CHAPTER 5

FISCAL OPERATIONS

The outcome of the fiscal operations of government was mixed in 2007. At N5,715.6 billion or 25.0 per cent of GDP, the federation account revenue declined by 5.7 per cent from the level in 2006. This development was attributed to the decline in oil revenue as a result of youth restiveness in the Niger Delta, which disrupted oil production and export activities. In contrast, non-oil revenue increased by 62.0 per cent above the level in the preceding year to N1,252.6 billion, representing 5.5 per cent of GDP. The sum of N3,878.5 billion was transferred to the Federation Account in 2007, reflecting an increase of 17.0 per cent over the level in 2006.

However, prudent fiscal management during the year resulted in accumulated savings of US$22,183.9 million by the three tiers of government in 2006 and 2007. The savings comprised US$9,783.3 million brought forward from 2006 and US$12,400.6 million accumulated in 2007, which were transferred to the excess crude account.

Meanwhile, the Federal Government retained revenue and aggregate expenditure increased by 20.5 and 20.3 per cent, respectively over the levels in 2006. Fiscal operations of the Federal Government resulted in a notional deficit of N117.2 billion, or 0.5 per cent of GDP in 2007.

Provisional data on state governments’ finances indicated a modest improvement with an overall deficit of N50.7 billion or 0.2 per cent of GDP, representing an increase of 17.9 per cent when compared with N43.0 billion or 2.0 per cent of GDP in 2006. Conversely, provisional statistics on local governments’ finances showed that the fiscal operations resulted in an overall surplus of N5.8 billion, compared with N8.4 billion in 2006. The surplus was driven by increased revenue allocation of local governments in 2007. Fiscal surplus as a percentage of GDP however, dropped from 0.1 per cent in 2006 to 0.03 per cent.

The stock of consolidated public debt at end-December, 2007 was N2,597.7 billion or 11.4 per cent of GDP compared with N2,204.7 billion or 11.9 per cent of GDP in 2006. The stock of Nigerian external debt rose marginally from US$3.5 billion in 2006 to US$3.6 billion, following the contracting of new concessional loans. Domestic debt at N2,169.6 billion continued to increase owing to the issuance of new FGN Bonds for the settlement of outstanding pension arrears and payments due to local contractors.

5.1 FISCAL POLICY THRUST

The fiscal policy stance in 2007 continued to focus on strengthening fiscal consolidation and promoting growth induced development strategy. As outlined under the National Economic Empowerment and Development Strategy (NEEDS) and formulated within the context of the Medium-Term Expenditure Framework (MTEF), the fiscal strategy was directed towards eliminating infrastructural deficiencies inimical to business efficiency and improving the quality of life of the citizenry, accelerating investments in basic physical infrastructure and human capital. It was also targeted at addressing the weaknesses in the planning and budgeting processes in the country to support the development programmes of the government. The Seven-Point-Agenda of the new administration reinforced the need for infrastructural (water, power and roads) and social (health and education) developments with ultimate aim of creating wealth, generating employment and achieving the Millennium Development Goals (MDGs).

Pursuant to this broad fiscal policy objective, the government specifically strengthened its policies to consolidate the gains of the recent reforms and lay solid foundation for economic progress. The following measures were therefore initiated:
Liquidation of the outstanding debt owed to the London Club of Creditors, supported with a resolve for only concessional loans for investment programmes of the government in order to foreclose the agony of debt overhang in the future;

Massive investment in the energy sector to meet the energy need of the country and attain the objective of employment generation and wealth creation;

Adherence to the due process mechanism, in addition to promoting the twin principles of accountability and transparency to boost the ongoing fight against corruption;

Improvement in the agricultural sector to reduce food insecurity;

Suspension of import duty waivers, tax holidays and rebates, etc., hitherto conceded to industrialists to stem abuses of the incentives and shore-up revenue to the government for developmental purposes; and

Completion of the restructuring of Federal Government Ministries, Agencies and Ministerial Departments to cut wastages and ensure efficiency in the operations of government business.

5.2 FEDERATION ACCOUNT OPERATIONS

Total federally-collected revenue decreased by 5.7 per cent to ₦5,715.6 billion in 2007, representing 25.0 per cent of GDP, compared with 32.6 per cent in 2006. At that level, the total federally-collected revenue was 22.0 per cent higher than the budget estimate of ₦4,685.7 billion. This development was attributable largely to the sustained rise in crude oil prices in the international market.

Revenue from crude oil and gas exports amounted to ₦1,851.0 billion, representing a decrease of 10.8 per cent from the level in the preceding year. Similarly, revenue from the Petroleum Profit Tax (PPT) and Royalties decreased by 26.4 per cent to ₦1,500.6 billion, while the revenue from domestic crude oil sales
fell by 6.6 per cent to ₦1,094.6 billion. This development resulted from the continued restiveness in the Niger Delta Area which led to the disruption of oil production and export activities. The sum of ₦550.0 billion was deducted from the gross oil receipts for the Joint Venture Cash (JVC) Calls, ₦1,257.0 billion deducted in respect of excess crude/PPT/royalty proceeds, while the balance was set aside for distribution to the three tiers of government and other beneficiaries.

Revenue from non-oil sources rose by 62.0 per cent to ₦1,252.6 billion in 2007. The analysis of the revenue profile indicated that the Value Added Tax (VAT) increased by 30.7 per cent to ₦289.6 billion, while the Independent Revenue of the Federal Government increased by 706.9 per cent to ₦268.7 billion. In addition, collections from companies income tax and customs and excise duties rose by 33.5 and 35.8 per cent to ₦327.0 billion and ₦241.4 billion, respectively.

The rise in the non-oil revenue was due to the enhanced revenue collection machineries of the Nigeria Customs Service (NCS) and the Federal Inland Revenue Service (FIRS) and the suspension of tax concessions and waivers granted to importers. In addition, the receipts of substantial operating surpluses
from some government agencies boosted the FG independent revenue. At 5.5 per cent, the ratio of non-oil revenue to GDP rose by 1.3 percentage points, indicating the effectiveness of Federal Governments efforts at improving earnings from non-oil sources.

5.2.1 Federation Account Allocation

The sum of ₦3,878.5 billion accrued to the Federation Account in 2007, indicating an increase of 17.0 per cent over the level in 2006. Of the total, ₦3,194.3 billion was distributed among the three tiers of government and the Derivation Fund. The sum of ₦289.6 billion was deducted for the VAT Pool Account, while the sum of ₦268.7 billion accrued to the Federal Government as Independent Revenue. Similarly, the sum of ₦125.9 billion was transferred to the Education Tax Fund and Customs Special Levies account. A breakdown of the distribution amongst the three tiers of government showed that the Federal Government received ₦1,500.9 billion including deductions from natural resources, State Governments ₦761.2 billion, Local Governments ₦586.9 billion, while the sum of ₦345.3 billion as Derivation Fund was shared among the oil producing States.

5.2.2 VAT Pool Account

The sum of ₦289.6 billion accrued to the VAT Pool Account in 2007, representing an increase of 30.7 per cent over the level in 2006. A breakdown of the distribution among the three tiers of government showed that the Federal Government received ₦43.4 billion, State Governments ₦144.8 billion, while the 774 Local Governments shared ₦101.4 billion.

5.3 FEDERAL GOVERNMENT FINANCES

5.3.1 Retained Revenue of the Federal Government

Federal Government retained revenue increased to ₦2,333.7 billion or 10.2 per cent of GDP from ₦1,937.2 billion or 10.4 per cent of GDP in 2006. Analysis of the revenue showed that the share from the Federation Account was ₦1,500.9 billion; the VAT Pool Account was ₦43.4 billion; Federal Government Independent Revenue was ₦268.7 billion, the share of excess crude oil earnings was ₦299.1 billion, while “others” accounted for the balance. The rise in retained revenue was partly due to the substantial increase in the Federal Government Independent Revenue, which grew by 706.9 per cent over the level in 2006 as well as the increase in the shares from the Federation and VAT Pool Accounts.
5.3.2 Total Expenditure of the Federal Government

Aggregate expenditure of the Federal Government in nominal terms increased by 20.3 per cent to ₦2,450.9 billion in 2007. As a proportion of GDP, total expenditure declined to 10.7 per cent from 11.0 per cent in the previous year. Non-debt expenditure (total expenditure less debt service payments) rose by 25.1 per cent from the level in 2006 and was 11.3 per cent above the ₦1,983.3 billion budget estimate for 2007. Total debt service payment amounted to ₦213.7 billion, representing 8.7 per cent of the total expenditure.
5.3.2.1 Recurrent Expenditure

At ₦1,589.3 billion, recurrent expenditure rose by 14.3 per cent over the level in 2006 and accounted for 64.8 per cent of the total expenditure. As a percentage of GDP, recurrent expenditure declined to 7.0 per cent from 7.5 per cent in 2006. Most of the components of the recurrent expenditure increased relative to their levels in the preceding year. Further analysis showed that personnel cost and pensions amounted to ₦867.3 billion or 54.6 per cent of the total recurrent expenditure, overhead cost stood at ₦368.1 billion or 23.2 per cent, interest payments (external and domestic) at ₦213.7 billion or 13.4 per cent, while transfers to the Federal Capital Territory (FCT) and other transfers accounted for ₦140.2 billion or 8.8 per cent.

Interest payments on consolidated debt (foreign and domestic loans) as a percentage of GDP fell from 1.3 per cent in 2006 to 0.9 per cent in 2007. This reflected the exit of the Federal Government from the London Club debts as well as the restructuring of domestic debts.

The functional classification of recurrent expenditure showed that the outlay on administration rose by 33.9 per cent to ₦699.5 billion and accounted for 44.0 per cent of the total. Transfer payments declined by 11.2 per cent to ₦527.2 billion and accounted for 33.2 per cent of the total, reflecting a significant fall in public
debt charges, particularly domestic debts. Expenditure on economic services rose by 44.5 per cent to ₦115.2 billion and accounted for 7.2 per cent of the total recurrent expenditure. Within the economic services sector, agriculture, transport, communications and roads/construction were the key areas and absorbed 62.2 per cent of the share of the sector, while expenditure on social and community services accounted for 15.6 per cent of the total.

Fig 5.9: Functional Classification of Federal Government Recurrent Expenditure in 2007

5.3.2.2 Capital Expenditure
Capital expenditure increased in absolute terms by 37.5 per cent to ₦759.3 billion or 3.3 per cent of GDP, compared with 3.0 per cent in 2006. As a proportion of Federal Government revenue, capital expenditure was 32.5 per cent, exceeding the minimum target of 20.0 per cent under the WAMZ secondary convergence criteria. Furthermore, capital expenditure budgeting achieved 91.4 per cent implementation rate in 2007. The effective implementation of the “Due Process”, which ensured release of funds on the basis of work done, facilitated the high rate of achievement.

A breakdown of capital expenditure showed that public investment in economic services accounted for ₦367.9 billion or 48.5 per cent of the total, compared with 47.5 per cent in the preceding year. Within the economic services sector, housing, manufacturing, mining/quarrying, agriculture/natural resources, transport/communications and roads/construction absorbed 44.1 per cent of the share of the sector. Public investments in social and community services recorded an increase of 66.6 per cent over the level in the preceding year, and accounted for 17.3 per cent of total. The expenditure on sectors, such as education and health improved by 109.0 and 29.8 per cent to ₦68.3 and ₦41.8, respectively.

Public sector budgeting in Nigeria is the financial representations of anticipated government spending plans for the delivery of public goods and services, with a view to improving the material well-being of citizens over a time frame, usually one year. Thus, capital budget is the anticipated expenditure on public infrastructure or investment. Economists categorise capital budget as productive expenditure. Public investment or expenditure (Capital Budget), therefore, is considered as an engine of economic growth and development, through the provision of necessary infrastructure to ensure adequate return to private investment and performance.

In 2004, the Federal Government adopted the Medium-Term Expenditure Framework (MTEF) to address the problems of capital budget planning and implementation process in Nigeria. The MTEF is a multi-year programme which links capital spending plans of government to its macroeconomic objectives.

In spite of these improvements in the capital budget framework, capital budget design and implementation continued to be plagued by low performance in terms of releases by the Office of the Accountant General of the Federation (OAGF) and the utilisation by the executing agencies. A review of Federal Government’s capital budget implementation shows an unimpressive performance in relation to available revenue. For instance, the years 2004 to 2006 show a budget release of an average of 82.2 per cent of the approved budget while the amount released in 2007 stood at 45.1 per cent of total capital appropriation. A more serious issue is the partial utilisation of funds released to executing Ministries, Departments and Agencies (MDAs). At an average of 73.0 per cent, execution of planned capital budget gives weight to the view that capital budget implementation in Nigeria is low. This fell substantially to 62.0 per cent in 2007.

Several reasons adduced for these include late approval of budget by the National Assembly, bureaucratic bottlenecks, long process for obtaining due process certificate, lack of capacity of executing ministries and the problems of cash flow management led to idle government funds. The major implication of this is the low level of construction and rehabilitation of basic public infrastructure needed especially by the private sector to propel economic activities. This has been one of the major obstacles to achieving a sustainable growth rate and poverty reduction in the economy.

This has brought to the fore, the urgent need to improve capital budget implementation framework to realise the stated budget objectives. Therefore, the following measures are recommended:

- Entrench a more harmonious relationship between the Executive and the Legislature to facilitate the timely release of the budget;
- Involve the National Assembly during the pre-preparatory stage for their input;
- Appreciate the timely rendition of budget to the Legislature (end-September);
- Budget funds should be tied to project requirement and funds should not be thinly spread over many projects;
- The “Due Process” should be redesigned in a manner that it does not cause obstruction;
- Government should improve on fiscal transparency by providing regular and accurate information;
- Institute proper monitoring and evaluation of capital budgets.

![Fig 5.10: Functional Classification of Federal Government Capital Expenditure in 2007](image_url)
5.3.3 Overall Fiscal Balance and Financing

The current account surplus of the government increased by 36.1 per cent to N744.4 billion or 3.3 per cent of GDP, while the primary balance recorded a surplus of N96.5 billion or 0.4 per cent of GDP, compared with the surplus of N148.5 billion or 0.8 per cent of GDP in 2006. However, the overall fiscal operations of the Federal Government resulted in a notional deficit of N117.2 billion or 0.5 per cent of GDP, compared with the deficit of N100.8 billion or 0.5 per cent of GDP recorded in 2006. At 0.5 per cent of GDP, the deficit outperformed the WAMZ’s primary convergence criterion target of 4.0 per cent maximum. The overall budget deficit was financed entirely from domestic sources, with N40.2 billion from the non-bank public, N12.3 billion from privatisation proceeds and the balance from the banking system.

![Fig 5.11: Fiscal Deficit (% of GDP)](chart1)

![Fig 5.12: Financing of Deficit (Percent)](chart2)
5.4 STATE GOVERNMENTS’ FINANCES

5.4.1 Fiscal Balance

Provisional data on state governments’ finances indicated a modest increase in the overall deficit from ₦43.0 billion or 0.2 per cent of GDP in 2006 to ₦50.7 billion or 0.2 per cent of GDP in 2007. The higher deficit was attributable largely to the increased capital expenditure which rose by 46.4 per cent and transfers, notably transfers to Local Governments, which recorded an increase of 252.3 per cent.

![Fig 5.13: State Governments’ Revenue (Naira Billion)](image)

5.4.2 Revenue

Total revenue of state governments rose by 33.8 percent to ₦2,065.41 billion or 9.0 percent of GDP, compared with ₦1,543.8 billion or 8.3 percent of GDP in 2006. The analysis of the revenue indicated that allocations from the Federation Account, including the 13.0 percent oil derivation fund, was ₦1,109.34 billion or 53.7 percent, the VAT pool Account (₦144.4 billion or 7.0%), Internally Generated Revenue- IGR (₦305.7 billion or 14.8%), stabilization account (₦37.7 billion or 1.8%), share of excess oil revenue (₦258.9 or 12.5 percent); and grants and others (₦209.4 billion or 10.2%), constituted the major sources of states government revenue. The performance of IGR improved in 2007 as reflected in a higher IGR/GDP ratio of 1.3 per cent when compared with 0.7 percent in 2006. Lagos state maintained the highest internally generated revenue, amounting to ₦141.9 billion. This was followed by Rivers and Delta states with IGR amounting to ₦23.1 billion and ₦12.0 billion, respectively.

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1 The provisional data included CBN survey returns form 35 states and the FCT, excluding Jigawa state.
Table 5.1: States’ Government Revenue

<table>
<thead>
<tr>
<th>Item</th>
<th>States’ Government Revenue</th>
<th>As % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>Amount (N’ Billion) Share (%)</td>
<td>Amount (N’ Billion) Share (%)</td>
</tr>
<tr>
<td>Federation Account</td>
<td>1,016.10  65.8</td>
<td>1,109.3  53.7</td>
</tr>
<tr>
<td>VAT</td>
<td>110.6  7.2</td>
<td>144.4  7.0</td>
</tr>
<tr>
<td>Internally Generated Revenue</td>
<td>125.2  8.1</td>
<td>305.7  14.8</td>
</tr>
<tr>
<td>Stabilization Fund</td>
<td>11.9  0.8</td>
<td>37.7  1.8</td>
</tr>
<tr>
<td>Excess Crude Revenue</td>
<td>154.7  10</td>
<td>258.9  12.5</td>
</tr>
<tr>
<td>Grants &amp; Others</td>
<td>125.3  8.1</td>
<td>209.4  10.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,543.80</strong>  <strong>100</strong></td>
<td><strong>2,065.4</strong>  <strong>100.0</strong></td>
</tr>
</tbody>
</table>

5.4.3 Expenditure

The consolidated expenditure of the state governments in 2007 increased by 33.4 percent to N2,116.14 billion or 9.3 percent of GDP. A breakdown showed that, at N1,217.43 billion or 5.3 percent of GDP, recurrent expenditure was 36.1 percent higher than the level recorded in the preceding year and accounted for 57.5 percent of total expenditure.

At N854.79 billion or 3.7 percent of GDP, capital expenditure was 46.4 percent higher than the level in 2006 and accounted for 40.4 percent of total expenditure. The extra-budgetary expenditure of the states accounted for 2.1 percent of total and decreased by 59.5 percent to N43.9 billion in 2007.

The analysis of consolidated spending on primary welfare sectors indicated that expenditure on education and health declined by 7.3 and 16.5 percent below the levels in 2006 to N164.25 billion or 0.7 percent of GDP and N85.87 billion or 0.4 per cent of GDP, respectively. However, expenditure on agriculture increased by 11.5 percent over the level in the preceding year to N72.63 billion or 0.3 percent of GDP. The outlay on housing and water supply decreased by 2.3 percent and 8.0 percent, respectively, to N36.96 billion.
billion or 0.2 percent of GDP and N48.66 billion or 0.2 percent of GDP. On the whole, aggregate expenditure on key welfare sectors amounted to N408.37 billion or 1.8 percent of GDP and accounted for 19.3 percent of the consolidated total expenditure of the state governments.

5.5 LOCAL GOVERNMENTS’ FINANCES

5.5.1 Fiscal Balance
Provisional data on local governments’ finances indicated that the fiscal operations of the 774 local government councils recorded a surplus of N4.9 billion, compared with N8.4 billion in 2006. The surplus achieved was attributable, largely, to the increased revenue allocation to the Local Governments in 2007. The fiscal surplus as a percentage of GDP fell from 0.05 per cent in 2006 to 0.02 per cent.

![Figure 5.15: Local Government’s Revenue & Overall Balance (Percent of GDP)](image)

5.5.2 Revenue
Total revenue of local governments rose by 23.4 per cent from N674.3 billion in 2006 to N832.3 billion. Similarly, the revenue/GDP ratio remained unchanged at 3.6 per cent in 2007. Local government councils’ revenue comprised allocations from the Federation Account and excess crude (N568.3 billion or 68.3 per cent), the VAT pool account (N105.1 billion or 12.6 per cent), IGR (N21.3 billion or 2.6 per cent), stabilisation account (N3.7 billion or 0.4 per cent), grants and others (N3.8 billion or 0.5 per cent), state government allocations (N3.0 billion or 0.4 per cent), and the share of excess oil revenue (N127.1 billion or 15.3 per cent). The low contribution of IGR persisted in 2007 as reflected in the IGR/GDP ratio of 0.1 per cent, reflecting continued dependence on funds from the federation account.

5.5.3 Expenditure
Consolidated expenditure of the local governments increased by 24.3 per cent to N827.4 billion in 2007. However, the expenditure/GDP ratio dropped slightly to 3.5 per cent from 3.6 per cent recorded in the preceding year.
A breakdown of the total expenditure showed that recurrent expenditure, at ₦683.6 billion or 3.0 per cent of GDP, was higher than the level recorded in the preceding year by 71.7 per cent and accounted for 82.6 per cent of the total. Similarly, capital expenditure at ₦143.8 billion or 0.6 per cent of GDP was lower than the level recorded in 2006 by 46.6 per cent and represented 17.4 per cent of the total expenditure.

5.6 CONSOLIDATED GOVERNMENT DEBT

The stock of the consolidated public debt, at end-December 2007, was ₦2,597.7 billion or 11.4 per cent of GDP, compared with ₦2,204.7 billion or 11.9 per cent of GDP in 2006. The increase in the stock of consolidated debt was traceable to the rise in domestic debt arising from the issuance of new FGN bonds in 2007 to meet pension arrears and other contractual obligations of government. Consequently, the FGN bonds stock of domestic debt grew from ₦1,753.3 billion in 2006 to ₦2,169.6 billion or 83.5 per cent of total consolidated debt in 2007. At end-December 2007, external debt outstanding amounted to ₦428.1 billion (US$3.6 billion) and constituted 16.5 per cent of total consolidated debt. The stock of external public debt (in US dollars) declined by 5.2 per cent, while that of domestic public debt increased by 23.7 per cent.

5.6.1 Domestic Debt

The domestic debt stock of the Federal Government outstanding at end-December 2007 stood at ₦2,169.6 billion, representing an increase of 23.7 per cent over the level in 2006. The increase was due mainly to the issuance of new FGN Bonds (4th Series FGN Bonds) worth ₦530.5 billion and Special FGN Bonds amounting to ₦11.7 billion to settle outstanding pension arrears and other contractual obligations. The banking system remained the dominant holder of Federal Government securities in 2007 with holdings which exceeded the preceding year’s level by 39.8 per cent. The total holdings of the non-bank public declined by 12.9 per cent to ₦466.0 billion. Further analysis revealed that the banking system (CBN and DMBs) held 78.5 per cent of the total outstanding debt, while the non-bank public accounted for the
balance of 21.5 per cent. A decomposition of banking system’s holdings indicated that ₦1,410.0 billion or 82.8 per cent and ₦293.6 billion or 17.2 per cent were held by the DMBs and CBN, respectively.

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<tr>
<th>Debt by Composition</th>
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<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tr>
<td>i. Treasury Bills</td>
<td>825.1</td>
<td>871.5</td>
<td>854.8</td>
<td>695.0</td>
<td>574.9</td>
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<td>ii. Treasury Bonds</td>
<td>430.6</td>
<td>424.9</td>
<td>419.3</td>
<td>413.6</td>
<td>407.9</td>
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<td>iii. Development Stocks</td>
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<td>1.3</td>
<td>1.0</td>
<td>0.7</td>
<td>0.6</td>
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<td>iv. FGN Bonds</td>
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<td>72.6</td>
<td>250.8</td>
<td>477.2</td>
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<td>v. Special FGN Bonds</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>166.8</td>
<td>178.5</td>
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<table>
<thead>
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<td>Banking System</td>
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<td>CBN</td>
<td>613.8</td>
<td>403.5</td>
<td>408.4</td>
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<td>293.6</td>
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<td>DMBs</td>
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<td>669.1</td>
<td>726.2</td>
<td>882.9</td>
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<td>Non-Bank Public</td>
<td>215.5</td>
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<td>391.3</td>
<td>534.9</td>
<td>466.0</td>
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<table>
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<tr>
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<tbody>
<tr>
<td>2 Years and Below</td>
<td>836.9</td>
<td>938.6</td>
<td>983.7</td>
<td>897.1</td>
<td>709.8</td>
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<td>2-5 Years</td>
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<td>71.2</td>
<td>163.9</td>
<td>431.2</td>
<td>820.9</td>
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<td>5-10 Years</td>
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<td>107.0</td>
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<td>Over 10 Years</td>
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<td>231.0</td>
<td>386.0</td>
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<td>Total Debt Outstanding</td>
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<td>1,370.3</td>
<td>1,525.9</td>
<td>1,753.3</td>
<td>2,169.6</td>
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The analysis of the maturity structure of the domestic debt showed that instruments with a tenor between two (2) and five (5) years accounted for ₦820.9 billion or 37.8 per cent, compared with ₦431.2 billion or 24.6 per cent, in the preceding year. This was followed by instruments with a tenor of two (2) years and below which accounted for 32.7 per cent or ₦709.8 billion. Instruments with a tenor of over ten (10) years accounted for 17.8 per cent or ₦386.0 billion, while those with tenors between five (5) and ten (10) years accounted for ₦252.9 billion or 11.7 per cent.

5.6.2 External Debt

Nigeria external debt was substantially reduced following the pay-off of the outstanding debts owed to the London Clubs of Creditors in the first quarter of 2007. Consequently, the external debt stock outstanding at end-December 2007 stood at US$3.63 billion, representing an increase of 2.4 per cent over the level in 2006. This reflected the contracting of new concessional loans amounting to about US$84.1 million. The share of multilateral debts was US$3.06 billion in 2007 and accounted for 84.2 per cent of the total. Other commercial debts at US$0.57 billion, accounted for the balance of 15.8 per cent of the total.
5.6.3 Debt Service Payments

Total debt service payments in 2007 stood at ₦323.5 billion. This comprised ₦128.7 billion or US$1.0 billion for external debt service and ₦194.8 billion for domestic debt service. Overall, debt service payments to GDP ratio fell from 2.5 per cent in the preceding year to 1.4 per cent in 2007.

5.7 FISCAL OUTLOOK FOR 2008

The fiscal prospects for 2008 appear bright, given the market fundamentals, the expectation of high levels of oil prices in the international market and fiscal discipline in the economy. It is envisaged that the accumulation of savings from excess crude proceeds, arising from the expected rise in oil revenue, aimed at sustaining the single digit inflation recorded in 2007, would support the actualisation of the FSS 2020. The campaign against corruption coupled with the current drive for accountability and transparency, would improve the quality of government expenditure and further enhance the transformation of the economy, through the provision of the required socio-economic infrastructure for the achievement of the Millennium Development Goals (MDGs). The performance of the judiciary is also vital in sustaining political stability in the economy. The pent-up demand in the United States of America (USA) and the new industrial economies of East Asia including China and India, would continue to put pressure on demand for crude oil in the international market and provide the needed incentives for higher production quotas by the Organisation of Petroleum Exporting Countries (OPEC). Consequently, with substantial oil revenue accruing to the Federation, coupled with enhanced non-oil earnings, there is high prospect that the Federal Government fiscal operations during fiscal-2008 may result in further moderation in the overall notional fiscal deficit. More so, the expansion in capital market activities provides greater avenues for non-inflationary financing of the fiscal deficit through the domestic sources with positive implications for compliance with the WAMZ convergent criteria.
CHAPTER 6

THE REAL SECTOR

The growth in domestic output remained modest in 2007. The real Gross Domestic Product (GDP), measured in 1990 basic prices, grew by 6.2 per cent, compared with 6.0 per cent in 2006. However, output growth fell below the projected average of 7.0 per cent for the period 2003 to 2007. Growth in 2007 was broad based but driven mainly by the non-oil sector. Agriculture grew by 7.4 per cent led by crop production and fishing. Wholesale and retail trade rose by 15.3 per cent and the services subsector by 9.8 per cent. Industrial output fell by 3.5 per cent due to the poor performance of the oil sector. Mining and quarrying as well as manufacturing however grew even as electricity consumption declined. The moderation in inflationary pressure that began in 2005 was sustained in 2007, attributable largely to good agricultural harvest and non-accommodating monetary policy. Thus, the single digit inflation target was sustained two years in a row. Further expansion in output was, however, constrained by poor infrastructure, mild drought and flooding experienced in some food producing areas.

6.1 DOMESTIC OUTPUT

Provisional data indicated that, the Gross Domestic Product (GDP), measured at 1990 constant basic prices amounted to ₦634.1 billion in 2007. This represented a growth rate of 6.2 per cent, compared with 6.0 per cent in 2006 and an average annual growth rate of 7.0 per cent estimated for the five year period, 2003 to 2007. At almost 3.0 percentage points, agriculture contributed almost half of the GDP growth rate of 6.2 per cent, followed by wholesales and retail trade with 2.3 percentage points, services 1.5 percentage points and building and construction 0.2 percentage points. Industry as a group made a negative contribution of 0.8 percentage point. The growth in 2007 was attributed largely to sound monetary and fiscal policies as well as favourable credit conditions, which supported the financing of the private sector; the relative stability in the goods and foreign exchange markets; as well as in the prices and supply of petroleum products. The 6.2 per cent growth in GDP was however, lower than the target growth rate of 10.0 per cent.

Figure 6.1 GDP Growth Rate (2003 - 2007)
### Table 6.1: Sectoral Growth Rates of GDP at 1990 Constant Basic Prices (Percent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td>6.64</td>
<td>6.50</td>
<td>7.06</td>
<td>7.40</td>
<td>7.42</td>
</tr>
<tr>
<td>Crop Production</td>
<td>7.00</td>
<td>6.50</td>
<td>7.13</td>
<td>7.49</td>
<td>7.51</td>
</tr>
<tr>
<td>Livestock</td>
<td>4.19</td>
<td>6.50</td>
<td>6.76</td>
<td>6.90</td>
<td>6.91</td>
</tr>
<tr>
<td>Forestry</td>
<td>1.50</td>
<td>6.50</td>
<td>5.92</td>
<td>6.02</td>
<td>6.02</td>
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<tr>
<td>Fishing</td>
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<td>6.50</td>
<td>6.02</td>
<td>6.55</td>
<td>6.58</td>
</tr>
<tr>
<td>Crude Petroleum</td>
<td>23.90</td>
<td>3.30</td>
<td>0.50</td>
<td>-4.51</td>
<td>-5.92</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>5.44</td>
<td>10.85</td>
<td>9.53</td>
<td>10.28</td>
<td>10.32</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.66</td>
<td>10.00</td>
<td>9.61</td>
<td>9.39</td>
<td>9.16</td>
</tr>
<tr>
<td>3. Building &amp; Construction</td>
<td>8.75</td>
<td>10.00</td>
<td>12.10</td>
<td>12.99</td>
<td>13.02</td>
</tr>
<tr>
<td>4. Wholesale &amp; Retail Trade</td>
<td>5.76</td>
<td>9.70</td>
<td>13.51</td>
<td>15.26</td>
<td>15.28</td>
</tr>
<tr>
<td>5. Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Transport</td>
<td>1.20</td>
<td>5.90</td>
<td>6.35</td>
<td>6.92</td>
<td>6.93</td>
</tr>
<tr>
<td>Communication</td>
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<td>27.77</td>
<td>28.38</td>
<td>32.45</td>
<td>32.84</td>
</tr>
<tr>
<td>Utilities</td>
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<td>10.85</td>
<td>6.64</td>
<td>4.87</td>
<td>4.48</td>
</tr>
<tr>
<td>Hotel &amp; Restaurant</td>
<td>4.64</td>
<td>10.85</td>
<td>10.45</td>
<td>12.91</td>
<td>12.98</td>
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<td>Finance &amp; Insurance</td>
<td>-9.56</td>
<td>2.73</td>
<td>2.85</td>
<td>4.98</td>
<td>5.01</td>
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<tr>
<td>Real Estate &amp; Business Services</td>
<td>3.11</td>
<td>10.85</td>
<td>10.62</td>
<td>11.29</td>
<td>11.33</td>
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<td>Producers of Govt. Services</td>
<td>1.24</td>
<td>10.85</td>
<td>5.38</td>
<td>5.85</td>
<td>5.92</td>
</tr>
<tr>
<td>Comm., Social &amp; Pers. Services</td>
<td>1.30</td>
<td>10.85</td>
<td>10.50</td>
<td>10.61</td>
<td>10.66</td>
</tr>
<tr>
<td>TOTAL (GDP)</td>
<td>9.57</td>
<td>6.58</td>
<td>6.51</td>
<td>6.03</td>
<td>6.22</td>
</tr>
<tr>
<td>NON-OIL (GDP)</td>
<td>5.17</td>
<td>7.76</td>
<td>8.59</td>
<td>9.41</td>
<td>9.61</td>
</tr>
</tbody>
</table>

1/ Revised
2/ Provisional
Source: National Bureau of Statistics (NBS)

### Table 6.1(a): Sectoral Contribution to Growth Rates of GDP at 1990 Constant Basic Prices (Percentage Points)

<table>
<thead>
<tr>
<th>Activity Sector</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture</td>
<td>2.58</td>
<td>2.65</td>
<td>2.85</td>
<td>2.93</td>
<td>2.65</td>
</tr>
<tr>
<td>Crop Production</td>
<td>2.42</td>
<td>2.36</td>
<td>2.56</td>
<td>2.64</td>
<td>2.67</td>
</tr>
<tr>
<td>2. Industry</td>
<td>6.12</td>
<td>1.22</td>
<td>0.47</td>
<td>-0.62</td>
<td>-0.78</td>
</tr>
<tr>
<td>Crude Petroleum</td>
<td>6.02</td>
<td>0.84</td>
<td>0.12</td>
<td>-0.93</td>
<td>-1.08</td>
</tr>
<tr>
<td>3. Building &amp; Construction</td>
<td>0.12</td>
<td>0.14</td>
<td>0.18</td>
<td>0.20</td>
<td>0.21</td>
</tr>
<tr>
<td>4. Wholesale &amp; Retail Trade</td>
<td>0.69</td>
<td>1.24</td>
<td>1.82</td>
<td>2.16</td>
<td>2.34</td>
</tr>
<tr>
<td>5. Services</td>
<td>0.06</td>
<td>1.32</td>
<td>1.19</td>
<td>1.36</td>
<td>1.49</td>
</tr>
<tr>
<td>Communication</td>
<td>0.36</td>
<td>0.35</td>
<td>0.43</td>
<td>0.59</td>
<td>0.74</td>
</tr>
<tr>
<td>TOTAL (GDP)</td>
<td>9.57</td>
<td>6.58</td>
<td>6.51</td>
<td>6.03</td>
<td>6.22</td>
</tr>
<tr>
<td>NON-OIL (GDP)</td>
<td>3.44</td>
<td>5.36</td>
<td>6.04</td>
<td>6.65</td>
<td>6.99</td>
</tr>
</tbody>
</table>

1/ Provisional
Source: National Bureau of Statistics (NBS)

The non-oil GDP achieved a growth rate of 9.6 per cent, compared with 9.4 per cent in 2006. The improved performance was driven largely by the agricultural sector, which grew by 7.4 per cent, underpinned by the robust growth in all the components. Other drivers of growth in the non-oil GDP included wholesale and
retail trade, building and construction, and services, which recorded growth rates of 15.3, 13.0 and 9.8 per cent, respectively. In the services subsector, communication recorded the highest growth rate of 32.9 per cent, buoyed by the sustained liberalisation of telecommunication services. Indeed, all the components of the services subsector recorded impressive growth rates. In contrast, industrial output fell by 3.5 per cent, attributable mainly to the 5.9 per cent drop in crude oil production, even though the output of the mining and quarrying; and manufacturing subsectors grew by 10.5 and 9.9 per cent, respectively.

A sectoral analysis of the real GDP performance indicated that the agricultural subsector contributed the largest share of 42.2 per cent, compared with 41.7 per cent in 2006. This was followed by industry the share of which fell from 26.0 per cent in 2006 to 23.7 per cent. The share of crude oil in the GDP also declined from 21.9 per cent in 2006 to 19.4 per cent in 2007. The contribution of mining and quarrying and manufacturing components of industry remained insignificant. Services as a group contributed 16.1 per
cent to the GDP of which finance and insurance, utilities and transport accounted for 3.8, 3.5 and 2.7 per cent, respectively.

![Figure 6.4: Contribution to Growth Rate of Non-oil GDP](image)

Provisional data showed that real domestic demand at 1990 purchasers' price (GDP by expenditure approach) grew by 19.9 per cent and stood at N722.2 billion in 2007, compared with N602.4 billion (or growth rate of 7.5 per cent) in 2006. Private consumption and government final consumption expenditures were N313.6 billion and N186.6 billion, respectively, in 2007, compared with N314.8 billion and N117.7 billion, respectively, in the preceding year, indicating a downward movement in real private consumption expenditure (0.4 per cent) and a significant increase in real government consumption expenditure (58.5 per cent) in 2007. Real investment (gross fixed capital formation) also rose substantially (42.3 per cent), while net exports in real terms grew by 4.4 per cent during the period. The significant growth of government consumption was attributed largely to the increased pre-2007 general election spending, while the slowdown in private consumption may have resulted from a reduction in the real average take-home earnings of employees in the economy as a whole. As a share of aggregate demand, private consumption constituted 46.9 per cent.
6.2 AGRICULTURE

6.2.1. Agricultural Policy and Institutional Support

In 2007, agricultural production benefited immensely from the various initiatives. These included:

- The Presidential Initiative on Rice Production and Export, through the introduction of high yielding NERICA rice variety and R-box technology both of which increased the productivity of rice per hectare in 2007. The government released N1.0 billion for the multiplication of NERICA and other improved rice varieties, while the National Seed Service distributed about 560 tonnes of certified rice seeds at 50.0 per cent price subsidy to the states through the seed companies and other private producers.

- About 5,000 tonnes of improved maize seeds and 95,000 liters of agro-chemicals were distributed to farmers. The Presidential Initiative on Cassava Production and Export promoted private sector investment in the cassava downstream sector, especially in Ogun, Imo, Edo, Niger and Benue states.

- The Federal Government through the National Cocoa Development Programme provided seedlings, assorted herbicides, fungicides, insecticides and other inputs for distribution to farmers at 50.0 per cent subsidy.

- The Committee on Cotton Production in Nigeria evolved clean cotton programme, through a systematic distribution of certified seeds to farmers, as well as the re-introduction of cotton grading and the direct payment of premium to cotton growers and ginners. The stakeholders made a joint take-off contribution of N400 million to implement the programme. Also, the sum of N70.0 billion was facilitated as Textile Rehabilitation Fund to support the cotton, textile and garment industries. The Federal Government also initiated a public-private partnership for cotton production in 24 cotton producing states of the country, to increase cotton production from 300,000 to 1 million tonnes in 2007.
• The Federal Government approved a two-year Implementation Action Plan covering 2007 and 2008, as well as the provision of N423.1 million to kick start the Presidential Initiative on Rubber. To complement the previous efforts of the Presidential Initiative on Tropical Fruits, the Federal Government approved the sum of N250.0 million as its contribution for 2007 to 2008, to achieve the targets set for the production of various tropical fruits.

• The Federal Government distributed N550 million Millennium Development Goals (MDGs) loans, which was a component of the Animal Traction and Hand Tools Technology Loan Scheme to farmers. Similarly, the period of access to the N50.0 billion Agricultural Loan Scheme was extended to the end of the year. In a related development, the bill for the establishment of the National Agricultural Development Fund was passed by the National Assembly. It was expected to enhance the funding of agriculture.

• About 318,860.34 tonnes of assorted fertilizer was distributed at 25.0 per cent subsidy to farmers for the 2007 cropping season. In addition, 2,000 tonnes of different brands of organic fertilizer was delivered to the State Agricultural Development Programme (ADPs).

• The sum of N2.5 billion was released for the production/procurement of grains in the country by the Federal Government. As a result, the Federal Government met its 2005/2006 strategic food reserve target of 51,000 tonnes of grains in May 2007, with about 1,220 tonnes of processed cassava in store.

• To control trans-boundary pests, the Federal Government embarked on the rehabilitation of the Agro-Aviation unit in Kaduna, through the purchase of an Agro-Aviation aircraft, and the distribution of agro-chemicals to states. About 150 flight hours were contracted out, while 15,000 litres of avicide were dispensed over the eight (8) frontline states affected by quela birds.

• In collaboration with development partners, the poultry industry and local communities, the Federal Government drafted an integrated national avian and pandemic influenza response plan aimed at coordinating the efforts of stakeholders towards addressing the threat of avian flu.
Box 4: The National Programme for Food Security (NPFS)

Food security exists when all people, at all times, have access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. The Special Programme for Food Security is an initiative of the Federal Government of Nigeria and the Food and Agriculture Organisation (FAO) for poverty reduction in line with the thrust of the National Economic Empowerment and Development Strategy (NEEDS). It focuses attention on the application of innovative low cost technologies towards improving the productivity and sustainability of agricultural systems, with the ultimate objective of contributing to better the livelihood of farmers, through a bottom-up development approach.

In May 2000, the FAO signed an agreement with the Nigerian Government for a Unilateral Trust Fund project worth US$45.2 million in support of the National Programme for Food Security (NPFS) in Nigeria. The Federal Government of Nigeria implemented the NPFS with own human and financial resources, while the FAO provided technical support on demand to the Government.

The broad objective of the NPFS was to attain food security in the broadest sense and alleviate rural poverty in Nigeria. Also, the programme was designed to achieve the following specific objectives:

- Assist farmers in achieving their potential for increasing output and productivity and consequently their incomes on a sustainable basis;
- Strengthen the effectiveness of research and extension services in bringing technology and new farming practices developed by research institutes to farmers and ensuring greater relevance of research to the practical problems faced by small farmers;
- Concentrate initial efforts in pilot areas for maximum effect and ease of replicability;
- Improve upon experience gathered internationally for broader outlook and approach;
- Complement and refine the ongoing efforts of government in the promotion of simple technologies for self-sufficiency and surplus production in small scale rain-fed and irrigation farming;
- Train and educate farmers in the effective utilisation of available land, water and other resources, to produce food and create employment on a sustainable basis; and
- Utilise international experience for farming practice to maximise use of existing facilities and knowledge.

The programme involved technical assistance in such areas as root and tuber, cash and arable crops, animal traction, poultry, soil testing, grains cultivation, vegetable production, animal fattening and provision of grinding machines. It supported various components of agriculture, ranging from irrigation farming to the construction of micro earth dams and sinking of tube wells and irrigation systems.

The Project Coordination Unit in the Federal Ministry of Agriculture and Rural Development was established and
In the first phase of the project covering 2001 to 2006, a total of 109 sites were developed on the basis of one site per senatorial district, with one site each located around the state capital for the development of urban and peri-urban agriculture. The sites were selected based on some criteria including: accessibility, water availability and relative poverty, existence of abandoned or non-performing projects that can easily be rehabilitated/re-organised to produce good results.

The NPFS played a central role in achieving Government's agricultural policy goals of boosting agricultural production for certain priority crops and commodities such as rice, cassava, yam, sorghum, millet and vegetables. In 2004, the FAO adjudged the NPFS model the best in the world and it was recommended to other countries. Its successful results - substantially improved food security and productivity especially in marginal areas- prompted the government to triple the number of project sites to 327, under the second phase which spans 2007 to 2011. In total, the expanded programme is expected to reach six million farmer beneficiaries.

The budget for the expansion of the NPFS to cover the five-year period amounts to US$ 355.0 million. Funding is obtained from a variety of sources, with the Government of Nigeria bearing a large portion of the cost, supplemented by the World Bank, the African Development Bank (ADB), and the International Fund for Agricultural Development (IFAD), the European Union (EU) and the Arab Bank for Economic Development in Africa.

At the farmer level, the simple low-cost technologies in use during the Phase 1 had contributed to significant increases in crop production and yields in many sites. In addition, diversification into small short-cycle livestock and small scale fisheries had increased revenues for women and improved quality of household food consumption.

6.2.2 Agricultural Production

At 212.8 (1990=100), the provisional aggregate index of agricultural production increased by 6.4 per cent, compared with 7.1 per cent recorded in 2006. The growth exceeded the target of 6.0 per cent set for the agricultural sector in the NEEDS programme. The increase in agricultural production was propelled largely by the implementation of the various agricultural policies and programmes, including the prompt response to the outbreak of pest infestations, implementation of zero tariffs on imported agrochemicals and the
continued enforcement of the temporary ban on the importation of some agricultural products, notably poultry products and rice.

![Figure 6.6: Index of Agricultural Production (1990 = 100)](image)

### 6.2.2.1 Crop Production

The output of staples grew by 6.7 per cent, compared with 8.0 per cent in 2006. All the major staple crops recorded increased output over the levels in the preceding year. Similarly, the output of cash crops increased by 6.0 per cent, compared with the level in the preceding year.

<table>
<thead>
<tr>
<th>Crop</th>
<th>2006</th>
<th>2007</th>
<th>Crop</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>6.0</td>
<td>6.6</td>
<td>Plantain</td>
<td>5.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Sorghum</td>
<td>6.1</td>
<td>5.9</td>
<td>Potatoes</td>
<td>5.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Rice</td>
<td>6.9</td>
<td>7.7</td>
<td>Yam</td>
<td>6.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Maize</td>
<td>6.9</td>
<td>7.1</td>
<td>Beans</td>
<td>7.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Millet</td>
<td>6.9</td>
<td>6.3</td>
<td>Cassava</td>
<td>10.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Soya Beans</td>
<td>5.6</td>
<td>5.7</td>
<td>Palm Oil</td>
<td>6.5</td>
<td>11.4</td>
</tr>
<tr>
<td>Rubber</td>
<td>5.9</td>
<td>6.8</td>
<td>Cocoa</td>
<td>5.7</td>
<td>5.5</td>
</tr>
</tbody>
</table>

The improved performance of the crop subsector was attributed largely to the Federal Government's support for the agricultural sector in general, especially through the various Presidential Initiatives. For instance, rice output grew by 7.7 per cent, a development attributed mainly to the increase in the acreage under cultivation and the intensity of cultivation through the introduction of high yielding Nerica rice variety, as well as the Rice Box technology.

Cassava production grew by 7.4 per cent, in response to the drive to increase cassava export and the domestic consumption especially with the Federal Government’s directive to flour millers in the country to
include at least 10.0 per cent of cassava flour as input in the production of composite bread and other confectionaries. These achievements were facilitated by the increased use of improved cassava cuttings and processing facilities across the country.

6.2.2.2 Livestock

Livestock production rose by 5.5 per cent in 2007, compared with 6.0 per cent in the preceding year. Despite the series of outbreak of the avian flu pandemic in some states, the poultry subsector witnessed increased growth. This was attributed to the strict compliance with safety practices such as slaughtering of infected flocks, safe disposal of the carcasses, decontamination of the farms, improvement of bio-security, controlled movement of birds and strengthening of surveillance and disease reporting. Prompt and adequate payment of compensation to affected farmers facilitated the implementation of these measures. Thus, egg production increased by 4.6 per cent to 632,000 tonnes in 2007 driven by the utilisation of the resistant Shika Brown Chicken, developed by the National Animal Production Research Institute (NAPRI). Total milk production increased by 5.7 per cent to 1.4 million tonnes in 2007. The Government initiated several programmes to increase domestic milk production and intensified campaign on fresh milk consumption. The pilot Diary Development Programme continued in Kaduna with the formation of the Milk Producers' Associations. Other contributory factors were the encouragement of milk consumption through the primary school feeding and health programmes, introduced in many schools across the country.

6.2.2.3 Fishing

Fish output increased by 5.8 per cent to 635,200 tonnes in 2007. The production of fish through Aquaculture also increased from 68,300 tonnes to 76,300 tonnes, representing a growth rate of 11.7 per cent. However, the annual production level was much lower than the national demand of 1.5 million tonnes.

6.2.2.4 Forestry

Forestry production increased modestly by 2.7 per cent to 145.6 million cubic metres above its level in 2006. The rise was attributed to increased demand for wood products. In order to sustain wood production, the Forestry Research Institute of Nigeria (FRIN) intensified the supply of improved breeder seedlings to replace the harvested tree stocks.

In spite of the remarkable performance of the agricultural sector in 2007, some problems constrained higher production. These included inadequate and late supply of fertilizers and other farming inputs, high cost of production, as well as the invasion of farms by quela birds in most Northern states, coupled with mild draught and flooding experienced in some parts of the country.
6.2.3 Agricultural Prices

The prices of most of Nigeria’s agricultural export commodities were higher in 2007 than in the previous year. The overall index computed in US dollar terms stood at 413.6 (1990=100), representing an increase of 100.8 per cent over the level in 2006. Coffee price recorded the highest increase of 237.0 per cent due to the strong growth in world consumption which more than offset the increase in production and the flow of exports during the coffee year. The total world production in the crop year 2006/07 was 125.0 million bags, while consumption was about 120.4 million bags\(^1\). Cocoa price increased by 27.3 per cent over the 2006 level, due largely to the relatively strong demand, increased interest of investment funds in the cocoa market, and currency fluctuations\(^2\). These factors were expected to prevail in the first half of 2008. Cotton and Soya bean also recorded price increases of 120.9 and 107.5 per cent, respectively. However, the prices of copra and palm oil declined by 14.9 and 49.7 per cent, respectively. In naira terms, the all-commodities price index rose by 126.6 per cent to 5,713.1 (1990=100) in 2007. Coffee, soya bean, cotton and cocoa recorded price increases of 148.2, 146.3, 121.4 and 37.6 per cent, respectively, while palm oil and copra prices declined by 55.0 and 6.9 per cent, respectively.

Available information showed that the domestic producer prices of Nigeria’s major agricultural commodities increased in 2007. Of the thirteen commodities monitored, twelve recorded price increases, ranging from 1.2 per cent for cashew nut to 109.7 per cent for ginger (peeled), while the price of wheat fell by 24.7 per cent. The increase in prices was attributed to the high cost of farm inputs and increased demand for produce from agro-processors, industrial users and neighbouring countries.

\[\text{Figure 6.7: Average Price of Selected Cash Crops (Naira Per Tonne)}\]

\(^1\) International Coffee Organisation (ICO)  
\(^2\) International Cocoa Organisation (ICCO)
6.3 INDUSTRY

6.3.1 Industrial Policy and Institutional Support

As part of efforts towards the implementation of Nigeria’s Industrial Policy 2003, which focused on the competitiveness of the industrial sector, finance, technological advancement, incentives to industries, research and development, among others, the National Integrated Industrial Development (NIID) blueprint was adopted by the Federal Government in 2007. The NIID is a country service framework developed by the United Nations Industrial Development Organisation (UNIDO) in collaboration with the Federal Ministry of Industry and other stakeholders. The framework comprised four integrated programmes viz:

- Industrial governance and public–private sector partnership;
- Strengthening industry institutional support base: cluster development initiative to grow the Small and Medium Enterprises (SMEs) using common facilities;
- Environment and Energy: The challenge of low power generation and utilisation to be addressed through rural renewable energy; and
- Rural private sector agro-industrial development.

The Lagos, Kano, Aba and Port-Harcourt (LOKAP) Industrial Action Plan was also developed in recognition of the infrastructural decay and the absence of focus in addressing the needs of these four industrial cities.

The Federal Government adopted the recommendation of the Presidential Committee on the Revival of the Textile Industry in Nigeria with the approval of a N50.0 billion loan to the textile subsector. Efforts to boost the development of SMEs through the construction of one industrial park in each of the six geo-political zones of the country by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) continued. The parks would provide serviced industrial plots with regular power supply, portable water and sewage system, among others.

In line with the Federal Government objective of increasing the level of electricity generation in the country through greater private sector participation, the Nigerian Electricity Regulatory Commission (NERC) issued 14 new licences in 2007 to private sector operators, for the establishment of independent power plants of varying capacities with expected total output of 6,010.0 MW. All the licensed power generating plants were gas-based. This brought the total number of licenses issued by the Commission to 23, with expected total output of 9,152.0 MW. Also, the Commission granted two new licences to electricity distribution companies.
Further, the NERC opted for the Multi-Year Tariff Order (MYTO) against the single year order as a means of addressing the problem of electricity pricing in Nigeria. The underlying pricing principles guiding the development of the MYTO model included the following:

- Cost recovery and financial viability model, where regulated entities would be permitted to recover their costs of operation plus a reasonable return on capital;
- Certainty and stability of the pricing framework;
- Simplicity and cost effectiveness of managing the tariff structure;
- Incentives for improving performance (quality of service); and
- Non-discriminatory access to monopoly networks.

6.3.2 Industrial Production

The index of industrial production, estimated at 120.6 (1990 = 100), fell marginally by 0.2 per cent below the level in 2006. This development was attributable largely to the 6.8 and 3.7 per cent decline in mining output and electricity consumption, respectively. Manufacturing production, however, increased marginally.

![Figure 6.8: Index of Industrial Production (1990 = 100)](image)

6.3.2.1 Manufacturing

The index of manufacturing production estimated at 89.7 (1990 = 100), increased by 0.2 per cent above the level in 2006. Correspondingly, the average capacity utilisation rate of the manufacturing subsector increased from 53.3 per cent in 2006 to 53.5 per cent in 2007. The marginal improvement was attributed largely to the improved performance of the cement subsector, following the coming on stream of the Obajana Cement Plant during the year and the refurbishment of some other cement plants across the country. Other subsectors that recorded improved output were the metal products, basic metal products, wood products, pharmaceuticals, rubber/plastic products, among others.

The improvement in the performance of these subgroups was attributed, among others, to the increased demand for building materials consequent on the upsurge in the activities of the mortgage sector and
surveillance activities of the regulatory agencies, such as the National Agency for Food, Drug Administration and Control (NAFDAC) and Standard Organisation of Nigeria (SON), which limited the influx of sub-standard imports. Also, the basic metal group benefited from the reduction in the duty on steel wire from 60 per cent to 5 per cent. However, the food & beverages and the textiles subsectors recorded poor performance. This was attributed largely to the influx of substandard and cheaper imports into the country. The textiles subsector also suffered from high cost of local raw materials that led to the closure of some textile factories during the year.

Other factors which constrained growth in manufacturing production included continued deterioration in infrastructural facilities, especially power supply which resulted in production stoppages and higher operational costs; scarcity/incessant increase in the price of natural gas, low pour fuel oil (LPFO); multiple taxes/levies by the three tiers of government; poor port administration/management; inadequate long-term loans and high interest rates/charges; as well as high level of insecurity of lives and property.

![Figure 6.9: Index of Manufacturing Production and Capacity Utilization](image)

**6.3.2.2 Mining**

**6.3.2.2.1 Crude Oil**

In furtherance of the Federal Government's efforts at deregulating the downstream sector of the oil industry, approval was given to the Sharks Petroleum Development Company, a German oil conglomerate and Orient Petroleum Resource Nigeria Limited in 2007 to build private refineries in Bauchi and Anambra states, respectively. The Federal Government also evolved an alternative energy development strategy through a bio-fuel initiative that would blend ethanol with petrol with the aims of reducing the country’s dependence on crude oil as well as integrating the oil and gas sector with the agricultural sector. In addition, the 2007 bid round for oil blocks was conducted in May.

On the regulatory front, The National Energy Council was set up with the mandate to restructure the Ministry of Energy and the Nigerian National Petroleum Corporation (NNPC). The Council is headed by
the President, Federal Republic of Nigeria, with the Vice President as the Vice Chairman. Other members of the Council included relevant Special Advisers to the President, Representatives of relevant Ministries, Parastatals and Agencies. Consequently, a new national oil company known as the National Petroleum Company of Nigeria (NAPCON) and designed to have seven directorates and two subsidiary companies was established. The directorates are:

- Refinery and Petrochemical;
- Upstream, Marketing and Investments;
- Gas & Power;
- Engineering and Technology;
- Finance, Accounts and Corporate Services;
- Petroleum Products Distribution Authority;
- National Oil and Gas Assets Holding and Management Services company.

The subsidiary companies are:

- National Petroleum Directorate; and
- Petroleum Inspectorate Commission;

Crude Oil Production and Prices

Production

Nigeria’s aggregate crude oil production, including condensates, averaged 2.15 million barrels per day (mbd) or 784.75 million barrels in 2007, compared with 2.23 mbd or 813.95 million barrels in 2006, representing a decrease of 3.6 per cent. The decrease in oil output was due to several production shutdowns enforced on most oil companies including Shell Petroleum Development Company (SPDC), Exxon Mobil, Nigerian Agip Oil Company (NAOC) and Chevron, by continued militant attacks on oil production facilities in the Niger Delta area throughout the year. By the end of the 1st quarter of the year, for instance, 587,000 bpd had been shut in. However, increased production by companies such as Addax petroleum ameliorated the effects of the disruptions. Aggregate export of crude oil averaged 1.70mbd or 620.50 million barrels for the year, compared with 1.80 mbd or 656.09 million barrels in 2006, while 0.445 mbd or 162.43 million barrels was set aside for domestic refining.

Prices

The average spot price of Nigeria’s reference crude, the Bonny Light (37° API), stood at US$74.96 per barrel, compared with US$66.46 per barrel in 2006, representing a 16.5 per cent increase. The average price of the Forcados, UK Brent and West Texas Intermediate crude streams also rose by 16.5, 16.4 and 14.6 per cent respectively. Similarly, the average price of OPEC’s basket of 12 crude streams rose from
US$61.08 per barrel in 2006 to US$69.02 in 2007. Crude oil prices increased primarily in response to the sustained high demand for crude oil by China and India, and the disruption of supply from Nigeria and the Middle East.

6.3.2.2.2 Gas

An estimated total of 65,936.5 million cubic meters (MMm3) of natural gas was produced in 2007 compared with 57,753.7 MMm3 in 2006, an increase of 14.2 per cent. This was attributed to the operationalisation of the Bonga and the Erha offshore fields which contributed about 20.0 per cent of the nation’s gas. Out of the quantity produced, 34.5 per cent was flared, while the balance of 65.5 per cent was utilised. Of the quantity utilised, about 26.3 per cent was sold to industries, such as Nigeria Gas Company (NGC), Power Holding Company of Nigeria (PHCN) and cement and steel companies, as against 2.7 per cent sold in 2006. Gas converted to natural gas liquids and gas lift accounted for 4.3 and 89.1 per cent, respectively. The oil producing companies used 19.0 per cent as fuel gas.
6.3.2.2.3 Solid Minerals

Institutional Support for the Sector

The Federal Government in 2007 mapped out new measures to strengthen and reposition the subsector. The following institutional reforms were embarked upon. In the bid to enhance the inflow of foreign investment into the solid minerals subsector, the Minerals and Mining Act of 1999 was reviewed in 2007 with the aim of ensuring greater transparency and efficiency in the assignment of mineral blocks in the country. The 2007 Minerals and Mining Act was therefore passed into law in March, 2007.

Key elements of the new Minerals and Mining Act, 2007 are;

- Access to mineral title open to all big and small, foreign and local on a level and equitable playing field and on a “first come first served” basis;
- Guaranteed security of tenure and transferability of mineral rights;
- The application of ‘use it or lose it’ principle in mineral title administration;
- Provisions for sound environmental control and community development agreements; and
- Involvement of other stakeholders through the creation of States’ Mineral Resources and Environmental Management Committees to facilitate access to land.

Restructuring of the Ministry

The Ministry of Solid Minerals Development with one technical department and four service departments was restructured in January 2007 to include the steel component of the defunct Ministry of Power and Steel. The new Ministry was renamed the Ministry of Mines and Steel Development and composed of three additional technical departments.