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Towards Economic Survival and Self-sufficiency: a Historical Exploration of Nigeria's Indigenisation Policy, 1972 and 1977

Adeyinka Theresa AJAYI (Ph.D)

Department of History and International Studies, Ekiti State University, Ado- Ekiti, Nigeria.

ABSTRACT

Indigenisation was a major strategy employed by the Nigerian government in the 1970s to exercise more control over the nation's economy. It was indeed a bold attempt to enhance the economic survival and self-sufficiency of the nation. This study therefore interrogates the rationale, methods and impact of Nigeria's indigenisation policy on the country's economic welfare then and beyond. It notes that indigenisation was proposed from four different angles: ownership, technology, control and manpower. The paper took a critical look at the indigenization policy's provisions in Nigeria's National Development Plan of 1970-1974, the Nigeria Enterprises Promotion Decree of 1972, as amended, and the extent to which their goals were achieved. It concludes that though indigenization was applauded, it failed to achieve the desired goals of promoting economic stability and survival of the Nigerian nation.

Keywords: Towards Economic Survival, Self-sufficiency, Historical Exploration, Nigeria's Indigenisation Policy

***Correspondence to Author:**
SanaAdeyinka Theresa AJAYI
Department of History and International Studies, Ekiti State University, Ado- Ekiti, Nigeria.

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Background to the Study

The economy of typical West African states by the time of independence consists of three levels namely, European at the top, commanding the large industries, major mercantile concerns and plantation farming; Asians and Lebanese in the middle, controlling medium level industrial activities and wholesaling as well as large retail outfits, and Africans at the bottom, engaged in peasant farming, petty trading and labour services (Ayida, 1987). Although these might occasionally overlap, there was definitely a hierarchical division roles and economic rewards within the colonial society. Even, the situation in the civil service was not much different at the time of independence (Clower, 1960; Orluwene, 2014:391). The administration and professional posts were dominated by expatriates with the Africans confined to the clerical and menial posts.

However, immediately after independence, African governments relentlessly pursued a policy of Africanisation of their civil services. Africans were catapulted all of a sudden from relatively junior posts to positions of high responsibility. They were rushed through crash training programmes provided by the hastily established institutes of administrations. The exercise involved training for some 100,000 to 200,000 expatriates held posts, which were Africanised. Between 1958 and 1968, standard fell and level of performance and efficiency suffered. But today the majority of African administration is entirely in the hands of their nationals. Indeed, it can be stated that while the struggle for political independence was the dominant issue of the 1940s and 1950s, the Africanisation of the civil service was the battle cry of the 1960s. The Africanisation of the civil service, no matter what the costs in terms of loss of efficiency and effectiveness, became the only viable political alternative.

It is therefore natural that African governments should as soon as it was deemed feasible turn their attention to the Africanisation or indigenisation of the key sectors of their national economies. The need for this became more compelling as the people became disillusioned with their country’s poor economic performance since independence, coupled with the deepening of the dependence of their economy on the industrialised countries. Therefore, in order to protect their political independence and control their economic destinies, many governments adopted nationalisation as a strategy to effect local control of their national economies (Ayida, 1987). It need be recalled that nationalisation in Africa has been concentrated in the large extractive industries, banking, insurance and petroleum distribution and more in manufacturing. The bulk of African nationaliation was negotiated and private enterprises, whether foreign or domestic, were made to realise that it had an important role to play in spite of such selective nationalisation.

However, not all the African countries have seen nationalisation as the only or even principal method of achieving economic autonomy. Many others have opted for indigenisation either as an alternative to nationalisation or as a major complementary effort in achieving the goal of controlling the commading heights of their economy. For the avoidance of doubt, nationalization in this paper is used to mean the takeover of property by a government in order to increase its participation in a particular industry, entirely or in part to citizens of the country. Thus foreign alien owners either sell to indigenous entrepreneurs or withdraw their participation in certain economic activities. On the other hand however, the primary purpose of indigenisation is economic decolonisation, namely, the reduction of economic dependence and the achievement of an increasing growth. Indigenisation in fact encourages, develops and strengthens indigenous private enterprise at the expense of expatriate controlled enterprise.

Four dimensions of indigenisation may be identified in literature (Usoro, 1974;

Soyode,1989). In the first instance, there is the indigenisation of ownership, which aims at giving the indigenes of a country, either individually or collectively ownership stake in the economic establishments in their country. Such indigenisation of ownership can be accomplished through either public or private ownership or through a combination of both. The second type is the indigenisation of control, whose objective, is to enable the indigenes of a country exercise control through the boards of directors on the policies of enterprises. The third is manpower indigenisation otherwise known as africanisation. This was the first form of indigenisation policy applied to the civil service. The private sector however also aims at developing indigenous competence in modern industrial and commercial operations and management. Finally, there is the indigenisation of technology. This is in two phases. The first being the acquisition of technology from high industrialized countries so as to enable developing countries to overstep many stages of development. The second is one of adaptive technology, a process of selecting an adaptation in order to match imported techniques to Africa conditions. But both phases have a tendency to deepen the dependence of developing countries except there is great commitment to depend increasingly on technology that they themselves have developed, which suited their needs and predicaments and their domestic natural resources.

At this juncture, it is necessary to take a vivid look at the indigenisation efforts of Nigeria so as to appreciate and criticize the efforts of the government in this regard.

Indigenization Efforts in Nigeria

The modern sector of Nigeria was heavily dominated by foreign business from pre-independence times to the first decade after independence. These sectors include the Banking, Insurance, Transportation, Haulage and distributive industries. The predominance of the foreign business is largely explained by the patronage and strong backing of their parent companies in the industrialised countries (Ikpeze,et al, 2004). This in essence meant access to superior techniques, personnel and immense financial resources of their parents' bodies. In contrast, the indigenous businesses had neither the necessary capital of their own nor easy access to the financial market. They were new to the idea of resource-pooling for large-scale operations and lacked the managerial skills, experience and knowledge of modern business methods required for operating large trading and manufacturing units. This largely explains the low level of participation by Nigerians in the ownership, control and management of business ventures in the country in the early days of independence. (Nwaorgu, 2006; Iwuagwu, 2011). Even with an increasing participation by Nigeria in the operations of business after independence in 1960, there was still a heavy, and in many sectors almost exclusive, concentration of shareholding and management positions in the hands of aliens.

Before the attainment of independence in 1960, no appreciable efforts were made at encouraging indigenous participation in economic activities, since the country was being governed as a colony of the British Empire. However with the attainment of independent status, attempts were made by the Nigeria government to encourage active indigenous participations in commercial and industrial activities. These attempt which included the provisions of financial and managerial support to aspiring indigenous businessmen, took mostly the form of moral persuasion. These early measures achieved some success in the distributive trade and produce marketing, resulting in the emergence of a few indigenous businessmen, but the areas of large-scale distribution and industry were largely unaffected.

By 1966, the dominance of foreign business had become a concern not only to the government, but also to most Nigerians.

Government efforts at encouraging indigenes to develop their potentials were interrupted by the political difficulties of the second half of the decade of 1960s. However, by 1970, crises over the issue of indigenisation became a prominent one. The first attempt at evolving a policy was made with the launching of the Second National Development plan, 1970-74, which indicated the direction of policy in this area.

It is essential to note that the Nigerian civil war of 1967 -1970 had a devastating impact on the nation's economy. This no doubt necessitated the 3Rs policy of reconciliation, rehabilitation and reconstruction introduced by the Gowon's administration, shortly after the end of hostilities (Aremu & Buhari, 2017). The essence of the Plan was well captured in the Second National Development Plan (1970–1974) (Federal Ministry of Information, 1970). Some of its basic objectives, as highlighted by Dagogo (2014:135) were:

i. to promote even development and fair distribution of industries in all parts of the country;

ii. to ensure rapid expansion and diversification of the industrial sector, to increase incomes realized from manufacturing activities, to create more employment opportunities;

iii. to promote the establishment of heavy industries in strategic sectors that can earn foreign exchange, to continue the programme of import-substitution;

iv. to initiate indigenous manpower development schemes in the industrial sector, and

v. to raise the proportion of indigenous ownership of industrial investments. (Federal Ministry of Information, 1970.

The novel policy of indigenisation was subsequently elaborated in the Nigeria Enterprises Promotion Decree which was promulgated in 1972.Indigenisation within the Nigeria context is the process of increasing local involvement in the ownership, control and management of economic activities in the country. It is a gradual progress of promoting indigenous participation in all aspects of the economy, especially in those areas that have hitherto been dominated by foreign business.

The policy of indigenization is seen as complementing political independence, which is in line with the strong belief that political independence would be meaningless without a good measure of economic independence. However, indigenisation in this context was not designed to bring about any outright nationalisation or complete takeover of foreign business. It was rather designed to change the existing structure of foreign domination and to ensure adequate opportunities for indigenous participation. The approach to indigenisation was therefore designed not to discourage foreign investments in Nigeria. In fact, the various legislations on the scheme have been formulated to assure a place for continued foreign investments in the country. The scheme was also designed to ensure that Nigeria entrepreneurs are enabled to develop their own expertise and managerial skill, and to ensure active participation of Nigerians in these areas of economic activity that are still under foreign control. The policy is therefore seen as a preventive measure against the danger that could result from any sudden withdrawal of foreign investment owning to factors other than economic considerations. It is also intended to guard against the difficulty of controlling foreign business which are answerable, first and foremost to their foreign owners whose interests may not at all times tally with the aspirations of the nation.

Indigenisation was to be achieved as spelt out in the Second National Development Plan 1970-74) through effective government public sector control of at least 55% of the equities of the iron and steel basic complex, petrochemical industries, fertilizer products and petroleum productions, especially for local distribution. Furthermore, such large and medium industries as food, forest products, building materials and construction industries and plantation production of traditional cash crops and basic raw materials for processing industry were to be run as mixed ventures with government and private participation at a minimum of 35% of their equities. As a matter of general policy, the government was to encourage nation-wide, the equity participation in manufacturing industries (Anyanwu, et al, 1997). The government role was to acquire share and encourage Nigeria nationals wishing and willing to participate in industrial development to do so. However, the government policy on indignation changed drastically with the promulgation of the Nigeria Enterprises Promotion Decree of 1972, popularly referred to as the Indigenisation Policy (Orluweme, 2014:394). The main goal of the legislation was to encourage and protect Nigerian's participation in those areas of the economy in which Nigerians are competent. Specifically, the scheme was designed to achieve the following objectives:

transfer ownership and control to Nigerians in respect of those enterprises formerly owned (wholly or partly) and controlled by foreigners; foster widespread ownership of enterprises among Nigerian citizens; create opportunities for Nigerian indigenous businessmen; encourage foreign businessmen and investors to move from the unsophisticated spheres of the economy to domains where large investments are required; enhance local retention of profit; raise the level of intermediate goods production and; increase Nigeria's participation in decision making in the larger commercial and industrial establishments (Ogbuagu, 1983:241).

The Decree further classified enterprises into schedules I and II. The enterprises classified under I were reserved exclusively for Nigerians. Those businesses that were a little more complicated were therefore required to have 40% indigenous ownership were placed in schedule II. Even here, the foreigners were not allowed to participate unless the paid up capital was up to N 400,000 or the turnover was up to N1million. The remaining enterprises involving activities requiring high technical skills were not classified and open to both indigenous and foreign participation. The Nigeria Enterprises Promotion Board was set up simultaneously to implement the provisions of the decree (Ogbuagu, 1983:241).

The Nigeria Enterprises Promotion Decree of 1972 was amended three times in 1973, 1974 and finally in 1977, to reflect changes in policy resulting from experience with the implementation of the indigenisation programme. The most radical changes were contained in Decree of 1977 which was a follow-up of the report of the Industrial Enterprises Panel established to assess the progress in the implementation of the programme and to make recommendations on necessary amendments to ensure an increase in the level of indigenous participation in affected enterprises (Biersteker, 1983). All Enterprises operating in Nigeria were reclassified into three categories namely schedule I, II and III. As before, I covered those Enterprises that were to be wholly owned by Nigerians. The new schedule II comprised mostly enterprises that were more complex and more capital-intensive. In view of the fact that levels were critical to the process of technological transfer, the Nigeria equity participation in businesses under the category was raised to 60%. The newly created scheduled III encompassed all other Enterprises not specifically listed in schedules I and II with the minimum Nigeria equity participation fixed at 40 percent.

All defaulting enterprises were to be sealed up and taken over by the government and dispensed to Nigeria buyers in accordance with Nigeria Enterprises promotion Decree of 1972. The reconstituted NEP board was empowered not only to seal but also to prosecute defaulters.

The Nigerian government adopted a phased rather than a wholesale approach to indigenisation in order to forestall the attendant problem that would have arisen from the adoption of a wholesale approach. Indigenisation itself is a process of protracted negotiations involving the transfer of physical assets as well as the management and control of alien business to indigenous businessmen. However, with an acute shortage of qualified Nigerians, only wholesale transfer of business of the size and complexity as those being transferred would no doubt over-stretch the management capabilities of the few young Nigerian businessmen who had not been exposed to managing such business. Phasing the management not only ensured a smooth transfer without adverse effects on the economy but also ensures continuity with the operations and management of the affected businesses.

Evaluation of the Impact of Indigenization

Indigenous private enterprises had increased considerably as a result of the introduction of the indigenization scheme. The transfer of 58% of all the enterprises classified under schedule I and previously owned by alien businessmen and 529 out of 593 business under schedule II resulted in an investment of N122 million by indigenous private investors. The transfer was accompanied by a substantial growth in the capabilities of indigenous enterprises. Nigeria businessmen and managers were made to accept challenging positions in the business that were hitherto owned and managed by alien businessmen. Iwuagwu (2011), cited in Dagogo (2014:136), has however argued that “the indigenization policy hardly changed the control of neither the companies nor the relationship with their parent companies. In fact, the foreign owners still occupied almost all the strategic positions except, perhaps, the chairman of the board, perceived as mere ceremonial in nature”.

Another significant change that occurred as a result of the introduction of the indigenisation programme was a reversal of the experience prior to the introduction of the programme. Labour, for instance, played a more important role than capital in its contribution to growth in productivity before the programme. However, after the introduction of the programme, capital contributed more to the growth in productivity after the launching of the indigenization scheme, and a slight decline in labour production.

As mentioned earlier, one of the key intentions of the indigenization Decree of 1972 (as amended) was to ensure that Nigerian citizens and associations had the opportunity of participating justly in the ownership of business enterprises in the country. However, none of its provision expressly or implicitly concerned itself with that avowed egalitarian objectives of the government. Through the two methods of acquiring share by private placing of shares or sale through the stock exchange, the patterns of share acquisition led to the emergency of a few Nigeria capitalist and business tycoons at the expense of the masses (Osoba, 1981). Those who acquired share were by and large the elite who were already in business as proprietors, and business executive as well as civil servants. The teeming millions consisting of poor urban workers and the peasants in the rural areas were not able to participate in this acquisition process. As a result, there was an unintended concentration of shareholding in the hands of the higher income group, thereby perpetuating the already skewed income distribution (hitherto in favour of alien businessmen). The fact that a sustaining proportion of the capital with which these shares purchased had come from sources that are public e.g the Nigeria Bank for Commerce and Industry, the major commercial banks in which the government had substantial or controlling shares aided the perpetuation of the elite class and ran contrary to egalitarian objectives of the nation. In essence, a major weakness of the scheme was the creation of opportunities for a handful of Nigerians who had enriched themselves at the expense of the masses.

The concentration of most businesses in urban centres and more especially in the then federal capital of Lagos and the state capitals meant a disparity in the balance of businesses concentrated among the urban population. Another dimension is sternness in the distribution in favour of the Southern part of the country at the expense of the Northern part. This regional disparity therefore showed that the indigenisation programme never took account of government commitment to the policy of even development throughout the country.

Conclusion

This paper examined in considerable details the Nigerian Indigenisation Policy of 1972, as amended. It notes that the policy was aimed at preventing foreign monopoly of production activities in the country. It is pathetic to note, however, that the indigenisation policy suffered a great set back with the fall in the world price of crude oil, shortly after its commencement. Since most of the industries depended largely on imports for survival, the policies of import licensing and exchange rates controls subsequently introduced by government resulted in what Iwuagwu (2011), cited in Dagogo (2014:136), referred to as “acute shortages of industrial inputs with adverse consequences on industrial production and capacity utilization”. Similarly, the indigenisation scheme did not put an end to the dependence of the economy on the rest of the world. Nigeria also continued to depend on the outside world for her raw materials, industrial inputs, machinery and equipments for her industries and for finished products to meet the needs of the growing population.

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