

# [Aspects of economic reforms in the nigerian fourth republic assignment](https://assignbuster.com/aspects-of-economic-reforms-in-the-nigerian-fourth-republic-assignment/)

ASPECTS OF ECONOMIC REFORMS IN THE NIGERIAN FOURTH REPUBLIC BY ADEBAYO, A. ADEKUNLE E-mail :[email protected]com & YUSUF M. 0 (MRS) DEPARTMENT OF ECONOMICS MICHAEL OTEDOLA COLLEGE OF PRIMARY EDUCATION, NOFORIJA, P. M. B. 1028, EPE, LAGOS STATE, NIGERIA. ASPECTS OF ECONOMIC REFORMS IN THE NIGERIAN FOURTH REPUBLIC ABSTRACT In Nigeria, the return to democratic rule in 1999 led to a myriad of programmes and strategies that were aimed at refocusing the face of the economy so as to resolve the difficulties which years of military rule had placed on it.

This reform was, conceptualized principally in the form of a medium term development strategy called the National Economic Empowerment and Development Strategy (NEEDS) within which framework a number of specific reform measures were implemented in different sectors of the economy. This paper provides a broad overview of some of these reform measures clearly indicating the historical setting which necessitated them, the basic features of the reforms and the perceived merits and shortcomings.

Recommendations were also proffered on how to better reposition them for greater impacts. INTRODUCTION The Nigerian economy is often described as a paradox. The nation is rich yet the people are poor. Despite an abundance of natural resources including crude oil, agriculturally fertile land and a significant level of human capital, the poverty level of about 67% of the population remains one of the highest in the world. Since the 1980s, the nation had battled with a problem of poor economic performance and a very low level of human development.

In recognition of this fact and based on the perception that the economy required a major restructuring, a Structural Adjustment Programme (SAP) was embarked upon beginning from 1986. The SAP was designed as a package of economic recovery policies meant to adjust the structural landscape of the nation’s economy, pull her out of economic stagnation, place her on the path of self reliant economic growth and ensure sustainable human development. However, there is now a general consensus among analysts and policy makers that despite some initial gains, SAP compounded rather than alleviate the deficiencies inherent in the nation’s economy.

The major impacts of the programme were in the forms of rapid increase in the price level and high rate of inflation; massive unemployment; deterioration in infrastructure, health care and education; distress in the banking sector; low capacity utilization and collapse of the industrial sector; reckless public spending and attendant huge government deficits; corruption, large expansion in the nation’s external debt, and a general loss of confidence in the economy (Adebayo, 2004; Anyiwe, 1994; Okoh, 1994; Olashore, 1991).

Thus, with the return to democratic rule in 1999, one of the cardinal agenda of the democratic government was the re-engineering of the nation’s economy in order to reposition it for improved performance and sustained development. To this end, a medium term development strategy dubbed the National Economic Empowerment and Development Strategy (NEEDS) was formulated as an overall framework for economic readjustment along with other structural, fiscal and monetary reforms.

The NEEDS had four principal objectives namely; poverty reduction, wealth creation, economic growth and value re-orientation in Nigeria. In achieving these stated goals of NEEDS a number of broad policy instruments were instituted including reforms in various sectors of the economy especially the financial and the public sectors. It is within this context that this paper is situated, the paper provides an overview of the economic reform programmes embarked upon following the return to democratic governance in 1999.

It appraised the benefits of these reforms as well as their possible shortcomings. Appropriate recommendations were also offered. THE NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT STRATEGY NEEDS is a medium term development strategy that was expected to run from 2003 to 2007. The goals were four viz, poverty reduction, wealth creation, employment generation and value re-orientation.

Its main strategies were public sector reforms; privatization/liberalization; transparency, accountability, efficiency, waste reduction and service delivery in governance; anti-corruption; infrastructure development in key sectors; coherent and consistent trade policy; explicit sectoral strategies for agriculture and SMEs; social charter for human development in education, health, housing, employment and youth development; gender and geo-political balance adjustment; safety nets such as pension reform; etc (Nigerian Economic Society, 2004: 8 -11).

The key feature of the programme was the promotion of the private sector as the engine for economic growth in terms of wealth creation, employment generation and poverty reduction while government acts as a facilitator / regulator, and the re-orientation of people towards hard work / efficiency, transparency and accountability and selfless service to the nation.

NEEDS proposed a 5% – 7% growth in GDP within 3 years, 5% reduction in poverty rate per year between 2003 and 3007, single digit inflation, 70% capacity utilization and increase in power generation from 6000 megawatts to 10000 megawatts. As a development policy document, NEEDS was commended by many. The document is all embracing. It gave consideration to the vital policy areas of the national life and is multi-sectoral in nature.

It was to be implemented through a nationally coordinated close collaboration with the 36 states (each of whom were required to institute a counterpart programme dubbed SEEDS – State Economic Empowerment and Development Strategy) and local governments (LEEDS – Local Economic Empowerment and Development Strategy), and provided for certain level of stakeholder participation in its formulation and monitoring/evaluation process. However, whether NEEDS constituted an effective poverty reduction framework remain contestable.

The strategy was situated within the economic deregulation / liberalization policy of the government. Experience in Nigeria has shown that deregulatory measures, in the face of inadequate safety nets, work more against than in favour of the poor. There is also a noticeable weak implementation of the poverty reduction strategies of the programme. The government’s notorious inability to provide adequate social infrastructure hindered the effectiveness of the programme with reform measures achieving at best partial successes in a few sectors such astelecommunications.

There were no clearly defined measures for using the NEEDS for poverty alleviation, rather, the poverty alleviation effects were expected more as trickle down effects from the general restructuring of the economy. This is a serious deficiency given that in an economy, government policies and programmes have an inherent tendency to favour the non-poor more than the poor unless deliberate efforts are made to make them pro-poor (Osinubi, 2003). PUBLIC SECTOR FRINGE BENEFITS MONETIZATION PROGRAMME

Following independence in the 1960s, there was a general perception in the developing world that the government needed to take charge over the control of the national economy if the anticipated and desired rapid economic development is to materialize. This was a direct consequence of the then dominant thesis in development theory that government was in the best position to engender the accumulation of capital and mobilization of the human resources needed for rapid economic growth and development.

To this end, the government in Nigeria decided to take charge of the commanding heights of the economy via huge expansion in the establishment of public enterprises, massive development of infrastructures and increased provision of social services leading to huge increments in the size of the public service with attendant rapid expansion in government expenditure. Thus, by the 1990s, public sector employment accounted for as much as 60-75% of modern sector employment in the country while public servant emoluments constituted over 70% of government expenditure (Hassan, 2005).

With time however, the general perception of the role of the public sector in the economy changed radically in favour of less government involvement and private sector led development. This change is consequent upon the failure of huge government dominance in the economy to translate to efficient service provision and economic progress. The failure of public institutions and enterprises due to endemic culture of corruption, wasteful spending on white elephant projects, debatable commitment of public servants to their duties, and inefficient public sector service delivery prompted a need for he reform and general repositioning of the public service for improved performance within the framework of a leaner and more efficient government. With the return to democratic rule in 1999, the new government commenced a widespread reform of the institutions and instruments with which governance is carried out as means of structurally transforming the role of the state in the development process.

Such a reform, it was hoped, would assist in “ reducing the cost of governance which had been escalating due to the burden of providing basic amenities to public servants by the government” and that this would “ result in higher efficiency in resource allocation, equity in the provision of amenities and minimize wastes, misuse and abuse of public facilities among others” (Federal Government of Nigeria, FGN, 2003). Three key components of this reform were discernible namely; reduction in the size of the civil service, monetization of fringe benefits of public servants and a pension reform agenda.

Monetization is a process through which some material and non ??? material economic variables are converted into their monetary value. Conceptually therefore, public sector fringe benefit monetization is “ the conversion of worker’s benefits previously made available in kind to public officers into their cash payments” (Ahmed, 2004 in Ayodele and Falokun, 2005). While the policy had been widely practiced in the private sector, the public sector had traditionally paid the benefits of its employees in kind and was implementing the monetization framework for the first time.

Compensation that are broadly regarded as fringe benefits include things like subsidized meals and cars, life insurance, health services, housing, vacations and other paid leaves such as sick leave, subsidized canteen, bonuses, rewards and awards, non contributory pensions, etc. Issues bothering on compensation administration in the public sector fall under the category of public expenditure management which is a subset of government’s fiscal management strategies. Traditionally, government attains desired macroeconomic objectives through its fiscal policy, a key objective of which is to achieve balance in the use of societal resources.

Wagner’s theory of ever increasing state activity has highlighted the fact that government expenditure are bound to increase over time. However, while it is recognized that, in a developing country like Nigeria, growth in public expenditure are inevitable because of the need t o finance development, it is equally argued that persistent domination of public sector finance by less productive investments such as unjustifiable subsidies, unprofitable government enterprises, and the compensation of an over bloated, unproductive workforce are inimical to progress.

It has been severally noted that the public sector in Nigeria remains inefficient and non ??? responsive and that financial management within the sector needed to be improved. Among the factors adduced for this is the compensation structure, which is regarded as being very poor and needing upgrading (Nigerian Economic Summit Group, 1998). Before the reform an average public servant typically earned less than fifty percent of his counterpart in the private sector.

This had not only encouraged high caliber personnel from seeking employment in the sector but had also encouraged a culture of late coming, absenteeism, lack of commitment and widespread corruption among public servants as many of them took up supplementary part time jobs or rent seeking survival strategies. The rationale for the monetization programme therefore covered two frontiers: 1. improvement in the employee reward system in order to achieve an equitable reward for all categories of staff, and 1. the need for effective management of national resources and thus achieve effective resource allocation. Ayodele and Falokun, 2005) Within this framework the driving forces of the programme were to: \* alleviate poverty among public servants, \* promote good governance and ensure transparency and accountability within government processes, \* encourage public servants to own personal assets such as houses for comfortable post service life, \* minimize wastes, misuse and abuse of public facilities \* achieve reduction in capital, maintenance and running costs, \* promote the observance of maintenance culture and discipline in the use of public utilities, \* reduce the rent cost burden on government, and provide a stronger base for the execution of more capital projects (Ayodele and Falokun, 2005; Hassan, 2004) The application of the programming covered all political office holders (around 1, 448 in number), Federal public service (about 996, 744), judicial officers (1, 152), and the national assembly (469) (Akpo, 2003). Thus, about one million people were expected to be affected at the federal level. The states and local governments were also to be encouraged to emulate the policy.

The amount applied varied from fixed sums on some items to varying rates on others. It also varied across employee status. The items involved include residential accommodation, furniture, domestic servants, transport/ motor vehicle fueling and maintenance, motor vehicle loans, medical treatment, meal subsidy, utility, leave grant, drivers and personal assistants for affected officials (Ayodele and Falokun, 2005). Some of these such as leave grant and motor vehicle loans were previously already being paid in cash while others were to be affected for the first time.

A number of problems had been noticed concerning the implementation of the programme. These include: \* inadequacy of fund for effective implementation of the policy \* ineffective phasing of the programme \* poor enforceability of the policy especially among states and the local government who ordinarily were to be encouraged to copy the programme, and \* Non uniformity in the implementation process which led to policy confusion and workers distrust. BANK REFORM AND CONSOLIDATION AGENDA

Commercial banks through their activities influence in no small manner, the economic welfare of the citizens in a country. By their ability to create money, they constitute one of the most important determinants of aggregate money supply and by consequence the overall level of economic activity in the country. Most governments therefore attempt to control the behaviour of the banking system so that it operates in a desired direction with regard to the economic well-being of the society.

As a result, the government as a matter of obligation also regularly seeks ways and means of building and sustaining the confidence of the public in the country’s banking system. One of such ways is by ensuring that banks maintain adequate capital to back their operations. In July 2004, the minimum capital (Shareholders Fund) of banks in Nigeria was raised by the Central Bank from N1 billion to N25 billion effective from December 2005. According to the Central Bank Governor, Charles Soludo, who was the main proponent of the policy: “ The reform will create a sound banking system that depositors can rust, secure depositors fund, encourage industry consolidation and reduce systemic risk; improve transparency and accountability in the sector, and thus fight corruption, drive down the cost structure of banks and make them competitive and development oriented; ultimately drive down interest rate and overall cost of credit to the economy; and ensure Nigeria meets the minimum requirements for regional financial integration, and is positioned to be a key regional and global player (The Guardian, 2004a). There were thus two rationales for the bank reform programme namely: \* to encourage consolidation of banks; and to ensure that banks in existence are financially sound and healthy (WEMA Bank, 2004). The major strategy that the CBN pushed across for meeting the new requirement was merger and acquisition. It was believed that mergers would lead to banks that are better repositioned to meet real banking challenges that meet international standards with enhanced efficiency in the home front. The expected gains from such include: \* Increased size and market share will give bank more credibility in dealing with larger customers and big-time investors, thereby leading to bigger and more value-adding transactions. Bigger bank size can open doors into overseas markets. \* Increased profit that may accrue from cost reductions arising from economies of scale due to larger scale of operations (Daily Sun 2004; The Guardian, 2004 a, b, c; ThisDay 2004; The Punch 2004 a, b, c). Some analysts however believe the reform was unnecessary arguing that the then capital level of Nigerian banks was indeed optimal and thus needed no further increase. Teriba (2004) argued that the current sizes of Nigerian banks are commensurate with the size of the Nigerian economy and except the the economy grows to the size of the other countries that Nigeria was being compared to (i. . Malaysia, Indonesia, South Africa and Singapore), there is no point forcing the banks into raising their capital bases above the currently attained ‘ optimal levels’. Typically, the practice in determining the adequate capital level for a bank is based on the Basel Accord, which puts this at 8% of the banks total asset. The Nigerian capital reform however went beyond this as it stipulated a minimum capital that banks must have before they could operate regardless of the size of their asset base.

It has also been argued that a more appropriate measure would have been that of allowing both big and small banks to exist jointly in the economy since these would serve different customers. Notwithstanding, there is a general opinion among the banking industry watchers that the capital reform and consolidation agenda had made Nigerian banks stronger and better positioned to serve the economy. In addition, it has also assisted in widening and deepening the Nigerian capital market since most of the banks also went to the capital market to raise their capital to the stipulated minimum.

THE DEBT RELIEF AND EXIT DEAL The case for debt relief for low income countries emerged in the 1980s following the realization of the burden created by the debt overhang on development and poverty eradication, and the fact that many indebted countries lack the capacity to meet their debt payment obligations. The argument was that the failure by creditors to provide relief creates an excessive burden of debt on low-income countries thereby forcing them to reduce social spending on health, education and job creation with negative consequences for poverty reduction and economic growth.

Debt relief thus helps to free resources, which can be used for developmental purposes (Bird and Milne, 2002). It was within this context that Nigeria made a case for relief on its external debt. This debt had arisen from a series of frequent and unwise recourse to foreign loans at unattractive terms, often as a result of selfish collaboration between external lenders and the ruling class; injudicious use of borrowed fund which leads to further borrowing; and inappropriate domestic policies and programmes which crippled the domestic economy thus creating the need for further external assistance (Olukoshi, 1993; Aluko, 2003).

By the 1990s Nigeria had become one of the most heavily indebted nations in the world. By 2005, the nation owed around 36 billion United States dollars mainly to about 15 countries that collectively constitute the Paris Club. Most of these, about two-third, were arrears and penalties for non payment on official debt rather than new borrowing which, by 1995, had been frozen by the Federal Government. Table 1: Nigeria External Public Debt Outstanding, Selected Years, 1990 -2009. (US $ Billion)YEARUS $ Billion| 1980| 8. 9| 1985| 18. 9| 1990| 36. 1| 1993| 28. 7| 995| 32. 6| 1997| 27. 1| 1998| 28. 3| 2000| 28. 5| 2002| 31. 0| 2003| 32. 9| 2004 36. 0 Sources: Compiled from (i)Central Bank of Nigeria (1998). Annual Report for 1997 (ii)Aluko, 2003(iii) Okpugie, 2005 Servicing this debt has been a burden on the country’s resources. Since the 1980s significant proportion (at times up to one-third) of Nigeria’s export earning was devoted to settling matured loans and interest on the debt. The service due on the country’s debt in 2000, for example, was put at $3. 1 billion representing 14. 5% of the export earning.

The debt service payment alone was estimated at about 366% of the budgetary allocation for education and 709% of the allocation for health. Another effect of the external debt problem was that it created severe financial strains and led to reduction in the standard of living of the people. Efforts at reducing the debt, lead to macro – economic adjustments which promoted reduction in imports and domestic consumptions so as to save foreign exchange. Devaluation and other macroeconomic instruments used to effect adjustments in the balance of payment as a result of the debt lead to a slowing down of economic growth.

In addition, there was a reduced government expenditure on basic social services, new development projects were impeded, real wages and income reduced, prices of traded goods rose astronomically and the unemployment situation worsened, all of which led to drastic reduction in the standard of living. Thus, something urgent needed to be done on the issue. The democratic government felt that the appropriate action was to appeal for a relief on the debt as well as make a total exit from it. The debt relief agreement was brokered in 2004.

The deal essentially involved the write-off by the Paris Club of about 67% of the total debt stock owed the Club by Nigeria (after the payment of existing arrears) while Nigeria would more or less buy back the remaining 33%. As at 2005 when the deal was consummated, Nigeria owed the Paris Club about $30billion out of its total debt stock of $36billion. The arrangement involved Nigeria paying $6billion of existing arrears to the Paris Club, who would then write off $18billion thus leaving a balance of about $6billion of debt.

Nigeria would then buy-back this balance at a market related discount. In other words, the deal involved Nigeria paying out $12billion dollars to the Paris Club before a stipulated date, who in return would forgo the remaining $18billion. The government financed the deal with the huge external reserve the nation had accumulated as a result of rising oil prices. While the 2005 and 2006 budget, for example, were premised on a crude price of $28 and $33 per barrel respectively, actual crude prices for most of the period was over $65 per barrel.

The excess income from crude sale therefore propelled the external reserves, which as at September 2005 when actual payments started, stood at $42 billion. The benefits expected from the debt agreement include: 1. there would no longer be any need for debt servicing which had previously crowded out spending on infrastructure and social welfare services as well as poverty eradication. 1. repaying its debt would improve the credit rating of the country in the international community. This will make access to new funds easier and will also promote foreign investment as it will become easier to obtain bank guarantees for investment financing. . exiting the debt problem would eliminate the usual tough pre-conditions normally attached to debt rescheduling programmes by creditors and thus give the nation the freedom to make policy choices “ purely on the calculations of the greatest good of the Nigerian people” (Okpugie, 2005). Arguments against the deal focused on three main issues namely: 1. That it is economically unwise to transfer 12 billion dollars to the creditors at once rather than invest it on developmental projects given the high rate of poverty in the land. . That the conditionality attached to the relief such as reduction in the size of government would have negative effects on the citizenry, and 3. That the deal could create opportunities for subsequent administrations to engage in unbridled borrowing thus putting the nation back into debt. In other words, exiting the debt problem could make it easier for subsequent administrations to resort to new borrowing if faced with resource scarcity, rather than looking for innovative solutions.

The debt relief arrangement was described as being based on “ voodoo economics” and “ lacking in economic sense” (Adedipe, 2005 in Olajide, 2005; Aluko, 2005). Adedipe, for example, analyzed that if the nation were to invest the 12 billion dollars paid at 5% interest (a rate comparable to what is charged on the debt being redeemed) in 18 years (the number of years for which the loans were discounted), it would realize about $28 billion, thus suggesting that what Nigeria is paying now is more than the future value of her commitments, and implying that she did not enjoy any relief.

Notwithstanding however, there seems to be an agreement among Nigerians that repaying the debt would suit the national pride, permit less foreign intervention in domestic policy process, limit the prospect for the misappropriation and embezzlement of accumulated resources and was thus desirable. CONCLUSION AND RECOMMENDATIONS The return to democratic rule in 1999 provided an impetus for the reform of the nation’s economy as a way of pushing it out of the doldrums consequent upon years of neglect and unfavourable economic policies.

The reforms were intended to help in achieving the goals of poverty reduction, wealth creation, economic growth and value reorientation, among others. To this end, specific policy measures were instituted in different areas of the national life including the banking sector, the public service and in the strategies for the management of the nation’s external debt which, as at then, was seen to have become an albatross. This paper provided an overview of some of these economic reform programmes clearly highlighting their features, benefits and shortcomings.

It was the considered view of the paper that despite a number of weaknesses in each of the programmes, they individually and collectively have the capability to fundamentally restructure the nation’s economy thereby creating opportunities for economic growth and sustainable development. Towards this, it is recommended that: 1. The monitoring mechanism for the implementation of the reform should be strengthened in order in such a way that the reforms can become institutionalized. This will prevent policy reversals by the incoming administration.

It has been noted that one of the factors responsible for policy failure in developing countries is the failure to give such policies sufficient time to make impact. 2. In line with the above, legal and legislative measures should be put in place to prevent unbridled borrowing in the future. To this end, arrangements should be made which ensures tough parliamentary processes are undergone before external loans could be procured by governments, be they federal, state or their agencies. 3. Institutional and policy processes must ensure that henceforth. , proper debt management is carried out.

In this regard, only under special situations and with parliamentary approval should the nation fail to service its debt as at when due. 4. There is the need to ensure proper monitoring of the bank consolidation programme and thus ensure that emerging banks are actually strong on ground and not on paper. This is essential given recently emerging stories as to the fact some of the banks might be showing signs of distress. 5. It is not enough to monetize fringe benefits, efforts must be made to ensure that such does not translate to mere duplication of some workers benefits.

Such is possible where such workers usually of the management cadre enjoy monetized benefits and yet still makes use of governments facilities. 6. Above all, there is the need to ensure policy convergence. To this end, the government must institute regular studies and assessments of the reforms and their impacts to ensure that these align with the averred development goals of the government which are poverty elimination, employment creation, inequality reduction, food security among others.

These becomes necessary given the fact that a private sector centred economic policy can work more against the poor, rather than for them, if deliberate efforts are not made to make them pro-poor. REFERENCES Adebayo A. A. (2004) National Economic Life and Organisation. In Fageyinbo M. O. (2004) Ijebu – Ode. Lucky Odoni Enterprises. Akpo U (2003) Tax Implications of Monetized Fringe Benefits In the Public Sector. Sourced from http//www. deltastate. gov. ng/rev231003 Aluko, S. A (2003) “ Engaging the Albatross: National Economy, Debt Burden and Nigeria’s Democratization Process”.

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