2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

NIGERIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production, and Employment:			
Nominal GDP 2/	33.2	34.4	35.4
Real GDP Growth (pct)	2.4	2.7	3.0
GDP by Sector (pct):			
Industrial 3/	18.2	17.3	16
Agriculture	40.1	40.7	27
Services	31.5	32.7	34
Government	10.9	11.1	22
Per Capita GDP (US$) 4/	250	260	260
Labor Force (Millions)	40.0	40.1	N/A
Unemployment Rate (pct) 5/	3.9	3.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	23.3	31.4	N/A
Price Inflation	10	6.6	8.0
Exchange Rate 6/ (Naira/US$)	81.8	98.2	104
Free Market Rate	85	101	110
Balance of Payments and Merchandise Trade:			
Total Exports FOB 7/	9.0	12.9	18.7
Exports to U.S. 8/	4.2	4.4	7.9
Total Non-oil Exports 9/	0.4	0.2	0.2
Total Imports CIF 7/	9.9	8.6	12.5
Imports from U.S. 8/	0.8	0.6	0.5
Trade Balance 7/	(0.95)	4.3	6.2
Balance with U.S. 8/	3.4	3.7	7.4
Current Account Deficit/GDP (pct)	(11.6)	0.4	N/A
External Public Debt	28.7	28.0	31.0
Debt Service Payments/GDP (pct)	1.4	1.5	1.7
Fiscal Deficit/GDP (pct)	4.7	8.4	N/A
Gold and Foreign Exchange Reserves	7.1	5.5	8.0
Aid from U.S. (US$ millions)	8	37.5	108
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 figures, except exchange rates, are estimates based on available Central Bank of Nigeria (CBN) monthly data, October 2000 (unless otherwise noted).

2/ GDP at factor cost. Conversion to U.S. dollars at CBN rate of 81.8 per dollar for 1998, and 98.2 naira per dollar for 1999. GDP for 2000 based on 4 percent estimated growth. All 2000 GDP figures based on IMF projections.

3/Total GDP for the Industrial sector (includes oil/gas, manufacturing, and mining.) Percentage changes calculated in local currency.

4/ Source: IBRD.

5/ Real unemployment is estimated at 50 percent by unofficial sources. According to the CBN, official statistics are based on the number of unemployed registered with the Federal Ministry of Labor.

6/ Annual average Interbank Foreign Exchange Market Rate.

7/ 2000 figures are IMF projections.

8/ 2000 figures are January-September.

9/ Source: Federal Ministry of Commerce; 2000 figure is January-June

1. General Policy Framework

With an estimated 120 million people, Nigeria is Africa's most populous nation. It is also the United States' fifth largest oil supplier. Although Nigeria potentially could offer investors a low-cost labor pool, abundant natural resources, and the largest domestic market in sub-Saharan Africa, its economy remains stagnant, its market potential unrealized. The country suffers from collapsing infrastructure, possesses an inconsistent regulatory environment, and enjoys a well-deserved reputation for endemic crime and corruption. Following decades of misrule, Nigeria's transportation, communications, health and power public services are a mess. Once a breadbasket, Nigeria has witnessed a severe deterioration of its agricultural sector. Social, religious, and ethnic unrest, and a lack of effective due process, further complicate business ventures in Nigeria. Moreover, the government remains highly over-reliant on oil exports for its revenue and thus subject to the vagaries of the world price for petroleum. Investors must carefully research any business opportunity and avoid those opportunities that appear "too good to be true."

Amid the dire news, however, there is a glimmer of hope. The democratically elected civilian government of President Obasanjo, inaugurated in May 1999, has embarked on a program to improve the country's economic performance and refurbish its image. Ties have been reestablished with the international financial institutions and donor governments. Special panels have been established to investigate past government contracts and allegations of corruption. President Obasanjo has promised accountability and respect for the rule of law, and after years of harsh military rule, the impact on the public of this promise is dramatic.

To strengthen the economy, the Obasanjo administration has embarked on an extensive reform program. Government controls over foreign investment are gradually loosening up. Tariffs on numerous products have been reduced and the ban on many specific imports such as wheat and frozen chicken lifted. Previous government decrees that inhibited competition or conferred monopoly powers on public enterprises in the petroleum, telecommunications, power, and mineral sectors have been repealed or amended. Meanwhile, the promised privatization of government enterprises has begun, albeit at a very slow pace.

In 1999 the Nigerian government ran a reported budget deficit of around eight percent, a result of excessive spending prior to the transition to civilian rule in May. This follows reported budget surpluses in the mid-1990s, when the military government neglected social spending and infrastructure maintenance. An agreement reached with the IMF in August 2000 called for the reduction of this deficit through, among other actions, the eventual elimination of price subsidies, the shelving of white elephant government projects, and reduced revenue leakage due to corruption. An attempt to reduce fuel subsidies in June 2000 had met with stiff popular resistance and was rolled back. Due to significantly higher than anticipated revenues from oil exports, the 2000 budget deficit decreased to about 0.5 percent of GDP.

In previous years, monetary policy was driven by the need to accommodate the government's budget deficit and a desire to reduce its inflationary impact on the economy. In 1999, the deficit was financed mainly through the issuance of treasury bills, absorbed entirely by the Central Bank of Nigeria (CBN), and deferred capital expenditures. By the end of 1999, CBN holdings of government domestic debt amounted to 66 percent. With monetization of the debt, money supply has risen sharply with the corollary impact on inflation. For 2000 (through September) the consumer price index rose over 15 percent.

2. Exchange Rate Policy

In 1999 the Nigerian government abolished the long-standing dual exchange rate mechanism that had favored government cronies. Instead, the Central Bank utilizes a single interbank foreign exchange market rate for all transactions. Under this rate, commercial banks, oil companies, and the CBN can transact foreign exchange. Throughout 2000 the lively parallel market placed about a five percent discount on the Nigerian Naira, although this discount spiked briefly at the end of the year due in part to higher than average liquidity in the banking system. Companies and individuals can hold domiciliary accounts in private banks, and account holders have unfettered use of the funds. Foreign investors may bring capital into the country to finance investments, and remit dividends without prior Ministry of Finance approval. Currency houses also offer foreign exchange up to $10,000 per transaction.

3. Structural Policies

Although the Nigerian government maintains a system of “incentives” to foster the location of particular industries in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials, in reality this program has done little to benefit Nigeria's economic development. "Pioneer" industries may enjoy a non-renewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area. In addition, a number of Export Processing Zones (EPZs) have been established, most notably in northern Nigeria in Kano and southeastern Nigeria in Calabar. Currently, at least 75 percent of production from an EPZ enterprise must be exported, although this percentage requirement may decrease if proposed regulatory changes are implemented. Unfortunately, to date only a small amount of exports, mostly to West African locations, has been registered from Nigeria's EPZs.

In 1995 Nigeria liberalized its foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to existing joint ventures or production-sharing agreements. Foreign investors may buy shares of any Nigerian firm except those on a "negative list" (for example, manufacturers of firearms and ammunition and military and paramilitary apparel). Foreign investors must register with the Investment Promotion Commission after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits any nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

Criminal fraud conducted against unwary investors is a chronic problem in Nigeria. Called "419 fraud" after the relevant section of the Nigerian criminal code, these "advance-fee" schemes target foreigners and Nigerians alike through the mails, the internet, and fictitious companies. Despite improved law enforcement efforts, the scope of the financial fraud continues to bring international notoriety to Nigeria and constitutes a serious disincentive to commerce and investment. Companies and individuals seeking to conduct business with a Nigerian firm or individual should conduct the appropriate due diligence to ascertain they are not the victims of 419 crime.

4. Debt Management Policies

In 2000 Nigeria and the IMF agreed in principle to a new, precautionary $1 billion Standby Arrangement. However, Nigeria still must institute promised economic reform and maintain budgetary discipline to stay on its Standby targets. Despite the government's windfall revenue earnings from unexpectedly high world oil prices, Nigeria did not apply these additional funds to servicing its external, Paris Club debt and arrears of about $21 billion had been reached by mid-2000. According to the CBN, Nigeria's total stock of external debt at the end of 2000 stood at $ 28 billion. Discussions with the IMF and World Bank continue on a medium term economic program, and Nigeria is making some progress at meeting their criteria. Nigeria is expected to have its first review under the Standby in February 2001.

Agreement with the Paris Club is critical to the IMF program. In November 2000 Nigeria made its first appearance at the Paris Club in almost a decade and one month later reached tentative agreement with the creditor governments to reschedule over $23 billion in debt through July 31, 2001. Nigeria agreed to pay the Paris Club $700 million in 2000 and $1 billion in 2001. Roughly $20 billion of Nigeria's debt will be rescheduled over eighteen years with three years grace, while the remainder of Nigeria's debt would be rescheduled over the next five to nine years. Unless creditor governments decide that Nigeria has not made satisfactory debt payments or has not met IMF targets, the Paris Club agreement will enter into force on April 15, 2001.

Nigeria is the largest debtor country currently due to benefit from the IMF/World Bank's Highly Indebted Poor Countries (HIPC) Initiative. Under the HIPC program, beneficiary countries that maintain economic reform programs would see their debt burdens reduced significantly through debt relief from multilateral and bilateral creditors.

As a result of Nigeria’s 1992 agreement with the London Club of commercial banks that gave Nigeria’s bank creditors a menu of options in reducing Nigeria's commercial debt, Nigeria was able to reduce its external commercial debt by $3.9 billion. Nigeria remains current on most of its multilateral bank debt. The accumulation of arrears on other debt (especially Paris Club official bilateral debt), which currently represents 70 percent of total debt stock, has kept external debt levels high.

5. Significant Barriers to U.S. exports

Initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange, the GON’s import bans on foodstuffs had been severely compromised by widespread smuggling, food shortages, and sharpened domestic prices for the protected items and domestic substitutes**.** Although import bans on most commodities have been lifted in recent years, the GON has not officially gazetted some of the ban eliminations while those that have been often are not being respected by Nigerian customs. The inconsistent, non-transparent application of rules by GON agencies poses a significant challenge for U.S. exports. Import restrictions still apply to aircraft and oceangoing vessels.

While the GON continues to implement protectionist policies, highlighted by prohibitive import duties of up to 150 percent, tariff changes announced by the GON in December 2000 reduced tariffs on a broad range of imported items but raised tariffs on some agricultural commodities already produced in Nigeria. Immediately after lifting its longtime ban on corn imports, the GON placed a 70 percent duty on this grain. In conjunction with other surcharges and taxes, the effective tariff on corn imports is more than 80 percent. Although Nigeria is the most important market in Sub-Saharan Africa for U.S. wheat, U.S. wheat exports fell in 1999 and 2000 following a doubling of Nigeria’s import duty from 7.5 to 15 percent. While the tariff on Durum wheat was halved from 60 to 30 percent, the effective import duty on rice rose to approximately 80 percent. Soybeans, sunflower seed and cottonseed oil, apples, fruit juices, and woven fabrics also face stiffer tariffs following the December 2000 changes. The import of bulk vegetable oil has been banned.

Tariffs were reduced significantly to as low as 5 percent on such items as non-combed cotton, synthetic filament yarn, newsprint, textile and industrial machinery, vehicles, tractors, and chemicals. Cement imports must be imported in bulk only of not less than 10,000 mt or the full capacity of the carrying vessel.

Nigeria is a long-standing member of the World Trade Organization (WTO). Its current tariff structure reflects revisions aimed at narrowing the range of custom duties, increasing rate coverage in line with WTO provisions, and decreasing import prohibitions. In general, Nigeria continues to reduce its tariffs and duties, although some excise duties eliminated in 1998 have been restored for certain goods such as cigarettes, cigars, tobacco, and spirits. For 1999 a 25 percent import duty rebate that was granted importers in late 1997 was abolished.

Nigeria’s ports continue to be a major hindrance for imports. Importers bemoan excessively long clearance procedures, petty corruption, and arbitrary application of Nigerian regulations. All unaccompanied imports and exports regardless of value require pre-shipment inspection (PSI) and must be accompanied by an import duty report (IDR). The Nigerian Customs Service will confiscate goods arriving without an IDR. In addition, all goods are assessed a one-percent surcharge to cover the cost of inspection. In January 2001, the GON announced that all imported containers and vehicles enter Nigeria through its ports. This policy was implemented in an attempt to halt the transshipment of vehicles and products from neighboring countries.

The Obasanjo Administration has pledged to practice open and competitive contracting for government procurement, and anti-corruption is an energetic and central plank of the current government's procurement policies. However, deed has been somewhat slower to accomplish than rhetoric. Foreign companies incorporated in Nigeria are entitled to national treatment, and tenders for government contracts are published in Nigerian and international newspapers. (Proper precautions should be exercised by prospective contractors to avoid possible “419” problems). According to government sources, approximately five percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

On paper, the Nigerian Export Promotion Council (NEPC) administers export incentive programs, including a duty drawback program, an export development fund, tax relief and capital assets depreciation allowances, and a foreign currency retention program. The effectiveness of these programs for more than a limited number of beneficiaries is dubious. In 1999 Nigeria’s non-oil exports had fallen to an all time low of just $211 million, down from $406 million in 1998. This level rebounded somewhat in 2000 and will likely rise again in 2001 and tariffs on manufacturing components are slashed. The duty drawback or manufacturing in-bond program was designed to allow the duty free importation of raw materials to produce goods for export, contingent on the issuance of a bank guarantee. The performance bond is discharged upon evidence of product exportation and repatriation of foreign exchange. Though meant to promote industrial exports, these schemes have been burdened by inept administration, confusion among industrialists, and corruption, causing in some cases losses to those manufacturers and exporters who opted to use them.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Bern Convention. In 1993 Nigeria also became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. The Patents and Design Decree of 1970 governs the registration of patents, and the Standards Organization of Nigeria is responsible for issuing patents, trademarks, and copyrights.

Once conferred, a patent conveys an exclusive right to make, import, sell, or use the products or apply the process. The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, criminalizes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. This act was amended in 1999 to include video rental and security devices.

Although existing patent and piracy laws are considered reasonable, enforcement remains extremely weak and slow. Copyrighted material piracy is widespread and includes a large portion of the pharmaceutical market and virtually 100 percent of the Nigerian recordings and home video market. Companies rarely have sought trademark or patent protection in Nigeria because it is generally perceived as ineffective. Very few cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, while the few court decisions that have been rendered have been inconsistent. Most copyright cases have been settled out of court.

The recent deregulation of Nigeria’s television market has led to the creation of a number of broadcast and cable stations. Many of these stations utilize large satellite dishes and decoders to pull in transmissions for rebroadcast, providing unfair competition for legitimate public and private television stations.

Recently, Nigeria's active participation in international conventions has yielded positive results. Law enforcement agents occasionally do carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Moreover, some Nigerian companies, including filmmakers, have sought to protect their legitimate business interests by banding together in bringing suits against pirate broadcasters.

8. Worker Rights

a. *The Right of Association:* Nigerian workers may join unions with the exception of members of the armed forces, police force, or government employees of the following departments and services: customs, immigration, prisons, currency printing and minting, central bank and telecommunications. A worker engaged in an essential service is required under penalty of law to provide his employer 15 days' advance notice of his intention to cease work. Essential service workers include federal and state civilian employees in the armed services, and public employees engaged in banking, telecommunications, postal services, transportation and ports, public health, fire prevention, and the utilities sector. Employees working in an export-processing zone may not join a union for a period of ten years from the startup of the enterprise.

Under the law, a worker under a collective bargaining agreement may not participate in a strike unless his representative has complied with the requirements of the Trade Disputes Act, which include provisions for mandatory mediation and for referring the labor dispute to the government. The act allows the government in its discretion to refer the matter to a labor conciliator, arbitration panel, board of inquiry, or the National Industrial Court. The act also forbids any employer from granting a general wage increase to its workers without prior government approval. In practice, however, the act does not appear to be effectively enforced as strikes, including in the public sector, are widespread, and private sector wage increases are not submitted to the government for prior approval.

Nigeria has signed and ratified the International Labor Organization's (ILO) convention on freedom of association, but Nigerian law authorizes only a single central labor body, the Nigeria Labor Congress (NLC). Nigerian labor law controls the admission of a union to the NLC, and requires any union to be formally registered before commencing operations. Registration is authorized only where the Registrar of Trade Unions determines that it is expedient in that no other existing union is sufficiently representative of the interests of those workers seeking to be registered.

b. *The Right to Organize and Bargain Collectively:* Nigerian labor laws permit the right to organize and bargain collectively**.** Collective bargaining is common in many sectors of the economy. Nigerian law protects workers from retaliation by employers (i.e. lockouts) for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court. Trade unionists have complained, however, that the judicial system's slow handling of labor cases constitutes a denial of redress. The government retains broad authority over labor matters, and often intervenes in disputes it feels challenge its key political or economic objectives. However, the era of government appointed "sole administrators" of unions is now over, and the labor movement is increasingly active and vocal on issues seen to attest the plight of the common worker, such as deregulation, privatization, and the government's failure to advance its poverty alleviation program.

c. *Prohibition of Forced or Compulsory Labor:* Section 34 of the 1999 Constitution, and the 1974 Labor Decree, prohibits forced labor. Nigeria has also ratified the ILO convention prohibiting forced labor. However, there are occasional reports of instances of forced labor, typically involving domestic servants. The government has limited resources to detect and prevent violations of the forced labor prohibition.

d. *Minimum Age for Employment of Children:* Nigeria's 1974 labor decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be employed for more than eight hours per day. The decree allows the apprenticeship of youths under specific conditions. Primary education is compulsory in Nigeria, though rarely enforced. Actual enrollment is declining due to the continuing deterioration of public schools. Increasing poverty and the need to supplement meager family incomes has also forced many children into the employment market, which is unable to absorb their labor due to high levels of unemployment. The use of children as beggars, hawkers, or elsewhere in the informal sector is widespread in urban areas.

e. *Acceptable conditions of work:* Nigeria's 1974 labor decree established a 40-hour workweek, prescribed 2 to 4 weeks of annual leave, set a minimum wage, and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree states that workers who work on Sundays and legal holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. In May 2000 the federal government approved a new National Minimum wage for both federal and state employees. Under the approved wage, federal workers are to receive a minimum monthly wage (salary and allowance) of 7, 500 naira ($75) while state employees would receive 5,500 naira as a minimum monthly wage. The new wage review has, however, set many state governments and their employees on a collision course. While some states claim that they cannot afford the stipulated 5,500 naira labor unions and state workers insist their wages should be the same as those of federal workers. The last minimum wage review was carried out in 1998 by the Abubakar regime. The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents but enforcement of these laws by the ministry of labor is largely ineffective.

f. *Rights in Sectors with U.S. Investment:* worker rights in petroleum, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, transportation equipment, and other manufacturing sectors are not significantly different from those in other major sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		1,148
Total Manufacturing		65
Food & Kindred Products	(1)	
Chemicals & Allied Products	26	
Primary & Fabricated Metals	-1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		5
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		5
TOTAL ALL INDUSTRIES		1,375

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.