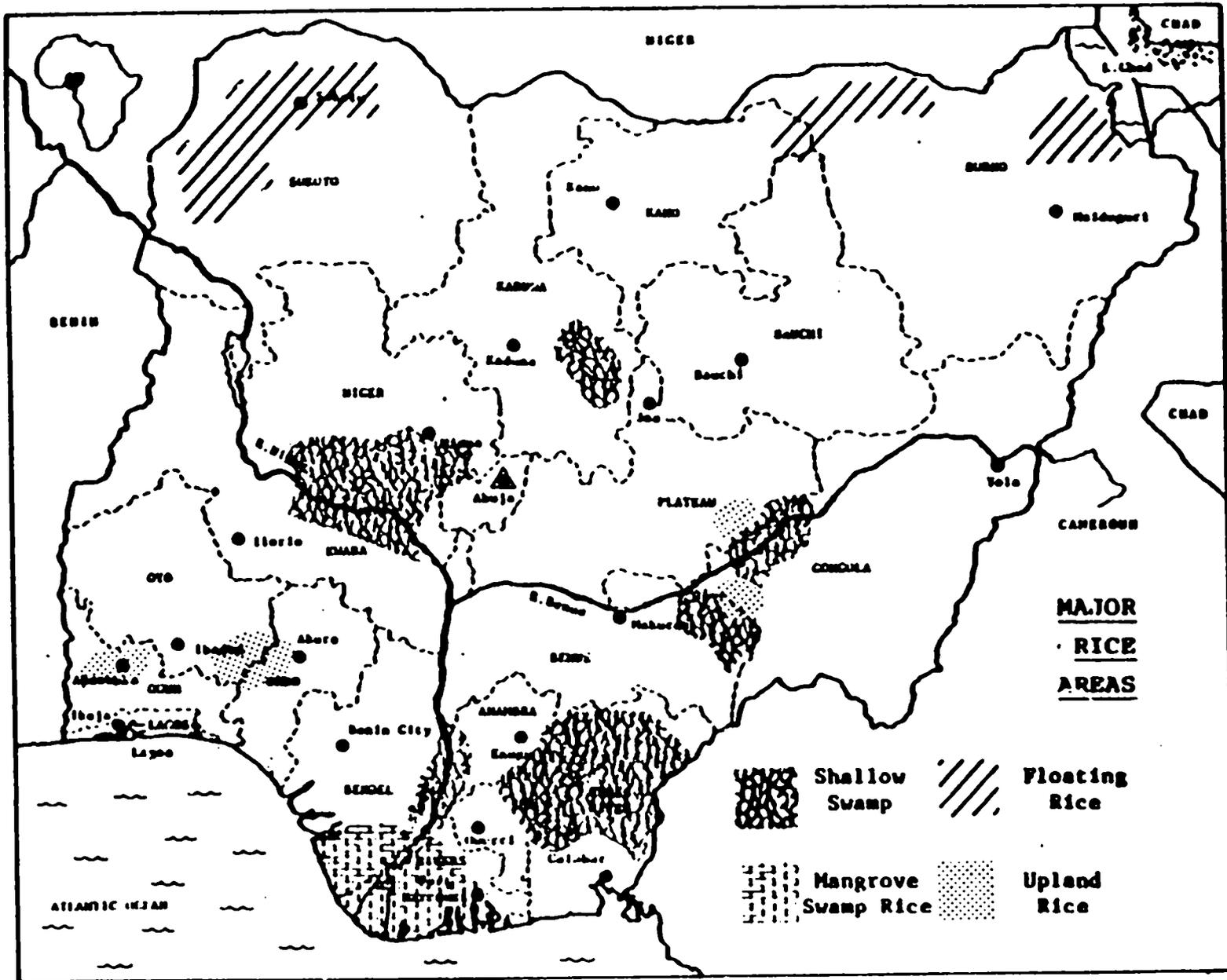
## RICE

RICE HAS BEEN USED FOR CENTURIES IN NIGERIA BUT RECENTLY HAS GAINED IN POPULARITY AS AN URBAN STAPLE. NIGERIA HAS GOOD POTENTIAL FOR INCREASING RICE PRODUCTION. INDEED, RICE IS ONE OF THE FEW CROPS WHICH HAS INCREASED IN OUTPUT IN RECENT YEARS (4.6% PER ANNUM).

- Nigerians have a strong preference for white long grain parboiled rice, much of which is imported. The traditional varieties are red rices.
- Nigeria has several promising areas for rice production. A map which summarizes the most promising areas for rice production is presented on a later page.
- 60% of all rice area in Nigeria is upland rice, but these areas produce only 42% of total tonnage. Upland rice farmers have proven more difficult to reorient and retrain to increase production.  
  
Lowland rice shows the greatest promise for increasing production. By managing water resources, many experts believe that yields could be easily increased to 3-4 t/ha., compared to the current 1.2-1.3 t/ha. average.
- Opportunities exist for private U.S. firms to become involved in the rice system. Rice farmers in some areas are extremely excited about improving their production and would probably cooperate with a private venture which provided management, milling and marketing channels. The current rice system involves many layers of middlemen and agents who could easily be shortcircuited with an integrated rice venture.

Rice imports and demand has become a highly politicized issue in Nigeria as domestic demand has increased. The country imported 350,000 metric tons of rice last year, and the government is anxious to counter the country's increasing dependence on rice imports. Any company which set up a business in the rice system could expect support from the government.

- \* The high price of rice (1,000-2,000 Naira per ton at the retail level) increases the attractiveness of this commodity system as a commercial crop.



## GRAIN LEGUMES

GRAIN LEGUMES ARE A SMALL PROPORTION OF THE NIGERIAN DIET BUT ARE A POPULAR ITEM. FINDING A MARKET FOR GRAIN LEGUMES IS NOT A PROBLEM. THE PRICE FOR GRAIN LEGUMES IS VERY HIGH.

- \* The cowpea (black eye pea) is the most popular grain legume in Nigeria. The cowpea was originally grown in the dry savanna but has spread south and east in recent years. The cowpea is a luxury food in the traditional diet.

Cowpea production in Nigeria is a risky business. The plant is susceptible to a large variety of pests and diseases. Storage loss is high in Nigeria for smallholders. It is not unusual to lose 50% of a crop in four months of storage because of weevils.

IITA is developing several pest- and disease-resistant strains of cowpea. It is unlikely that any significant progress can be made for at least another five years.

Several top researchers believe there are significant opportunities in "large scale" cowpea production, i.e., 20-1,000 hectares. Because most of the pests and diseases can be controlled effectively by good farm management techniques, these researchers believe the large scale modern farmer has an advantage over the less sophisticated small farmer.

The risk for growing cowpeas can be more easily justified by the high prices for this commodity:

<u>Harvest Price</u>	<u>Recent Annual High</u>
400-500 Naira/Mt	1,600-1,800 Naira/Mt

The average cost of production and storage can be as low as Naira 250/t, thus giving an attractive gross margin to the efficient producer.

- \* Soybeans have not been successful in Nigeria. Problems in producing varieties which are suited to the photoperiod, the soil type and which store well have prevented the proliferation of this crop. Nigeria is anxious to develop its soybean industry, but it will take several years before current varieties which show promise can be tested and multiplied.

## GROUNDNUTS (PEANUTS)

NIGERIA WAS ONCE ONE OF THE WORLD'S LARGEST PRODUCERS AND EXPORTERS OF GROUNDNUTS. DROUGHT, DISEASE, POORLY PLANNED COMMODITY PRICING AND FARMERS' NATURAL RISK AVERSION DEVASTATED NIGERIA'S PRODUCTION. NIGERIA HAS TAKEN ACTION TO STIMULATE THE GROUNDNUT INDUSTRY BY PROVIDING AN ATTRACTIVE SUPPORT PRICE AND DISTRIBUTING IMPROVED SEED.

- There is a strong tradition for using groundnuts in Nigeria. The local diet uses both oil and meal for many of its dishes.
- Production peaked in the late 60's at over 1 million metric tons. The Sahelian drought reduced yields from over 1 mmt to 200,000 mt. in 1973. The following year many of the seeds had been eaten, and the harvest was even lower. In 1975 acreage planted was high again, but the rosette problem reduced the harvest even further. In 1976 farmers were discouraged and moved out of groundnuts into sorghum and maize. Poor support prices in 1977, 1978 and 1979 kept farmer interest low.
- Recently, the Groundnut Board established attractive support prices which they hope will stimulate farmer interest. There is evidence that farmers are once again turning their attention to groundnuts. The distribution of higher yielding disease- and insect-resistant strains of groundnut has helped this shift.
- The estimated cost of production, revenues and profit for large and small producers is listed below:

	<u>Large Producer</u>	(Naira/ton)	<u>Smaller Producer</u>
Revenue (Board Price)	420		420
Cost of Production	<u>290</u>		<u>350</u>
Profit	130		70

- \* These numbers suggest private agribusiness firms could make a positive return on production assuming sufficient yields could be obtained.
- \* There are several problems in groundnut production of which U.S. agribusiness should be aware:
  - There are no effective mechanical harvesting techniques in Nigeria. Harvesting would probably have to depend on local labor, which can be expensive and scarce.
  - As with any land-based agribusiness venture, issues of land tenure must be addressed.
  - The recent past suggests that production risk in groundnuts is high. Four crops since 1973 have failed. It is not clear how new seed varieties or efficient farm management might mitigate the chances of production risk.
  - Rainfall in many of the northern areas (those formerly suited for groundnut production) has fallen 30% in the recent past and is likely to fall further in the future.
- \* Nigeria has a groundnut crush capability of 1.2 mmt, centered around Kano in the North. Only 15% of crush capacity is currently used. This excess capacity may present opportunities for U.S. agribusiness firms.
- \* Opportunities also exist for designing and manufacturing small scale machinery for planting and harvesting. Analysts believe that the private sector would invest in groundnuts if the labor intensity could be reduced.
- \* Groundnuts are an attractive rotation crop in Nigeria.

**THE HEAT SYSTEM**

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## THE MEAT SYSTEM

SURPRISINGLY, NIGERIA'S LIVESTOCK SECTOR IS A SMALL (5%) PART OF THE AGRICULTURAL SYSTEM. THIS SECTOR, HOWEVER, IS UNDERGOING AS MUCH STRAIN AS ANY SECTOR OF THE COUNTRY'S FOOD SYSTEM. WITH URBAN POPULATION AND INCOME EXPANDING FIVEFOLD IN THIS DECADE, DEMAND FOR MEAT HAS INCREASED. AS NIGERIA'S PASTURES ARE ALREADY OVERSTOCKED BY A FACTOR OF THREE, THIS DEMAND WILL HAVE TO BE MET PRIMARILY BY IMPORTS OF BEEF, BY A SHIFT TO POULTRY PRODUCTION OR BOTH. POULTRY FEED WILL ALSO PROBABLY REQUIRE SUBSTANTIAL IMPORTS.

- \* FAO data indicate a falling per capita consumption of livestock products, an untenable situation politically in a rapidly urbanizing economy.

### CONSUMPTION OF LIVESTOCK PRODUCTS

(Kg. per capita)

	<u>1968</u>	<u>1974</u>
BEEF	3.34	2.49
GOAT MEAT	1.84	0.86
MUTTON	0.42	0.30
POULTRY	0.84	0.71
PORK	0.48	0.40
OTHER MEAT	9.99	1.86
EGGS	0.84	1.40
FISH	13.38	7.79
MILK	2.76	1.90
CHEESE	<u>0.03</u>	<u>0.09</u>
TOTAL	33.92	17.80

SOURCE: FAO Production Yearbook

- \* While these data are probably contradictory and perhaps even inaccurate, the trends are significant. Protein consumed from livestock dropped from 8% to 5% from 1968 to 1974. Especially severe was the fall in other meats (offal and game), fish and milk. Poultry products (eggs and meat) held their place in Nigeria's diet. Despite beef imports of 13,000 tons in the mid-1970's, beef consumption trends are falling.
- \* Livestock data are particularly difficult to accurately and consistently analyze. Available data are broadly consistent with per capita consumption changes.

LIVESTOCK POPULATION ESTIMATES

	<u>1971</u>	<u>1974</u>	<u>1977</u>
CATTLE	8,243	10,918	8,216
SHEEP	6,025	7,545	7,375
GOATS	17,000	22,390	22,125
PIGS	300	865	N.A.
POULTRY	88,119	91,931	132,004

SOURCE: CDC, FAO, IBRD

- \* Dairying is the least-developed subsector in the livestock system. While demand for milk and cheese is likely to rise substantially, most consumption will have to be supplied from powdered milk and cheese imports. Imported dairy cows do very poorly; what industry exists is based on Pulani/Holstein crosses and on the existing cattle population on the Jos and Mambella plateaus.

**CURRENT AND PROJECTED MILK PRODUCTION**

	<u>1978</u>	<u>1990</u>
COWS (000)	293	293
LITRES/COW	80	127
MILK PRODUCTION (Metric Ton)	23,400	37,147

- \* Poultry is emerging as a significant source of animal protein in Nigeria's diet. The village poultry operation is traditional in rural areas, with chickens scavenging for food and laying 40 eggs per year for household use. Disease is a problem in raising the size of flocks. The commercial industry is expanding fast, mostly to supply the urban population. Eggs are selling for \$3.50 per dozen in the large urban markets; chickens for about \$8.00 for a small bird.

Commercial operations range from 5,000 to 30,000 birds. Constraints to expansion include:

1. Shortages of chicks
2. Feed shortages
3. Inadequate management
4. Insufficient fixed and working capital

- \* Much of the poultry meat is derived from the layer flocks. Production of broilers directly for meat is riskier since revenue is generated only once at the end of the bird's life and depends on uninterrupted feed supplies for the bird's entire cycle. In the past the broiler market has been undercut by cheap imports, while the ban on egg imports has been enforced without interruption.

## PROSPECTS FOR MEAT PRODUCTION

THE PRINCIPLE CONSTRAINT TO INCREASED RED MEAT AND DAIRY PRODUCTION IN NIGERIA WILL BE INTERNAL SUPPLY. NIGERIA ALREADY HAS A SEVERE OVER-GRAZING PROBLEM. THE WORLD BANK BELIEVES NIGERIA HAS ADEQUATE GRAZING CAPABILITIES TO SUSTAIN ONLY HALF (50%) OF THE CURRENT SHEEP, GOAT AND CATTLE HERD. OTHER ANALYSTS BELIEVE OVERGRAZING IS NOT SUCH A SERIOUS PROBLEM. THERE IS GREAT DEMAND ON PASTURES AND CROP RESIDUES FOR BUILDING AND FENCING (SORGHUM/MILLET STALKS) AND FOR FEEDING TO ANIMALS USED FOR CULTIVATION AND TRANSPORT. THE OTHER MAJOR CONSTRAINT ON CATTLE PRODUCTION IS TSETSE FLY INPESTATION WHICH STILL COVERS 60% OF THE BETTER GRAZING AREAS. TSETSE CAUSES PARTICULAR LOSS (20% OF LIVE WEIGHT) TO CATTLE TREKKED THROUGH THESE AREAS FROM THE NORTH TO THE SOUTHERN CONSUMING AREAS.

GIVEN THESE CONSTRAINTS ON CATTLE, THE PRINCIPLE INCREASE IN LIVESTOCK PRODUCTION WILL HAVE TO COME FROM COMMERCIAL OPERATIONS FEEDING SUPPLEMENTARY COMPOUND FEEDS TO POULTRY, HOGS AND THE EXISTING CATTLEHERD (DAIRY) ON THE JOS PLATEAU. HOWEVER, SHORTAGES OF COARSE GRAINS THREATEN TO IMPEDE THE GROWTH OF THE SUPPLEMENTAL FEED INDUSTRY. THE DRAMATIC DROP IN THE PRODUCTION OF OIL SEED CAKES HAS COMPOUNDED THIS PROBLEM. NIGERIA WAS ONCE THE WORLD'S LARGEST EXPORTER OF OIL SEED CAKE FOR ANIMAL FEED FROM GROUNDNUTS.

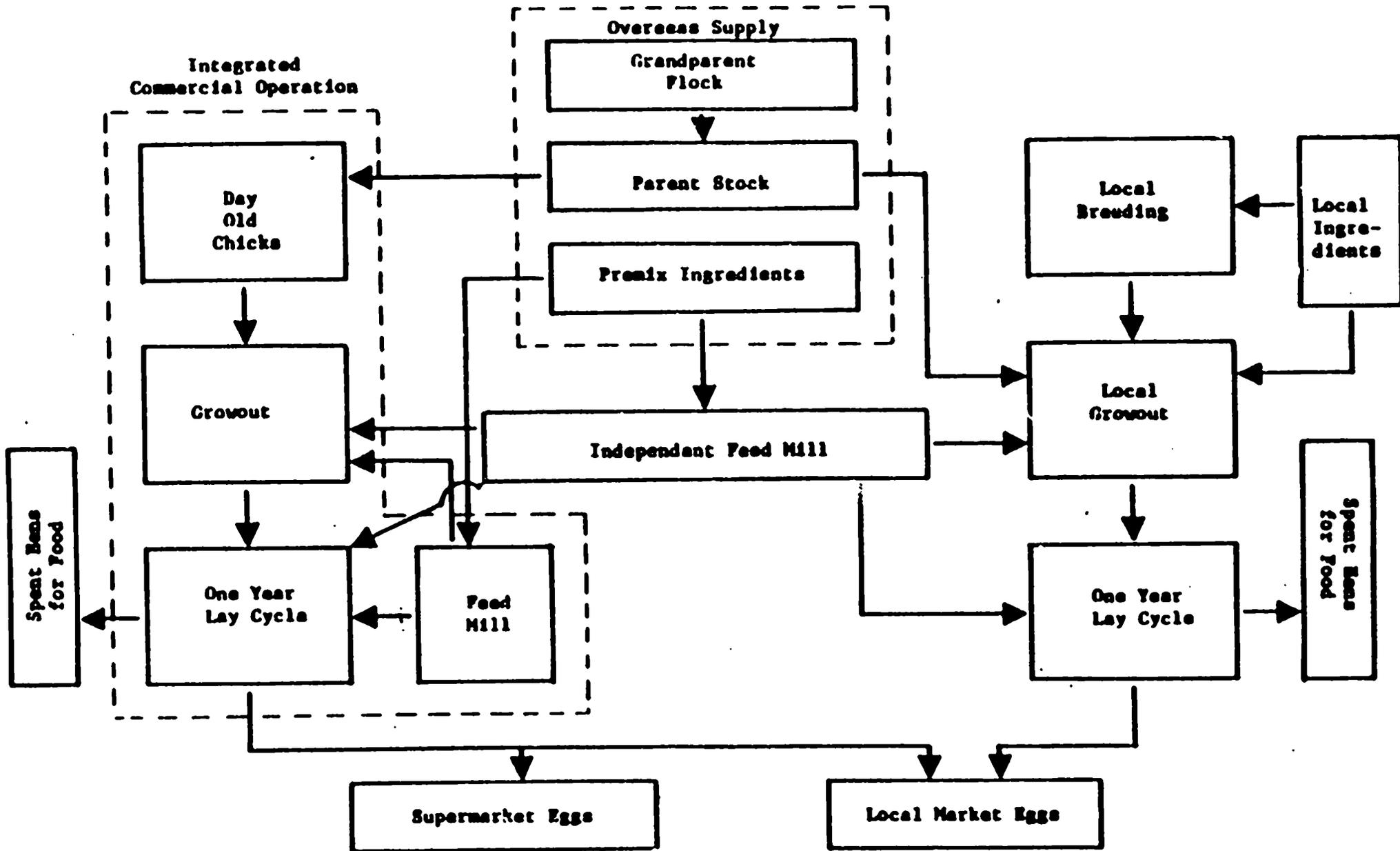
### ESTIMATED LIVESTOCK PRODUCTION 1978 TO 1980 (000 tons)

	<u>1978</u>	<u>1980</u>
BEEF	117	150
GOATS	85	90
SHEEP	35	40
POULTRY		
Village	20	25
Commercial	5	10
MILK	23	35
EGGS	175	500

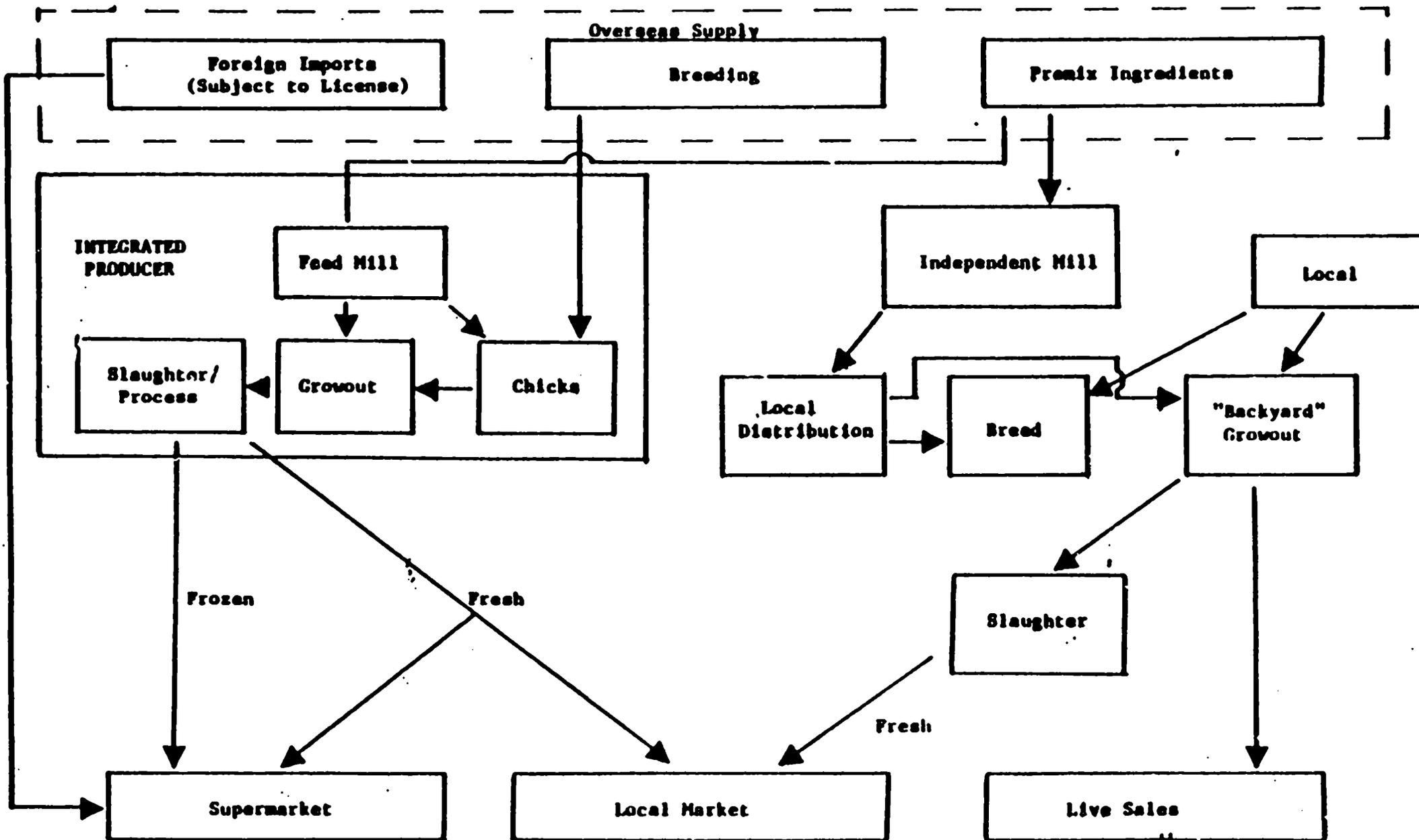
## INVESTMENT OPPORTUNITIES IN THE MEAT SYSTEM

- Major opportunities exist in Nigeria's meat system for investment. The field of greatest growth is poultry. Commercial poultry operations are now well established and promise to provide a growing market for the following businesses:
  - Grandparent stock
  - Live chick imports
  - Medications
  - Equipment, including housing and cages
  - Processing equipment
  - Basic feedstuffs
  
- Beef is another area with promise. The most attractive opportunities are in management and organizing intermittent beef imports. Some private companies, however, are negotiating ventures with the Nigerian Livestock Production Company (NLPC) to begin breeding and ranching. Cotia of Brazil is an example of such a company.
  
- Demand for dairy products is likely to be satisfied largely by milk powder imports and concentrated milk. The Nigerian climate is harsh on imported, high-quality dairy stock. Excess dairy processing capacity exists in Nigeria.
  
- Investment in feed manufacturing facilities should be carefully studied since there are supply risks and the industry faces direct competition from government mills. The National Grains Production Company is planning to build a series of feed mills throughout the country. Private livestock companies may be able to take advantage of the excess capacity by negotiating supply contracts with the mills. Note, however, that there are certain advantages to building a mill as part of a venture since it may qualify a venture as being integrated (thus allowing 60% U.S. ownership) and may provide significant savings on the largest cost component in raising livestock.

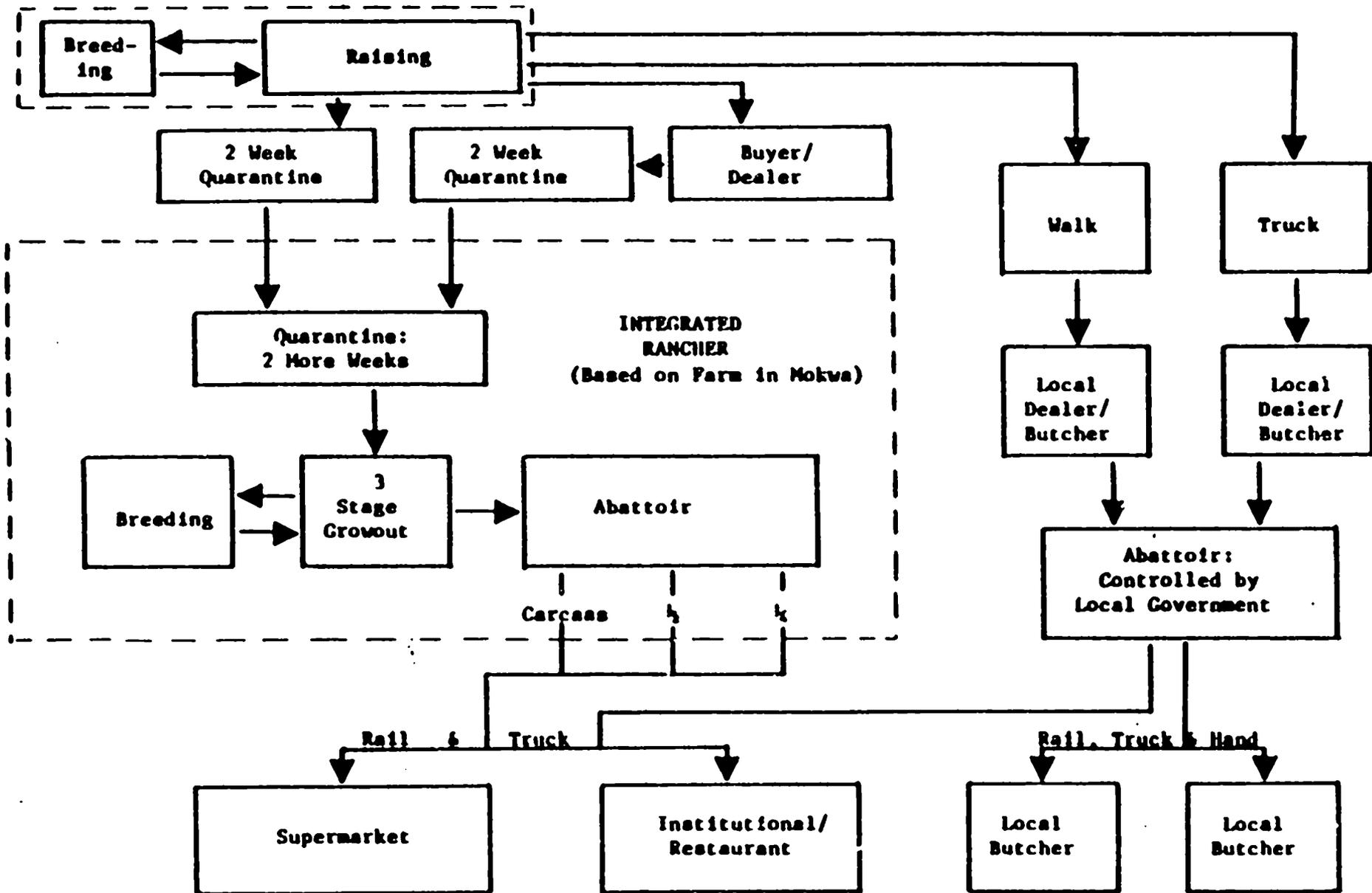
Schematic Diagram of the  
Layer Industry in Nigeria



Schematic Diagram of the  
Broiler Industry In Nigeria



Schematic Diagram of the Nigerian Beef System



SUGAR

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## SUGAR

DESPITE EFFORTS TO PRODUCE SUGAR LOCALLY, SOARING DEMAND IS CAUSING A RISE IN SUGAR IMPORTS. IF ALL SUGAR PROJECTS CURRENTLY UNDER STUDY ENTER PRODUCTION BY THE MIDDLE OF THIS DECADE, NIGERIA'S TOTAL PRODUCTION CAPACITY WOULD BE 250,000 TONS ANNUALLY. DEMAND, IS INCREASING AT 6-8% PER ANNUM. TOTAL SUGAR SUPPLY IN 1979 WAS 450,000 TONS, MOST OF WHICH WAS IMPORTED.

- \* In the middle 1970's, Nigeria commissioned a review of its sugar potential. The study identified the Benue Valley, the Niger Valley and the Hadejia area in Northern Kano as among the most promising areas.
- \* Projects under development or in pilot operation include:

1. Savannah Sugar Corp.	Benue/Gongola Rivers	100,000 t
2. Suntí Estate	Niger River	100,000 t
3. Lafiagi Estate	Niger River	60,000 t
- \* Most interest in sugar to date has been in technical and consulting services.
- \* Demand for sugar is driven by increasing consumption of soft drinks, baked goods and sweeteners. The statistics in this report which earlier showed only a moderate increase in per capita consumption are disputed by some experts. They cite the speed of the shift toward sugar consumption and the precedent set in other developing countries where demand increased rapidly at the stage of development in which Nigeria now finds itself as evidence that demand will increase faster than the data indicate.
- \* As with other commodities, the local sugar market has been undercut in the past by cheap imports.

**FORESTRY**

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## THE FORESTRY SECTOR

EXPORTS OF WOOD AND WOOD PRODUCTS, ONCE A SIGNIFICANT EARNER OF FOREIGN EXCHANGE, WERE BANNED IN 1976. FORESTRY ACCOUNTS FOR ONLY ONE TO TWO PERCENT OF THE NATIONAL OUTPUT EVEN THOUGH IT EMPLOYS SOME 1.5 MILLION PEOPLE, CHIEFLY IN FIREWOOD COLLECTION AND POLEMAKING.

- \* Imports of paper, paper products and pulp are substantial and increasing. Nigeria has one paper factory with an annual production of 12,000 tons. This factory depends largely on imported raw materials. Imports of paper amount to over \$200 million, reaching nearly 200,000 tons. Demand is projected as follows:

	<u>1976</u>	<u>1985</u> (000 tons)	<u>1995</u>
Newsprint	27	59	122
Printing and Writing Paper	57	105	224
Industrial Paper	70	200	580

- \* With Nigeria's industry focusing on fuelwood, poles and plywood, its booming paper needs will be served by imports.
- \* To achieve self-sufficiency against projected demand, 500,000 Ha. of fast-growing forest species would have to be planted. 30,000 Ha. would have to be planted each year. This area, in full production, would provide the industrial roundwood needed for timber, wood-based panels, transmission and distribution poles, pitprops for mining, and the domestic paper industry. It is unlikely that this planting will be achieved given the current capabilities of the forest services.
- \* Until the 1970's, most of Nigeria's wood processing industry was in the private sector. During this decade, four large capital-intensive plants were built in paper, pulp and integrated wood working.
- \* Primary opportunities for private sector involvement in the future are in consultation and technical support to the forest services for plantation development and supplying paper and pulp from abroad.

**INPUTS**

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## INPUTS

AS NIGERIA EXPANDS AGRICULTURAL INVESTMENT IN THE 1980'S, DEMAND FOR INPUTS WILL GROW. TO INCREASE AGRICULTURAL GROWTH RATES FROM THE CURRENT 1% TO THE NEEDED 4% WILL REQUIRE SOME EXTENSION OF CULTIVATED AREA BUT WILL DEPEND MOSTLY ON IMPROVING YIELDS ON EXISTING SMALL FARMS. THIS STRATEGY IS THE FOCAL POINT OF THE GREEN REVOLUTION. IT IS THUS IMPORTANT THAT U.S. AGRIBUSINESS FIRMS UNDERSTAND THE SERVICES AND PRODUCTS INVOLVED IN INTENSIFYING SMALL FARM PRODUCTION AND UNDERSTANDING THE ROLE THAT PRIVATE FOREIGN COMPANIES CAN PROVIDE IN SUPPLYING THESE.

THIS SECTION COVERS THE FOLLOWING INPUTS:

1. FERTILIZER
2. AGRICULTURAL CHEMICALS
3. IRRIGATION
4. SEEDS

THERE IS MUCH POTENTIAL FOR CONSTRUCTIVELY PARTICIPATING IN THE INPUT SYSTEM FOR SMALL FARMERS. HOWEVER, THERE ARE ALSO OBVIOUS PROBLEMS. THE FOLLOWING CHART SUMMARIZES THE OVERALL PROBLEMS AND OPPORTUNITIES WHICH MOST INPUT-RELATED BUSINESSES HAVE IN COMMON.

PROS AND CONS TO PARTICIPATING IN THE INPUT SYSTEM

PRO	CON
<ul style="list-style-type: none"> <li>* Nigeria's next agricultural development plan will focus on improving the smallholder by providing him with inputs. This will create a large market.</li> <li>* The Government has openly welcomed private participation in providing these inputs on a timely basis.</li> <li>* Distribution channels for one input can later be used for other inputs.</li> <li>* Business ventures to procure and distribute inputs are less capital-intensive than other ventures, notably land-based ventures. Procurement generally carries fewer risks than production.</li> <li>* The success of World Bank integrated rural development projects on which the new agricultural policy is based has already proved successful. There is a precedent for supplying inputs.</li> <li>* The facilities and personnel from the World Bank programs can facilitate new business ventures. Advice can be solicited from people who know.</li> </ul>	<ul style="list-style-type: none"> <li>* Programs to supply inputs necessarily deal with many people and are spread over a wide area. This can complicate operations.</li> <li>* Input programs will be directly or indirectly influenced by Federal, State and local governments. The programs to provide farmers with inputs will be highly visible and will probably draw political attention. There is a danger that a private venture might get caught in the middle of a controversy which might seriously affect its operations, or, worse, tarnish its reputation:</li> <li>* The inputs which private companies would be dealing with are heavily regulated by the government and are subsidized. Private ventures may find their supply or demand affected by government policy changes.</li> <li>* Because the projects are located in the hinterland, problems of communication, logistics, staffing and coordination will be greater.</li> </ul>

## 1. FERTILIZER

NIGERIAN FARMERS USED RELATIVELY LITTLE FETILIZER, AROUND 100,000 TONS, OR 10 KG. PER FARMER, IN 1978. APPLIED RESEARCH ON WORLD BANK PROJECTS INDICATES FERTILIZER APPLICATION RATES OF 200 KG./HA. (UP TO ONE TON PER FARMER) ARE ECONOMICAL. WITH THE LIKELY CONTINUATION OF SOME TYPE OF FEDERAL SUBSIDY ON FERTILIZER, DEMAND WILL INCREASE NEARLY 100% PER YEAR. DEMAND SHOULD REACH 500,000 TONS BY 1985 AND A MILLION TONS SOON THEREAFTER. THIS INCREASE IN UTILIZATION PROVIDES OPPORTUNITIES IN PRODUCTION, PROCUREMENT AND DISTRIBUTION TO U.S. AGRIBUSINESS FIRMS.

- \* Nigerian fertilizer is imported solely by the Government's fertilizer unit of the Federal Ministry of Water Resources and Agriculture. Distribution is also handled by the Government through the extension system.
- \* If Nigeria is to deal seriously with its food deficit, Nigerian based fertilizer plants are required, and a more balanced distribution system between the public and private sectors is needed to service small farmers.
- \* Agribusiness opportunities exist in several areas of the fertilizer industry:
  - Exports to Nigeria
  - Construction of plants in Nigeria
  - Construction of depots for distribution
  - Businesses and consultancies for improving procurement and distribution

## 2. AGRICULTURAL CHEMICALS

MUCH OF THE CURRENT UTILIZATION OF AGRICULTURAL CHEMICALS IS FOR EXPORT CROPS, ESPECIALLY COCOA. AS NIGERIA INCREASES DOMESTIC FOOD PRODUCTION, HERBICIDE USE BOTH FOR WEED CONTROL AND MINIMUM TILLAGE FARMING WILL INCREASE. THE ADOPTION OF ULTRA-LOW VOLUME SPRAYERS FOR SMALL FARMERS IS EXPANDING. WEEDING IS OFTEN A BOTTLENECK TO INCREASED PLANTING SINCE FARMERS WILL PLANT ONLY WHAT THEY AND THEIR FAMILIES CAN WEED BY HAND. WHILE ADDITIONAL TECHNICAL WORK IS NEEDED ON HERBICIDES FOR SMALL FARM CONDITIONS, EARLY WORK LOOKS PROMISING.

- Current agricultural chemical imports are running at 25,000 tons per year, with the National Oil and Chemical Marketing Company (NOCMO) holding 50% of this rapidly growing market. Private foreign chemical companies have the balance of the market. These companies are seemingly reluctant to make major investments in distribution systems as they are concerned that the government may itself take on the role of distributing chemicals as they did for fertilizer.
- As with fertilizer, the government has stressed that it would prefer the private sector to handle procurement and distribution.
- As small farmers increase herbicide and insecticide applications, the demand for these chemicals will increase. Markets for inexpensive applicators and containers which can be easily used will also develop.

### 3. IRRIGATION

IN THE PAST, NIGERIA HAS INVESTED LITTLE PUBLIC MONEY IN IRRIGATION, DRAINAGE AND RELATED WATER-CONTROL SYSTEMS. TODAY, ONLY ABOUT 10,000 HA. OF IRRIGATED LAND BUILT UNDER GOVERNMENT AUSPICES IS IN PRODUCTION.

THE MAIN WATER CONTROL SYSTEMS ARE OUTSIDE THE GOVERNMENT'S SPHERE OF INFLUENCE, EXISTING PRIMARILY ON SMALLHOLDER RICE FARMS. THESE TRADITIONAL SYSTEMS ARE EXPANDING FAST. THE ACREAGE UNDER IRRIGATION INCREASES RAPIDLY EACH YEAR. PRIVATE COMPANIES CAN BENEFIT FROM THIS INCREASE BY SUPPLYING PUMPS, PIPES AND EXPERTISE,

- The drought in the 70's prompted the government to make large investments in irrigation, both for drought-proofing and because the country's major imported foods (wheat, rice) grew best with irrigation.
- Nigeria allocated 30% of its food crop investment in public irrigation schemes during the third plan. A separate department was formed to handle irrigation named the Ministry of Water Resources. Eleven river basin authorities were also formed to manage this large allocation of funds.
- A total of 250,000 Ha. of land is currently under one of eight irrigation plans. These projects are scheduled for completion by 1990. Another 250,000 Ha. of irrigation is planned after the first set of projects is completed.
- While it is unclear how fast Nigeria will proceed with large scale irrigation projects, the commitment the government has made will create significant opportunities for a range of services and investments:
  - Land use consultancies
  - Soil analysis and mapping
  - Civil works and engineering
  - Small pump equipment, especially low lift pumps
  - Land leveling equipment
  - Turnkey projects

#### 4. SEEDS

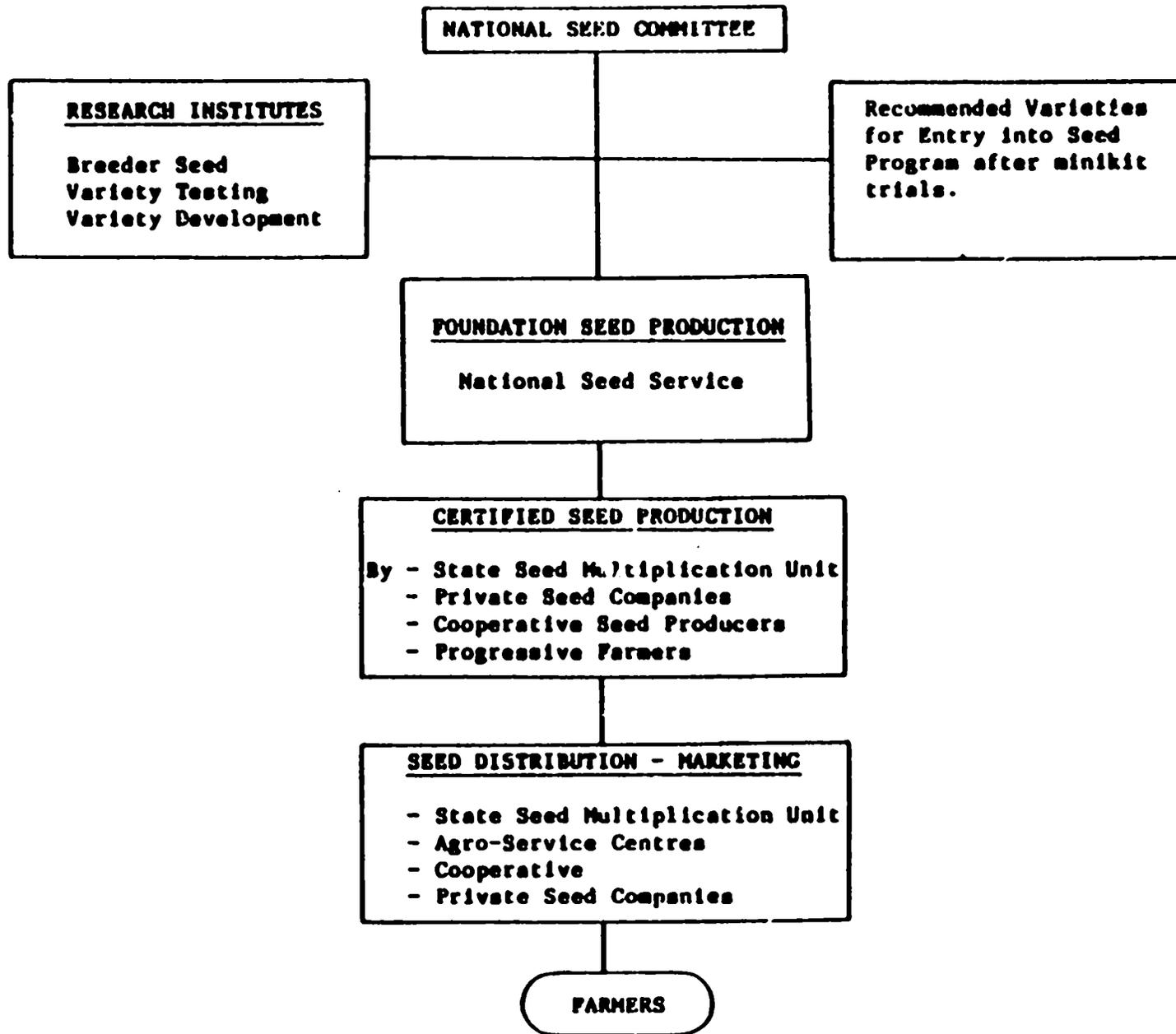
**NIGERIAN FARMERS, BOTH LARGE AND SMALL, HAVE BEEN USING INCREASING AMOUNTS OF IMPROVED SEED. THE GOVERNMENT HAS STATED ITS OBJECTIVE TO FURTHER INTEGRATE THE PRIVATE SECTOR INTO THE PRODUCTION AND DISTRIBUTION OF IMPROVED VARIETIES OF SEEDS WHICH ARE A KEY COMPONENT TO INCREASED AGRICULTURAL PRODUCTIVITY.**

- \* **A National Seed Service (NSS) was established in 1976 with the cooperation of the FAO of the United Nations. The function of the NSS is to coordinate the development, multiplication and distribution of improved varieties. An organization chart of the NSS is presented on a later page.**

**To date, the NSS has been moderately successful at achieving its goals but is constrained by various institutional, financial, staffing and capital problems.**

- \* **To redress these problems, the government has proposed several measures of which one is to entrust seed production and marketing to commercial channels. U.S. firms, in partnership with State and parastatal organizations, can play an important role in developing this growth industry. U.S. firms can provide equipment, farming techniques and logistic expertise. Seed farming has an advantage over regular crop production. Since the demand is great, the scale is smaller and the value added higher.**

NIGERIA'S SEED DISTRIBUTION ORGANIZATION



**PISH**

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## FISH

FISH IS THE PRINCIPAL SOURCE OF PROTEIN IN THE NIGERIAN DIET. POTENTIAL DEMAND FOR FISH FAR OUTSTRIPS CURRENT SUPPLY. OPPORTUNITIES FOR AQUACULTURE EXIST ALTHOUGH SUCH VENTURES SHOULD BE STUDIED VERY CAREFULLY. IMPORT AND DISTRIBUTION OF FROZEN FISH OFFERS PROMISE, ALBEIT AT A HIGH CAPITAL COST. DEEP SEA FISHING OFF THE COAST OF WEST AFRICA MAY HAVE PROMISE BUT WITH GREAT RISKS. EXPERTS DIPPER ON THE SIZE OF COMMERCIAL SCHOOLS OFF THE COAST.

- \* Nigeria is the largest market for fish in West Africa. Most consumption is in the South along the coast where there is an active system of fish sellers, mostly women merchandizers. Imports, equaling 75,000 tons in 1978, comprise about a third of total consumption. Domestic catches are from rivers and the coast. There is no major contribution to consumption from Nigerian owned boats.
- \* One of the large commercial groups, IBRU, handles a majority of the frozen fish importation and distribution.
- \* For years Nigeria was the largest market for stockfish, primarily from Norway. These were sold for soup and stew flavorings. Frozen fish imports have grown in importance recently, substituting for stockfish.
- \* Marketing is rudimentary. Fish are offloaded at the large ports, mainly Lagos, and trucked into other urban areas in insulated trucks.
- \* Surprisingly, the need for a system of cold storage for frozen fish is reduced by the great demand for fish. Inventories are quickly reduced upon arrival by merchandizers. The exception is at the port of arrival where large vessels can unload many tons in a short while.
- \* Opportunities in fish importation and fish farming should be examined closely. Although fish farming is capital intensive and requires meticulous management, the size of the market, the investment the government is putting into dams and other useable infrastructure and the high price of fish may outweigh possible disadvantages.

**TREE CROPS**

## TREE CROPS

HISTORICALLY, TREE CROPS - OIL PALM, COCOA, AND RUBBER - HAVE BEEN IMPORTANT COMPONENTS OF TOTAL AGRICULTURAL PRODUCTION AND MAJOR PRODUCERS OF FOREIGN EXCHANGE. DURING THE LAST TWO DECADES, HOWEVER, OUTPUT HAS STABILIZED OR DECLINED, AND NIGERIA'S SHARE OF WORLD MARKETS HAS FALLEN.

### NIGERIA

#### AVERAGE ANNUAL PRODUCTION

(000 METRIC TONS)

	<u>1961-65</u>	<u>1970-74</u>	<u>1975-79</u>
PALM OIL	521	454	506
PALM KERNELS	419	285	328
COCOA BEANS	215	257	181
RUBBER	65	66	63

UNLESS LARGE-SCALE PLANTINGS ARE UNDERTAKEN IN THE NEAR FUTURE, PRODUCTION DECLINES WILL ACCELERATE DURING THE 1980'S. MUCH OF THE EXISTING ACREAGE IS ALREADY OVER-AGE, AND LONG GESTATION PERIODS ARE REQUIRED FOR NEW TREES TO REACH THEIR FULL POTENTIAL. THE GOVERNMENT HAS RECOGNIZED THE NEED AND ANNOUNCED PLANS TO REHABILITATE AND EXPAND BOTH OIL PALM AND COCOA ACREAGE. IN ADDITION, THERE ARE WORLD BANK ASSISTED PROJECTS IN BOTH OF THESE CROPS. THE NEW COMMODITY BOARDS HAVE ATTEMPTED TO MAINTAIN DOMESTIC PRICES ABOVE WORLD MARKET LEVELS IN AN ATTEMPT TO STIMULATE PRODUCTION. TO DATE, HOWEVER, THESE EFFORTS APPEAR TO HAVE MET WITH RELATIVELY LITTLE SUCCESS. THE NET RESULT IS THAT THERE IS SUBSTANTIAL EXCESS PROCESSING CAPACITY AT PRESENT, ALTHOUGH MUCH OF IT APPEARS TO BE OLD AND INEFFICIENT.

**POTENTIALLY ATTRACTIVE INVESTMENT OPPORTUNITIES FOR U.S. AGRIBUSINESSES ARE LIMITED BY TWO MAJOR FACTORS:**

- **RETURNS ON INVESTMENT IN TREE CROP PRODUCTION ARE HIGHLY RISKY BECAUSE OF THE LONG WAITING PERIOD - UP TO 7 OR 8 YEARS - BEFORE SIGNIFICANT CASH FLOWS ARE REALIZED.**
- **OPPORTUNITIES TO INVEST IN PROCESSING WILL BE LIMITED UNTIL AND UNLESS THE REPLANTING PROGRAMS BEGIN TO PRODUCE SUBSTANTIAL RESULTS.**

## PALM OIL

Production of African oil palm declined between the mid-1960s and early 1970s. There has been a modest recovery to an average level of about 500,000 metric tons per year during the last five years, but output is still below the levels of twenty years ago. Peak output of 580,000 tons was reached in 1966 just prior to the Civil War. The war severely disrupted production, which is concentrated in the central and eastern tropical coastal areas.

World production and trade of palm oil has increased sharply in recent years due to large plantings in Malaysia, the leading producer. Nigeria's share of world production fell from about 25% prior to the Civil War to only 10-12% currently. Indonesia recently surpassed Nigeria to become the second largest producing country. Nigeria has not exported significant quantities of palm oil since 1966 and became a net importer for the first time in 1979. In 1980, it is estimated that imports will be as much as 200,000 metric tons, about 40% of total production.

In addition to declining production, the shift in the palm oil trade balance reflects expanding domestic demand for fats and oils. Palm oil accounts for about 85-90% of total fats and oils with the balance coming from cottonseed oil, groundnut oil and small amounts of imported soybean oil.

Total acreage planted to oil palm is difficult to estimate because there are no good statistics and as much as 90% of the crop comes from wild groves rather than estate production. It is clear, however, that many existing stands are very mature and likely to suffer future declines in production. The government has announced an ambitious 750 million Naira planting program for 78,000 hectares in nucleus estates and 152,000 hectares in small holdings during the Fourth Plan Period (1981-85). Even if this is achieved and the existing World Bank assisted projects proceed on schedule, Nigeria will not eliminate its trade deficit during the 1980s. Estimates of internal demand for 1990 are in the range of 900,000 to 1,000,000 metric tons - nearly double current production.

Another factor limiting Nigeria's ability to compete in the world market is the relatively low yield of existing traditional varieties compared to Malaysia. It is estimated that current yields for mature plantings are about 4.5 metric tons per hectare with an oil yield of about 10%. On an oil basis, this is only about 25% of Malaysian yields. Experimental plantings with improved varieties in Nigeria have produced yields approaching Malaysian levels.

Nigeria still exports a significant volume of palm kernels, although the long-term trend is downward. Kernel yields are about 5% of fresh fruit bunch weight. The relationship between producer and export prices has not provided an incentive to crush the kernels domestically. It is estimated that domestic crushing capacity is in the range of 350,000 to 400,000 metric tons per year of which only about 10% is currently utilized.

Palm production will continue to be a significant crop in Nigeria, but it remains to be seen whether the negative trends can be reversed. One major problem, for example, is that cultivation and harvest are still highly labor intensive, and costs will rise if the minimum wage is raised substantially.

## COCOA

Cocoa production has also declined during the recent past. Production fluctuates significantly from year-to-year due to recurrent weather and disease problems. During 1975-1979 production of beans averaged about 180,000 metric tons per year and ranged from a low of 139,000 tons in 1978-1979 to a high of 218,000 tons in 1975-1976. The peak was reached in 1970-1971 at 308,000 tons.

Until the mid-1970s, Nigeria was the number two cocoa producer behind Ghana and accounted for 20 to 25% of world production. Since then, however, Nigerian production has also fallen below both Brazil and the Ivory Coast, and its share of world output has declined to about 12%. Although small amounts have been processed domestically since the 1960s, virtually all of the crop is exported. Despite recent declines, cocoa still accounts for 40% of non-petroleum exports.

About 85% of the cocoa acreage is in the forest zones of Ogun, Oyo and Ondo states. The total is estimated to be about 500,000 hectares and has not changed significantly. Most of the production is accounted for by smallholders although there is some evidence that a few large producers account for a disproportionate share of output. The average holding is about 2.5 hectares with 50% of the units under one hectare. Average yields appear to be less than 500 kg. per hectare compared with test results as high as 2200 kg. per hectare using high yielding hybrid varieties.

Again, a substantial replanting program will be required for Nigeria to maintain its present reduced world market share. Many trees are over 30 years old. It would require a production increase from under 200,000 now to about 300,000 metric tons in 1990 in order for Nigeria to retain about one-eighth of the world market. This, in turn, would require that at least 200,000 hectares be replanted by the mid-1980's, allowing for the time required to reach bearing age. Announced government plans plus World Bank assisted projects amount to about one-half of this.

The Cocoa Board has increased producer prices to levels two to three times higher than equivalent prices in other African exporting countries. It remains to be seen whether this will produce a significant grower response. To date, the evidence is not encouraging. Export earnings will continue to fluctuate in a world market characterized by uncertain production, inelastic demand and volatile prices. The high producer price will result in periodic severe imbalances between domestic and world prices. Cooperatives have traditionally played the dominant role in coordinating procurement and exports in the cocoa system. Some new mechanism may be required in the light of current policies and market conditions.

## RUBBER

Rubber production has been relatively stable at 60,000 to 65,000 metric tons per year since independence. The high was 77,000 tons in 1966. Nigeria is the second largest African producer but is much less important on a world basis than in either palm oil or cocoa. In 1979-80, Nigeria's share of world production was about 1.5% compared with a generally accepted traditional share of 3%.

Exports have declined somewhat more than production since domestic use increased between the 1960s and 1970s. It now appears to have stabilized at about 15,000 to 20,000 metric tons per year leaving an exportable surplus of up to 45,000 tons. Even this could be eliminated by 1990 if production declines due to over-age trees and internal demand increases as projected to around 40,000 tons per year.

Production is heavily concentrated in Bendel state which is reported to have about 250,000 hectares in bearing. An estimated 40% of this is in small holdings with the balance in estates. These latter have their own processing facilities, but there is substantial excess capacity outside the estates. A number of plants have been closed recently, including a Goodyear facility in Benin.

The World Bank estimated current smallholder yields at about 300-350 kg. per hectare compared with potential average yields over a 24-year economic life of 1,000 kg. per hectare using new varieties and modern tapping methods. They also estimated that only about 30% of the trees are tapped compared with 50% as recently as 1974.

Until the Rubber Board was established in 1977, rubber was not controlled and was sold through commercial channels in both domestic and export markets. Private firms marketed under their own labels. There is no established quality standard for Nigerian rubber, and as a result, it has always sold at a discount to Malaysia. The Commodity Board has established a guaranteed price significantly above the world price, but so far, there is little evidence of producer response.

## PROCESSING

SPECIFIC PROCESSING OPPORTUNITIES ARE BEST JUDGED IN THE CONTEXT OF THEIR PARTICULAR COMMODITY SYSTEM. CERTAIN GENERALIZATIONS ABOUT PROCESSING CAN BE MADE:

- \* Processing is attractive to foreign firms for several reasons:
  - Building a processing facility offers a chance to make a profit on machinery, technical expertise and management.
  - Processing facilities are concentrated and therefore more easily managed.
  - Processing may be a natural step, either forward or backward, for increasing value to an ongoing business.
  - Building a processing facility may give a company access to imports as a stopgap measure to provide the facility with feedstock.
  
- \* Dangers also exist:
  - Processing facilities are capital intensive. Capital intensive projects in Nigeria carry with them the risks concomitant with illiquidity, dependence on outside maintenance and dependence on having trained personnel to run the facility.
  - Securing a reliable source of feedstock is an important consideration for companies considering processing. Domestic supply of certain commodities is unreliable. Depending on imported feedstock can be equally dangerous. History suggests that one can draw distinctions between different industries and that certain processing industries are more likely to have interruptions.

- \* One model for processing facilities which is often cited favorably is establishing a processing facility in the middle of outgrowers and providing the coordination, pricing and marketing for these farmers. This system allows the processor to shed production risk and gives the farmer a sure home for his product. Booker McConnell used this model successfully in Kenya for the Mumias sugar project.

**FRUITS AND VEGETABLES**

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## FRUITS AND VEGETABLES

THE FRUIT AND VEGETABLE SYSTEM IN NIGERIA IS FRACTURED. FEW ORGANIZED COMMERCIAL VENTURES EXIST. THE MARKUP ON FRUITS AND VEGETABLES IS LARGE. A VARIETY OF FRUITS AND VEGETABLES CAN BE GROWN IN NIGERIA'S DIVERSE CLIMATE.

- Most fruits and vegetables are marketed through small merchandizers. Few organized production schemes exist.
- Prices for fruits and vegetables vary but are in general high. In the urban areas, the prices are almost prohibitive. By one estimate the average profit margin for each middleman in the fruit and vegetable system is over 40%. A papaya in Lagos can sell for \$4.00. Two pounds of bananas can cost \$2.00-\$4.00.
- Much produce moves through a rural bulk market and is then moved to the urban market.
- Vegetable cultivation on a commercial scale carries certain risks but can be extremely profitable, even on a small farm.
- Tree crops such as citrus do not yield a positive cash flow for 4-5 years but are potentially very profitable.
- Juice factories are also a possible area for investment, taking advantage of the seasonal variations in supply and price.

**SECTION V**  
**NIGERIA: COUNTRY OVERVIEW**

## SECTION INTRODUCTION

THIS SECTION PRESENTS AN OVERVIEW OF NIGERIA AS A COUNTRY. THE SECTION BRIEFLY REVIEWS THE COUNTRY'S ECONOMY, GEOGRAPHY, POLITICS, DEMOGRAPHICS AND SOCIOLOGY TO PROVIDE THE BUSINESSMAN WITH A PERSPECTIVE ON THE ENVIRONMENT INTO WHICH HIS BUSINESS MUST FIT. DETAILED ANALYSES AND DESCRIPTIONS OF THE COUNTRY ARE READILY AVAILABLE ELSEWHERE TO THE BUSINESSMAN WHO WISHES TO LEARN MORE ABOUT THE COUNTRY.

TWO EXAMPLES OF PUBLICATIONS WHICH PROVIDE A MORE DETAILED REVIEW OF THE COUNTRY ARE LISTED BELOW:

- \* U.S. Department of Commerce  
Nigeria: A Survey of U.S. Business Opportunities  
Bureau of International Commerce  
Washington, D.C.  
(Note: an updated version will be released soon)
  
- \* U.S. Department of Commerce/Department of State  
Nigeria: Economic Trends Report  
Foreign Economic Trends  
Washington D.C.  
(order number: FET 80-097)

## STATISTICS IN NIGERIA

AN INITIAL CAUTIONARY WORD IS NEEDED ABOUT STATISTICS IN NIGERIA. STATISTICS IN NIGERIA ARE POOR IN QUALITY AND AVAILABILITY. MOST DATA--INCLUDING THE DATA IN THIS REPORT--SHOULD BE REGARDED ONLY AS INDICATORS OF TREND AND MAGNITUDE. DESPITE THE POOR QUALITY OF PUBLIC DATA, PRIVATE COMPANIES MAY SATISFY THEIR PARTICULAR INFORMATIONAL NEEDS BY CONDUCTING THEIR OWN SPECIALIZED RESEARCH.

1. Demographic data varies widely. All current population estimates and projections are derived from the 1963 census which was extremely controversial.
2. Internal commercial and trade statistics are poor. Much of Nigeria's economy is subsistence activity and is therefore hard to measure, even under the best of circumstances. This is especially true for agriculture. A large black market based on smuggling, notably in luxury goods, is not recorded by official statistics although accounting for up to 30% of the sales of certain products.
3. International trade data are more reliable than internal data especially where documented at coastal ports.
4. Because of a processing backlog at the Federal Office of Statistics, most Nigerian statistics are two to three years out of date. However, current oral estimates of current economic activity are often available from government and private organizations.
5. Despite the dearth of useful published data, U.S. agribusiness firms can satisfy their own information needs through surveys or assembling informal data from informed local sources.

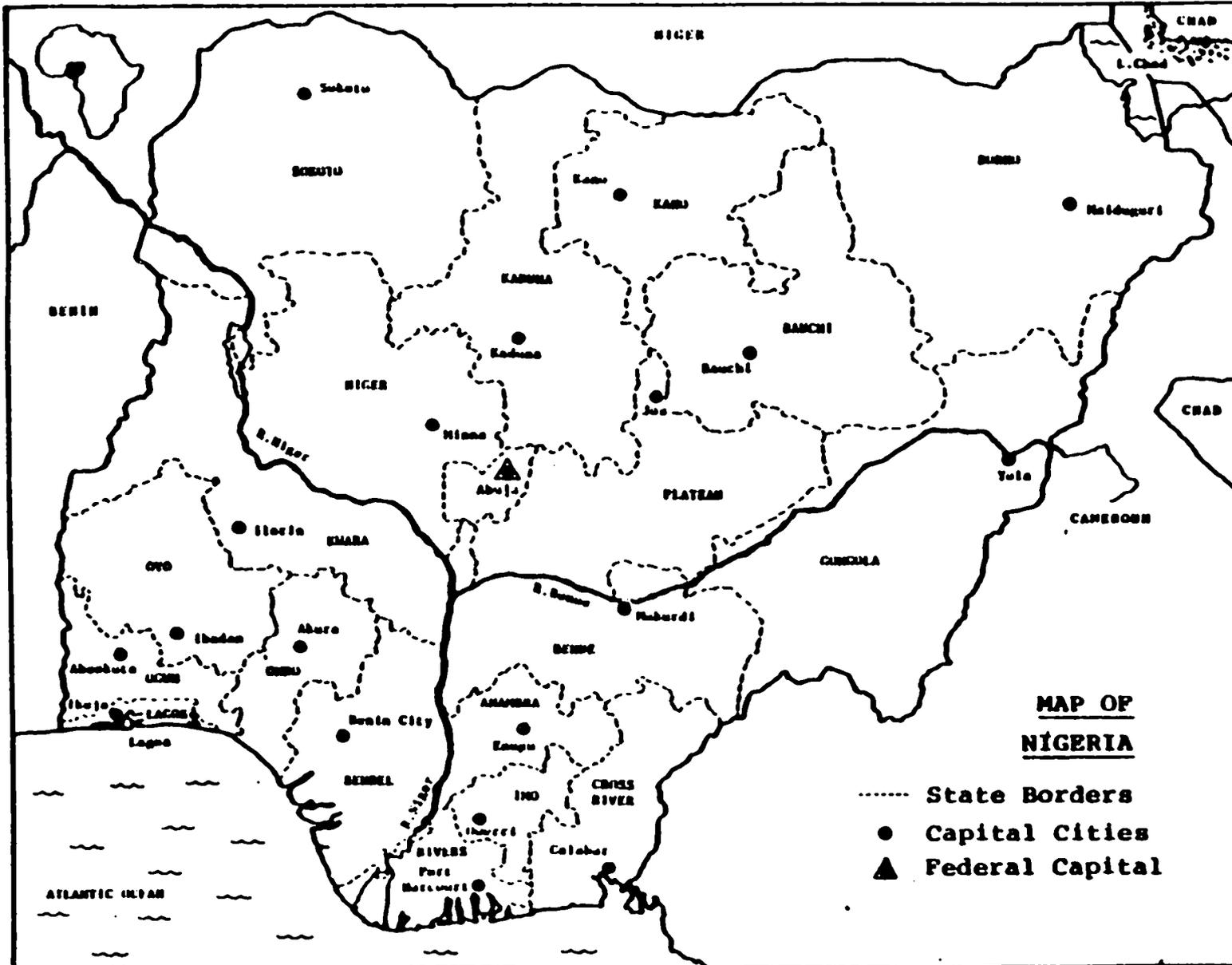
## CURRENCY

**THE CURRENCY OF NIGERIA IS THE NAIRA (pronounced nigh-eh-ra ).**

- **As of January, 1980, one Naira was worth \$1.80.**
- **The Naira is overvalued. Most analysts believe the Naira would settle at about \$1.20-1.40 if it were freely traded.**
- **The government monitors imports and exports of the Naira. All foreign currency exchanges into Naira must be documented.**

**MAP OF NIGERIA**

**NIGERIA IS LOCATED IN WEST AFRICA. THE COUNTRY IS BORDERED BY BENIN TO THE WEST, NIGER AND CHAD TO THE NORTH, CAMEROUN TO THE EAST AND THE ATLANTIC OCEAN TO THE SOUTH. THE COUNTRY IS DIVIDED INTO 19 STATES AND ONE FEDERAL DISTRICT. TWO MAJOR RIVERS, THE NIGER AND THE BENUE, FLOW THROUGH THE COUNTRY.**



## INFRASTRUCTURE

NIGERIA'S INFRASTRUCTURE HAS IMPROVED IN THE RECENT PAST. POOR INFRASTRUCTURE ONCE PRESENTED A SERIOUS OBSTACLE TO SUCCESSFUL BUSINESS. NOW, ALTHOUGH STILL IN NEED OF MUCH WORK, NIGERIA'S INFRASTRUCTURE IS GOOD IN CERTAIN AREAS. A HIGHWAY SYSTEM LINKING MAJOR URBAN AREAS AND RELIEVING MUCH OF THE CONGESTION IN LAGOS, AN EXPANDED PORT SYSTEM, AN EXTENSIVE INTERNAL AIR SYSTEM AND IMPROVED INTERNATIONAL TELECOMMUNICATIONS ARE AMONG THESE AREAS. MUCH OF THE INFRASTRUCTURE IS INADEQUATE, NOTABLY THE INTERNAL PHONE SYSTEM AND THE COUNTRY'S HOTEL CAPACITY. INFRASTRUCTURE IN NIGERIA WILL CONTINUE TO IMPROVE AS ONGOING PROJECTS ARE COMPLETED.

- \* Roads Nigeria is building a Federal highway system which connects the country's major cities. Much of this system is completed and reduces the effort of travelling between large urban areas. Driving on these roads is dangerous, and some of the roads have fallen into disrepair. Once off the major roads, progress is difficult since few roads are paved. A new system of highways in and around Lagos has helped eliminate the severe congestion which brought the city to crisis in the mid 70's. Long, hot traffic jams are still common and cars are allowed in the city only on alternate days according to the number on their license plate.
- \* Ports There are several major ports in Nigeria. The Lagos Apapa/Tin Can Island complex is the largest with about 50 berths. Waiting time for unloading (once as long as ten months) is about one week. The draft of the Lagos ports is 27 ft. The Lagos harbors are good for containers; poor for bulk unloading and liquids. Since bulk facilities are poor, most companies import their agricultural commodities in bags.

The other ports in Nigeria are Port Harcourt (used mostly for oil), Calabar (with much excess capacity), Warri and Burutu (with a 19 foot draft because of a sandbar), and Sapele and Koko (also with shallow drafts).

- Airports Nigeria has an extensive domestic air system. Nigerian Airways, the national carrier, flies most of the internal flights. There are airports at Benin, Calabar, Enugu, Ibadan, Ilorin, Jos, Kaduna, Kano, Lagos, Maiduguri, Port Harcourt, Sokoto, and Yola.

International travel has been greatly eased by the completion of the modern Murtala Muhammad International Airport in Lagos. Direct flights to New York fly twice a week. Daily flights to Europe are available. Businessmen can also use the international airport in Kano where many incoming and outgoing flights stop. International air travel is still tiring and time consuming.

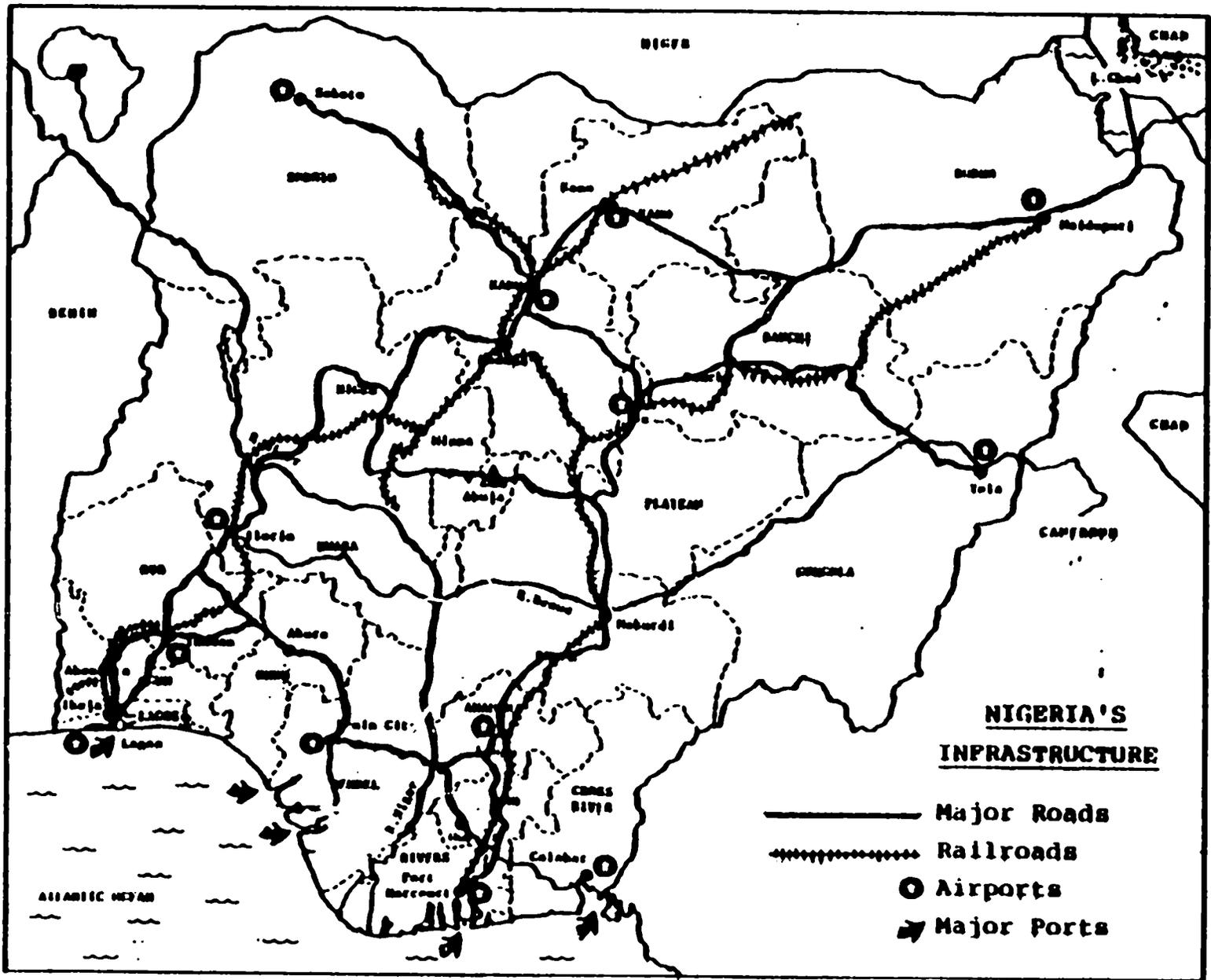
- Railroads There are about 3,500 km. of small gauge railroads in Nigeria although some of the lines are not working. Passenger rail service to some northern cities has improved in the last year.

- Telecommunications Telecommunications in Nigeria are improving. The domestic phone system is unreliable because of poor maintenance, but has slowly been brought back into service. Large contracts to extend and improve the telecommunications network have been awarded. Local businessmen comment frequently that internal phoning is now easier. Many businesses depend on radios for business communication.

International telecommunications ironically, are better than internal telecommunications. Calls to Nigeria can be made with reasonable effort; calls originating in Nigeria are more difficult to place.

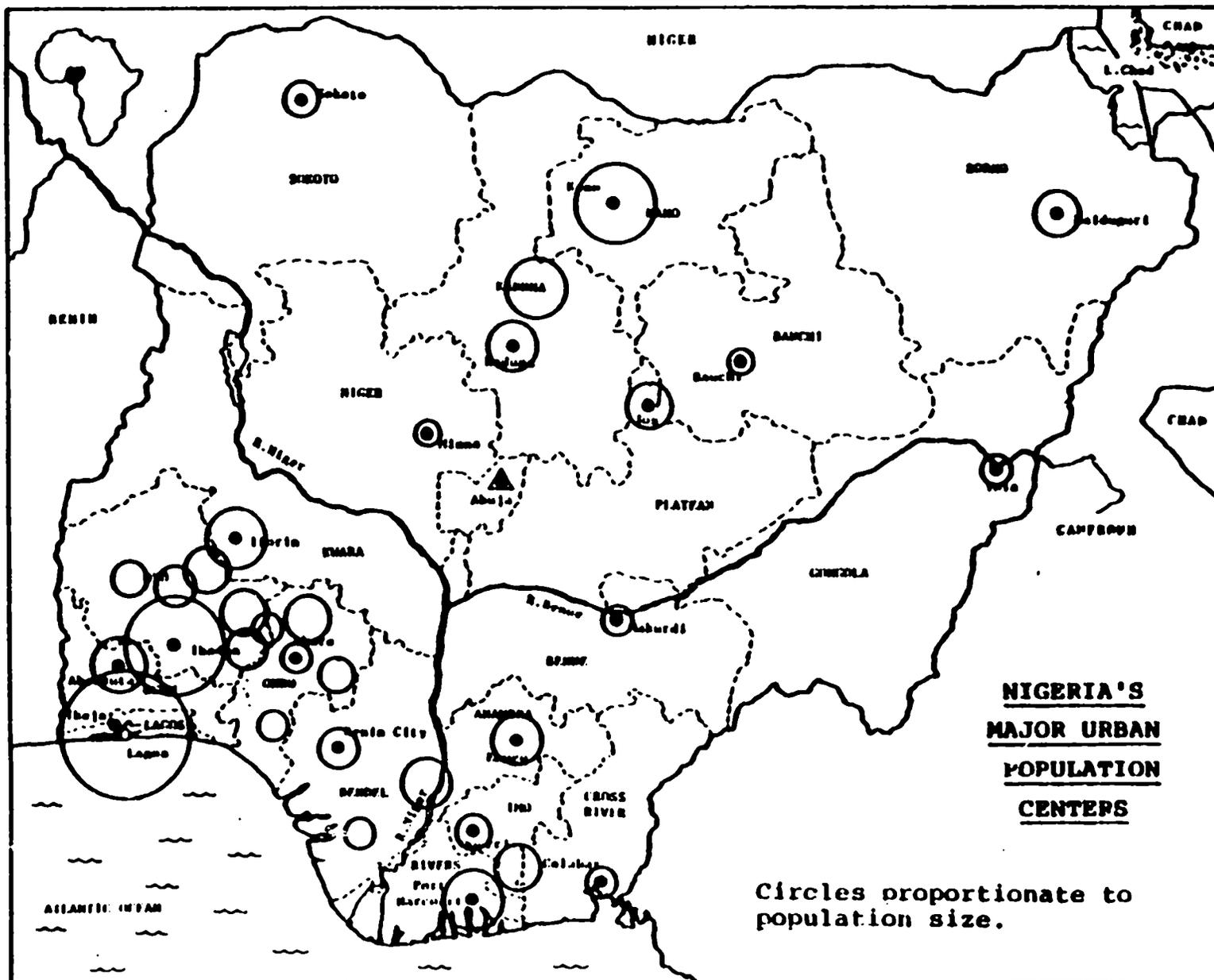
- Electricity Nigeria has problems with its electrical power. Blackouts are common and can last as long as a week. Voltage is erratic and can damage equipment without voltage regulators. Many companies and individuals install generators to provide a secondary source of electricity.

- Hotels Nigeria has several modern hotels although their quality and service is inconsistent. Reservations are no guarantee for a room. U.S. businessmen are strongly urged to arrange hotel accommodations through a local contact.



**NIGERIA'S**  
**INFRASTRUCTURE**

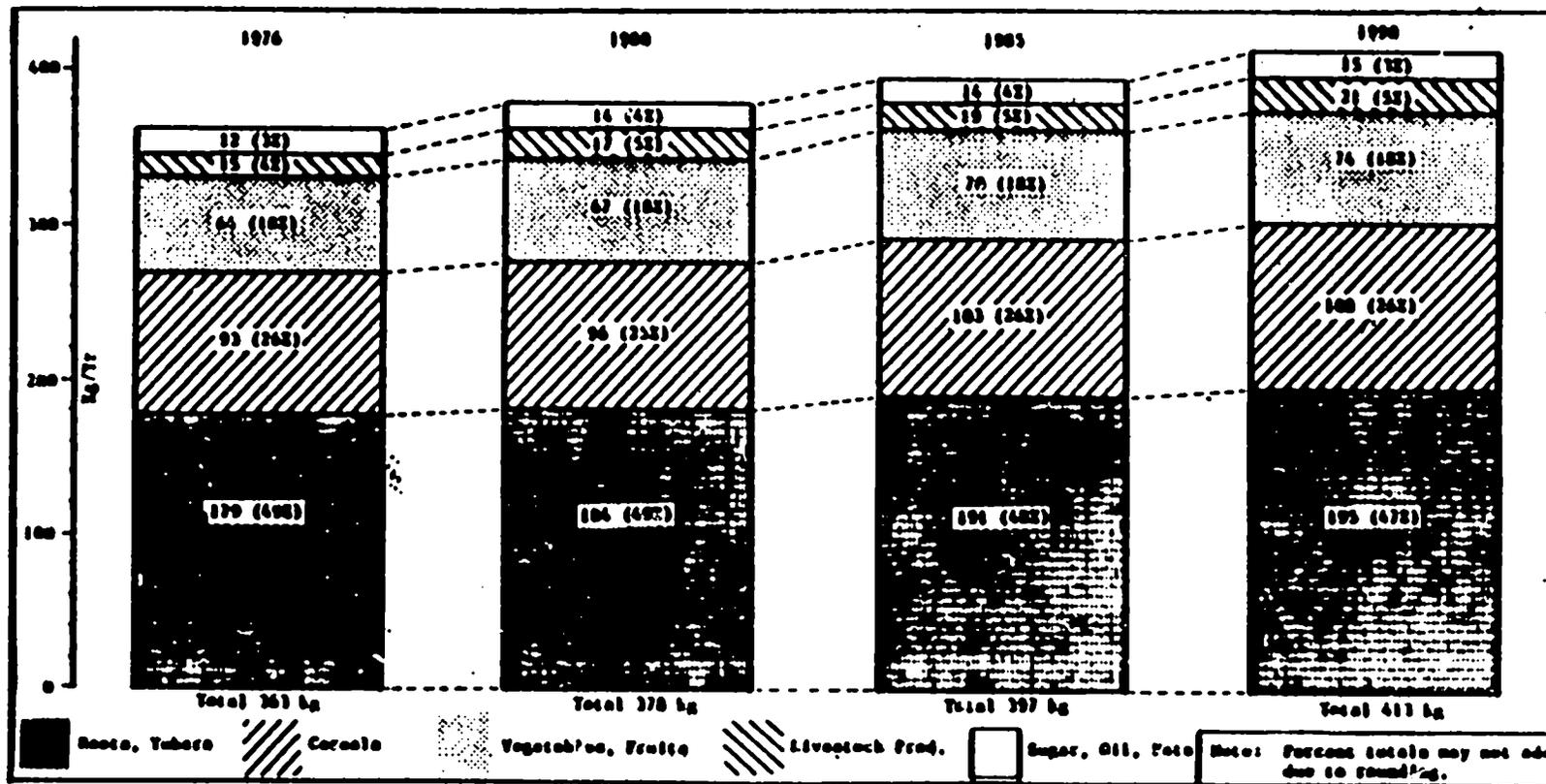
- Major Roads
- - - - - Railroads
- Airports
- ▲ Major Ports



## NIGERIAN DIET

THE NIGERIAN DIET IS BASED PRIMARILY ON ROOTS, TUBERS AND CEREAL (SORGHUM, MILLET, MAIZE, RICE AND WHEAT. ANIMAL PROTEIN ACCOUNTS FOR A SMALL PROPORTION OF THE DIET. OVERALL CONSUMPTION IS EXPECTED TO INCREASE AT 3.5% PER ANNUM BECAUSE OF A COMBINATION OF INCREASING POPULATION AND INCREASING PER CAPITA CONSUMPTION AS INCOMES RISE. THE OVERALL COMPOSITION OF THE NIGERIAN DIET IS NOT PROJECTED TO CHANGE SIGNIFICANTLY IN THE NEXT DECADE ALTHOUGH MOST EXPERTS FORESEE IMPORTANT SHIFTS IN DIET IN SPECIFIC GROUPS, NOTABLY THE URBAN POPULATION WHICH SHOULD CONTINUE TO EAT MORE RICE, BREAD AND MEAT. CERTAIN ANALYSTS BELIEVE THAT AS DOMESTIC LIVESTOCK INDUSTRY DEVELOPS THE NIGERIAN DIET WILL SHOW A STRONG SHIFT TO ANIMAL PROTEINS.

Average Annual Per Capita Consumption  
in Nigeria: Kg per year and percentage  
by Category. 1976 - 1990



## REVIEW OF ECONOMIC DYNAMICS AND DEVELOPMENT POLICIES

**NIGERIA'S NATURAL RESOURCES (LAND, OIL, AND PEOPLE) GIVE THE COUNTRY GREAT PROSPECT FOR DEVELOPMENT.**

- \* **LAND** NIGERIA IS BIG, 924,000 SQUARE MILES, THE SIZE OF TEXAS AND ARIZONA TOGETHER.
- \* **OIL** PROVEN RESERVES ARE OVER 20 BILLION BARRELS. DAILY PRODUCTION IS 2.0 MILLION BARRELS A DAY AND PROVIDES SIGNIFICANT ANNUAL FOREIGN EXCHANGE (\$25 BILLION IN 1980).
- \* **PEOPLE** NIGERIA HAS AN ESTIMATED POPULATION OF 80 MILLION. THIS UNDERPINS THE LARGEST MARKET IN AFRICA.

**GOVERNMENT POLICIES HAVE FAVORED MANUFACTURING AND SERVICES OVER AGRICULTURE, UPON WHICH NEARLY 70% OF THE POPULATION STILL DEPENDS. GROWTH, WHILE HIGH OVERALL, HAS BEEN UNEVENLY DISTRIBUTED BETWEEN THE URBAN MINORITIES AND THE RURAL MAJORITY. ANNUAL PER CAPITA INCOME NOW STANDS AT OVER \$500 ON AVERAGE, BUT MOST RURAL NIGERIANS STILL SURVIVE ON \$100 PER YEAR.**

**NIGERIA'S ECONOMY IS NOW FUNDAMENTALLY GEARED TO OIL, WHICH GENERATES NEARLY 45% OF THE GDP. AGRICULTURAL PRODUCES LESS THAN 23% OF THE GDP DESPITE THIS SECTOR'S OVERWHELMING IMPORTANCE IN EMPLOYMENT.**

- \* Nigeria is a \$50 billion economy. Among its 80 million people, per capita income is about \$500. The largest country on the African continent, its income is rising 6% annually, fueled privately by revenues generated from the petroleum sector. Nigeria is in a similar position to other countries receiving sudden infusions of oil wealth: the public and private economic managers have had difficulty in achieving a balanced structural adjustment. Agriculture has declined.

- During the decade of the 70's the government led the economy while the role of the private sector was sluggish. This was due in large part to involuntary transfer of savings from the private to public sector because of inflation and insufficient credit for the private sector.
- Nigeria had difficulty converting oil-generated foreign exchange into modernization of its agriculture and manufacturing sectors.
- Like Mexico, Nigeria has discovered that revenues from oil, unless spent on productive imports or deposited overseas, fosters inflation and therefore distorts the cost structure of agriculture.
- Agricultural performance in the 1970's was poor, barely growing at one percent. While the great Sahelian drought of 1972 and 1973 was partly at fault, government neglect of this sector was the primary cause. Rural feeder roads deteriorated and distribution systems, especially of inputs, were not developed. Relative farm prices shifted in favor of urban consumers. Rural income declined relative to urban income, causing urban migration.

Breakdown of Nigeria's Gross Domestic Product--1977

<u>ORIGIN OF GOODS AND SERVICES</u>	<u>NAIRA BILLION</u>	<u>%</u>
Mining (Oil) & Quarrying	6.89	44.6
Agriculture	3.49	22.6
Distribution	1.07	6.9
Government	1.04	6.7
Construction	0.94	6.1
Manufacturing	0.75	4.9
Education	0.45	2.9
Transport & Communication	0.37	2.4
Other Services	0.23	1.5
Health	0.15	1.0
Electricity & Water	0.06	0.4
<b>TOTAL GDP</b>	<b>15.44</b>	<b>100</b>

SOURCE: IMF Financial Statistics

Summary of Key Macroeconomic Indicators for  
the Nigerian Economy

	<u>Constant GDP at Market Prices</u> Naira Billion	<u>Constant Agricultural GDP at Factor Costs</u> Naira Billion	<u>Foreign Reserves (Net)</u> Naira Billion	<u>Inflation Rate</u> %	<u>Domestic Investment</u> Naira Billion (Constant Prices)
1974	13.2	3.4	3.5	13.4	1.9
1975	14.4	3.5	3.6	33.0	2.4
1976	14.3	3.4	3.3	22.0	3.6
1977	15.9	3.5	2.9	21.5	4.6
1978	16.7	3.6	1.2	16.6	5.8

SOURCES: Central Bank, Federal Office of Statistics

## INFLATION

INFLATION IN NIGERIA IS NOW AVERAGING 25% TO 30% ANNUALLY. MUCH OF THE PRICE INDEX RISE HAS BEEN, AND IS LIKELY TO BE, FUELED BY FOOD PRICE RISES.

- \* Since most Nigerians spend 50% or more of their incomes on food, the consumer price index (CPI) is heavily based on food costs. During the 1970's food prices rose 500%.

### Nigeria Inflation (1970-1977) (1960=100)

	<u>All Items</u>	<u>Food (48%)</u>	<u>Other (52%)</u>
1970	150	164	138
1971	174	211	140
1972	179	217	145
1973	189	224	158
1974	214	259	174
1975	287	367	213
1976	348	465	240
1977	415	575	265

Source: Central Bank and IMP Statistics

- \* Food inflation, especially in urban areas, is likely to be an important economic management issue of this decade.

## INVESTMENT POLICY

DURING THE PAST DECADE, NIGERIA EMBARKED ON A MASSIVE CAPITAL EXPENDITURE PROGRAM. YET, WHILE CURRENT EXPENDITURE ALLOCATIONS INCREASED THREEFOLD, BUDGETED CAPITAL ALLOCATIONS ONLY DOUBLED. (ACTUAL CAPITAL EXPENDITURES WERE 85% HIGHER DUE TO THE POST-1973 OIL BOOM.)

THE SECTOR BREAKDOWN OF ACTUAL THIRD PLAN EXPENDITURES REFLECTS THE LOW PRIORITY GIVEN TO AGRICULTURE BY NIGERIAN PLANNERS IN THE EARLY 1970'S.

### Distribution of Federal Capital Expenditures For Selected Categories

	<u>Third Plan</u> <u>Allocation</u>	<u>Actual Investment</u> <u>(1975-1978)</u>
	<u>(Percent of Total)</u>	
Agriculture	6.5	2.5
Manufacturing	19.0	14.0
Power	5.0	3.0
Transport	27.5	28.1
Education	7.5	10.9

## NIGERIA'S POLITICS SINCE INDEPENDENCE

SINCE INDEPENDENCE IN 1960, NIGERIA HAS HAD A TURBULENT POLITICAL HISTORY. THERE HAVE BEEN THREE MAJOR POLITICAL PERIODS SINCE INDEPENDENCE: THE FIRST REPUBLIC, MILITARY RULE AND THE CURRENT SECOND REPUBLIC. THE FIRST TWO PERIODS ARE BRIEFLY SUMMARIZED BELOW. THE CURRENT GOVERNMENT IS EXAMINED IN GREATER DETAIL IN THE NEXT SECTION.

### The First Republic (1960-1966)

- Independence gained on October 1, 1960, from the United Kingdom.
- The country was divided into three regions, North, East and West. Each region had a government. These regions were coordinated into a federation headed by a central government in Lagos.
- Power in the Federal Legislature was held by two political parties, the NPC and the NCNC. The Action Group formed the opposition although it later split into two factions.
- The First Republic was characterized by early infighting and competition between different political factions. One result of this activity was the formation of a new Mid-West Region.
- In October, 1963, Nigeria became a Federal Republic but remained a member of the Commonwealth.

- A general election was held in 1964, but no party won a majority. A consolidation of political parties resulted in a ruling coalition known as the Nigerian National Alliance and an opposition coalition known as the United Progressive Grand Alliance.
- To try to ease political frictions which threatened to break up the country, a cabinet which drew from all political parties was formed.
- Local elections were held in 1965 after the national elections in 1964. These elections were typified by confusion and strife, notably in the Western Region where rioting broke out.
- The turmoil of Nigeria's first five years prompted a group of young army officers to topple the civilian government. In this coup, several leading politicians and army officers were killed.

#### The Military Government (1966-1979)

- For the next thirteen years Nigeria was ruled by a sequence of three military governments. Although the military governments replaced the civilian government in 1966, one should note that the military continued to a great extent to govern through the civilian civil service and subsequently voluntarily returned power to the Nigerian people. Some facts about each of the military regimes are listed below.

### First Regime (January-July 1966)

- General Ironsi became Head of State
- The Constitution was suspended, and military governors were appointed to each region
- Constitution reforms were proposed which would abolish the regional governments in favor of a strong central unitary government.
- Riots ensued in certain parts of the country in protest of the proposed changeover to unitary rule.
- The first regime ended with a coup d'etat by another group of army officers. General Ironsi was killed.

### Second Regime (July 1966-July 1975)

- General Gowon became Head of State
- The Federal System of government was restored in August, 1966.
- Lt. Col. Ojukwu of the Eastern Region objected to Gowon's appointment to head of the army and Federal Government.
- Violence against Easterners, primarily Ibos, coupled with the overall dissatisfaction in the Eastern Region with events in the country led to the secession of that region from the Federation. The breakaway region called itself the Republic of Biafra.

- General Gowon announced the creation of twelve states from the former four regions as a means of meeting demands for more local control and trying to forestall the secession of the East.
- What began in June 1967 as a police action to reunify the country broke out into full scale war later in 1967 when "Biafra" invaded the Mid-West State.
- The Civil War lasted for two and a half years, and like all such wars caused much suffering and death.
- The country was reunified in 1970 after the surrender of the "Biafrans". Efforts at national reconciliation and reconstruction of the war torn areas were implemented.
- Gowon's government published a nine point plan to return the country to civilian rule by 1976 and to bring peacetime prosperity.
- The government later announced a delay in its plans to return to civilian rule by 1976. This action when added to overall dissatisfaction with the status quo--notably because of corruption and abuse of office of some members of Gowon's government--precipitated a bloodless coup in July 1975.

### Third Regime (July 1975–October 1979)

- General Muhammed was Head of State from July 1975 to February 1976.
- Measures were taken to rid the country of corruption and waste.
- In February 1976, the government restructured the country into nineteen States headed by Military Governors.
- A 50-man Constitution Drafting Committee for returning the country to civilian rule by October, 1979, was created. (This deadline was met.)
- Muhammed was killed in February 1976 in an aborted coup attempt. He was replaced by his Chief of Staff, General Obasanjo, who remained Head of State until civilian government was restored.
- Obasanjo continued the economic policies initiated under Muhammed.
- In 1977 the local Government system was reformed, and a Constituent Assembly was inaugurated to debate and adopt the constitution drafted by the Committee.
- In 1978, all Military Governors were replaced with Military Administrators to prepare the withdrawal of the army from political life.
- In July and August 1979, elections were held for State and Federal executives and legislatures, and the new government was inaugurated on October 1, 1979.

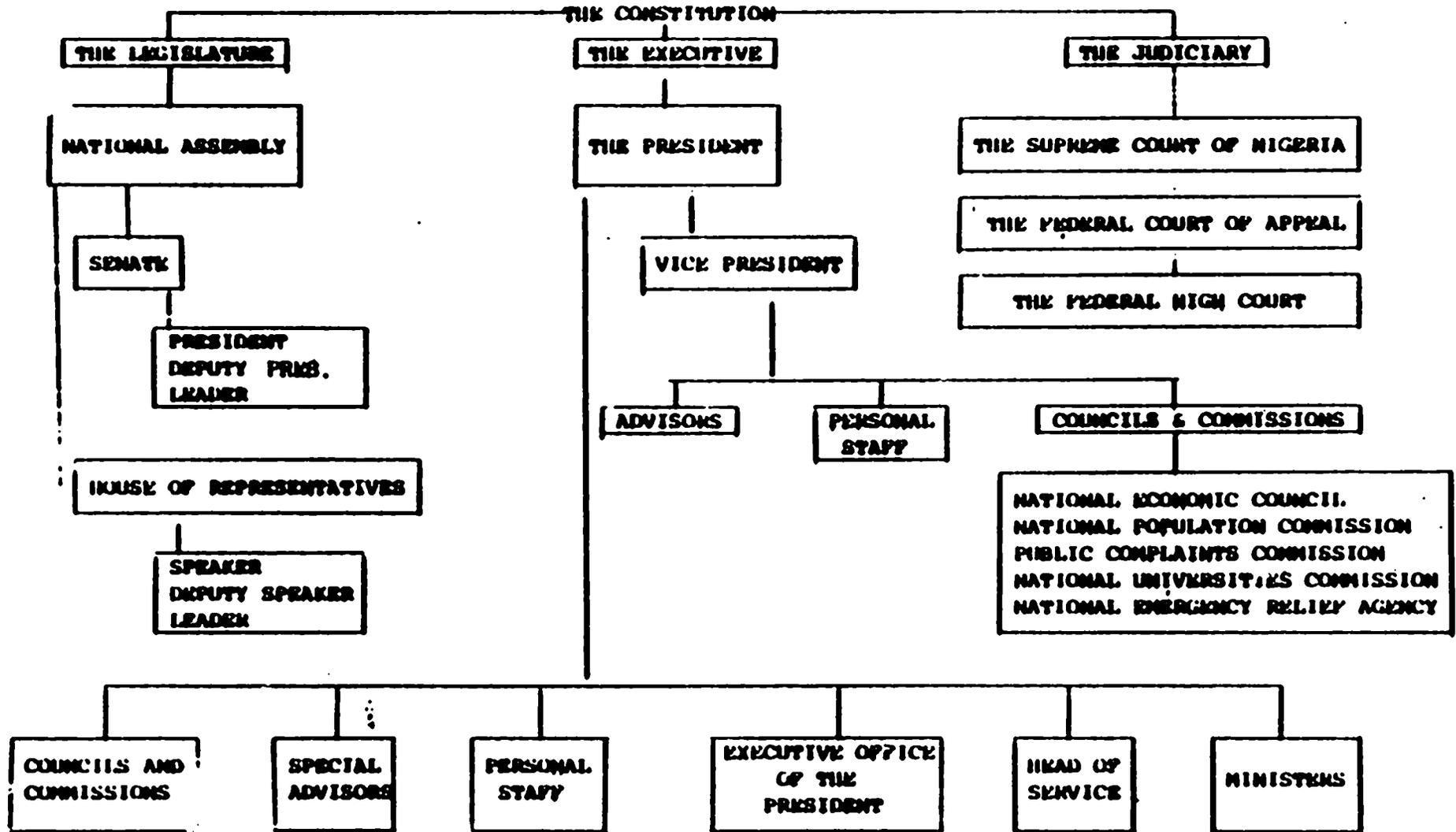
## CURRENT POLITICS

IN OCTOBER 1979, NIGERIA RETURNED TO CIVILIAN GOVERNMENT AFTER 14 YEARS OF MILITARY RULE. ALHAJI SHEHU SHAGARI OF THE NATIONAL PARTY OF NIGERIA (NPN) WON 34% OF THE VOTE. A WORKING ALLIANCE WAS FORMED WITH THE NIGERIAN PEOPLE'S PARTY (NPP) WHICH PROVIDED SUFFICIENT BASIS FOR THE FORMATION OF WORKING MAJORITIES IN THE HOUSE AND SENATE. THE POLITICAL SYSTEM IN NIGERIA IS MODELED AFTER THE U.S. FEDERAL SYSTEM. CURRENT POLITICAL ACTIVITY IN NIGERIA FOCUSES ON THE DELINEATION OF STATE AND FEDERAL POWER. THE DEBATE INCLUDES ISSUES OF FINANCE, LEGAL JURISDICTION AND COORDINATION. THE CURRENT GOVERNMENT IS RECEPTIVE TO FOREIGN INVESTMENT. IT IS LIKELY THAT FUTURE GOVERNMENTS WILL ALSO WELCOME FOREIGN BUSINESSMEN.

1. The election in 1979 was controversial. It included close elections for certain seats and court challenges to power. In all cases, the decisions by the courts were accepted peacefully. The election was held according to a timetable set by a previous military government.
2. The first year of the Shagari government has been marked by attempts to build a consensus between the states and to promote the concept of national unity, while retaining the separation of powers at the national level and local initiative at the state level.
3. The current system of government appears appropriate for a country with such diversities as Nigeria. The system provides for representation of the various political and ethnic interests. (One should note that the government is trying to deemphasize tribal distinctions and to shift loyalties to the states.) It also has given each of the five parties control of at least one state government, as well as some representation in both Houses of the National Assembly.
4. Sensitive to the broad range of interests represented in Nigeria's 19 states, the Shagari government has moved slowly and quietly in exerting Federal authority. States controlled by opposition parties are critical of the Federal Government but nevertheless operate within the federal structure.

5. The national budget and revenue sharing formula is the current focal point for the issue of state versus federal prerogatives.
6. The election in 1983 is on the minds of many politicians. Several contenders for the Presidency have already announced their candidacy. The Shagari government appears to be sensitive to the fact that it faces an election in two years and is anxious to develop a favorable performance record.
7. Some of the political news about Nigeria covered in the U.S. papers in the future will probably not be favorable as Nigeria goes through political growth pains. However, Nigerians stress that domestic politics should not affect the investment climate. They point out that even during the civil war and the military regimes, foreign-owned businesses operated with a minimum of disruption. It is probable that subsequent governments will continue to welcome business and foreign investment in Nigeria, and will attempt to facilitate business operations and will honor the legal commitments of previous regimes.
8. Nigeria has a mixed economy. Combining government (State and Federal) ownership of much business with a great deal of private capital enterprise. Nigerians are natural entrepreneurs, and their sense of individualism and initiative gives them a spirited interest in establishing trading relationships with the U.S. and any other country that can efficiently provide goods and services needed in Nigeria.
9. Nigeria has no external threats to its internal security.

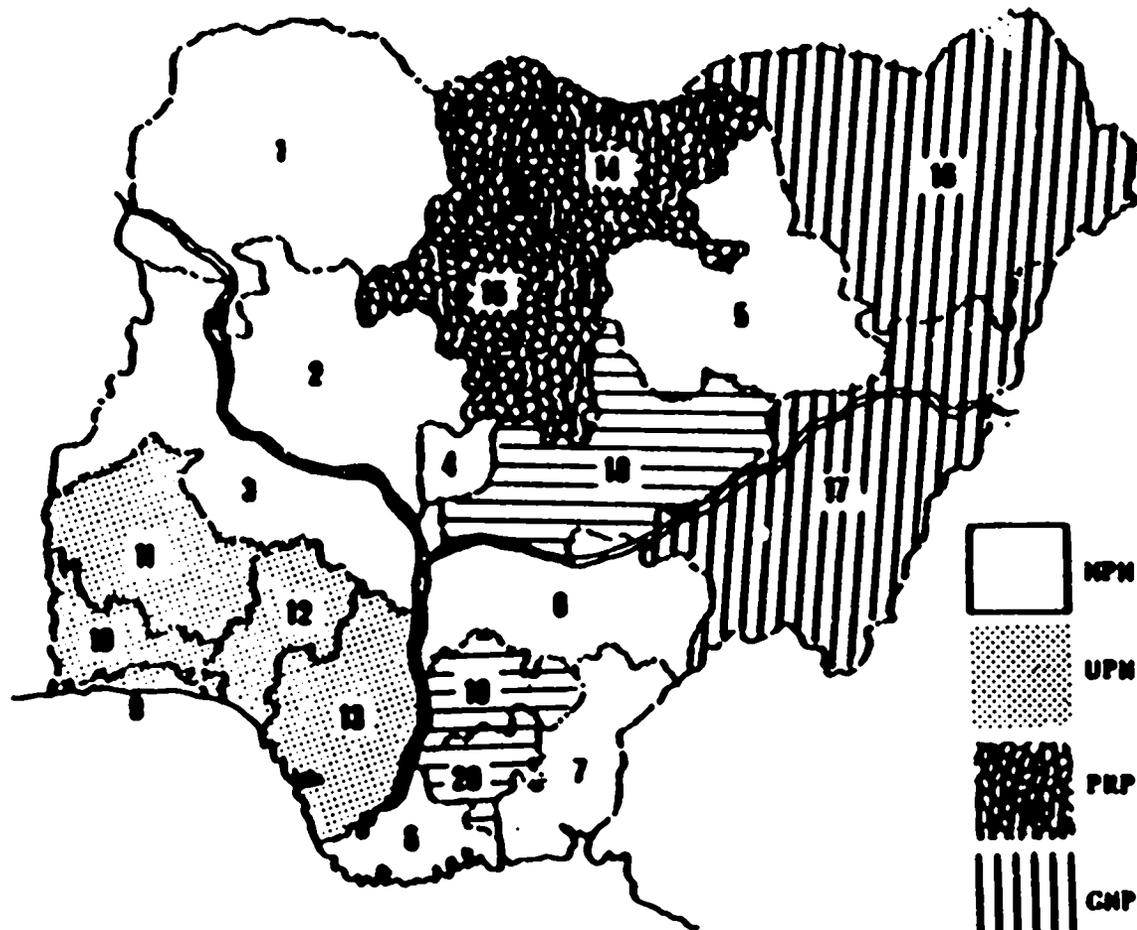
ORGANIZATION CHART OF THE  
FEDERAL GOVERNMENT OF NIGERIA



## POLITICAL MAP OF NIGERIA

THE NATIONAL PARTY OF NIGERIA (NPN) AND THE UNITY PARTY OF NIGERIA (UPN) ARE THE LARGEST POLITICAL PARTIES IN NIGERIA. THE NPN HAS FORMED A WORKING ALLIANCE WITH THE NIGERIAN PEOPLES PARTY (NPP). THE GREAT NIGERIAN PEOPLES PARTY (GNPP) AND THE PEOPLES REDEMPTION PARTY (PRP) COMPLETE THE LIST OF RECOGNIZED POLITICAL PARTIES.

### Political Map of Nigeria



	<u>STATE</u>	<u>PARTY</u>	<u>% VOTE FOR WINNING PARTY</u>
1	SOKOTO	NPN	75%
2	NIGER	NPN	60%
3	KHARA	NPN	51%
4	FED. DISTRICT	-	-
5	BAUCHI	NPN	55%
6	BENUE	NPN	60%
7	CROSS RIVER	NPN	60%
8	RIVERS	NPN	65%
9	LAGOS	UPN	80%
10	OGUN	UPN	93%
11	OYO	UPN	85%
12	ONDO	UPN	94%
13	BENDEL	UPN	53%
14	KANO	PRP	79%
15	KADUNA	PRP	45%
16	BORNO	GNPP	55%
17	CONGOLA	GNPP	56%
18	PLATEAU	NPP	60%
19	ANAMBRA	NPP	80%
20	IMO	NPP	80%

## THE 1981 BUDGET

PRESIDENT SHAGARI'S BUDGET PROPOSAL FOR 1981 CALLS FOR RECURRENT EXPENDITURES OF 3.3 BILLION NAIRA AND A CAPITAL BUDGET OF 9.0 BILLION NAIRA. THE PERCENTAGE OF THE CAPITAL BUDGET ALLOCATED TO AGRICULTURE INCREASED FROM 11 TO 13%.

1. The Federal Government's proposal for revenue allocation, as recommended by a special commission, is as follows:

Federal Government	55.0%
State Governments	34.5%
Local Government	8.0%
Development of Federal Capital Territory	2.5%

2. Although agriculture is listed as one of the priority programs, the percentage of the Capital Budget allocated to agriculture increased by only 2%. Total allocation to agriculture is proposed 1.162 Naira billion. Although the exact breakdown of this amount is not presented, two specific allocations were cited:

Nigerian Agricultural and Cooperative Bank	40 Million Naira
Agricultural Credit Guarantee Scheme	32 Million Naira

3. The government states in its budget proposal that producer prices will be "sufficiently attractive" to stimulate production.