4 Nigeria

Razaq Lawal-Aluko

I. Introduction

A) Geography and Brief History

Nigeria is situated on the west coast of Africa on the shore of the Gulf of Guinea. It lies between latitudes 4degrees and 14 degrees North and longitudes 3 degrees and 15 degrees East. It is thus entirely within the tropics. It is bordered to the North by the Republics of Niger and Chad. It shares borders to the West with the Republic of Benin, while the Republic of Cameroon shares the eastern borders right down to the shores of the Atlantic Ocean which forms the southern limits of Nigeria. The approximate area of Nigeria is 923,768 square km nearly four times the size of United Kingdom or slightly larger than the America States of California, Oregon, Washington, and Maine combined. The about 800km of coast line confers on the country the potentials of a maritime power. Land is abundance for agricultural, industrial, and commercial activities.

Nigeria gained her independence from Britain on October 1, 1960 as a federation consisting of 3 regions; the Northern, Eastern and the Western with the Federal Territory of Lagos. On October 1, 1963 Nigeria became a Republic. Nigeria went through a civil war which lasted from 1967 to 1970 when the Igbo in the former Eastern region of the country declared secession and creation of the Republic of Biafra from Nigeria. The war years brought Nigeria to the world attention as some countries lent their support to Biafra and others to Nigeria. Since independence Nigerian has witnessed various forms of governments from civil democratic to military rule. The Military has dominated the scene of governance for more than two decades since 1960. The performance of the military has been succinctly described by Toyin Falola in his book titled " The History of Nigeria " and l quote " The Military rule has been devastating, with its coups and counter coups, lack of accountability and anti-democratic orientation". However, with effect from May, 1999 Nigeria came under a civil rule again after voluntary handover by the Military and the present government is headed by Chief Olusegun Obasanjo as the civilian president. Presently, Nigeria political structure is made up of 36 states with Abuja as the new Federal Capital Territory. There are three tiers of government that is Federal Government, State Government and Local Government. Each tier derives its functions from 1999 Constitution of the Federal Republic of Nigeria. The constitution stipulates a federal system headed by an executive president and an independent legislature and judiciary.

B) Population, Religion and Education

The population of the country is over 120 million people; the largest national population on the Africa continent. With this population, Nigeria is obviously the largest market in sub Sahara Africa with reasonably skilled and potential manpower for the efficient and effective management of investment projects within the country. The population is made up of about 434 pure ethnic groups with 395 languages spoken. Three of the ethnic groups; Hausa, Ibo and Yoruba are the major groups and they constitute 40 percent of the population. In fact about 10 ethnic linguistic groups constitute more than 80 percent of the population; the other large groups are Tiv, Ibibio, Ijaw, Kanuri, Nupe, Gwari, Igala, Jukun, Idoma, Fulani, Edo, and Urhobo. The last census which was held in 1991 reflects an unusual imbalance of male dominance over female at 51 percent male: 49 percent female. Moreover, the following population indices are of relevance: high growth rate of 3.2% per annum, this is affected by decreased in infant mortality rate and high fertility. High school age population- over 47% of the population are15 years and below. High child dependence ratio- one dependant to one worker for the age group 25-65 years. Large workforce- working age group 15-59 years is over 40 percent of the population. There has been rural-urban migration especially among the youths, contributing in part to decline in food production. Today, the rural-urban population ratio is put at 5.25 to 1 and it is estimated that 36% of the population live in 358 urban centers. Nigeria is the 7th most urbanized country in black Africa. As result of massive expansion in education sector, the quality of the Nigerian work force has changed over the years to include a large crops of highly trained personnel in mechanical, civil, electrical, electronics, chemical and petroleum engineering and biotechnics. There are at present over 30 federal and state universities. In addition, there are at least 20 federal and state polytechnics. The private universities are also coming up in recent times. Over 70,000 graduates are out every year. Disciplines apart from pure sciences, engineering and technology include social science, business studies (management, banking and finance), architecture, environment and urban management studies. Also a sizeable Nigerian population has been and is being trained outside the country in some of the best colleges in the United States, Canada, United Kingdom, Germany, France, Russia, Japan and China.

Religion is an important sensitive dimension of Nigeria society. The people practice either Islam, Christianity or traditional beliefs, with the leading representatives of either Islam or Christianity struggle to acquire political power. The role of religion in politics has become more visible, leading to controversy over whether the country should be secular or not or whether it should integrate the Sharia (the Muslim legal system) into its judicial system. Many take religion very seriously and this is evidenced by government subsidized annual pilgrimages to Mecca or the holy land, daily worship, revivalism and aggressive conversion.

C) Climate

There are two basic seasons; wet season which lasts from April to October; and the dry season which lasts from November till March. The dry season commences with Harmattan, a dry chilly air that till February and is associated with lower temperatures, a dusty and hazy atmosphere brought about by the North-Easterly winds blowing from the Arabian peninsular across the Sahara; the second half of the dry season, February-March, is the hottest period of the year when temperatures range from 33 to 38 degrees centigrade. The extremes of the wet season are felt on the south eastern coast where annual rainfall might reach a high of 330 cm, while the extremes of the dry season, in aridity and high temperatures are felt in the northern part of the country.

D) Vegetation

With the pattern of rainfall distribution, a wetter south and drier north, there are two broad vegetation types: Forest and Savanna. However, the vegetation varies as we move from the south to the north of the country, running as near parallel bands east to west across the country. To the south of the country around the coastal areas, there exists mangrove forest and rain forest as we move inwards which spread through West to East. As we move away to the north we have savanna and in the extreme north ending with Sahel Savanna. There exists mountainous vegetation in isolated high plateau regions on the far eastern extremes of the country as in Jos, Mambilla and Obudu.

The savanna regions support the growth of grains, tubers, vegetables and cotton. Also, live stocks rearing such as cattle, horse, and goats are common, whereas the rainforest belt bears timber production and forest development, production of cassava, growing of fruit trees like citrus, oil palm, cocoa, and rubber among others.

E) Resources: Agricultural, Mineral and Marine

Nigeria is endowed with significant agricultural, mineral, marine and forest resources. Its multiple vegetation zones, plentiful rain, surface water and underground water resources and moderate climatic extremes allow for production of diverse food and cash crops. Over 60 percent of the population is involved in the production of food crops at subsistence level such as cassava, maize, rice, yams, various beans and legumes, soya bean, sorghum, ginger, onion, tomatoes, melon and vegetables. The main cash crops are cocoa, cotton, groundnuts, oil palm, and rubber. The extractions like cocoa flour and butter, rubber crumbs, vegetable oil, cotton fibre and yarn are exported and used in local industries. The rainforests are exploited for timber and wood production of various species.

The mineral deposits which are in commercial quantities include tin, coal, iron ore, gypsum, kaolin, phosphates, limestone, marble, and gold. Nigeria is the world largest producer of columbite, a source of rare elements niobium and tantalum. Oil and gas by value, are the most important minerals. They are exploited and produced in the Niger Delta basin and off-shore on the continental shelf and in the deep sea of the territorial waters. Nigeria has been a member of Organization of the Petroleum Exporting Countries (OPEC) since 1971. Nigeria was the fifth largest producer in OPEC in 1986 and estimated to have reserves of sixteen billion barrels, 2.23% of the world reserves.

F) Infrastructure

The country is well connected by a wide network of motorable all seasons roads, railways tracks, inland water-ways, maritime and with sixty eight airports.

G) Tourist Sites

i) There are attractive sites such as Borgu sector of Lake Kainji National Park. It was set up as a Federal Game Reserve and is one of the largest in West Africa. The area was uninhabited and it is in the northern guinea vegetation zone which is characterized by tall grasses and savanna woodland. The park retains a robust animal population including antelopes, lion, hippopotamus, buffalo, jackal, baboon, monkey, and crocodile. The park is usually opened from December to June, with the best time to visit towards the end of the dry season, when the grass has dried out and the animals move closer to the water. Tourist should expect Harmattan (dry wind) from December to mid-February. The best times for game viewing are in the early morning or evening and trip can be arranged.

Nigeria has other important game reserves which include:

Yankari Game Reserve: The Yankari National Park is the premier game reserve in Nigeria. Yankari Park and Wikki Warm springs are located around the Gagi River approximately one and half hours by road south east of Bauchi town. The beauty and size of the reserve make it the most popular reserve in Nigeria. It is well stocked with different animals. There are other facilities in the game reserve like Tennis Courts, Squash Court, a museum, and hotel. There are many other national parks such as Mambilla, Gumti National Park and Cross River National Park.

There is National Museum at Onikan in Lagos State which provides one of the largest collections of art and artifacts in Nigeria. The artifacts in the museum dates back to 500 BC-200 AD. Other museums are found in Benin, Jos, Ife, Esie, Kano and Kaduna.

ii) The Durbar festival dates back hundred of years to the time when the Emirate (state) in the north used horses in warfare. During this period each town, district and nobility household was expected to contribute a regiment to the defense of the Emirate. Once or twice a year, the Emirate military chiefs invited the various regiments for a Durbar (military parade) for the Emir and his chiefs. During the parade, regiments would show case their horsemanship, their preparedness for war, and their loyalty to the Emirate. Today Durbar has become a festival celebrated in honour of visiting Head of State and at the culmination of the two great Muslim festivals, Id-el Fitri (commemorating the end of the holy month of Ramadan) and Id-el Kabir(commemorating Prophet Ibrahim sacrificing a ram instead of his son). Of all the Durbar festivals, Katsina Durbar is the most magnificent and spectacular. During Id-el Kabir day in Katsina, the day is usually began with prayers outside the town, followed by procession of horse men to the public square in front Emir's palace where each village group, district and noble house take their assigned place.

Last to arrive is the Emir and his retinue; they take up their place in front of the palace to receive the homage of their subjects.

The festival begins with each group racing across the square at full gallop, swords glinting in the sun. They pass just few feet away from the Emir, and then stop abruptly to salute him with raised swords. The last and most fierce riders are the Emir's house hold and regimental guards (the Dogari). After the celebration, the Emir and his chiefs retire to the palace and the enjoyment of the occasion continues. This fanfare is intensified by drumming, dancing, and singing.

iii) There are other attractive and fascinating places to relax and take refreshments. Such places include Coconut Beach, Bar Beach, Tarkwa bay, Lekki Beach and Eleko Beach all in Lagos State.

H) Currency

The currency in use in Nigeria is the Naira and Kobo. A hundred Kobo is equivalent to a Naira. The exchange between the Naira and other foreign currency is freely determined by the interplay of demand and supply.

II. Overview of Macroeconomic Activity and Fiscal Position

The performance of the economy improved substantially in 2003, the Gross Domestic Product (GDP) measured at 1990 basic prices increased by 10.2 percent. All the major sectors namely, mining (crude oil), agriculture, industry, Utilities, communications, building and construction, and services contributed to the substantial improvement in the aggregate output.

The performance surpassed both the growth rate of 3.5 percent recorded in 2002 and the 5.0 percent target growth set for fiscal year 2003. Agricultural output increased by 6.1 percent, compared with the 4.0 percent achieved in 2002 and exceeded the 5.8 percent growth target set in the 2002-2003 National Rolling plan for the sector. Industry grew by 0.96 percent above the level in 2002 due, largely to the 9.6 and 1.1 percent increases in mining and manufacturing production respectively.

The agriculture sector, comprising crops, livestock, forestry and fisheries accounted for 35.8 percent of total GDP, while the industrial sector, consisting of crude petroleum, mining and quarrying, and manufacturing accounted for 36.2 percent. The share of the service sector was 12.6 percent, while the other sectors accounted for the balance of 15.3 percent.

The inflation rate as measured by the change in the average all-item composite consumer price index (May 2003= 100) for the twelve month period ended December 2003, was 14.0 percent compared with 12.9 percent in 2002. The contributory factors were excess liquidity fuelled by the expansionary fiscal operations of the three tiers of government, depreciation of the naira and the increase in the pump-price of petroleum products which triggered higher costs in transportation and domestic production.

The fiscal operation of the Federal Government resulted in an estimated overall deficit of US$ 1.43 billion or 2.8 percent of GDP, compared with the overall deficit of US$2.12 billion or 5.5 percent of GDP in 2002. The deficit is entirely financed from the domestic banking and non-bank sectors. The retained revenue of the Federal Government was US$7.21 billion, representing an increase of 42.7 percent over the level in 2002. The aggregate expenditure of the Federal Government was US$8.63 billion representing a 20.4 percent increase over the expenditure in the preceding year and surpassed the budgeted total expenditure by 3.1 percent. The increased expenditure level reflected higher domestic debt service payments which exceeded the budget target, as well as non-debt expenditure. Recurrent expenditure amounted to US$6.93 billion or 80.3 percent of the total, while capital expenditure was US$1.70 billion or 19.7 percent. The total debt outstanding as at end-December was US$40.90 representing an increase of 15.8 percent over the stock at the end of 2002. As a proportion of GDP, the total debt outstanding was 79.2 percent, compared with 83.6 percent in the preceding year.

The growth in monetary aggregates in 2003 exceeded the programmed target for the year by substantial margins. Broad money (M2) increased by 24.1 percent, compared with the target of 15.0 percent and the 21.6 percent rise recorded in 2002. Similarly, narrow money (MI) increased by 29.5 percent, compared with the target of 13.8 percent and the increase of 15.9 percent recorded in the preceding year. The expansion in monetary aggregates was largely caused by the expansionary fiscal operations of the Federal and State governments and the growth in foreign assets (net). Aggregate bank credit to the domestic economy rose by 32.7 percent compared with the stipulated target of 25.7 percent for the year. Domestic credit expansion in 2003 reflected increased lending to public and private sectors of the economy. Claims on the private sector grew by 27.1 percent, while claims on the government increased by 47.9 percent.

The overall balance of payments deficit narrowed to $1.15 billion or 2.2 percent of GDP from US$3.96 billion (10.3 percent of GDP) in 2002. The outcome was occasioned by the favorable development in the international oil market as the average price of crude oil rose from US$25.04 per barrel in 2002 to US$29.61 per barrel in 2003. However, as a result of the demand pressure caused by expansionary fiscal operations and market exuberance, there was a draw down in external reserves. Consequently the level of external reserves fell by 2.8 percent from US$7.68 billion to US$7.47 billion.

The naira exchange rate was very stable during the first half of the year. However, the stability was disrupted during the fourth quarter of 2003 as a result of market exuberance and speculative activities. Consequently, the naira’s exchange rate at the Dutch Auction System (DAS) depreciated by 6.5 percent, having traded on the average at #129.36 per US dollar during the year. In the bureaux-de-change (BDC) segment of the market, the exchange rate depreciated from N137.79 to N141.99 per US dollar

Table 1-Selected Macroeconomic Indicators

Indicator	1999	2000	2001	2002 1/	2003 2/
Domestic Output and Prices					
Real GDP Growth (Growth Rate %)	0.9	5.4	4.6	3.5	10.2
Oil Sector	-7.5	11.3	5.2	-5.7	23.9
Non-oil Sector	4.4	2.9	4.3	7.9	4.5
Oil Production (mbd)	2	2.2	2.2	2.1	2.3
Manufacturing Capacity Utilisation	35.9	36.1	39.6	44.3	46.2
Gross National Saving (% of GDP	21.6	23.1	19.3	19.5	25.7
Gross Fixed Capital Formation (% of GDP)	11	12.2	8.8	10.2	8.8
Inflation Rate (%) (Moving average)	6.6	6.9	18.9	12.9	14
Inflation Rate (%) (Year-on -Year)	0.2	14.5	16.5	12.2	23.8
Federal Government Finance (% of GDP)					
Overall Fiscal Balance	-8.9	-2.3	-4.3	-5.5	-2.8
Primary Balance	6.6	3	4.2	0.4	0.5
Retained Revenue	20.7	13.1	15.4	13.1	13.9
Total Expenditure	29.7	15.4	19.6	18.6	16.7
Domestic Debt Stock	24.8	19.8	19.6	21.3	18.1
External Debt Stock	80.5	68.1	61.2	72	61.1
Money and Credit (Growth Rate %)					
Net Domestic Credit	30	-25.3	79.9	64.6	32.7
Net Credit to Government	32	-170.1	95.2	6320.6	47.9
Credit to Private Sector	29.2	30.9	43.5	19.7	27.1
Narrow Money (M1)	18	62.2	28.1	15.9	29.5
Broad Money (M2)	31.7	48.1	27	21.6	24.1
External Sector					
Overall Balance (% of GDP)	-10.2	6.9	0.5	-10.3	-2.2
Current Account Balance (% of GDP)	1.4	15.7	4.7	0.7	6.9

Capital and Financial Account Balance (% of GDP)	-11.5	-8.6	-4.1	-10.9	-9
External Reserves (US$ million)	5450	9910.4	10,415.60	7681.1	7467.8
Average Crude Oil Price (US$/barrel)	18	28.6	24.5	25	29.2
Average AFEM/DAS Rate (N/$1.00)	92.3	101.7	111.9	121	129.3
Average Bureau de Change Rate (N/$	99.3	111.1	133	136.9	141.4
Social Indicators					
GDP per Capital (N)	1,038.80	1,046.80	1,062.50	1,065.40	1,028.50
Population Growth Rate (%)	2.83	2.83	2.83	2.83	2.83
Life Expectancy at Birth (Years)	54	54	54	54	54
Adult Literacy Rate (%)	57	57	57	57	57
Human Development Index 3/	0.4	0.4	0.4	0.4	0.4

Source: Central Bank of Nigeria

1/Revised, 2/Provisional, 3/Nigeria's position on a scale of 1.0

II.I Macroeconomic Activity

A. International Environment

Trade Balance and Current Account Balance

The surplus in the current account, which stood at US$0.28 billion in 2002, increased substantially to US$3.57 billion in 2003. The performance largely reflected development in the goods account and further improvements in current transfers (net). The surplus in the goods account adjusted for balance of payments, increased from US$3.14 billion in 2002 to US$7.83 billion. The deficit in both the services and income accounts widened, while current transfers (net) increased by 17.9 percent over its level in 2002 to US$1.41 billion, reflecting the higher inward transfers by Nigeria living abroad.

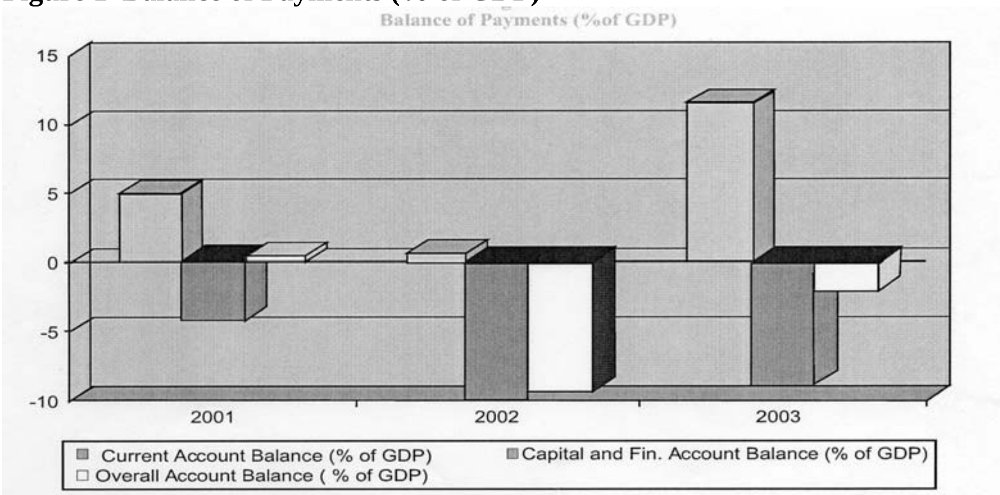
Total transactions on goods (trade) account increased from US$24.39 billion in 2002 to US$34.13 billion in 2003, representing an increase of 39.9 percent. Both export and import increased by 53.5 and 23.8 percent respectively.

The favorable position in the goods account reflected higher oil prices in the international market. The oil and non-oil components of total trade also increased by 52.1 and 22.2 percent to US$22.02 billion and US$12.10 billion respectively in 2003.

At US$13.77 billion, total imports increased by 23.8 percent, over the level in 2002. Both the oil and non-oil sector imports grew by 23.7 percent over their levels in the corresponding period of 2002. The growth in oil sector imports was attributed to the deregulation of the downstream oil and gas sub-sector, which increased the tempo of activities in the petroleum sector. The increase in non-oil imports was accounted for by the surge in aggregate.

The value of Nigeria's exports increased substantially over its level in 2002, reflecting major improvements in the oil sector. Thus, at US$20.35 billion, total exports was 53.5 percent higher than the level in 2002. The oil sector contributed 96.7 percent of total export proceeds as against 95.0 percent in the preceding year. Oil sector exports grew from US$12.59 billion in 2002 to US$19.68 billion in 2003. This outcome was influenced mainly by the favorable international crude oil prices and receipts from gas exports. The value of non-oil exports increased marginally by 0.5 percent to US$0.67 billion, though its share in total exports declined from 5.0 percent in 2002 to 3.3 percent. The factors militating against the effective performance of non-oil exports exported included low international demand for primary commodity export, ineffective marketing strategies, and the slow pace of diversifying the non-oil export base from commodity to manufactures.

Figure 1 Balance of Payments (% of GDP)

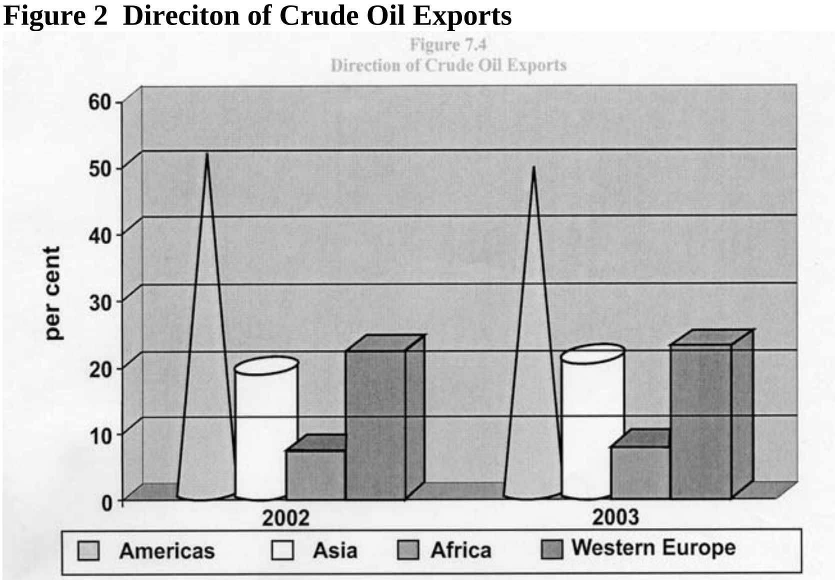


Source: Central Bank of Nigeria

The Americas as a group continued to be the largest buyer of Nigeria's crude oil, followed by the countries of Western Europe. Their share of Nigeria's crude oil export during the year increased by 2.4 percentage points to 48.7 percent. Total crude oil sales to this group of countries increased from 278.5 million barrels; valued at US$6.43 billion in 2002 to 327.8 million barrels valued at US$9.58 billion in 2003.This represented an increase of 17.7 and 49.0 percent respectively in volume and value terms. The share of Western European countries in Nigeria's total crude oil exports declined marginally from 22.4 to 22.3 percent. The value of Nigeria's crude oil exports to Asia increased further from US$2.39 billion in 2002 to US$4.05 billion in 2003. Thus, the share of Asia as a group increased by 1.6 percentage point to 20.6 percent. A similar increase was observed for African countries in both the volume and value of crude oil exports. However, Nigeria's crude oil exports to African countries remained low relative to other regions, accounting for only 8.0 percent of total exports.

Figure 2 shows the direction of Nigeria's crude oil exports around the world

Figure 2 Direciton of Crude Oil Exports



Source: Central Bank of Nigeria

Transactions in the services account (net) resulted in an enlarged deficit of US$2.69 billion in 2003. The deficit was attributable to out-payments in respect of transportation and travels which amounted to US$1.15 billion and US$1.59 billion respectively. The out-payments in respect of freight and public sector travels remained high at US$1.15 billion and US$0.89 billion respectively. The persistent deficit in the services account could be attributed to the low participation by Nigerians in the provision of international services as reflected in the dominance of the freight business by foreign carriers as well as the increased volume of business and private travels abroad by Nigerians.

The pressure on the income account (net) persisted as level of deficit widened from US$2.70 billion to US$2.99 billion in 2003. This development reflected the high scheduled interest payments on loans of US$1.38 billion, which outweighed the inflows from interest income on reserves and other investments. The inflows from interest on reserves and other investments fell by 47.2 percent from US$140.8 million in 2002 to US$74.3 million as a result of the decline in the stock of Nigeria's external reserves and the general low rate of interest on financial assets abroad, especially in dollar investments.

The surplus in current transfers (net) grew by 17.9 percent to US$1.41 billion in 2003. This development was influenced by increased private sector inflows in the form of other transfers and personal home remittances by Nigerians living abroad, which outweighed the deficit recorded in general government accounts in respect of foreign embassies' expenses, payments to international organizations and remittances of foreigners resident in the country.

The other transfers are mainly workers' remittances, which increased by 23.0 percent to US$1.49 billion.

Table 2 Balance of Payment ~ Analytical Statement (US$ Million)

CATEGORY	1999	2000	2001	2002 2/	2003 1/
A. CURRENT ACCOUNT	501.8	7014.5	2170.7	332.52	3920.2
Goods	4288.2	10420.1	6854	3685.42	8592.8
Export (F.O.B.)	12876	19141.4	17884.1	15563.1	22339.57
Oil	12664.9	18897.2	17633.8	14777.4	21604.47
Crude Oil	12637.1	18318.5	16436.8	13680.4	19937.41
Gas	27.8	578.7	1197	1097	1667.06
Non-Oil	211.1	244.2	250.3	785.7	735.1
Imports	-8587.8	-8721.3	-11030.1	-11877.68	-13746.77
Oil	-2292.2	-1955.1	-1925.6	-1984.5	-2343.42
Non-Oil	-6295.6	-6766.2	-9104.5	-9893.18	-11403.35
Services (net)	-2496.2	-1468	-2968.5	-1597.8	-2947.51
Services (credit)	979.6	1833.8	1643.4	2515.6	2772.72
Services (debit)	-3475.8	-3301.8	-4611.9	-4113.4	-5720.23
Income (net)	-2578	-3565.3	-3073.2	-3163.8	-3277.61
Investment Income (credit)	239.7	365.5	359.8	165.4	81.54
Interest on reserves and investments	236.9	353.4	359.8	165.4	81.54
others	2.8	12.1			
Investment Income (debit)	-2817.7	-3930.8	-3433	-3329.2	-3359.15
Interest due on loans	-1196.8	-2142	-2161.2	-1736.4	-1516.33
Others	-1620.9	-1788.8	-1271.8	-1592.8	-1842.82
Current Transfers (net)	1287.8	1627.7	1358.4	1408.7	1552.52
General Government	-0.1	-75.5	55.8	-12.1	-81.05
Other sectors	1287.9	1703.2	1302.6	1420.8	1633.57
B. CAPITAL AND FINANCIAL ACCOUNT	-3972.5	-3840.2	-1887.5	-4929.42	-5094.01
Capital Account (net)	13.2	32.7		54.3	20.33
Capital Transfers (net)	13.2	32.7		54.3	20.33
Acquisition/Disposal of non-financial assets					
Financial Account (net)	-3985.7	-3872.9	-1887.5	-4983.72	-5114.34
Direct Investment	1004.9	1140.7	1183.5	1868	2004.1
Portfolio Investment	11	502.5	826.8	133.5	146.85
Other Investment	-5001.6	-5516.1	-3897.8	-6985.22	-7265.29

Official (of which)	-1659.4	-979.5	-844.7	-1359.3	-1393.94
Amortisation (Due)	-2413.4	-991.2	-849.6	-1366.8	-1411.82
Disbursement	754	11.7	4.9	7.5	17.88
Private	-3342.2	-4536.6	-3053.1	-5625.92	-5871.35
C. NET ERRORS AND OMISSIONS	-66.6	-83.9	-62.2	-76.6	-85
D.OVERALL BALANCE=TOTAL (A,BandC)	-3537.3	3090.4	221	-4673.5	-1258.81
FINANCING	3537.3	-3090.4	-221	4673.5	1258.81
a. Exceptional Financing	1887.3	1370	284.2	1939	1045.49
1. Promissory notes (arrears)					
2. Deferred debt service	1887.3	1370	284.2	1939	1045.49
3.Others					
b. Reserves 3/	1650	-4460.4	-505.2	2734.5	213.32
Memorandum Items:					
Current Account Balance as % of GDP	1.4	15.7	4.7	10.9	6.9
Capital and Financial Account Balance as % of GDP	-11.5	-8.6	-4.1	-10.9	-9
Overall Balance as % of GDP	-10.2	6.9	0.5	-10.3	-2.2
External Reserves ~Stock (US$ Million)	5450	9910.4	10415.6	7681.1	7467.78
Number of Months of Imports equivalent	7.6	13.6	11.3	7.8	6.5
External Debt Stock (US$ Million)	28066.9	28273.7	28347	29788.9	30999
Debt Service Due as % of Export of Goods and Non Factor Services	26.1	14.9	14.6	17.4	15.1
Average Exchange Rate (N/$)	92.34	101.65	111.9	120.97	129.36

Source: Central Bank of Nigeria

1/provisional, 2/Revised (in addition to 2002, 3/Minus (-) sign indicates in reserves., Plus (+) sign indicates in reserves.

Aids/Grants: The inflow of external cash grants declined by 48.8 percent to US$18.55 million, as against US$35.99 million in 2002. A break down of the cash grants into the country of origin revealed that the government of Japan granted the highest amount of US$9.35 million, or 57.9 percent, followed by India and France with US$5.0 and US$1.9 million respectively. However, the contribution of France to total grants increased from 4.7 in 2002 to 10.0 percent in 2003.

Borrowing from Abroad: Nigeria external Debt stock at end-December 2003 was US$32.9 billion, constituting an increase of US$1.3 billion or 6.1 percent over the preceding year’s level of US$31.0 billion. The increase was attributable to the capitalization of unpaid interest and charges on Paris Club debt as well as the depreciation of the dollar vis-à-vis the Euro and Japanese Yen. External debt as a percentage of GDP was 61.1 percent, compared with 72.0 percent in 2002.

Available data showed that Paris Club accounted for US$27.5 billion or 83.6 percent of the total while Multilateral and the London Club’s claim totaled US$3.0 billion and US$1.4 billion or 9.1 and 4.3 percent of total respectively. Promissory Notes stood at US$0.9 billion or 2.7 percent while others accounted for the balance of US$0.05 billion or 0.2 percent.

The external debt service payments in 2003 was US$1.8 billion, indicating an increase of US$0.6 billion from the actual debt service payments of US$1.2 billion in the preceding year. A break down showed that the Paris Club had the lion share of US$1.0 billion, followed by Multilateral with US$0.5 billion and Promissory Notes and others with US$0.2 billion, while US$0.1 went to the London Club. Analysis in respect of structure of debt service re-payments revealed thatUS$1.3 billion was for principal payments, US$0.5 billion for interest payments and the remaining US$0.02 billion for commitment, penalty interest and other charges.

The Capital and Financial Account: The capital and financial account remained weak as the deficit widened further toUS$4.64 billion in 2003, compared with US$4.20 billion in 2002. This development was attributed to the high scheduled debt service payments and the increase in the net short-term claims on the rest of the world in respect of oil sector transactions. Direct investment (net) increased by 14.7 percent over the level in 2002. Similarly, portfolio investment (net) grew from US$0.11 billion to US$0.13 billion. The relative improvement in foreign direct investment (FDI) was the result of new investments in oil and gas sub-sector of the economy, as well as investors' perception of prospects in the economy, increased investment in infrastructure, and the rigorous efforts at redefining the country's image.

Exchange Rate and Exchange System: The demand pressure in the foreign exchange market under the Dutch Auction System was exacerbated during the year as foreign exchange worth US$9.6 billion was sold to authorized dealers, compared with US$8.1 billion in 2002. Consequently, the naira depreciated by 6.5 percent, having traded on the average at N129.36 per dollar during the year. In the bureaux-de-change (BDC) segment of the market, the exchange rate depreciated from N138.28 to N141.99 per US dollar. The premium between the Dutch Auction System and bureaux-de-change rates narrowed from 14.8 percent in 2002 to 9.8 percent in 2003.

B. Domestic Environment

Economic Growth Rate: The Gross Domestic Product (GDP), measured at 1990 constant basic prices, increased by 10.2 percent to US$2.77 billion. The growth rate substantially exceeded the 3.5 percent recorded in 2002, but was lower than the 5.0 percent target for fiscal 2003. Sectoral analyses showed that improvements in the output of agriculture, industry, utilities, communications, building and construction and services sectors/sub-sectors largely accounted for the increase in the real GDP.

The value of agricultural output, consisting of crop production, livestock, forestry and fishing represented 34.6 percent of the total GDP in 2003, compared with 35.9 percent in 2002. The industrial sector, comprising crude petroleum, mining and quarrying, and manufacturing contributed 38.2 percent of the total, compared with 34.7 percent in the preceding year. The share of the service sector was 12.5 percent, while general commerce, and building and construction accounted for 12.7 and 2.1 percent, respectively.

The data also showed that the real domestic output, based on the expenditure approach, stood at US$2.84 billion, representing an increase of 10.1 percent, compared with 3.7 percent in the preceding year. Private consumption expenditure rose considerably by 9.4 percent to US$1.92 billion and accounted for about 67.6 percent of total expenditure, while government final expenditure stood at US$0.18 billion and represented 6.2 percent of the total.

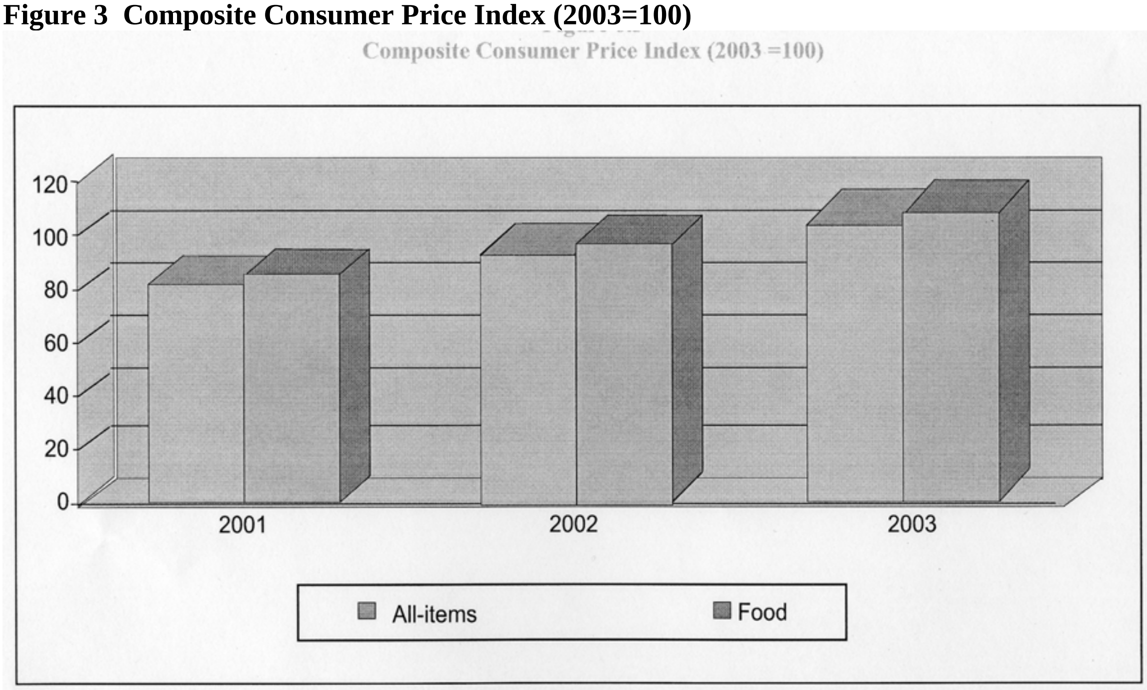
Inflation Rate and Consumption: According to Central Bank of Nigeria reports, the inflationary pressures have persisted in 2003 especially in the last quarter of 2003. Available data showed that the average all-items composite consumer price index (CPI) for December 2003 was 105.9 (May 2003= 100), representing an inflation rate of 14.0 percent, compared with the single digit target and the 12.9 percent recorded in 2002. The increase in the general price level was attributed to the rise in the aggregate demand, the depreciation of the naira, and the increase in the pump prices of petroleum products, all of which resulted in high costs of transportation and domestic production. The food index increased by 6.0 percent to 102.3 during the year. Also, the non-food components, particularly alcoholic beverages, tobacco and kola; clothing and footwear; housing, electricity, gas and other fuel; health and transport. Others include education, recreation and culture; and miscellaneous and other services which recorded price increases of 11.9, 20.8, 33.9, 18.3, 26.5, 24.9, 35.1 and 54.5 percent respectively.

Table 3 Monthly Inflation Rate 1999- 2003 in Percentage

	1999	2000	2001	2002	2003
January	10.4	5.2	8.6	18.9	12.3
February	10.9	3.9	10.3	18.9	11.4
March	11.6	2.7	11.9	18.8	10.5
April	11.9	1.8	13.9	17.9	10.1
May	12.2	1.1	15.7	16.8	10.0
June	12.1	0.9	16.6	16.4	10.1
July	11.6	1.2	17.7	16.2	10.0
August	10.6	2.2	18.1	15.6	10.0
September	9.8	3.3	18.4	14.8	10.7
October	8.8	4.5	18.6	13.6	12.3
November	7.6	5.8	18.7	13.2	13.0
December	6.6	6.9	18.9	12.9	14.0

Source: Federal Office of Statistics, Nigeria

Figure 3 Composite Consumer Price Index (2003=100)



Source: Central Bank of Nigeria.

Investment: The government recognizes the private sector participation in investment as vehicle for economic growth. It therefore takes a number of steps which include the deregulation of telecommunication sub- sector in 2001. In response to the competitive environment, the government owned operator, Nigeria Telecommunications Limited, increased its number of telephone lines from 767,862 in 2001 to 932,424 in 2002, representing an increase of 20.3 percent. Also, the combined subscriber network of the two private operators in 2001 increased from 1,660,000 lines in 2002 to 2,050, 000 in 2003, representing an increase of 23.4 percent. The Global Nigeria limited, another private operator, began operations towards the end of the year, 2003.

The involvement of private telephone operators in the industry has brought about innovation, wider coverage, competition, better services and mobilization of new financing for telecommunications investments, Moreover, the introduction of the GSM has increased the contribution of the communication sector to the GDP, from US$5 million to US$6 million in 2003.

The performance of manufacturing sub-sector improved during the year due to a number of factors, prominent among which was the retention of 100 percent physical inspection of goods at the ports. Others include an intensified surveillance by the National Agency for Food, Drugs Administration and Control (NAFDAC) and the Standards Organization of Nigeria (SON) to check the influx of fake and sub-standard products into the country and their counterpart local production, as well as the prohibition of the importation of a number of items. These measures made imports dearer and thus induced the patronage of local manufactures.

The agricultural sector improved in 2003. Aggregate index of agricultural production was estimated at 190.9 (1990 = 100), compared with 179.9 in the previous year. The increase recorded in agricultural production during the year was driven largely by sustained support from the Federal Government. This include prohibition of importation of cassava, fruit juice, vegetable oil, poultry and related products increased their prices and encouraged farmers to expand production. In addition, the implementation of special rice programme, under the aegis of the Special Programme on Food Security (SPFS) aimed at attaining self-sufficiency in rice production with a US$42.5 million Unilateral Trust Fund (UTF), began during the year.

There was relative improvement in foreign direct investments as a result of investment in the oil and gas sub-sector of the economy. This was as a result of investors' perception of prospect in the economy, as well as increased investment in infrastructure and the rigorous efforts at redefining the country's image by the government.

Capital Stock: The Nigerian Capital Market first came into existence in 1960 with the establishment of the Lagos Stock Exchange, but became operational in 1961. The Exchange was incorporated under the companies' ordinance as an association limited by guarantee. The Lagos Stock Exchange was given initial financial backing by Central Bank of Nigeria in the form of annual subvention in 1977 following the recommendation of the Government Financial system Review Committee of 1976, the Lagos Stock Exchange was renamed and reconstituted into the Nigerian Stock Exchange. Additional trading floors were also opened in the same year in Port Harcourt and Kaduna.

The Nigeria Stock Exchange is the center point of the Nigeria capital market, while the Securities and Exchange Commission serves as the regulatory body. The Nigerian Stock Exchange provides a mechanism for mobilizing private and public savings, and makes such funds available for productive purposes. The Exchange also provides a means for trading existing securities. It also encourages large-scale enterprises to gain access to public listing.

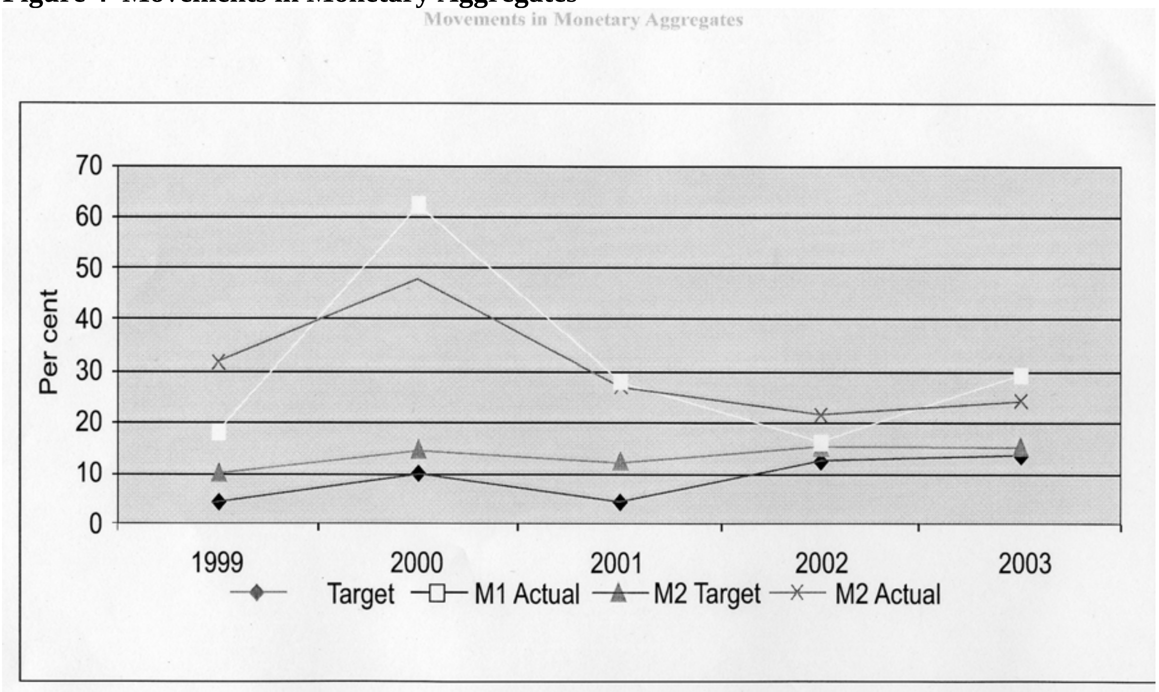
The major instrument used to raise fund at the Nigerian capital market includes equities such as ordinary shares and preference shares, debt which include government bonds, and industrial loans/Debenture stocks and bonds.

Money Supply: The growth in monetary aggregates in 2003 exceeded the programmed targets for the year by substantial margins. Broad money (M2) increased by 24.1 percent, compared with the target of 15.0 percent and the 21.6 percent rise recorded in 2002. Similarly, narrow money (M1) grew by 29.5 percent, compared with the target of 13.8 percent and the increase of 15.9 percent recorded in the previous year. The expansion in monetary aggregates was largely caused by the expansionary fiscal operation of the Federal and State governments and the growth in foreign assets (net). Aggregate bank credit to the domestic economy rose by 32.7 percent, compared with the stipulated target of 25.7 percent for the year. Domestic credit expansion in 2003 reflected increased lending to both public and private sectors of the economy. Claims on the private sector grew by 27.1 percent, while claims on the government increased by 47.9 percent.

Interest rate developments were mixed in 2003. Deposit rates recorded a marginal increase while lending rates declined. The decline in lending rates reflected the downward review of the MRR by 150 basis points in July 2003 and the effect moral persuasion on the Deposit Money Banks not to raise their lending rates for the interest of the economy. Consequently, banks' average savings deposit rate, which was 3.7 percent in December 2002, fell to 3.6 percent in June 2003 and further to 3.2 percent at the end of the year.

However, the average rate on time deposits of various maturities, which declined from a range of 8.8 – 14.4 percent in December 2002 to 7.8 – 12.7 percent in the first half of the year, rose to a range of 8.8 – 14.8 percent at the end of the year. The average prime and maximum lending rates declined from 20.6 and 25.7 percent in December 2002 to 19.6 and 21.6 percent respectively in December, 2003.

Figure 4 Movements in Monetary Aggregates



Source: Central Bank of Nigeria

Employment: The available data showed that the composite unemployment rate as at March 2003 was 2.3 percent, compared with 3.8 percent at the end of December 2002. The urban and rural unemployment rates were also estimated at 2.4 and 2.3 percent respectively compared with 3.8 and 2.7 percent in the preceding year. The reduction in unemployment rates was attributed to the various government efforts aimed at addressing the problem through poverty alleviation programmes. The unemployment rates were also dampened by an increased number of people engaged in informal sector activities, although the bulk of such people could be regarded as underemployed. A further analysis of the unemployed by educational level showed that secondary school leavers accounted for 53.6 percent, primary and tertiary 14.7 and 12.4 percent respectively, while those without any form of schooling accounted for 19.3 percent.

II.2 Fiscal Position

Federal Government retained revenue amounted to N1, 023.2 billion, representing an increase of 42.7 percent over the level in 2002. Analysis of the revenue showed that the share from the Federation Account was N889.2 billion, the VAT Pool Account N20.0 billion, and Independent Revenue of the Federal Government N54.2 billion. Other components included the share of excess crude oil N53.3 billion, loans recovered from the states N0.08 billion, and other items N6.6 billion.

The aggregate expenditure of the Federal Government increased by 20.4 percent to N1226.0 billion from the level in 2002 and surpassed the 2003 budget estimate of N1189.6 billion by 3.1 percent. As a proportion of GDP, total expenditure declined to16.7 percent in 2003 from 18.6 percent in 2002. Non-debt expenditure that is total expenditure less debt service payment went up by 5.5 percent above the level in 2002 and was 7.3 percent below the N926.6 billion budget estimate for 2003. Domestic debt service payments amounted to N172.9 billion, representing 14.1 percent of total expenditure and exceeded the budget provision of N74.0 billion by 133.6 percent. The increase reflected a rise in the interest on domestic debt.

At N984.3 billion, the recurrent expenditure increased by 41.3 percent over the level in 2002, reflecting largely, increased outlays on goods and services and external debt service payments. The economic classification of recurrent expenditure showed that government purchases of goods and services amounted to N617.7 billion or 62.8 percent, while external and domestic debt service amounted to N366.6 billion, accounted for the balance of 37.2 percent. A breakdown into economic functions showed that the outlay on administration fell by 7.2 percent below the level in 2002 to N307.8 billion and accounted for approximately 31.3 percent of total recurrent expenditure, while transfer payments increased by 70.5 percent to N477.8 billion and accounted for 48.5 percent of the total in 2003. The increase was due mainly to bigger foreign debt service payments. The outlay on economic services increased by 45.7 percent to N96.0 billion, while that on social and community services declined by 45.9 percent to N102.6 billion in 2003, accounting for 9.8 and 10.4 percent of total recurrent expenditure respectively.

In 2003, capital expenditure amounted to N241.7 billion, showing a decrease of 24.8 percent below the level in 2002, and constituting 19.7 percent of total expenditure. A breakdown of capital expenditure into economic services accounted for N98.0 billion or 40.5 percent of the total. Compared with 2002, expenditure on economic services fell by 54.5 percent while that on administration increase by 19.6 percent and accounted for 36.4 percent of the total. Also, expenditure on social and community services which accounted for 23.1 percent of the total, increased by 71.7 percent to N55.7 billion in 2003. The increase was as a result of government’s commitment towards completing the National Stadium in Abuja and the hosting of the All African Game.

The fiscal operations of the Federal Government resulted in a deficit of N202.7 billion, or 2.8 percent of GDP, compared with the 5.5 percent recorded in 2002. The deficit was financed entirely from domestic sources, with N105.6 billion coming from banking system, N58.1 billion from the non-bank public, and the balance of N39.0 billion from other funds.

Table 4 Federation Account Operations (Naira Million)

source	1999	2000	2001	2002 1/	2003 2/
Total Revenue (Gross)	949,187.9	1,906,159.7	2,231,532.9	1,731,837.5	2,575,095.9
Oil Revenue (Gross)3/	724,422.5	1,591,675.8	1,707,562.8	1,230,851.2	2,074,280.6
Crude oil /gas exports	514,038.9	947,163.0	934,284.2	496,311.5	998,380.0
PPT&Royalties etc	164,273.4	525,072.9	639,234.0	392,207.2	683,484.9
Domestic Crude Oil sales	46,110.2	96,429.7	121,544.6	304,242.8	386,397.3
Other Oil Revenue	0.0	23,010.2	12,500.0	38,089.7	6,018.4
Less:	388,290.9	734,093.6	804,100.5	125,717.8	563,510.1
Deductions 4/	388,290.9	734,093.6	804,100.5	125,717.8	563,510.1
Oil Revenue (net)	336,131.6	857,582.2	903,462.3	1,105,133.4	1,510,770.5
Non-Oil Revenue	224,765.4	314,483.9	523,970.1	500,986.3	500,815.3
Companies Income Tax	46,211.2	51,147.4	68,660.0	89,104.0	114,771.1
Custom & Excise Duties	87,906.9	101,523.6	170,557.1	181,408.2	195,468.6
Privatization/GSM Proceed	0.0	18,103.6	77,958.1	19,697.8	0.0
Value Added Tax(VAT)	47,135.8	58,469.6	91,757.9	108,601.0	136,411.2
Tax on Petroleum Product	14,376.2	25,467.2	30,240.3	0.0	0.0
Independent Rev. of Fed. Govt.	20,076.5	38,061.8	44,405.2	68,134.5	54,164.4
Education Tax	0.0	7,528.7	16,213.2	10,284.2	0.0
Others	9,058.8	14,182.0	24,177.9	23,756.6	0.0
Federally collected Rev (net)	560,897.0	1,172,066.1	1,427,432.4	1,606,119.7	2,011,585.8
Federation Account	576,801.4	1,262,468.3	1,599,361.1	1,899,487.8	2,011,585.6
Memorandum items:					
Deductions:	388,290.9	734,093.6	804,100.5	125,717.8	563,510.1
JVC cash calls	185,470.6	309,609.7	391,989.8	67,054.9	420,314.1
NNPC Priority Project	24,110.9	24,306.7	38,074.0	6,513.1	0.0
External debt service	148,818.1	173,174.7	232,192.4	39,726.8	0.0
Excess Crude Proceed	29,891.3	227,002.5	97,224.7	2,388.8	128,409.0
Excess PPT & Royalties	0.0	0.0	44,619.6	10,034.2	13,315.0
Others	0.0	0.0	0.0	0.0	1,272.0

Source: Central Bank of Nigeria
1/ Revised, 2/ Provisional, 3/ Consists of export and domestic oil revenue, 4/ As contained in memorandum items

Table 5 Federal Government Recurrent Expenditure (Naira Million)

	1999	2000	2001	2002	2003
Administration	97,224.10	121,299.10	180,810.00	331,736.00	307,848.50
General Administration	48,363.50	59,332.40	75,079.80	146,807.00	166,057.60
National Assembly		4,766.30	19,803.60	20,162.60	22,395.30
Defence	20,769.20	31,046.40	47,071.60	86,053.80	51,043.60
Internal Security	28,091.40	26,154.00	38,855.00	78,712.60	68,352.00
Economic Services	20,451.20	29,816.30	53,011.10	65,910.90	96,031.80
Agriculture	5,238.80	4,806.00	7,064.90	12,439.40	7,534.30
Roads & Construction	3,895.40	11,480.30	7,202.40	9,276.00	16,944.50
Transport & Communications	2,631.50	2,427.60	33,935.10	36,579.40	22,669.80
Others	8,685.50	11,102.40	4,808.70	7,616.10	48,883.20
Social & Community Services	37,748.30	58,802.40	79,634.40	189,431.60	102,565.90
Education	23,047.20	39,034.00	39,884.60	100,240.20	64,755.90
Health	8,793.20	11,579.60	24,523.50	50,563.20	33,254.50
Others	5,907.90	8,188.80	15,226.30	38,628.20	4,555.60
Transfers	294,238.80	251,690.70	265,873.60	280,258.00	477,821.90
Public Debt Charges (Int)	127,969.10	108,485.00	155,424.00	203,902.90	363,363.00
Domestic	79,571.00	108,485.00	155,424.00	170,635.30	169,724.00
Foreign	48,398.10			33,267.60	193,639.00
Pension & Gratuities	25,190.40	42,947.60	30,046.40	71,052.90	34,149.80
Contingencies (others)	13,029.00	1,367.30	4,808.70	5,302.20	
External Obligations	8,552.50	3,045.80			367.00
Extra-Budgetary Expenditure	70,570.30	93,845.00	73,594.50		
Deferred Custom Duties		2,000.00	2,000.00		0.10
Unspecified Expenditure	48,927.50				
Others3/					79,942
Total	449,662.40	461,608.50	579,329.10	867,336.50	984,268.10

Source: Central Bank of Nigeria
1/ Revised, 2/ Provisional, 3/ Includes allocation to FCT and Special Funds

Table 6 Federal Government Capital Expenditure (Naira Million)

	1999	2000	2001	2002 1/	2003 2/
Administration	42,737.20	53,279.50	49,254.90	73,577.40	87,958.90
General Administration	34,083.20	36,549.90	28,032.00	36,571.60	66,706.40
National Assembly		1,888.80	9	1,472.40	2,000.00
Defence	3,797.70	6,444.00	16,400.00	22,093.80	10,679.70
Internal security	4,856.30	8,396.80	4,813.90	13,439.60	8,572.80
Economic Services	323,580.80	111,508.60	259,757.80	215,353.40	97,987.10
Agriculture & Natural Resources	6,912.60	8,803.20	57,879.00	32,364.40	8,510.90
Mining & Quarrying	9,923.80	10,514.00	7,283.50	39,663.10	583.90
Transport & Communication	3,316.70	7,177.20	19,241.00	17,083.20	6,639.60
Housing			56,356.00	44,479.20	9,495.50
Roads & Construction	5,000.00	7,006.40	21,440.00	35,849.80	17,459.10
National Priority Projects	18,920.00	40,377.40	18,124.30		
JVC Calls/ NNPC Priority Projects	174,976.10				
Public Telephone	20,800	14,559.20	3,910.00	20.00	
Counterpart Funding	69,628.30	7,028.40			410.8
NDDC		944.40	10,000.00		9044.5
Others	14,103.30	15,098.40	65,524	45,893.70	45,837.80
Social & Community Services	17,253.50	27,965.20	53,336.00	32,467.30	55,736.30
Education	8,516.60	10,529.20	19,860.00	9,215.00	14,680.20
Health	7,386.80	8,865.60	20,128.00	12,608.00	6,431.00
Others	1,350.10	8,570.40	13,348.00	10,644.30	34,625.10
Transfers	114,456.10	46,697.60	76,347.80		11.30
Financial Obligations	676.10		56,810.00		
Capital Repayments	110,444.00	330.00	280.00		
Domestic	240.00	330.00	280.00		
Foreign	110,204.00				
External Obligations		5,832.40			11.3
Contingencies		756.00			
Net Lending to States/L.G./Parast.	3,336.00				
Others		39,779.20	19,257.80		
Total	498,027.60	239,450.90	438,696.50	321,398.10	241,688.60

Source: Central Bank of Nigeria
1/ Revised, 2/ Provisional

Public Borrowing: The stock of debt of the Federal Government, as at end-December 2003, stood at N5, 808.0 billion. The amount represented an increase of 13.9 percent over the stock at the end of 2002. However, the total debt outstanding as a proportion of GDP decreased from 93.3 percent in the preceding year to 79.2 percent. Domestic debt outstanding amounted to N1, 329.7 billion, representing 22.9 percent, while external debt outstanding amounted to N4, 478.3 billion or 77.1 percent of the total debt outstanding. In line with Government's policy of reducing reliance on monetary financing of deficits, the Federal Government through the Debt Management Office (DMO) raised funds through the capital market to meet its financing needs by issuing the first Federal Government bonds. Government was only able to raise N72.6 billion, out of the N150.0 billion worth of bonds issued.

III. Tax Structure: Institutions and the Reality

Introduction: Tax structure in Nigeria has undergone tremendous changes since independence. Following inconsistencies and apparent confusion in the operation of various tax systems in the then northern, Western and Eastern regions of the country, Raisman Fiscal Commission of 1958 recommended that there should be a uniform basic principle for taxing incomes throughout the country. It was this recommendation that was embodied in the Nigeria Constitution Order in Council 1960, which resulted eventually in the enactment of the Income Tax Management Act 1961(ITMA 1961). ITMA 1961 was the precursor to Companies Income Tax Acts 1961, 1979 and 1990 as well as the Personal Income Act 1993 as amended. It is important to note that there had been amendments to the various tax laws to reflect the intention of the government. Taxation is a dynamic subject which grows with the constant change in the economic environment in which it operates, hence the need to review the regulating instruments from time to time. Usually, tax policies announced in a budget speech by government becomes legally operational on the 1st day of January following.

The Nigerian tax system will be discussed under three interrelated constituents and these are the tax policy, tax laws, and the tax administration.

Tax Policy: A policy is a particular course of action adopted, and in this case the line of action adopted by government in respect of taxation. Taxation, we know is one of the major fiscal policy instruments used in regulating the economy, boosting investments, encouraging savings capacity, regulating inflation and so on.

Taxation is one of the sources of income of government which is used to finance or run public utilities and perform other social responsibilities. And for any tax to be legal, it must be a creation of the law as no citizen would want to pay any imposition which is not backed by law.

As earlier mention there is the need to review the regulating instruments from time to time by way of amendment to the existing laws and this is done through the president's budget speech and other pronouncements made by Minister for Finance.

The policy objective of any government tax system is aimed at achieving the following:

a) To create a fair and equitable society.
b) To create an economic society free of distortion to investment decisions
c) To encourage a fair allocation of savings amongst investment opportunities
d) To create incentive to hard work or for risk taking in business
e) To attract foreign investments or at least avoid capital flight to countries with lower taxes
f) To reduce evasion and avoidance and the growth of underground economy and encourage voluntary compliance and
g) To reduce the complexity of the system both for the tax administrators and the tax payers

The fiscal or assessment year runs from the 1st January to the 31st December of the same year. The basic taxation principle applicable to the trading income of individuals are also applicable to companies, that is profits or gains are taxed while losses are allowed to be relieved against profit of other years with the four years carry forward limitation. The exception for agricultural business where there is no time limit for set-off of losses; this is also applicable to companies. All income accruing to a company are taxed on preceding year basis rule, none is taxed on actual basis except when the commencement or cessation provision are being applied. In case of Personal Income however, salary, pension, commission, and allowances are taxed on current year basis while rent, dividend, interest, and business profits are taxed on preceding year basis.

Tax Laws: Every tax imposed must be backed by legislation. Below are the various legislations imposing taxes on individuals and corporate bodies in Nigeria;

(i) The Personal Income Tax Decree 104 of 1993
(ii) The Companies Income Tax Act Cap.60 LFN 1990 (formally CITA 1979)

(iii) The Petroleum Profit Tax Act Cap. 354 LFN 1990
(iv) The Industrial Development (Income Tax Relief) Act 1971
(v) The Capital Gains Tax Act 1967
(vi) The Stamp Duties Act 1939 as Amended
(vii) The Value Added Tax Decree 102 of 1993

The types of taxes covered by these legislations include the following:

(i) Personal Income Tax Decree 104 of 1993

This legislation regulates personal taxation in Nigeria. That is, it regulates the assessment and collection procedure for the individuals or body of individuals including a family, any corporation sole, trustee or executor having any income which is chargeable with tax under the provisions of the Decree. The provisions of the Decree are to apply throughout the federation except as therein provided.

Note that in Nigeria, it is only the Federal Government that can legislate on tax matters; however, the administration of Personal Income Tax law is delegated to the State Governments. Each State Government is expected to administer the law in accordance with the provisions. The individuals or body of individuals as mentioned above who reside in each state territory as at 1st of January of each year is expected to pay their tax to that state. The tax so collected by each state from individuals form part of its revenue.

Section 2 of the Decree enumerates the type of persons chargeable to tax as follows:

(a) (i) any individuals or body of individuals (including family)
 (ii) Any corporation sole e.g. a titular representative of any institution
 (iii) Executor of estates of a deceased person
 (iv) Trustee of any settlement of trusts

(b) The following persons that is:
 (i) Persons employed in the Nigerian Army, the Nigeria Navy, the Nigeria Air Force and the Nigeria Police other than in a civilian capacity
 (ii) Officers of the Nigerian Foreign Service
 (iii) Every resident of the Federal Capital territory Abuja
 (iv) A person resident outside Nigeria who derives income or profit from Nigeria

Those listed in (a) above pay their taxes to the State Board of Internal Revenue of each State which is the tax authority designated to administer and collect individual tax on behalf of the state government, while those in (b) above pay their taxes to the Federal Board of Inland Revenue which is tax authority that collect Federal Government taxes.

The type of income chargeable to tax under the personal Income Tax as stated in section 3(1) of the Decree, include the following:

(a) gains or profits from trade, business, profession or vocation carried on by the taxable persons;
(b) employment income that is income accruing to a taxable person by virtue of his employment;
(c) gain or profit including any premium arising from a right granted to any other person for the use or occupation of any property that is rental income or royalty;
(d) any pension, charge or annuity;
(e) dividend, interest or discount;
(f) any profit, gain or other payment not falling within paragraph (a) to (e) above.

Income from each source is the assessable income defined as “the income of the taxable person from each of his sources of income in the year immediately preceding the year of assessment” except employment income which is “the income of the year of assessment from that employment”.

Pay as you Earn: This is a system where by the employee pays tax on whatever income he earned from his employment in any particular month at the end of that month. The employer deducts the tax from the employee's monthly earnings including any allowances or benefits paid in cash or given in kind to or on behalf of the employee. The total amount deducted by the employer from the employee's earnings at the end of every month is then remitted to the relevant tax authority (State Board of Internal Revenue).

Employment incomes usually consist of the following:

(i) salaries and wages
(ii) Allowances that is housing, transport
(iii) Pension and gratuities
(iv) Bonus and Commission
(v) Benefits in kinds

For the purpose of tax, an employment income does not however include:

(i) Re-imbursement of expenses from which the employee is not expected to make profit
(ii) Compensation for loss of profit
(iii) Any housing allowance not exceeding the amount specified in the Decree
(iv) Any transport allowance not exceeding the amount specified in the Decree
(v) Medical expenses
(vi) Lunch allowances by way of lunch vouchers

Personal Reliefs and Allowances: The following are deductible amounts from the income earned by a taxpayer as provided in the personal income tax Decree 104 of 1993:

(a) Personal Allowance: Every taxpayer who derives income in his own right is entitled to a personal allowance. This is computed each year of assessment in accordance with the provisions of the law. This is computed as five thousand naira plus 20 percent of every earned income.

(b) Children Allowance: Presently, two thousand five hundred naira (N2500) is allowed for each child but not more than four children. For a taxpayer to have his claim, such child must;
   (i) be not more than 16 years old on the first day of the preceding year or;
   (ii) must be in any institution of learning if above 16 years old;
   (iii) such child must have been taken care of in the preceding year.

However, if two or more people took care of the child in the previous year, such allowance will have to be shared on a pro-rata basis. It is good to note that expenses on the child's education are not considered in this case.

(c) Dependent Relative Allowances: This is only two thousand naira (N2000) for each dependent relative and not more than two, provided that:
   (i) the income of the relative in the preceding year was not more than one thousand naira (N1000);
   (ii) the person is a relation not necessarily parents;
   (iii) if there are two or more persons assisting the person, the allowance will have to be shared on pro-rata basis.

(d) Life Assurance Allowance: An employee- taxpayer that has life insurance policy or for his spouse shall be allowed a deduction of the annual amount of any premium paid by the individual during the year preceding the year of assessment to an insurance company.

(e) Disabled Persons Allowance: A disabled person that uses special equipment has an allowance of three thousand naira (N3000) or 20 percent of the earned income, whichever is higher.

Special Incentives: The following reliefs are introduced as additional incentives to an individual and are deductible from the amount of his taxable income:

   (i) the lower of the amount of his equity shareholdings in a company floated exclusively for the purpose of Research and Development or 25% of his total income.

(ii) Donations which he made to Research Centres not exceeding 10% of his chargeable income during the year of assessment

(iii) Tax free dividends for a period of three years from any company with effect from 1987 tax year provided:

(a) the company paying the dividends is incorporated in Nigeria;

(b) the equity participation is imported into the country and

(c) the recipient's equity in the company constitutes, at least 10% of the share capital of the company.

In addition to (a), (b), and (c) above, if the company paying the dividend is engaged in agricultural production within Nigeria or processing of such Nigerian agricultural products produced within Nigeria or the production of petrol chemicals or Liquefied natural gas, the tax free period shall be increased to 5 years.

Other Exempted Allowances are:

(i) Meal subsidy or allowance	N5000 per annum
(ii) Utility allowance	N10000 per annum
(iii) Entertainment allowance	N6000 per annum
(iv) Leave grant, 10% of annual basic salary	

Personal Income Tax Computation outside Pay As You Earn (P.A.Y.E.) System

As mentioned earlier, the P.A.Y.E. system relates to employment income however, where income is from trade, business, profession or vocation, it is regarded as earned income and taxable under the personal income tax Decree. Usually, the profit and loss account is prepared by the business concerned. Note that the income under discussion here is derived by individual and not limited liability company. When the profit and loss account is prepared by the individual, the income from the account is subjected to "adjustment". Why this adjustment? The reasons for this are follows:

(i) Certain income or profits are not taxable, such as profit on sale of fixed assets.

(ii) Some expenses or profits are also disallowed, e.g. provision for depreciation on assets because the capital allowances would be granted.

Allowable Deduction or Expenses from Profit: Personal Income Tax Decree of 1993 section 20 states the allowable deductions to be made from profits as all out-goings and expenses or any part thereof that is wholly, exclusively, necessary and reasonably incurred during the basis period and ultimately borne by that individual in the production of the income. These allowable expenses are:

(i) Interest on borrowed money for the purpose of carrying on the business.

(ii) Interest on loans for developing an owner-occupied residential house.

(iii) Repair and maintenance expenditure relating to the business

(iv) Bad debts incurred in the course of business and also specific provision for doubtful debts

(v) Contribution made to a pension, provident, or any other retirement benefits fund scheme approved by the Joint Tax Board.

(vi) Rent paid on business premises. Rent paid in respect of residential accommodation occupied by the employees of the business also qualifies as deduction subject to (presently N150, 000) maximum rent allowances approved.

Disallowable Expenses: Again, Personal Income Tax Decree 1993 section 21 mentioned disallowable expenses and these are:

(i) Personal or domestic expenses

(ii) Expenditure which is capital in nature

(iii) Any depreciation of asset

(iv) Loss incurred on the sale of fixed asset

(v) Legal expenses on acquisition of a lease, be it long or short lease, will also be disallowed
(vi) Any general provision for bad and doubtful debts
(vii) Loss(es) recoverable under an insurance or contract of indemnity
(viii) Any taxes stated to be deductible before arriving at the net profit
(ix) Staff loan written off.

The Adjusted profit of a Business: The adjusted profit is derived as follows:

(a) ADD to the "net profit per account" before taxation, all the expenses that had already been debited in the accounts but which the Tax Decree does not allow as deductible, e.g. depreciation.
(b) ADD any trading income that had been omitted in the profit and loss account such as trading income transferred direct to reserve account.
(c) DEDUCT any income that had been included in the profits for the period but is not required by the Decree to be so included, e.g. profit realized on sale of fixed asset.
(d) DEDUCT any expenses that had not been made in the accounts but is allowed to be deducted by the Decree.

Simply put, the format for adjusted profit is:

	N
Net profit as per profit and loss account	xx
ADD: Disallowable expenses	xx
	xxx
LESS: Non-taxable expenses	(x)
ADJUSTED PROFIT	xx

Deduction from Adjusted Profit: The following deductions can be made from adjusted profit:

(i) Carried forward loss relief and
(ii) Capital allowance

The result obtained after these deductions, the tax rate is applied accordingly if the business income is the only source of income to the taxpayer.

Method of Assessment: Income from trade, business, profession or vocation is taxed using the preceding year basis. Whereas under the Pay As You Earn the income earned for the actual year is taxed and it is earned income just like the income from trade, business, profession or vocation. The preceding year basis would only be applicable if it is an old established business. However, in the case of new business, or there is any need to change accounting date, or there is cessation of business, there are provisions in the tax law which caters for them.

New Business: The following are the system for assessing a business that has taken off newly:

(i) First Tax Year: The basis period of assessment is from actual date of commencing business to December 31, of the year in which the business commenced.
(ii) Second Tax Year: The basis period for the second year is the first twelve months of trading.
(iii) Third Tax year: The preceding year basis of assessment starts from the third tax year. However, where this derived, the second tax year basis period, and indeed the profit, is repeated for the third year.

The Personal Income Tax Decree 1993 section 24(d) makes provisions for taxpayer's right of election where he feels it will be beneficial to do so. The actual profits for the second and third tax year are computed having given notice in writing to the relevant tax authority by the taxpayer. The notice should be given within two years after the end of the second tax year, to require that the assessable profits both for the second and third tax years shall be the profits of the respective years of assessment.

Cessation of Business: When a business ceases operation, the cessation of business rules would apply. First, determine the year in which the business stopped its trading activities. This final year of cessation is called "ultimate year". The basis of assessment is the profit from January 1, preceding cessation to the actual date of cessation. In other words, the basis is ACTUAL. The second stage is to identify the period that is tax year, before the cessation took place. This preceding tax year is called "penultimate year". The basis of assessment is the usual preceding year basis. However, the revenue authority on their own volition could adjust the profits to ACTUAL if this would be higher than the figure arrived at earlier.

Change of Accounting Date: Section 23(3) of Personal Income Tax Decree makes provision for a business that wishes to change its accounting year-end. Again, the relevant tax authority must be adequately informed of the change of accounting date. To carry out tax computation under change of accounting date, the following steps are necessary:

1. Identify the tax year in which the business fails in making up its accounts to the previous date.
2. Identify also the two tax years that follow the one stated in step 1 above.
3. Then compute the assessment for the first tax year as a result of the change in the accounting date using old accounting date as basis period.
4. Calculate the two tax years that follow step 3 above also using the old accounting date as basis period.
5. Using the new accounting date as the basis period, compute the assessments for the for the three tax years in step 3 and 4 above.
6. Aggregate the results in steps 3 and 4 above and compare with the total of the three years in step 5 above.
7. The relevant tax authority would adopt the higher amount obtained in step 6 above as the assessment for the period.

Personal Income Tax Computation Format

EARNED INCOME	N	N
Salary		x
Commission/Bonus		x
Pension		x
Income from trade, business, profession, or vocation		x
Benefits-in-kind		x
Fees or allowances		x
		xx
UNEARNED INCOME		
Dividend (Gross)	x	
Rent (Gross)	x	
Interest on bank deposit account	x	
		xx
STATUTORY TOTAL INCOME		xxx
Deduct Charges (if any):		
Mortgage interest paid	x	
Approved subscription	x	
		(xx)
NET STATUTORY TOTAL INCOME		xxx
Deduct Personal Reliefs:		
Personal allowance	x	
Children allowance	x	
Dependent relative allowance	x	
Life assurance premium	x	
Disabled person allowance	x	
		(xx)
TAXABLE/CHARGEABLE INCOME		xx

Note: The tax table is applied to taxable income to arrive at the amount of tax to be paid or payable to the relevant tax authority.

TABLE OF TAX

This table is applied to taxable income once it is determined to arrive at tax payable.

	N	%
First	30,000	5
Next	30,000	10
Next	50,000	15
Next	50,000	20
Over	160,000	25

(ii) The Companies Income Tax Act Cap 60 LFN 1990

This Act regulates the taxation of companies (other than those engaging in petroleum operations) throughout the country.

The act defines a company as any company or corporation (other than a corporation sole) established by or under any law in force in Nigeria or elsewhere.

The relevant tax authority in respect of companies income tax is the Federal Board of Inland Revenue.

Income Chargeable

The Act provides that tax shall, for each year of assessment, be payable upon the profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of:

(a) any trade or business;
(b) rent or any premium arising from a right granted to any other person for the use or occupation of any property;
(c) dividend, interest, royalty, discount, charges or annuities;
(d) any amount deemed to be income or profit under the provision of the Act;
(e) fees, dues, and allowances for services rendered and
(f) any amount of profits or gains arising from acquisition and disposal of short term money instrument like government securities etc

Income Exempted

The following profits are exempted from income tax under section 19 of the companies income tax Act:

(a) Profits of any company being statutory or registered friendly society;
(b) Profits of ecclesiastical, charitable, or educational institutions of a public character;
(c) Profits from sporting institutions;
(d) Profits of trade unions
(e) Profits of corporate bodies established under any local government or state law;
(f) Profits of a co-operative society registered under any enactment or law relating to co-operative societies.

The only caveat here is that the gain must not be the product of a trading activity; otherwise, it will be subject to companies income tax.

Deductible Expenses

Taxable profits of a company are arrived at by deducting only expenses “wholly, exclusively, necessarily and reasonably” incurred in the production of income. Section 20 of the Act lists out certain expenses that are deductible. These include capital in acquiring profits, expenditure on repair of assets used in acquiring income, bad and doubtful debts etc. Deductions not allowed include capital repaid or withdrawn and any expenditure of a capital nature; any sum recoverable under an insurance or contract of indemnity; taxes on income or profits levied in Nigeria or elsewhere; depreciation of any assets; any sum reserved out of profits; any expenses of any description incurred within or outside Nigeria for the purpose of earning management fees unless prior approval of an agreement giving rise to such management fees has been obtained from the Minister etc

Basis of Assessments

Company profits, for tax purposes, are arrived at by allowing certain expenses to be set off against the receipts of a company in question during a year of assessment. The total profits on which tax is charged is the sum of assessable profits from all sources in the year of assessment less any set off or charges and allowances in respect of capital expenditure. At present, the rate at which tax is charged is 30%. However, where it appears that for any year of assessment the business of a company produces no assessable income, the company may be charged on such fair and reasonable percentage of turnover.

It is important to know the period the income is subject to tax. In other words, what is the basis of assessment of companies in respect of companies' income tax? The basis of assessment is the income of the year preceding the year of assessment, that is, the income of the previous year. This is referred to as the preceding year rule. The year of assessment is the period from January 1 to December 31.

To avoid undue delay in the collection of tax when a company changes its accounting date and when a company commences business, there are exceptions to the above general rule. Thus where the accounts of a company are made up to a date other than December 31, the tax authority may make an assessment for the year of assessment in which the change in accounting date occurs and for the two following years of assessment on such basis as the tax authority in its discretion may decide.

When a company commences business, the assessable profits of the company are computed as follow:

(a) For the first year of assessment in which the business or trade commences, the assessable profit is the amount of profit of that year.
(b) For the second year of assessment, the assessable income or profit is the amount of profit of the first twelve months of the trade or business
(c) And for the third and subsequent years, the assessable income is the profit of the preceding year.

Section 25 (3) (d) of the Companies Income Tax Act 1990 provides an option under which the current year basis may be used. Thus a company may elect that assessment for the second and third years be adjusted to the actual profits of those years on giving notice to the tax authority. On a practical note, this option is only useful where the assessment on actual basis will entail paying less tax.

Where a company's trade is permanently discontinued, its assessable income for the year of assessment in which the cessation occurred shall be the full that year. As for the penultimate year of assessment (penultimate year already discussed under personal income tax), the assessable income would be either the actual income for that year or the assessable income computed under the general rules of the preceding year basis, which is greater.

Note that trading expenses are only deductible if incurred after the date of commencement of business and the right to carry forward any unused capital allowances or unrelieved losses ends when a trade ceases. But receipts and payments made to a company's receiver or liquidator after the date of cessation are treated as received or paid on the last day of its trade or business.

Treatment of Losses

The losses incurred by a company in any trade or business during a preceding year of assessment are deductible in computing the total income of the company for income tax purposes. But under no circumstance shall the aggregate deductions from assessable profits or income in respect of the losses exceed the amount of such losses.

Furthermore, the amount deductible for any year of assessment in respect of a loss incurred during a preceding year is limited to the amount of assessable profits included in the total profits of that year and derived from the source in connection with which the loss was incurred. The loss may be carried forward for four years and set off against the particular trade that sustained the loss. However, in respect of companies engaged in agricultural trade or business, losses incurred can be carried forward indefinitely until they have been completely wiped out.

Capital Allowances

For an item of expenditure to be deductible, it must be of revenue nature, rather than of capital nature. However, relief from taxation may be given in respect of capital expenditure by means of the system of capital allowances, the appropriate allowance being set off against taxable profits in a manner similar to that of relieving losses. The capital allowance is given in lieu of depreciation.

Capital allowances may be defined as a form of standardized depreciation given under the income tax law on certain specified qualifying capital expenditures. They are granted in place of depreciation charges, which are disallowed by the income tax law in computing assessable income.

To qualify for capital allowance the following conditions must be satisfied:

(i) The capital allowance must be claimed for by the company except where the tax authority is of the opinion that it is just and reasonable to grant the allowance without a claim.

(ii) The claimant must be the owner of the asset

(iii) The capital expenditure incurred must be for the purpose of the trade or business

(iv) The claimant must incur qualifying capital expenditure as defined in paragraph 1 schedule 2 of the companies income tax Act, in respect of the defined assets. The qualifying expenditures relate to buildings, industrial buildings, mining, plant and machinery, furniture and fittings, public transportation, housing estate, agricultural plant, research and development, ranching and plantation, construction plant and manufacturing industrial plant.

(iii) The petroleum Profit Tax Act Cap 354 LFN 1990

The Petroleum Profits Tax Act regulates the taxation of oil producing companies including the Nigeria National Petroleum Company which owned by the Federal Government. The oil producing companies are in some cases in joint venture with Nigeria National Petroleum Company to produce crude oil for sale. The Act regulates the assessment and collection of petroleum profit tax which account for over 80% of the total tax collection.

(iv) The Industrial Development (Income Tax Relief) Act 1979

The Act does not impose tax, but provides for industrial incentives by way of exemption from tax for all companies that might be accorded pioneer status by the Industrial Development Coordination Committee of Ministers.

(v) Capital Gains Tax 1967

This Act imposes tax on profits derived from the sale of capital items for example property, shares in companies, etc. The rate of tax is 20 percent of the net gain after deducting the original cost of the asset and the expenses of sale.

(vi) The Stamp Duties Act 1939 as Amended

This regulates transactions which are subject to ad valorem duties to give them legal backing. Under this Act, those matters over which the States had no tax collection jurisdiction are stamped by the Federal Board of Inland Revenue for example stamp duties for the registration of capital of new companies are collected by the Federal Board of Inland Revenue. Stamp duties on legal transaction involving individuals only are payable to the respective States.

(vii) Value Added Tax Decree 102 of 1993

This is a consumption tax on the supply of goods and services. It is collected on behalf of the government by those who supply goods and services and paid for by the buyer or consumer of the goods and services. V.A.T. is normally included in the invoice which must be issued for every transaction the supplier or seller. It is charged at the rate of 5%. The tax is collected by the Federal Government through the Federal Board of Inland Revenue.

Goods and Services Exempted from VAT

The following are exempted from VAT:

1. All medical and pharmaceutical products
2. Basic food items
3. Books and educational materials
4. Baby products
5. Fertilizer locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.
6. All exports
7. Plant and machinery imported for use in the Export Processing Zone.
8. Plant, machinery and equipment purchased for utilization of gas in downstream petroleum operation
9. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purposes
10. Medical services
11. Services rendered by community banks, people banks and mortgage institutions
12. Plays and performances conducted by educational institutions as part of learning.
13. All exported services.

All exported goods are zero-rated, that is such goods are VATable but at zero percent. This means that no VAT is collected from the foreign buyer and at the same time any input tax is refundable.

Table 7 Tax Revenue by Composition (Naira Million)

	1999	2000	2001	2002 1/	2003 2/
Petroleum Profit Tax & Royalties	164,273.40	525,072.90	639,234.00	392,207.20	683,484.90
Companies Income Tax	46,211.20	51,147.40	68,660.00	89,104.00	114,771.10
Custom & Excise Duties	87,906.90	101,523.60	170,557.10	181,408.20	195,468.60
Value Added Tax (VAT)	47,135.80	58,469.60	91,757.90	108,601.00	136,411.20
Tax on Petroleum Product	14,376.20	25,467.20	30,240.30	0.00	0.00

Source: Central Bank of Nigeria

1/ Revised, 2/ Provisional

IV. Country- Specific Fiscal Issues

Deregulation

Federal Government will continue with its deregulation of oil sector to encourage the participation of both foreign and local investors in building local refineries to process crude oil for local consumption. At present, the government owned refineries are not working at full capacity due a number of problems. One of such problems was the local agitation for resource control by the states where oil is explored, causing political unrest within the region. To the extent that pipe-lines were destroyed, the oil workers were held hostages and much other civil unrest have badly affected the operation of the refineries. Also, the problem of technical and managerial contributed for the poor performance of the refineries. Government on its part has continued to explore peaceful ways to arrest these ugly situations. One, government set up Niger-Delta Development Commission (NDDC) with the full responsibility to carry out projects that are meaningful to the people. Also, Derivation Fund is set up in which a percentage of oil revenue is allocated to the Fund to be shared among the oil producing states. Government has promised to continue to support the (NDDC) efforts to ensure equitable distribution of the developmental projects within the oil producing region.

As a result of poor performance of the refineries, over 70% of local consumption of oil is imported from abroad. Government has taken a number of measures in order to make oil sector attractive to investors and this include the removal of oil subsidy on domestic crude oil sales to Nigeria National Petroleum Corporation (NNPC). The NNPC is government-owned oil company engaged in oil refining. The subsidy removal is one of the measures to make the market attractive to investors and to ensure a level plain ground for all participants in the market. Although, the removal of oil subsidy has contributed to the increase in federally collected revenue in 2003, it has resulted in high prices of goods and services.

Diversification

Although 80% of the country's revenue is derived from the sale of crude oil and petroleum profit tax, Nigeria is trying to develop its other untapped minerals which are at market quantity. To this end government has set up a full fledged Ministry of Solid Minerals responsible for solid mineral development. Government has also promised to give the ministry necessary support to ensure that Nigeria solid minerals are given priority just as crude oil.

Fiscal Transparency

Improving fiscal transparency and public sector governance remain priorities of the government. Government has directed that the accounts of various Ministries must be audited every year unlike what used to be during the Military regime. Government has also directed that all contracts, procurement and jobs placement must be publicly advertised and pass through the tender boards for approval. As part of government efforts to promote transparency and reduce corruption among government officials, it set up Anti-Corruption Panel to prosecute any government officials found wanting in charge of his/her duty.

V. Conclusion: Where We Stand and Where We Go?

The performance of the economy improved substantially in 2003, with the real GDP increased by 10.2 percent compared with 3.5 percent recorded in 2002. All the major sectors namely, mining (crude oil), agriculture, industry, utilities, communications, building and construction and services contributed to the substantial improvement in the aggregate output. Of particular importance is the contribution of agricultural output which increased by 6.1 percent, compared with 4.0 percent achieved in 2002 and exceeded the 5.8 percent growth target set in the 2002-2003 National Rolling Plan for the sector. The contribution of the agriculture to the aggregate output was as a result of government decision to ban some agricultural products which can be grown in Nigeria. Before the discovery of oil in Nigeria in the early 1970's, the main stay of Nigeria economy was agriculture. However, agriculture has been neglected to the background, to the extent that subsistence farming was no longer practiced by the people. It is therefore, a good decision by the government to ban some agricultural products. It is believed this will further encouraged the farmers and probably force the people to go back to farming as a means of livelihood.

As earlier mention 80% of the country's revenue is derived from the sale of crude oil due to the favorable international price of oil, as the average price of crude oil rose from US$25.04 per barrel in 2002 to US$29.61 per barrel in 2003. The question is for how long can we depend on oil for our survival as a nation? Judging from the fact that the price of oil depends on international market. Therefore, there is the need to look elsewhere especially since Nigeria is rich in other solid minerals. It is of good note that the government has realized this, that it sets up a Ministry of Solid minerals to enhance our revenue capacity. There is also the need for government to make agriculture attractive to the people so that we can achieve self-sufficiency in agriculture and even export to regain our lost glory.

Similarly, Nigeria tax laws needs to be restructured to conform with the present day realities. The laws are due for review especially the personal and companies tax laws so that our revenue base will be enhanced. Tax collection in Nigeria is mainly from organized private sector, the other people especially the self employed never pay tax. The tax administration must design a system that will bring in a lot of people who do pay tax. On its part government must be able to account for money collected, by executing projects that will have meaningful impart on the people.

Nigeria external debts as at December, 2003 stood at US$32.9 billion, while in the preceding year it stood at US$31.0 billion. The increase was attributable to the capitalization of unpaid interest and charges on Paris Club debt as well as the depreciation of the dollar vis-à-vis the Euro and Japanese Yen. From the above it shows that the debt burden hanging on the country is quite enormous and this will continue to increase due to interest charges and continued depreciation of dollar. Nigeria has continued to ask for debt cancellation, this has not received favorable consideration from the creditors. I think it is quite difficult to cancel Nigeria debts in view of the level of corruption witnessed during the Military regimes. Unless the government put in place system that will show some seriousness and commitment to purposeful and transparent governance, our creditors will not have human face.

In the past government rely on monetary financing of deficits, however, the present government has changed this policy to raising funds through the capital market and the first Federal Government bond was issued in 2003. The government was able to raise only about half of what was issued. This is a step in the right direction. It is hope that government will continue with such positive decision to help to burst the economy and making such system popular among the people. Overdependence on external debts is not favorable for a developing nation like Nigeria.

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