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BEHIND THE SCENE

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CHIEF (DR.) J. O. SANUSI

WELCOME ADDRESS AT THE POLICY SEMINAR ON THE 2002 FEDERAL GOVERNMENT BUDGET

By

CHIEF (DR.) J. O. SANUSI*

1.0 It is my honour and privilege to welcome you to this year's policy seminar on the Fiscal 2002 Federal Government Budget. Today's seminar is the eighth, in the annual series of the inter-agency collaborative endeavour by the Central Bank of Nigeria (CBN), the National Centre for Economic Management and Administration (NCEMA) and the Nigerian Economic Society (NES) of providing a forum for an indepth analysis of the current fiscal and monetary policy goals and measures by the major stakeholders in the economy.

2.0 The aim of the seminar, as in the past, is to come up with appropriate recommendations towards the realization of the objectives of the Budget, especially the achievement of the non-inflationary growth that will enhance the living standards of the citizenry. It is in this regard, that the second technical session of this seminar will focus on "Effective Poverty Alleviation Strategies", the discussion of which should enrich the strategy for the successful implementation of the poverty alleviation programme, which is a major objective of the economic policy thrust of the present administration.

3.0 At this juncture, Ladies and Gentlemen, let me review the performance of the Nigerian economy and the policy environment, with a view to placing the discussion on fiscal 2002 in proper perspective. The performance of the economy in 2001, improved generally, buoyed by improvements in agricultural and industrial production. The growth rate of real Gross Domestic Product (GDP), was estimated at 3.9 per cent, which represents a marginal increase over the 3.8 per cent recorded in 2000 but, nonetheless, the highest growth rate in a decade. This rate was, however, lower than the 5.0 per cent targeted in 2001. Similarly, inflationary pressure intensified, as the rate accelerated from 6.9 per cent at the end of 2000 to 18.9 per cent in 2001. The persistent problem of excess liquidity in the economy reflected the impact of fiscal dominance, exacerbating the demand pressure with adverse implications for domestic prices, and the exchange and interest rates.

4.0 Against this background, the thrust of monetary policy was restrictive, in order to correct domestic imbalances and ensure macroeconomic stability. However, the effectiveness of monetary policy was impaired by the excessive injection of liquidity into the economy by the three tiers of government, through the monetisation of excess crude oil receipts, the sharing of proceeds from the GSM licensing, the disbursement of the recovered loot, the excess crude savings in year 2000, and the financing of deficit spending through the banking system. Consequently, broad money (M_2) increased substantially by 27.0 per cent, as against the programmed target of 12.2 per cent.

5.0 On interest rates, bank lending rates were generally high in 2001, but the average savings deposit rate remained low and negative, in real terms, as the inflation rate maintained an upward trend throughout the year. Furthermore, the spread between the savings deposit and lending rates remained wide, reflecting the oligopolistic structure of the banking system. As at December 2001, the spread between the banks' weighted average deposit and maximum lending rates reached 14.7 percentage points, while that between the average savings deposit and maximum lending rates was 26.2 percentage points. Nevertheless, deposit banks' lending, largely to the private sector and state

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governments, increased significantly by 72.4 per cent, as against the 22.8 per cent targeted.

6.0 The external sector performance was generally satisfactory, boosted by favourable developments in the international crude oil market. The overall balance of payments position recorded a surplus, although substantially lower than in the previous year. Consequently, gross external reserves rose from US$9.9 billion at end-December, 2000 to US$10.4 billion in 2001. The naira exchange rate vis-a-vis the US dollar was relatively stable in the Inter-bank Foreign Exchange Market (IFEM) for most of the year, reflecting the impact of the comprehensive import destination inspection, and the tight monetary policy adopted during the period. The rates in the parallel market, however, depreciated on the average, from ₦111.10 a dollar to ₦132.60 a dollar.

7.0 Against the backdrop of the unstable macroeconomic environment and the lackluster performance of the economy in 2001, the achievement of price and exchange rate stability, as the basis for sustainable growth, remained the primary objective of monetary policy in 2002/2003. Thus, the stance of monetary policy in fiscal 2002 has been largely non-accommodating, while appropriate incentives have been introduced to stimulate growth. In this regard and consistent with the objective of stimulating investment and output growth, the CBN introduced, effective from January, 2002 the rediscounting and refinancing facility (RRF), to encourage banks to lend medium to long-term to the productive sectors of the economy. The facility, which will be at a concessionary interest rate, is designed to encourage long-term bank lending to the following sectors: agricultural production, semi-manufacturing and manufacturing, solid minerals and information technology. Moreover, the abolition of foreign guarantees as collateral for Naira-denominated loans, which was introduced in 1989, has been lifted in order to attract foreign investment inflows, not necessarily in terms of capital funds, but largely in terms of improved technology, management and entrepreneural capacity, which are presently lacking in Nigeria.

8.0 The Small and Medium Industries Equity Investment Scheme (SMIEIS) was launched by Mr. President in August, 2001. As you are aware, the scheme requires all banks to set aside 10 per cent of their profit before tax for the promotion of small and medium scale industries in the country through equity investment. With the adoption of this private sector-led development strategy, it is expected that the flow of funds to this vital sub-sector of the economy will increase. The CBN has the responsibility to closely monitor the scheme to ensure its success.

9.0 You may also have noticed in our 2002 Monetary Policy Circular, that the CBN has adopted a new medium-term monetary policy framework with effect from 2002, so as to enhance the efficiency and effectiveness of monetary policy. Unlike the earlier ones, the current monetary programme is designed for a two-year period, instead of one, effectively from January, 2002 to December, 2003. The adoption of this strategy is in recognition of the fact that monetary policy actions affect the ultimate objectives with a lag. Thus, the current shift will free monetary policy implementation from the problem of time inconsistency and minimize over-reaction due to temporary shocks.

10. Let me warn that the effectiveness of monetary policy in 2002, as articulated above, will depend largely on the complementarity between monetary and fiscal policies and the extent to which the policies are well coordinated. In this regard, I wish to reiterate that the full implementation of the 2002 budget as approved by the National Assembly will dampen prospects for re-establishing macroeconomic stability for sustainable growth during the year. This will make the task of monetary management more challenging occasioning the need to sterilize the resultant excess liquidity by raising interest rates, which could be inimical to investment growth. In order to avoid this risk, the Government should limit its expenditures to what the capacity of the economy can absorb and finance any deficit spending that may arise through the capital market, rather than resort to Ways and Means Advances from the CBN or excessive borrowing from the banking system, which would crowd out the private sector. In this context, I wish to emphasise the need for greater co-ordination between the Treasury and the CBN in the current fiscal year. The CBN will, on its part, endeavour to keep the growth of monetary aggregates within the specified targets, as well as sustain the relative stability of the exchange rate, while ensuring the maintenance of banking soundness in the country.

11.0 I should not end this address without, once again, reiterating the critical role of the banking system as the primary conduit for transmitting monetary policy signals and, indeed, fiscal measures to the real economy. The effective implementation of monetary policy requires a responsive banking system that can adjust its operations in response to policy initiatives without adversely affecting the efficiency of intermediation or depositor confidence. The need, therefore, to maintain banking soundness with the highest level of ethical standards cannot be over-emphasised. Let me assure the general public that the overall health of the banking system, inspite of recent turbulence in the process of sanitisation, remains satisfactory. The CBN, while maintaining an uncompromising supervisory role, will do its utmost to support the system and ensure its stability.

12.0 Let me assure you that the CBN is committed to supporting the frank exchange of views that typically characterises the conduct of this seminar and, as usual, give due consideration to any good advice and policy recommendations that will emerge from your discussion.

13.0 Once more, I welcome you all to this seminar and wish you very successful deliberations.

KEYNOTE ADDRESS BY MINISTER OF FINANCE, MALLAM ADAMU CIROMA, AT THE POLICY SEMINAR ON THE 2002 FEDERAL GOVERNMENT BUDGET

I am delighted to be part of this occasion of the 8th Policy Seminar on the Federal Government's Fiscal 2002 Budget. At the outset, I should thank the organizers: the Central Bank of Nigeria, the National Centre for Economic Management and Administration and the Nigerian Economic Society - for inviting me as Special Guest of Honour to deliver this Keynote Address. Let me note that, since its assumption of office in 1999, the present Administration has adopted transparency and accountability as an integral part of its budgetary process. This is an effort that must be sustained in the spirit of true democracy and I see today's seminar as part of this endeavour, as it provides us the opportunity not only to appraise performance under the year 2001 Budget but also to assess the prospects for achieving the goals of the year 2002 Budget. As usual, we shall welcome constructive criticisms from all the stakeholders and hope that you will be short on criticisms and long on proffering practicable solutions.

As you may recall, the fiscal measures for 2001 were designed to meet the need for improved efficiency of economic and social infrastructure, enhanced output and employment growth and ultimately, a reduction in the level of poverty in the economy. Appropriate strategies were adopted towards the achievement of these objectives, including tax concessions and incentives particularly to the industrial and agricultural sectors.

MALLAM ADAMU CIROMA

A review of the fiscal operations of the government shows that during fiscal 2001, revenues amounting to ₦797.0 billion accrued to the Federal Government. However, government's total expenditure, amounted to ₦1,018.0 billion, resulting in an overall fiscal deficit of ₦221.0 billion or 4.1 per cent of the national GDP for the year. The deficit was financed largely with the Federal Government's share of excess crude oil revenue and borrowing from the banking system.

It is encouraging to note that there was a significant shift in the structure of revenue, as non-oil revenue contributed a higher proportion to total revenue than in the previous five years. This desirable development was traceable to improvements in tax administration initiated by government. First, port reforms, especially the introduction of comprehensive destination import inspection, encouraged enhanced customs revenue. Secondly, government also took measures to reduce leakages in revenue collections and drastically reduced duty exemptions. Moreover, government expenditure was streamlined and restructured, such that capital expenditure accounted for 43.1 per cent of the total expenditure, the highest in the last five years.

Consistent with the strong desire to strengthen output and employment growth, the Federal Government prioritised its projects funding during the year. Accordingly, funding for Power and Steel, Works and Housing, Water Resources, Education, Health, Agriculture and Security received priority attention. It is noteworthy that the change in expenditure pattern has started to impact positively on the economy. More specifically, real GDP growth strengthened as the rate rose to 3.8 per cent, the highest in a decade.

PROSPECTS AND OBJECTIVES FOR 2002

* Against the background of improved performance of the economy in fiscal 2001 and the need for further strengthening in order to realize the full potentials of the economy, the objectives of economic policies in fiscal 2002 were to:

* Achieve non-inflationary growth rate of 5.0 per cent towards job creation and poverty reduction.
* Enhance private sector role

in the economy.

* Enhance fiscal transparency and accountability by adhering to due process in budget implementation.
* Ensure budgetary responsibility and avoid fiscal surprises. Towards the achievement of the above objectives, the Federal Government adopts the following policy strategies:
* Promote the growth of domestic savings, which would moderate interest rate, and ensure the early introduction of the National Savings Certificate.
* Give priority attention to the completion of on-going projects, in the areas of urban and rural water, roads, dams, electricity, etc.
* Avoid extra-budgetary expenditure and ways and means financing of deficit by resorting to the capital market, if the need arises.
* Strengthen and deepen macroeconomic stability to ensure that the dividends of democracy flow to the grassroots; and
* Consolidate the "due process principle".

In terms of content, the budget provides for a gross revenue receipt of ₦1,806.1 billion to the Federation Account, with oil revenue alone accounting for ₦1,288.1 billion or 71.0 per cent and non-oil revenue accounting for the balance of ₦517.9 billion or 29.0 per cent. On the basis of the current revenue allocation formula and expected revenue from independent sources, the revenue of the Federal Government in 2002 is estimated at ₦627.6 billion. Let me add that Government is still studying the Supreme Court judgement on Resource Control while the full implications of the Supreme Court's ruling on the issue of fiscal federalism in Nigeria will soon be reflected on the federal government fiscal profile and adjustments will be made, as appropriate. In order to meet its revenue target, the government will improve on its revenue collection performance by strengthening tax administration. In this regard, adequate provision will be made for collection agencies, in terms of finance and logistics support. Nigerians should also support government efforts in this area by discharging their basic civic responsibilities. The implementation of the Accelerated System of Customs Data (ASYCUDA) project will be completed during the fiscal year. This will enhance the performance of the Nigerian Customs Service (NCS).

Implementation of the privatisation programme will be given further impetus during the year. Accordingly, it is estimated that the sum of ₦75.0 billion will be realized from the sale of government enterprises, and the restructured enterprises will contribute to revenue generation.

On the expenditure side, the National Assembly approved the sum of ₦1,064.8 billion as Federal Government expenditure in fiscal 2002, comprising recurrent expenditure of ₦578.1 billion and capital expenditure of ₦486.7 billion. Given the retained revenue of ₦627.6 billion, the fiscal operation of the Federal Government is projected to result in a technical deficit of ₦437.1 billion or 7.4 per cent of GDP. There is no doubt that the size of the budget deficit is larger than conventionally acceptable and could be inflationary, thereby negating the objective of poverty eradication. It is well known that inflation is the greatest enemy of the poor. The recent experience in Argentina must remind us of the need for fiscal prudence in our macroeconomic management.

Let me assure you that the government is determined to continue its reform efforts by sustaining the expenditure control measures introduced in the course of the preceding financial year. The enthronement of due process regime and pursuit of the policy of transparency have already started to reduce the areas of waste. Increasingly, we are realizing more value for the money we spend on projects. Efforts in that direction will be intensified.

The implementation of eligible projects will be given adequate attention through timely release of funds by the Government. To this end, I have set up a committee to examine the bottlenecks in the process and to make recommendations for their removal. It is my hope, therefore, that the institutional reforms, resulting from the implementation of the recommendations will ensure that budget release is regular and adequate for approved projects and operations.

As a further proof of the Federal Government's commitment to making public resources work more effectively for Nigerians, the Budget Office in the Federal Ministry of Finance was created in 2001. This is a central element of efforts to strengthen institutions responsible for the budget process.

Since the creation of the Budget Office, staff have taken head-on the challenge of bringing greater sanity into the Federal Government's budget process. We have tried to introduce greater budget discipline through setting expenditure envelopes within which spending agencies are to prepare their budget proposals. We have worked closely with the Budget Monitoring and Price Intelligence Unit in the Presidency on improving the quality of expenditure proposals and have also worked with key members of the Legislature during the preparation of the 2002 Budget, in an effort to ensure a more constructive partnership between the Legislature and the Executive on budget matters.

In addition, Government Financial Regulations have been re-issued: award of contracts in excess of ₦50 million must be submitted for Federal Executive Council approval, and fundamental reforms to government procurement processes: to promote greater transparency and value for money are being put in place.

In order to facilitate the attainment of our budgetary goals and aspiration, we shall further strengthen the consultation and cooperation process amongst all the stakeholders - especially the CBN, States and local governments. We all have a role to play and a duty to ensure that our fiscal federalism succeeds. This has become quite necessary in view of the recent judgement of the Supreme Court on the issue of revenue sharing. In addition to reducing distortions in the economy, such cooperation will pave the way for better coordination of fiscal and monetary policies. It will also reduce the incidence of "fiscal surprises" and facilitate the achievement of the common goal of macroeconomic stability.

Let me conclude by reiterating that the achievement of the major goals of the 2002 Federal Government budget is the joint responsibility of all stakeholders. It is against this background that I seek your cooperation for the successful implementation of the 2002 budget. I urge you to discuss the fiscal measures and strategies for the year dispassionately and make your recommendations available to government.

On this note, I formally declare this seminar open and wish you successful deliberations.

ANNEX I

THE WORSENING TREND IN THE PERFORMANCE OF NIGERIA'S AGGREGATE ECONOMY HAS BOTTOMED OUT: THE GROWTH MOMENTUM HAS AT LAST BEGUN. HERE ARE THE EVIDENCES

1. Non-oil revenue did contribute in 2001 a higher proportion to total revenue than in the previous five (5) years. This significant shift in the structure of revenue becomes better appreciated when it is situated in the context of the quantum jump in oil revenue itself in 2001. The import of this is that the inefficiency and corruption of our revenue collection agencies are happily on the decline. Therefore the war against corruption is being gradually won whilst the struggle for greater transparency is also being gradually won. It is also a reflection of the drastic reduction in customs duties concession hitherto granted to numerous government agencies and NGOs. The ratio of non-oil to total revenue stood at 29:100 in 2001.

2. Capital expenditure as a ratio of total expenditure rose to 43.1% in 2001, becoming the highest also in 5 years.

3. Industrial capacity utilisation averaged 46.5% in year 2001, the highest in 15 years by the computation and assessment of MAN itself.

4. The economy grew by 3 percent by our own account (and 4% by world bank assessment) in year 2001. This figure, though not as strong and robust as desirable, is the highest growth rate Nigeria recorded in the last 10 years courtesy of the Federal Office of Statistics, the one and only source of Nigeria's GDP growth computation. This rate is about one per cent higher than the population growth rate, yielding, as it were, a one per cent net increase in per capita GDP.

5. As a logical concomitant of the steady, it not strongly impressive, expansion of the aggregate economy employment rate has been rising not contacting.

6. Queues for petroleum products have disappeared while electricity supply has improved fairly significantly. The GSM communication revolutions is also expected to contribute significantly to GDP growth in year 2002.

7. University undergraduates that enrolled in 1999 will now probably graduate in 2003 within their legitimate academic tenure. We know what happened in the 1990s.

8. Higher minimum wage has helped to stimulate consumer demand and industrial domestic capacity expansion even while it has hurt the treasury of all three tiers of the Nigerian Government.

BUDGET IMPLEMENTATION IN A DEMOCRATIC SETTING: PROBLEMS AND CHALLENGES

By

DR. M. L. KPAKOL*

1. Let me attempt to provide a simple definition of a budget. Well, in my mind, a budget describes an anticipated flow of funds and how such funds will be spent to achieve valued objectives, which may be stated. Individuals, households, business firms, governments and indeed all institutions have budgets. These budgets may be announced or unannounced. For any democratic government, the budget must be approved by the people, with the details made available for evey voter to see. As you all know, the budget is a critical platform upon which much policy decisions are based. You will recall our recent situation with policy targets during the last IMF mission visit to Abuja. We could not arrive at targets, because our 2002 budget was not yet approved.

WHAT IS BUDGET IMPLEMENTATION?

2. The implementation of a budget involves undertaking its policy thrust, and delivering on its expenditure outlays on associated programmes and projects over a given period of time. The budgeting system is expected to reflect whether or not there is efficiency in the allocation of resources in output and in expenditure. It is therefore important that during the implementation of a budget, policies remain consistent and focused, and financial outlays are made with transparency and judiciousness. Every budget is constructed to achieve certain fundamental goals, which may be generalized or particularized. The aim of the implementation process is to achieve these stated objectives. For nations, an aim is often to assure or improve the general welfare of its citizens, through a fast pace of economic growth, job creation, security and the provision of basic social services. A budget can herald this aim or betray it.

3. Certainly, it is easier to implement a budget in a command system than in democratic arrangement. I am not saying that therefore I prefer dictatorial regimes. I'm only suggesting that assuming a budget is put together by a dictatorship, which may or may not be benevolent, such budget will be rammed through in implementation whether you like it or not. Let me also suggest that this would be the preferred, first-best way of implementing a budget, if we had a benevolent dictator. But how can we be sure that a dictator will be benevolent or continue to be benevolent. It seems we can never be sure. Therefore, most societies move away from this approach and instead, embrace the rough and tortuous path of democratic budget formulation and implementation. Recall that our 2002 budget was not approved until the end of March. But this is still the best we can do. As you know, under a democratic arrangement, decisions are arrived at, through dialogue and consensus, and this can involve a long process. But as you also know, sometimes it is best and safer to take the long way home.

4. The swearing in of an elected government on the 29th of May 1999 marked the beginning of a new democratic dispensation in Nigeria. The new administration inherited an economy that was broken and a populace that was generally demoralized and in need of competent leadership. The country faced serious challenges domestically and externally. Domestically, job creation had stagnated and the incidence of poverty had reached alarming proportions. The domestic economy was unravelling from many years where the rate of population growth outstripped the speed of economic expansion. Externally, the image of the country was soiled from bad human rights reports from home and from isolation from the rest of the world, as the barest minimum of foreign investment

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came in, exclusively to the oil sector where there are very little alternatives, and most external aid dried up. The national debt settled at an unsustainable level, with absolutely no sign of relief anywhere to be found. From 1992 to 1998, the economy managed an average economic growth rate of just 2.5 percent, well below the population growth rate of almost 3.0 percent, a classic case of growth with misery. But since 1999, things have changed. In 2000 and 2001, real GDP growth advanced at a faster pace than at any time since 1991, growing at 3.83 per cent in 2000 and 3.91 per cent in 2001.

Since it has become almost a religious act to set the real GDP growth target at 5.0 per cent each year for the budget, it meant that we missed our mark throughout the 1990s in each of our rolling plans. This also implies that all other targets and objectives anticipated from the realization of the real GDP growth targets in the rolling plans and budgets were also missed. I have often called this a "set-and-miss syndrome", and we should never do it again. It should be forbidden as a matter of prudent policy making. Again, this is why, this time around in our economic policy formulation, we will endeavor to set realistic targets based on accurate and responsible analysis and simulations.

5. In practical terms, therefore, for many years, budget implementation in this country has been characterized by abandoned public sector projects due to misallocation of resources and imprudent determination of the budget. This is why we have the problem of poorly maintained basic infrastructure, including roads, power, telecommunications, and water supply and also dilapidated social services like schools, hospitals, postal services and public transportation. To be sure, adequate implementation must be preceded by a good planning and research process and an efficient budget.

6. Achieving a democratic budget implementation requires a conscious and deliberate effort at meeting the needs and aspirations of the people. This implies that there must be a strong political and administrative will to do right in serving the people with accountability, responsibility and transparency. In recognition of this imperative, the government at its inception in 1999 made the curbing of corruption a key objective of its development policy. Among other strategies for realizing this objective was the introduction of a process of budgetary reform. Essentially, the reform was to involve integrating a Due Process Compliance Principle into the budget implementation process.

PROBLEMS OF BUDGET IMPLEMENTATION

7. What are some of the problems that have characterized the budget implementation process in Nigeria? Some of the problems may be defined as follows:

(a) Lateness in finalization of the budget. Often the budget is not completed early enough, and may be as much as three to four months behind schedule;
(b) Uncertainty regarding the timing and amount of actual releases;
(c) Budget-crowding, where the budget is congested with so many projects and in such a manner that individual projects are often missed or misallocated for;
(d) Uncertainty in revenue flow. This often leads to abandoned projects or delays in implementation;
(e) Unusually high costs, which also can lead to job delays and project cancellation;
(f) Opacity in the tendering process, with selective tendering used to save time or reach personal goals rather than social objectives;
(g) Tender specifications, leading to difficulty in design comparisons;
(h) Lack of integration among public sector policy-making, planning, budgeting, management systems and processes;
(i) The absence of any definite and measurable objectives or targets set out for budget implementation;
(j) The lack of a rational basis for prioritizing choices in the face of dwindling resources. In this situation, funds are not channeled to projects that can be reasonably completed, given the available resources;
(k) Lack of an implementation program. That is, an action plan of steps and procedures that systematically guide the implementations of the budget. Thus, Government commits resources to projects without proper assessment of the results to be achieved; and
(i) Extra-budgetary approvals. This occurs when unbudgeted projects are given approvals. Sometimes such projects can crowd out original projects.

In almost every case, these anomalies in the budgetary or implementation process push up the budget deficit. In many countries, especially developing countries, these problems are like a persistent rainfall that has continued to pour down on a parade. When will it end?

THE CHALLENGES

8. In Nigeria, the new demo-

cratic government is determined to challenge corruption and commit itself to good governance characterized by fiscal discipline, transparency, responsibility and accountability. The commitment of government is to use the Budget to generate sustainable growth and development through investment in human capital and physical infrastructure, with the aim to significantly reduce poverty, and above all build a stable, united, democratic and secure polity. To achieve effective budget implementation the government has adopted a Due Process Compliance (DPC) mechanism that is working successfully.

9. The instrument of Due Process is designed to enforce compliance with efficiency and transparency in budgeting and expenditure by all Federal spending units. It helps to ensure that budgets and spending are not only based on authentic, reasonable and fair costing, but are also appropriately geared to the realization of set priorities and targets that were generated from short range strategic plans such as the National Rolling Plan. As is the case within the legal context from which the term was borrowed, Due Process is an assurance that there has been full adherence to laid down rules or regulations guiding budgetary procurement and payment activity or action by all parties related to the activity.

10. The new policy on Due Process was effected in a Federal Ministry of Finance Circular No. F15775 dated 27th June 2001 on "New Policy Guidelines for Procurement and Award of Contracts in Government Ministries/ Parastatals".

CONCLUSIONS

11. I have gone into some details on the problems and challenges that can face budget implementation in a democratic setting. In order to give effect to the aspirations of Government to reverse any problem trends in budget implementation, there is need for every citizen to participate in putting Nigeria first. When I talked of a smart economy, I have included in that, a very educated citizenry that understands the issues and the role of government and individual participation for economic development.

12. Integrating the federating units (that is, the states and local Governments) into the budget reform process is very important. Ensuring that all state governors establish Due Process Compliance mechanisms will serve the country well. The National Economic Council will have to arrive at a consensus on this very important issue if we are to achieve results in monetary and fiscal policies.

13. I am sure that the Governor of the Central Bank and the key monetary policy makers will agree that nation-wide fiscal discipline is essential for a stable economic environment. We are in this boat together, any waves that come at us can cause peril for all, but as I have often said, if the big toe plays the role of the big toe, the index finger plays the role of the index finger, and if the feet walk and the eyes see and every part of the body plays its role, then the body becomes the glory it was meant to be.

THE 2002 FEDERAL GOVERNMENT BUDGET: SOME REMARKS

By

Professor S. Ibi Ajayi*

In assessing the budget for the year, it is hoped that we will be able to take a critical look at where we have been, where we are and where we hope to be and need to be in order to improve the welfare of our people! This is necessary since the budget is not just simply a statement of the revenue and expenditures of government but also a pronouncement of the macroeconomic policy stance of government. It behooves on us therefore as economic analysts, policymakers etc not only to critically analyze and objectively assess what we think we have been able to achieve within the domestic economy to improve the lots of our people but to assess also where we are in the community of nations in general and the developing countries in particular. We cannot afford to be just a local champion, living in caves that most civilized people have long left!

In assessing the budget, permit me to share with you very briefly by way of introductory remarks my thinking on the Nigerian economy and the direction the budget should be heading. As you must all know, after many years of battering, the Nigerian economy has not fully recovered from its economic *malaise.* The level of poverty has not declined. Indeed, a large number of our population is wallowing in poverty. Nigeria by latest statistics is among the poorest countries of the world, its rich oil wealth notwithstanding. The infrastructures are inefficient, worst still rapid improvement is not in the immediate horizon. Uncertainty is pervading the entire society brought about by various shocks mostly internal: uncertainties created by ethnic and political strife.

We have learnt a lot from the literature and practical experience that development depends on at least two pillars, which together will support sustained growth and poverty reduction. The first is that we must build a good investment climate - an environment in which the private sector will invest and produce efficiently in a way that productivity growth and jobs are generated. The investment climate consists of all factors that mostly influence private-sector decisions: macroeconomic stability, governance and institutions and infrastructure. Second, countries must empower and invest in people. Many countries have been able to build these two pillars and have been able to reap the rewards. Economic growth is important or more appropriately it is the *sine qua non* for sustained progress on poverty reduction. Countries that have reduced poverty are the ones that have grown fastest. Poverty on the other hand has grown fastest in countries that have stagnated economically. In the late 1990s, the share of the population in poverty fell on average of 5 to 8 percent annually for fast growing countries like Uganda, India, China and Vietnam. In Nigeria on the other hand, per capita consumption fell in the late 1990s and poverty share increased by half from about 43 percent to about 66 percent of the population. Creating the conditions for growth requires first the existence of peaceful and stable condition.

It is necessary to continue to remind policy makers and in particular their economic advisers about the necessity of growth as well as the fundamentals of economic growth. In order to improve the economic positions of a lot of our citizenry, it is important to realize that growth is not only desirable, it is good for the poor in an era of poverty alleviation programs. What steps are we taking to achieve our goals or are we still dwelling with the rhetoric?

There is abundant empirical evidence based on regression analysis on the sources of growth. There is also abundant evidence on the policies and strategies to promote broad-based sustained growth.

If the thrust of our growth and development is partly based on foreign direct investment we must then ask ourselves whether the prerequisites for direct foreign investment into Nigeria are presently available. We do know that countries that have in the past attracted foreign investments are those where the associated risks of foreign investment are at a minimum. The whole world is a global village in an era of increasing

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globalization and people will shift their investments not only to areas and countries where the market is large but one in which their assets are safe, secure and the costs of carrying out business are at minimum. At the end of the day, it is the law of economics that will prevail. The factors that have attracted foreign investment include favourable macro-economic policy environment: increased liberalization of markets, liberal trade regimes, good and reliable infrastructural facilities, security and business facilitation measures, among others. One of the reasons why the Nigerian economy has not grown is not unconnected with factors that either discourage investment or make it less productive. The risk associated with investment in Nigeria is very high especially those associated with macroeconomic and political instability, inefficient institutions and weak legal systems. In our country, there is insecurity of lives and properties, apart from the fact that the state of infrastructures is at best prostate. In many parts of the country today, pipe borne water is unavailable; electricity is at best erratic if available at all. No serious minded foreign investor will like to invest in Nigeria because of all these disadvantages. The issue we must then address relate to the different measures that are being put in place to address these problems and ensure that positive goals of the economy are attained. Of course, it need be stressed that all these cannot be meaningfully attained in a year's budget. There is need for a proper articulation of need and a systematic phasing out of programmes and budgets.

It is very clear from a policy perspective what the choices for bringing about growth and development in this country are: improve on the security situation in the country, improve on the infrastructures so that electricity, water and communications can be very reliable. This indeed is a long haul and it definitely has to be seen within its macroeconomic perspectives. The security of the nation cannot really improve unless there is employment for millions or thousands of graduates from our universities, and this can only happen if the economy improves.

Nigeria in an era of globalization cannot be an island in itself. It stands to lose if she fails to join the train. To meaningfully benefit, Nigeria must put in place policies that will make it possible to derive the advantages. Are these being put in place? Are we sowing the appropriate seed?

REVIEW AND APPRAISAL OF THE 2002 FEDERAL GOVERNMENT BUDGET PERFORMANCE

By

Professor Milton Iyoha*

I. INTRODUCTION

The Nigerian economy has continued to report poor overall economic performance, contrary to the hopes and expectations of Nigerians, donor partners, and the entire international community. Before, and even since the new dawn of democratic revival, economic growth has continued to be lacklustre and unprepossessing. Growth in real output has continued to be weak, averaging less than 3% per annum. (See Table 1). Given a population growth rate of 2.8% - 3% per annum, this has meant declining per capita income and, *ipso facto,* a rising incidence of poverty. It is widely believed that a minimum growth rate of real Gross Domestic Product (GDP) equalling 7.0% per annum is required to reverse the poverty trend[1]. Using this standard, the obvious conclusion is that Nigeria still has a long way to go before poverty reduction begins.

The rate of inflation had been brought under control at the end of the last millennium, with the inflation rate equalling 7.6% in 1999 and 5.4% in 2000. Alas, the era of single digit inflation has been brutally cut short with the spectre of inflation re-emerging again in 2001. At the end of September 2001, the inflation rate was 18.4% and it is widely expected that the rate of inflation would exceed 20% at the end of 2001. The rising inflation in year 2001 has been primarily attributed to reckless spending by all the three tiers of government.

Oil revenue performance was satisfactory in year 2001; so also overall external sector performance. As at September 2001, the gross external reserves stood at US$10.5 billion, up from US$9.4 billion as at December 2000.

The main objective of this paper is to provide a comprehensive review of the performance of the economy in the year 2001, assess how far set targets were achieved, and hence highlight the impact of the 2001 Federal Government budget on the economy. The paper will also outline the challenges for the 2002 Federal Government budget and indicate how the budget can be designed and implemented to meet the anticipated challenges.

In addition to this introductory section, this paper contains four other sections. Section II provides a review of the 2001 budget with emphasis on its aims, major features, and key policy measures. Section III undertakes a comprehensive appraisal of the performance of the 2001 Federal Government budget, with particular emphasis on key sectors. On its part, section IV takes a forward look at the 2002 budget while section V contains a summary of the paper and some concluding remarks.

II. Review of The 2001 Budget

It is usual to make a distinction between an *ex ante* review and an *ex post* review of a budget. *Ex ante* reviews include a full-year preview and a mid-year review of the budget. The focus of an *ex ante* review is identification of challenges and suggestions about how to overcome them for effective performance and achievement of set targets. On the other hand, according to Taiwo (2001, p. 20), "*Ex post* reviews tend to pass a judgement on the success of a budget and to draw essential lessons of experience for subsequent budgets". Faithful to this definition, this section and the next undertake an *ex post* review of the 2001 budget by appraising its success in the key areas of macroeconomic performance, viz, real output, inflation, and the external sector.

According to the Budget

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[1] *See footnote on page 24.*

2001 speech by President Olusegun Obasanjo, the main policy thrust of the budget includes:

* Restructuring the Nigerian economy to make it market-oriented, private sector-led and technology driven;
* Stimulating of agricultural and industrial production;
* Reducing unemployment and increasing productivity;
* Maintaining price and exchange rate stability and a healthy balance of payments;
* Reducing lending rates and improving savings; and
* Improving the performance of major infrastructure such as power supply, communications and transportation. (Budget 2001, Tribune, p.26).

From the above, it is clear that budget 2001 aimed to revitalize the economy and promote growth in the real sector (agriculture and industry), promote employment, stabilize the inflation rate, eliminate the depreciation of the naira, improve electricity supply, and continue the privatisation exercise. The expected gain from this policy thrust was accelerated growth in real GDP, low rate of inflation, stable exchange rate, increasing employment, a rising standard of living and reduced poverty.

However, as the detailed appraisal of performance in section III will reveal, the achievement of budget targets has fallen short of expectations in many vital areas. Growth of real output has remained sluggish while the inflation rate has skyrocketed. Unemployment has continued to soar and elecricity supply has not recorded any significant improvement. However, performance of the external sector has been moderately satisfactory. In particular, there has been some moderate improvement in revenue generation and relative stability in the naira exchange rate. The level of gross external reserves has remained satisfactory. However, the stubborn problems of high external debt stock and crushing debt-service payments have persisted and continued to militate against investment recovery and buoyant economic growth.

Given the overall aim and policy thrust of the 2001 budget, fiscal measures were proposed that would improve the efficiency of economic and social infrastructure, increase output and employment growth, and promote poverty alleviation. Consequently, the 2001 budget contained specific measures, policies, and strategies for achieving these objectives. According to the CBN (CBN 2001, p.4)

"The adopted strategies included *inter alia:* tax concessions and incentives to domestic industries and agriculture, and the promotion of non-oil exports".

With this in mind, the 2001 budget was designed to be mildly expansionary with an anticipated budget deficit of N201.5 million or 6.2% of GDP. Capital expenditure constituted 55.5% of the budget outlays while recurrent expenditure was 45.5% of the total. The tax concessions designed to encourage expansion of the manufacturing sector included:

(i) duty reduction on raw materials imports;
(ii) retention of zero duty on machinery and parts; and
(iii) removal of gypsum from the import prohibition list.

Export concessions designed to encourage growth of the manufacturing sector included:

(i) the increase of Export Expansion Grant from 10% to 20%; and
(ii) relaxation of the requirements for manufacture-in-bond scheme.

The incentives put in place to promote expansion of domestic agricultural production included:

(i) a ban on bulk importation of vegetable oil; and
(ii) the measure providing for VAT exemption on basic foods.

The trade policy measures designed to enhance diversification of exports and dampen importation included:

(i) increase of import duties on rice, vegetable oils and fats, fruits, juices and corn flakes;
(ii) reduction of duties for animal feeds, day-old chicks, fish meal, seasoning and durum wheat; and
(iii) zero import duties on books and teaching aids, and essential machinery and parts.

III. Appraisal of 2001 Budget Performance

The overal macroeconomic performance of the Nigerian economy during the budget year 2001 was rather unimpressive. In the real sector, the performance of the manufacturing sector was particularly weak. In the monetary and financial sector, the growth of money supply (M_2) exceeded the target and the spectre of inflation re-appeared. From a level of 5.4% in December 2000, the rate of inflation had surged to 18.4% as at September 30, 2001. It was expected to exceed a distressing 20% by December 2001. Only in the external sector could one find some reason for optimism. The balance of payments was satisfactory and gross external reserves remained relatively buoyant, equalling US$10.5 billion in September 2001. However, massive external debt service payments continued to haemorrhage the Nigerian economy.

3.1 Appraisal of Performance in the Real Sector

In assessing overall macroeconomic performance, it is natural to begin with the real sector. In this context, emphasis focuses on performance of the agricultural sector and that of the industrial/manufacturing sector. Growth of the agricultural sector was pegged at 3.9% as at September 30, 2001. This compares with growth rates of agricultural output of 3.5% in 1998, 3.7% in 1999, and 3.3% in 2000. Though comparable with the growth rates of the last few years, the growth rate of agricultural output of 3.9% still leaves a lot to be desired. As a country with a majority of workers in the agricultural sector and an expansive and rich arable land, there is no reason why growth in the agricultural sector cannot be between 7% and 10%. This is more so as growth of real output, which is basically a weighted average of growth in the agricultural and industrial sectors is expected to exceed 7% per annum in order to promote poverty alleviation. Given the investment and resources devoted to agriculture and the expectations of government, more is expected of this sector in the years ahead. However, it is certain that, if agricultural production and agricultural productivity are to be significantly improved, steps must be taken to provide cheap and affordable fertilizers to farmers, a credible price-support programme must be established, and ways must be found to upgrade technologies in agriculture.

3.12 Appraisal of Performance In The Industrial Sector

The performance of the industrial sector in year 2001 was quite disappointing. Available data as at June 30, 2001 show that growth in industrial value added was negative while capacity utilization improved marginally. The index of capacity utilization, which was 32.4% in 1998, fell to 32.0% in 1999, and slipped further to 30% in 2000. However, capacity utilization rose to 35.5% as at June 2001. While this is an improvement over the 2000 level, it is nevertheless still atrocious. The index of industrial production (1985 = 100) stood at 143.2 in June 2001. This represented a 2.7% decline below the level of industrial production in the second half of year 2000. This decline in industrial production arose from declines in the three key sub-sectors, namely, electricity consumption (-3.6%), mining (-3.5%) and manufacturing (-1.0%). It is seen, then, that manufacturing production declined. The weak performance of manufacturing is particularly disturbing as expansion of the manufacturing sector is expected to be an "engine of growth" and has been a top priority of government policies and measures. There is a consensus that significant expansion of manufacturing production has been hampered by a host of factors including:

(i) low effective demand for local manufactured goods; and
(ii) high cost of domestic production attributable to:
(a) high interest rates;
(b) increase in tariffs on basic utilities; and
(c) poor infrastructure.

It is also believed that the new requirement for 100% inspection of imports, resulting in port congestion, has slowed down the supply of raw mateials to manufacturing industries -- thus further hampering manufacturing output expansion. It seems worth emphasizing that urgent steps must be taken to significantly boost manufacturing and industrial output if overall growth is to surge to the high levels needed for supporting improved welfare and poverty alleviation.

3.2 Appraisal of Performance in the Monetary and Financial Sector

During the budget year 2001, the monetary authorities battled valiantly, but not very successfully, to control the inflation let loose by overly expansionary fiscal spending and very rapid growth of money and credit. Governments (in the three tiers) spent exuberantly during the year 2001, partly as a result of rising revenues. During the first half of the year, the federal government's expenditure was 77.6% higher than it was in the preceding period of 2000. CBN data show that broad money or M_2 increased by 28%, which was more than twice the targeted rate of 12.2% for fiscal year 2001. On its part, the aggregate banking system's credit to the economy galloped by 32.4%.

Faced with the increase in liquidity and the clear threat of inflation, the monetary authorities took some strong measures to control the situation. Among these, we may mention the upward review of some key liquidity ratios. These included:

(i) an increase of the cash reserve ratio (CRR) to 12.5% in April 2001;

(ii) an increase of the minimum liquidity ratio (MLR) from 35% to 40% in April 2001;
(iii) an increase of the minimum rediscount rate (MRR) to 18.5% in June 2001.

In addition, in order to further mop up excess liquidity, the CBN introduced two new Certificates of 180 days and 360 days with yield rates of 19.0% and 20.0%, respectively. All these steps were in addition to CBN's continued efforts to sensitise the Federal Government about the deleterious effects of excessive fiscal expenditure on the economy.

3.21 Inflation

After staying at the single digit in 1999 and 2000, inflation surged to double digits in 2001. From a level of 7.6% in 1999 and 5.4% in 2000, the rate of inflation jumped to 18.4% as at September 30, 2001. It was widely expected that the inflation rate would exceed 20% by December 2001. The current inflation has been driven by both demand-pull and cost-push factors. The demand-pull factors fuelling the inflationary spiral include:

(i) expansionary fiscal policy (by all tiers of government);
(ii) rapid monetary growth which has been partly caused to the excessive fiscal spending; and
(iii) hefty wage and salary increases.

The cost-push factors driving the inflation include:

(i) fuel price increases and/or fuel scarcity leading to high transportation costs;
(ii) inadequate and poor infrastructural services; and
(iii) supply bottlenecks arising from ports congestion.

While the monetary authorities have shown awareness and concern, and taken some steps to curb the rising inflation, it is necessary for the government to also assist in controlling the inflation, which, if allowed to go out of control, would lead to macroeconomic instability and further reduce the already unacceptably low rate of economic growth.

3.3 Appraisal of Performance of the External Sector

The performance of the external sector was moderately satisfactory in budget year 2001. The overall balance of payments was in surplus to the tune of ₦51.1 billion (equivalent to US$459 million) as at June 2001. As at that date, the gross external reserves totalled US$10.498 billion, sufficient to cover 10.5 months worth of imports. The current account surplus was equal to ₦150.9 billion while the trade balance was in surplus to the tune of ₦550.2 billion as at June 30, 2001. Total exports equalled ₦1,218.5 billion, an increase of 42% over the 2000 figure but non-oil exports decreased by 37.5% to ₦9,268.5 million. The buoyant balance of payments situation was largely attributable to favourable external (exogenous) factors, chiefly the high world prices for petroleum during the first half of 2001. While Nigeria gained from the favourable development in the global petroleum market, she lost from the fact that world agricultural commodity prices were still depressed. Nigera's terms of trade for agricultural products declined, pushed by unfavourable price developments in the world market for cocoa and rubber.

There was also moderate success in stabilizing the naira/ dollar exchange rate. The Inter-Bank Exchange Rate averaged ₦111.713 to the US dollar during the third quarter of 2001 compared to an average of ₦112.7472 to the U.S. dollar during the second quarter of the fiscal year 2001.

There has been little progress in obtaining external debt relief and the problem of debt overhang continued to be a burden on the economy. There has been some progress in reconciling Nigeria's external debt with the Paris Club creditor countries. As at August 31, 2001, Nigeria's reconciled external debt stock (excluding penalty interest) stood at US$28.418 billion. Heavy debt service payments have continued to be a burden on the economy, exacerbating the problem of development finance. Debt service payments during the second and third quarters of the budget year 2001 amounted to US$1,224.6 million. It is expected that total debt service payments for 2001 could exceed US$2.5 billion.

3.4 Lessons of Experience

Overall, macroeconomic performance was weak in 2001 arising from feeble performance in the industrial sector and a less-than-strong performance in agriculture. The growth of agricultural output of about 4% falls short of the budget target of 6% growth rate. Even the budget target is quite modest given that overall GDP needs to grow at over 7% per annum in order to position the economy for effective poverty alleviation. Performance in the real sectors -- agriculture and industry -- needs to be significantly improved in the years ahead.

Much still needs to be done to raise productivity and reduce total unemployment. Lack of hard official statistics constrains a detailed analysis of these two critical issues. Since all indications are that productivity has not risen while unemployment has increased, it may be concluded that the government and organized private sector chieftains have their work cut out for them. In particular, it is imperative to increase the quantum of public sector investment and its employment content. According to Iyoha (2000, p 29),

The employment content of public sector investment can be raised by many policies including:

(i) directing public investment resources to labour-intensive small and medium size projects, and cottage industries instead of large-scale and over-ambitious projects;
(ii) laying emphasis on the development of agro-allied industries using local raw materials;
(iii) directing attention to labour-intensive projects in agriculture and industry;
(iv) devoting resources to projects which minimize the use of imported raw materials and intermediate inputs; and
(v) allocating substantial resources to maintenance of rural and feeder roads, which tend to be highly labour-intensive initiatives.

He adds that, for success, the above measure should be supplemented in the medium term by policies designed to improve labour market organization and information, the development and upgrading of labour skills, and the promotion of better manpower and educational planning. On this last issue, concrete policy measures to re-orientate the educational and training system towards producing adequate and qualified manpower needed by the labour market should be adopted and implemented as a matter of urgency. Note that workers whose skills are obsolete become unemployable and form the hard-core unemployed. Thus, routine and continuous development and upgrading of skills seems to be a desideratum. According to Umo (1985, p. 33), employers should be encouraged to undertake intensive on-the-job training of their workers by means of tax rebates. In his view, such a policy would "achieve the dual effect of reducing demand pressures on formal education while at the same time yielding a more fundamental education needed for sustained job retention and high productivity". Finally, it is imperative for government to offer incentives for the adoption of more labour-intensive techniques by manufacturing firms. Iyoha (1978, p. 82) has suggested that this could be achieved by lowering the cost of labour to manufacturers either by direct subsidies or the overt use of tax incentives.

IV. The 2002 Budget: Challenges and Prospects

According to the budget address by President Olusegun Obasanjo, the four major pillars upon which FG2000 budget is built are:

* To alleviate poverty by fostering the opportunities for job creation;
* To achieve high economic growth rate through better mobilization and prudent use of economic resources;
* To build a strong economy by encouraging private sector participation while providing continuity to economic reform programmes; and
* To ensure good governance by transforming development administration into a service and result-oriented system. (Business Times. 2001, p. 19)

Continuing further, the President's budget address listed the specific policy objectives derived from the four main pillars as including:

(i) Striving towards a GDP growth rate of at least 5 percent;
(ii) Minimizing budget deficit and eliminating extra-budgetary expenditure;
(iii) Targeting a moderate inflation rate;
(iv) Reducing the level of unemployment through increased capacity utilization and encouragement of self-employment initiatives;
(v) Increasing food production and provision of post-harvest storage facilities including maintenance of a system of buyer-of-last-resort and guaranteed minimum price;
(vi) Encouraging foreign direct investment through increased liberalization; and
(vii) Continuation of privatisation of government investments and public tilities. (Business Times. 2001, pp.19-20)

An examination of the budget address shows that a key objective in the real sector is the achievement of a growth rate of GDP of at least 5%. In addition, priority is to be given to the achievement of a single digit inflation and stability in the foreign exchange market. Though quite modest, the objective of a 5% growth rate in GDP is commendable, given the weak macroeconomic performance in recent years. However, to achieve this modest goal, all hands must be on deck and particular attention should be given to increasing investment. Both private and government investment need to be significantly boosted. This should also be supplemented with increased foreign direct investment. The need to quickly bring down the rate of inflation is obvious. To achieve this, the monetary authorities should continue to follow a tight monetary policy. Expansion of agricultural and industrial production, by increasing available supplies, will also assist in moderating the rate of inflation. The CBN should continue to closely monitor the activities of banks in the foreign exchange market to eliminate "round-tripping", as a way to moderate the rate of naira depreciation. Attempts should be made to quickly implement the new policy that proposes an increase of the maximum amount of bank deposits insured by the NDIC -as a way of boosting confidence in the banking system and promoting a more robust financial industry.

It is also desirable to adopt policies that would accelerate the inflows of foreign capital, promote foreign direct investment, and reduce the debt stock. All these would ameliorate the effect of the debt overhang and consequently stimulate investment recovery. This, in turn, would promote sustained growth and full employment. In order to bring about a rapid expansion of foreign private investment, the authorities should make the incentive structure credible and also make the incentives more attractive. In addition, there is need to reduce perceived risk and uncertainty by implementing sound macroeconomic policies which would promote macroeconomic stability. It is believed that sound macroeconomic policies designed to bring about low inflation, viable balance of payments position and stable exchange rates in an environment of political stability will go a long way to encouraging a resurgence of foreign private investment in Nigeria.

While the objectives of short-run macroeconomic stability remain important, it is necessary to stress nevertheless that the greatest challenge facing the Nigerian economy is how to design and implement policies for rapid economic growth in the medium and long term. The reason is that unless the growth rate of real output exceeds 7% (or per capita income growth exceeds 3% to 5% per annum), achieving the objective of poverty reduction will remain only a pipe dream. Thus, priorty must be given to measures and policies that would accelerate the rate of economic growth. However, in order for GDP to grow at annual rates approximating 9% to 10% investment rates must increase to about 35% of GDP as has been observed in East Asia. Correspondingly, savings rates must rise to between 30% and 35% of income. The current savings rate in Nigeria is less than half of this requirement. Thus, to make any significant progress in accelerating economic growth and reducing poverty, Nigeria must make a resolute effort to dramatically increase her savings and investiment rates.

V. Summary and Conclusion

In this paper, an attempt has been made to present a comprehensive review and appraisal of the FG 2001 budget. The main sections of the paper provided (i) a review of the major features and key policy measures of the 2001 budget; and (ii) an assessment/appraisal of performance, with major emphasis on:

(a) overall macroeconomic performance;
(b) real sector performance;
(c) performance of the monetary and financial sector;
(d) performance with respect to inflation; and
(e) performance appraisal of the external sector. In general, an attempt was made to assess how closely actual performance approximated the targets set.

The exercise was somewhat constrained by the lack of official (published) macroeconomic data for the full year. However, we did our best by using third quarter (September 30, 2001) statistics. Overall, it was found that growth performance was disappointing, with GDP growth approximating 3%. Output growth was undoubtedly pulled down by weak performance in the industrial sector and manufacturing sub-sector. Price stability was elusive as inflation reached the level of 18.4% as at September 30, 2001. External sector performance was moderately satisfactory with a surplus in the trade balance, current account balance, and overall balance of payments. Gross external reserves were moderaely buoyant at a level of US$10.5 billion as at September 30, 2001. The exchange rate was moderately stable. However, the external debt stock remained high, exceeding US$28 billion and heavy debt-service payments continued to drain the economy of the much needed resources.

The paper also took a look at the 2002 budget, stressing its main features and policy thrust. Some of the key policies proposed for achieving set targets were also examined. The 2002 budget aims at a GDP growth rate of 5%. This is considered too modest. But achievement of the target would be an improvement on the performance of the last few years. Measures that must be implemented in order to obtain a successful outcome were highlighted. The paper ends by focusing on the overriding challenge that the Nigerian economy must meet, viz., the design and implementation of policies to accelerate the rate of economic growth in the years ahead.

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TABLE 1: SELECTED INDICATORS OF MACROECONOMIC PERFORMANCE, 1998-2001 (IN % UNLESS INDICATED OTHERWISE)

Indicator	1998	1999	2000	2001*
Real GDP	2.4	2.7	2.8	n.a.
Growth rate of per capita income	-0.5	-0.1	0.1	n.a.
Growth rate of agricultural value added	3.5	3.7	3.3	3.9
Growth rate of industrial value added	-4.7	-1.4	-0.8	-2.8
Capacity utilization	32.4	32.0	30.0	35.5
Inflation rate	10.2	7.6	5.4	18.4**
Growth rate of broad money (M_2)	21.2	32.4	38.3	28.0
External reserves (US$ billion)	7.1	5.4	8.78	10.5**
Balance of payments (% of GDP)	-7.8	-3.1	n.a.	n.a.
External debt stock (US$ billion)	28.74	28.04	28.60	28.4
Overall fiscal deficit (% of GDP)	-4.8	-8.8	-1.8	n.a.

Notes: Negative values are in parentheses
n.a. denotes not available
* information reported is as at June 30, 2001
** information reported is as at September 30, 2001

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1 *This is supported by results of cross-country studies carried out under the aegis of the World Bank which have established the important role of rapid per capita economic growth in bringing about poverty reduction. According to Professor Lal, a co-director of the numerous studies: “One of its clearest findings was that per capita growth of over 3 per cent of a year indisputably reduces the headcount index of poverty” (1999:1)*

FISCAL POLICY THRUST OF THE YEAR 2002 BUDGET

By

Dr. H.U. Sanusi*

DR. H. U. SANUSI

INTRODUCTION:

* I would like to start by thanking the organizers of this seminar for granting the Ministry the opportunity to present this paper. Since the objective of the workshop is to sensitize and enlighten the public on government's fiscal policies, it is no surprise that the Budget office of the Federation, being the body saddled with the responsibility of formulating, evaluating and monitoring these policies, is called upon to present a paper.

* This paper shall discuss the role played by the last two fiscal policy measures in formulating the year 2002 Policy thrust. Budget 2002 therefore will be to consolidate and sustain the gains of the last two years.

* It is believed that discussion on government's fiscal policy thrust will be incomplete without mentioning its revenue and expenditure profiles. This paper will therefore, delve briefly on these two topics. Budget 2002 will be to consolidate and sustain the gains of the last years.

Performance of The Economy In Year 2001

* The policy thrust in fiscal 2001 was to consolidate the path of the previous year in laying a serious foundation for a private sector led, market driven and growth enhancing economy, in which unemployment and poverty will be reduced.

* The primary target was to lower the inflation rate.

The government aimed as follows:

* To provide the legal, fiscal and monetary environment for the private sector to become the effective engine of growth.
* To upgrade the performance of major infrastructural facilities
* To improve the operational capabilities of the law enforcement agencies at crime prevention and reduction
* To continue with the policy of probity, transparency and accountability in order to reduce the cost of doing business in Nigeria.
* Take bold steps to fight illiteracy through the implementation of the UBE scheme
* To intensify the pursuit of rural poverty alleviation and food security through fiscal incentives to lenders and borrowers for agricultural production; and :
* To improve the health of the population through rapid upgrading of our curative healthcare delivery system.

ECONOMIC PROSPECTS FOR YEAR 2002

The economic outlook for 2002 is based on the macroeconomic framework of the 2001 - 2003 rolling plan. The framework consists of:

* Maintenance of disciplined fiscal and monetary policy
* Continued liberalization of the economy to attract support from the international community and multilateral agencies.
* Improved security of lives and property
* Sustained transparency, accountability and value for money

THE OUTLOOK OF BUDGET 2002

* Fiscal policy in year 2002 faces very serious challenges for various reasons.

  In the first place much of the macroeconomic imbalances in the fiscal and monetary sectors would continue into the early parts of 2002. However, it is expected that with the avowed

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commitment to fiscal restraint, together with the latest Due Process compliance instruments, some level of stability will become noticeable in the later part of the year. In this regard, the CBN will continue to foster the existence of competitive financial sector environment that will enhance the opportunities for investment.

POLICY OBJECTIVE: FOR YEAR 2002

The four broad objective pillars upon which fiscal year 2002 is built are

* to eradicate poverty by fostering the opportunities for job creation
* to achieve high economic growth rate through better mobilization and prudent use of economic resources
* to build strong economy by encouraging private sector participation thus providing continuity in economic reform programmes; and
* to ensure good governance by transforming development administration with a serious and result oriented system.

To achieve these objectives and operate a budget of growth and development in year 2002, Government will adopt the following instruments.

* strive to operate a new balanced budget
* pay attention to completion of ongoing projects
* consolidate on the reasonable degree of policy consistency and sense of direction gained in the last two budgets.
* strengthen and deepen macroeconomic flows to the grass roots
* institutionalize the "Due Process Principle" by linking expenditure to resources based on identified priorities, economy, efficiency and effectiveness

REVENUE ESTIMATES

* The estimate of Federally collectible revenue in the year 2002 is about 1.832.9 billion naira.

  Oil Revenue: For fiscal year 2002, a price scenario of 18 US dollars per barrel and export volume of around one million, eight hundred thousand barrels per day. The total receipt from the source is estimated at 975 billion naira.

* Petroleum Profit Tax (PPT) is projected to yield 207. 6 billion naira, while royalties is projected at 135 billion naira

* **Non-oil Revenue:** Total receipts from the non-oil sectors are projected at 543.3 billion naira. Total receipt from non-oil is made up of customs and excise at 180 billion naira. Import duty at 162.4 billion naira, excise duty at 8.6 billion naira, fees at 8.9 billion naira and companies income tax at 90 billion naira. In addition to these receipts, Government expects to earn a total sum of 75 billion from privatization proceeds which is largely from the sales of NITEL and Nigerdock.

EXPENDITURE ESTIMATES

* **Recurrent Expenditure:** The estimated recurrent expenditure for 2002 is 543 billion naira. Of this estimate, the sum of 314 billion naira is set aside as personnel costs, while the sum 229 billion naira is for overhead costs including the amount proposed for servicing of domestic debts at 134 billion naira. The total sum of 10 billion naira is being proposed for settlement of debts on capital projects.

* **Pensions and Gratuities:** In addition to the total non personnel cost, a provision of 4.7 billion naira has been made to start offsetting the arrears of pensions and gratuities.

CAPITAL EXPENDITURE

* The proposed capital expenditure for year 2002 was 297 billion naira, but was reviewed upwards by the National Assembly to 485.7 billion naira. This amounts to 64 per cent increase from the original proposal by government.

CAPITAL BUDGET ALLOCATION

* In allocating funds to ministries and agencies, priority has been given to education, health, agriculture, power, water supply and works and housing sectors. Priority is also given to solid minerals sector with the aim of diversifying the economy. Rehabilitation of major infrastructures in the power, roads, and housing sectors particularly received priority allocation which amounted to 68. 45 per cent of the total capital budget. The following ministries and agencies therefore received priority allocations in 2002 fiscal year:-

* Agriculture
* Education
* Defence
* Health
* Industry
* Federal Capital Territory
* Water Resources
* Works and Housing
* Nigerian Police
* Power and Steel.

FISCAL POLICY:

In all economies, fiscal policies

serve as varitable tools for generating the revenue required for expenditure budget. It is in this light that the Year 2002 Fiscal Policy Measures will be periscoped and addressed.

The following are the fiscal policy thrusts for Year 2002:

* enhance capacity utilization in agriculture, manufacturing and mining industries
* provision of appropriate protection for domestic industries against unfair competition from import and dumping
* encourage diversification of foreign exchange earnings through increased export activities
* reduction of operation cost and inflationary pressures and creation of new jobs.
* provision of appropriate incentives for investments in manufacturing, agriculture and mining with a view to making the economy, private sectors led.
* reduction of the upper hand of our tariff regime to accord with the trade movement worldwide, particularly within the West African sub-region.

Measures for the Implementation of the Fiscal Policies.

In year 2002, the following measures have been taken to implement the fiscal policies:

* Customs duty rates on major raw material inputs for manufacturing had been reduced to revitalize the industry, increase sectoral capacity utilization, enhance their competitiveness and increase employment generation potentials. In order to achieve these goals, the Federal Government conceded to the ailing industries billions of naira from custom duties reduction and other related charges.
* Reduction of customs duty rates of the basic raw materials for some essential manufacturing sectors with a view that it will enhance the capacity utilization, competitiveness, control the influx of imported goods which could be locally produced.
* Other reductions are on machinery and equipment for agricultural production and animal husbandry, petroleum products, soap and detergent, tyres and tubes, papers and printing material, iron and steel, textiles, plastics, paints and chemicals used in most industries in the production of essential products.
* Increase in the customs duty rates of some imported finished and luzury products with a view to protecting the local producer of such goods, and encourage Nigerians to develop the taste for made in Nigeria goods.
* Very low duty on the importation of some educational materials, key manufacturing machinery and spare parts for the productive sectors of the economy (e.g agriculture, mining, oil, gas, and cement) with a view that it would assist the sector revitalization of the economy, employment generation and growth in the Gross Domestic Product.
* Legislation of the protocol on ECOWAS Trade Liberalization Scheme (ETLS) for enhanced foreign exchange earning potentials and increase in the Nigerian non-oil products.
* Through the years and continued in the year 2002, Government has introduced various schemes which had encouraged production for export of non-oil goods manufactured in Nigeria. They include the duty drawback Refund, Export Expansion Grant and the Duty Suspension Scheme. The central objective was to encourage non-oil export and the inflow of foreign exchange.
* The trend now is for a common External Tariff for regional integration, and therefore in the spirit of Economic Community of West African States, (ECOWAS) article 37 provided for the gradual establishment of a common tariff in respect of goods imported into ECOWAS countries by third countries. Nigeria in the year 2002, had put in place the modalities of achieving these objectives.

Other Fiscal Measures

Restriction On Importation of Used Vehicles

* Vehicles over five years old from the year of manufacture shall not be allowed into the country. Also importation of vehicles irrespective of age through land borders shall not be allowed.

Excise Duty

* Excise duty on beer stout, beer fermented beverages has been reduced from 30% to 20%.

Destination Inspection

* It is Government's intention to stop pre-shipment Inspection of imported goods by June 2002 and commence Destination Inspection by July 1, 2002.

Restriction On Importation of Used Refrigirators, Air Conditioners and Compressors:

* Importation of used refrigerators, air conditioners and compressors shall not be allowed; 5% import duty rate shall be imposed on the CKD components for air conditioners, and compressors imported by *bona fide* assemblers/manufactures

for air conditioners.

Containerised Goods:

* Containers from third countries will not be allowed to enter through neighbouring countries.

Vegetable Oil:

* Importation of bulk vegetable oil remains prohibited in year 2002. It is to be imported in branded cans of 4 litres only at 65% duty rate. Manufacture-In-Bond Scheme (MIBS) operators not exempted.

Imported Matches:

FOB price of imported matches should be between $10 and $15 per carton which is the internationally recognized price of the item.

Imported Ceramic Wares/Tiles

* The CIF value of imported ceramic wares/tiles should be on the internationally accepted prices for the items as follows:-

Imported Tiles

* Water Closet/Tank - US$30 per set. Wash hand basins - US$14 per set. Wall Tiles - US$ 7 per metre square. Floor Tiles - US$8 per metre square

Textiles

* The CIF value for imported textile should be on internationally accepted prices for the items and should be imported in 20 ft containers and must not be less than 130,000 metres.

Export Incentives For Agricultural Crops

* All agricultural cash crops e.g. cocoa, groundnut, rubber, cotton, palm produce, gum Arabic, ginger etc. shall enjoy 5% export expansion grant (EEG) in the year 2002.

Industrial Machinery:

* All industrial machinery shall enjoy maximum of 2.5% duty rate in year 2002 under chapter 84.

Vat Exemption For Industrial Machinery

* Industrial machinery shall be exempted from value added tax (VAT) in the year 2002.

Restriction On Importation Of Textile Materials

* Importation of textile materials containing hazardous chemicals such as chloride, shall not be allowed for health reasons.

Local Sourcing of Uniform and Accoutrements

* Uniform of all public officers shall be locally sourced so as to encourage local production and save foreign exchange.

Duty Concessions

* Raw Materials for Bonafide Pharmaceutical manufacturers at 5% duty rate
* Fertilizers under chapter 31 at 5% duty rate.
* Communications equipment for bonafide elecommunication operators at 5% duty rate
* Motorcycle and Bicycle CKDS for bona fide manufactures/ assemblers at 5% duty rate.
* Wire of iron non-alloy steel and Finished nails at 40% if imported through KoKo and Warri Ports. If imported from any other port, 65% duty attaches.
* Parents/Grand parents stock, HS code 0105.9200- 1100 at 5% duty rate.
* Float Glass HS code 7005. 1000-2100 at 10% for only bonafide safe Glass (windscreen) manufacturers

Special Duty Increases

* Iron Rod - 65%
* Wire of other alloys of steel 65%
* Commercial day-old chick 50%

Special Duty Reduction

* Special duty reduction was granted to manufacturers of sanitary pads and Baby Diapers manufactures to enable them import their raw materials on the basis of their status as bonafide manufacturers, at 5% duty rate. This was aimed at attracting investments to these sub sectors, and in order to grant protection to genuine manufacturers.
* Also various special duty concessions were granted British American Tobacco company to enable them set up their tobacco plant at Ibadan, Nigeria. An investment that would be worth about 150 million Dollars with high employment potentials for the country.

ECOWAS Fund

* 0.5% of CIF value of imports from third countries to be paid into ECOWAS Account.

Bulk Importation of Cement

* Cement Importation to be in bulk, only. It must not be less than 10,000 metric tonnes and must be imported through cement import terminal established on the coast.

Duty Free Importation

Goods that were hitherto duty free shall attract at least 2.5%

duty charge.

IFEM Funds

* The following imports shall not be eligible for IFEM funds: water, beer, other manufactured tobacco and substitutes, cigarette lighters and other lighters.
* Sulphur of all kinds, sulphuric acid, aluminum sulphate and alums shall continue to be eligible for IFEM Funds

CONCLUSION

It is my hope that this short presentation has given you the insight of government's revenue, expenditure profile and the fiscal policy thrust of the year 2002 budget. Government is determined to pursue this thrust to its logical conclusion in collaboration with the organized private sector, opinion leaders and the international communities whom we believe are now prepared more than before to invest into our economy.

MONETARY AND FINANCIAL SECTOR POLICY MEASURES IN THE YEAR 2002 BUDGET

By

O. Joseph Nnanna Ph.D*

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INTRODUCTION

The performance of the economy was generally mixed in 2001 fiscal year. The environment for the conduct of monetary policy was largely unconducive, following the expansionary fiscal operations of the three tiers of government. Specifically, the rapid monetization of revenue from oil sales and the proceeds from the GSM licensing, as well as the monetary financing of fiscal deficits, resulted in substantial injections of liquidity into the economy. Consequently, the growth in monetary aggregates accelerated in 2001, overshooting the prescribed targets by wide margins. The economy was also characterised by sluggish growth, rising rate of unemployment and inflation. Generally, the domestic foreign exchange market was under pressure, while the capital market witnessed increased trading. It was against this background of relative macroeconomic instability that the monetary and financial sector policies of the CBN, were formulated.[1]

The objective of this paper, therefore, is to review the current monetary and financial sector policy measures with a view to identifying how they can assist in achieving the macroeconomic objectives of the government. The rest of the paper is structured into four parts. Following this short introduction, Part I undertakes an evaluation of the financial sector and general economic conditions during fiscal 2001.

The highlights of the 2002 monetary programme and other financial sector policies are provided in part II. Part III x-rays the factors which are likely to undermine the achievement of the stated monetary policy objectives in year 2002 as well as CBN's strategies to enhance policy implementation, while Part IV concludes.

I. Evaluation of Financial Sector and General Economic Conditions During 2001

I.1 The focus of Policy in the Year 2001

The thrust of monetary and fiscal policies in 2001 was to sustain price and exchange rate stability and to foster an enabling environment for enhanced private sector participation in economic development. This was to be achieved through the promotion of macroeconomic stability, improvement in economic infrastructure and capacity building, as well as increased output growth, job creation and poverty alleviation. Consistent with these objectives, monetary policy focused on the mopping up of excess liquidity in the system in order to ensure price stability which is critical for sustainable output growth.

The specific measures that were adopted included the raising of the Minimum Rediscount Rate (MRR), cash reserve ratio and the liquidity ratio. In addition, the CBN introduced the CBN certificate to assist in the open market operation, in order to contain the intractable liquidity problem. An assessment of the effectiveness of the measures adopted to achieve these goals are undertaken below:

1.2 Financial Sector Performance in 2001

Generally, the key performance criteria and benchmarks were not met in 2001 largely because of the severe fiscal shock from the three tiers of the government, which rendered the environment for the

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[1] Although the CBN's Monetary Policy Circular No. 36 for fiscal 2002/2003 was released much earlier than the fixcal package, nevertheless, there is a fundamental consistency in the underlying assumptions in key macroeconomic variables such as: growth in real GDP, inflation, accretion to reserves and deficit financing arrangements.

conduct of monetary policy unconducive during the year. In particular, the monetisation of the excess crude oil receipts and the proceeds from GSM license by the three tiers of government, as well as the monetary financing of fiscal deficits by the Federal Government resulted in large injections of liquidity into the economy. Consequently, the sector rose by 43.3 per cent, compared with the target of 22.8 per cent.

In the money market, reported bank lending rates were generally high during the period, driven largely by banks' cost of fund, risk premia, governments' borrowing and the persistent increase in the Minimum Rediscount Rate, a policy which the 650 basis points from 14.0 per cent in January to 20.5 per cent in September. Similarly, the Cash Reserve Requirement (CRR) of deposit money banks and their Liquidity ratio (LR) were revised upward from 10.0 and 35.0 per cent to 12.5 and 40.0 per cent, respectively. Given the inadequacy of the traditional instruments for liquidity control,

TABLE 1

Performance measures	Targets	Actual (Provisional)	Remarks
Broad Money(M_2)	12.2	27.0	Substantially missed
Narrow Money (M_1	4.8	28.7	"
Aggregate Domestic Credit	15.7	87.84	"
Credit to Govt.	2.3	153.2	"
Credit to private sector	22.8	40.7	"
Inflection (12month moving Avg.)	9.0 (Single digit)	18.90	"
Real GDP growth Rate	5.0	4.7	Narrowly missed
External Reserves	S10.0 billion	S10.4 billion	Narrowly achieved

growth in monetary aggregates accelerated rapidly in 2001, and was substantially out of line with prescribed targets.

Provisional data indicate that broad money supply (M_2), rose by 27.0 per cent at end-December, as against the 12.2 per cent target stipulated for the year. Similarly, aggregate domestic credit which fell by 23.1 per cent in 2000, overshot the programmed target by 72 percentage points, following rapid increases in credit to the government and the private sector, with the latter accounting for 60.4 per cent of the total increase. Net credit to the Federal Government rose by 153.2 per cent as against the target of 2.6 per cent, while credit to the private CBN was forced to adopt in order to contain excess aggregate demand. Typically, reported lending rates were positive in real terms, while deposit rates were generally negative in real terms. By end-December 2001, the spread between the weighted average deposit and maximum lending rate was 14.7 percentage points, while the spread between the average savings deposit and the maximum lending rate was 26.2 percentage points.

Liquidity surge, driven largely by fiscal shocks, and the need to restrain inflationary pressures, were the major reasons why the CBN had to adopt tight monetary policy in year 2001. Thus, the CBN progressively raised the MRR by the CBN introduced its own intervention instrument for the first time in the history of the Bank. The introduction and issuance of CBN certificate at competitive market rates to complement government Treasury Bills, revealed the seriousness of the excess liquidity problem, which the CBN had to contend with during the year[2]

1.3 Other Sectoral Developments in 2001

The performance and problems of other sectors of the economy featured prominently in the choice of monetary policy stance in 2002. A review of the performance of these sectors

[2] *The CBN Certificate was issued in two branches. The first tranche was for a tenor of 180 days and a yield of 19%. The second tranche was for a tenor of 360 days and a yield of 20%.*

showed mixed developments, and the need for greater monetary and fiscal consolidation in fiscal 2002.

(a) Fiscal Sector:

Spurred by the urge to jump-start the economy and thus create employment and alleviate poverty, the fiscal operations of the Federal Government was wittingly rendered expansionary during year 2001. Available data indicated that the fiscal out-turn yielded a significant overall deficit, despite the substantial increase in government revenue. Specifically, the retained revenue of the Federal Government amounted to ₦796.98 billion in 2001, representing an increase of 11.0 per cent over the budgeted target, while total expenditure amounted to ₦1,022.39 billion and was 11.2 per cent higher than the budget estimate for the year. Overall, the fiscal out-turn resulted in a deficit of ₦225.4 billion or 4.1 per cent of GDP, as against the targeted deficit of ₦201.5 billion. The deficit was financed from the Federal Government's share of the excess crude oil proceeds for 2000 and 2001 and borrowing from the CBN.

The expansionary fiscal stance of the Federal Government was equally duplicated at the State and Local Government levels, as evidenced by their increased borrowing from the money and capital markets during the year. In fact, neither the use of direct instruments of monetary management, nor the resort to moral suasion by the CBN was sufficiently effective in persuading the three tiers of government to adhere to fiscal prudence. In the circumstance, the CBN had to issue the circular requiring banks that lent to the three tiers of government to make exceptional prudential provision for such loans. Typically, the constitutional framework under which Nigeria's fiscal federalism operates, has serious implications for the efficacy of monetary policy, especially, as it relates to the instantaneous monetization and spending of budgeted and excess crude oil revenue accruing to the Federation account. While the lower tiers of government share equally in the benefits of macroeconomic stability, they are notoriously, unwilling to bear the burden associated with the sustenance of macroeconomic stability. There is a need for a policy re-think.

It is therefore, essential to remark that policy-makers in all the tiers of government have responsibility to ensure the achievement of a non-inflationary growth in order to sustain public welfare. Lessons of experience have shown that any attempt to promote growth in the short-term through fiscal "quick-fix" only succeeds in sowing the seed for future economic difficulties.

(b) Real Sector

The estimated output growth (in real GDP), was 4.7 per cent, compared with the target of 5.0 per cent and the 3.8 per cent recorded in year 2000. The index of agricultural production was estimated to have increased by 3.7 per cent compared with 3.1 per cent in 2000, while the index of industrial production increased by 3.7 per cent compared with 7.6 per cent in the preceding year. Inflation rate, which was 6.9 per cent in 2000 accelerated to 18.9 per cent in December, 2001 as a result of demand-pull and cost-push factors. Thus, the rate of inflation exceeded the programmed single-digit target in fiscal 2001.

The sluggish performance in the real sector during the year was indicative that the objectives of fiscal and monetary policy were not achieved. Empirical evidence also underscored the fact that poor fiscal policy was largely responsible for the underlying macroeconomic problems such as the subsisting double-digit inflation and the inordinate pressure on the balance of payments.

(c) External Sector

The external sector was under pressure in 2001, even though foreign exchange flows resulted in a net inflow of US$3.7 billion, which, however, was lower than the US$5.2 billion recorded a year earlier. The overall balance of payments position showed an estimated surplus of 0.5 per cent of GDP against 8.0 per cent of GDP recorded in 2000. However, Nigeria's stock of gross external reserves increased from US$9.4 billion in December, 2000 to US$10.4 billion in December 2001.

The exchange rate, which is a key macro-economic and price indicator in Nigeria, also witnessed considerable volatility, particularly in the parallel market and bureaux de change, while it remained relatively stable in the official Inter-bank Foreign Exchange Market during the greater part of year 2001. Specifically, the average parallel market and bureaux de change rates depreciated from approximately N123.38 and ₦ 122.34 = US$1.00 in January to about N=137.26 and ₦ 137.48 = US$1.00, in May, before appreciating continuously to ₦133.70 and ₦134.05 = US$1.00 in December, respectively. The appreciation of the naira vis-a-vis the US dollar during the period in the parallel market and Bureau de-change was attributed to the introduction of the comprehensive destination import inspection policy by the authorities, and the tight monetary policy stance, which the CBN adopted to contain the unexpected liquidity shock.

However, after the initial depreciation of the naira in the first quarter in the IFEM, from ₦110.05 to N113.59 = US$1.00, the average IFEM rate appreciated steadily from ₦113.07 = US$1.00, in May to ₦111.60= US$1.00 in September. While, the naira depreciated marginally to ₦111.99 = US$1.00 in November and further to ₦113.01= US$1.00 in December. Overall, the naira exchange rate experienced relative stability in the IFEM in 2001.

1.4 Overall Economic Performance and the Outstanding Problems

Overall, the performance of the economy in 2001 remained below its potential, as structural bottlenecks persisted. In spite of the policy measures adopted in 2001, the effectiveness of monetary policy was constrained by fiscal dominance; the oligopolistic structure of the banking system and the concomitant wide interest rate spread; as well as the lingering excess liquidity in the banking system. It is against this background that monetary and financial sector policies, as well as other sectoral economic policies for fiscal 2002 were formulated.

II. Monetary and Financial Sector Policies in 2002: Objectives, Strategies and Targets

The discussion thus far has revealed that monetary and fiscal policy measures in year 2002 were formulated against the background of relative macroeconomic instability, unfavourable global economic prospects (as evidenced by the decline and volatility in the world price of oil during the fourth quarter of 2001), diminished prospect for a buoyant Government revenue, continued demand pressure at the IFEM and exchange rate weakness, including sluggish output growth, and above all, rising unemployment and poverty.

II.1 Objective:

Against this background, the primary objective of monetary policy in fiscal 2002 is focused on the achievement of price and exchange rate stability. Indeed, the achievement of price stability is globally recognized as the *sine qua non* for the attainment of sustainable long-term growth, employment generation and poverty eradication. Thus, the central focus is to achieve an effective reduction in the growth in M_2, expected from the liquidity injections that will arise from envisaged government spending during the pre-election and election years of 2002/2003. This is essential in order to minimise the negative effects of excess liquidity on domestic price and exchange rate. In order to achieve the goal of macroeconomic stability, monetary policy stance is envisaged to be non-accommodating. Specifically, monetary and financial policy measures in 2002/2003 are designed to focus on:

* Achieving price stability;
* Balance of payments viability;
* Reducing the gap between banks' lending and deposit rates;
* Ensuring exchange rate stability and reducing the wide arbitrage premium;
* Enhancing competition in the banking system
* Deepening the money market and strengthening financial sector stability.

II.2 The 2002 Monetary Policy Measures

The CBN's monetary policy framework in year 2002 represents a significant departure from the past, in one major respect- It is cast in a medium term perspective, as opposed to the erstwhile one-year time frame. In particular, the framework covers a two-year period, beginning January 2002 to December, 2003. This shift is in recognition of the empirical evidence that monetary policy measures, such as changes in the MRR (the nominal anchor interest rate), affect the ultimate targets of monetary policy (such as aggregate savings, investment and production), with considerable lag. The shift in the framework is also intended to free monetary policy implementation from the problem of time inconsistency, as well as help minimise the consequence of policy over-reaction due to temporary shocks. Overall, the adoption of this strategy, will also assist market operators to manage their treasury portfolios in a more orderly fashion.

The CBN relies on the Monetary targeting model, for the conduct of its monetary policy. Monetary targeting entails setting and continuously, monitoring the changes in one or more definitions of money supply. Under this framework, the ultimate objective of monetary policy is to control inflation. Typically, the operational target is base money, while the intermediate target is broad money (M_2). Monetary targeting is predicated on the empirical evidence which has established that inflation, is invariably, a monetary phenomenon. Hence, the need for monetary authorities to restrain excessive growth in money supply.

Lessons of experience have shown that macroeconomic stability (low inflation rate, exchange rate stability and low interest rate), has always been achieved whenever, excessive growth in M_2, is contained. The model used by the CBN in deriving its optimal quantum of money supply is quite elaborate and as such, will not be discussed in this paper. However, this basic money demand equation, will suffice for an illustration:

$M_t = p_t + ky_t - ni_t + v_t$......... (1)

Where:

M_t	=	Money demand
p_t	=	Price level
y_t	=	Output level
i_t	=	Interest rate
v_t	=	error term.

It can be readily seen that given projections for (y_t), (i_t) and (p_t), the conditional behaviour of (M_t) can be forecasted using equation (1) above. In fact, a further manipulation will result in the derivation of the probability intervals for (M_t) which may depend on the stochastic process which drives (v_t). Thereafter, we can compare the forecasted values with the actual computed money supply. Accordingly, any deviation between the two would translate to either overshooting/ undershooting of the M_2 target, which would naturally signal for corrective policy action.

In our earlier review, we have shown how fiscal dominance had consistently led to the overshooting of CBN's monetary targets in fiscal 2001. We also noted that the consequences for overshooting included high inflation rate, as well as exchange and interest rate instability. Consistent with the monetary targeting policy framework outlined above, the performance targets which were adopted for years 2002 and 2003 are as follows:

* An average growth in broad money supply (M_2) of 15.2 per cent during the two-year period, which translates to 15.3 per cent in 2002 and 15.0 per cent in 2003. This level of liquidity is consistent with the output growth target of not less than 5 per cent in 2002, 6 per cent in 2003, and inflation rate of 13.0 per cent in 2002 and 9.0 per cent in 2003, respectively.
* Growth in banking system's credit to the domestic economy of 57.9 and 25.7 per cent in 2002 and 2003 respectively, translating to an average of 42.0 per cent in the two-year period.
* Growth in credit to the private sector of 34.9 and 32.3 per cent, bringing the average in the two-year period to about 34 per cent.

II.3 Major Monetary Policy Instruments

The conduct of monetary policy in year 2002 is expected to rely on market-based instruments in tandem with discretionary management of the balance sheet of the CBN to keep the operating variables within the programme targets. The primary policy tool will be the open market operations, supported by the use of reserve requirements and discount window operations, including repurchase agreements to enhance effectiveness.

(i) Open Market Operations (OMO)

OMO will be conducted weekly in short-dated government securities at the secondary market, while the discount houses will continue to act as principal dealers in the market. In the event that the traditional policy instruments are insufficient to cope with the expected liquidity surfeit as in the preceding year, the CBN certificate will be used to stem liquidity shocks.

(ii) Reserve Requirements

Given the opportunity cost implications of the current level of the cash ratio to banks, the desirability of its gradual reduction over time cannot be over-emphasized. However, the current monetary conditions, characterised by persistent excess liquidity, make it inexpedient to reduce the ratio. Consequently, the existing ratio of 12.5 per cent will remain in force until monetary conditions improve. The minimum liquidity ratio will also remain at 40.0 per cent for all deposit money banks, but would be reviewed downward as the problem of excess liquidity moderates.

(iii) Discount Window Operations

Discount window operations of the CBN will continue to support the regular instruments of short-term liquidity management. Transactions at the CBN window will be conducted in the form of short-term, overnight loans, collateralised by the borrowing institutions' holding of government debt instruments and other eligible instruments approved by the CBN.

(iv) Interest Rate Policy

Interest rate regime will continue to be market-driven. However, the CBN will influence the level and direction of interest rate through periodic changes in its Minimum Rediscount Rate. The current wide spread between banks' deposit and maximum lending rates reflects the uncompetitiveness and inefficiency of the interest rate structure, which has serious implications for savings, investment and output growth. To address this problem, there is need for a faster evolution of a more competitive financial environment, through the enlightenment of the investing public on alternative investment opportunities in the financial market. In particular, the current efforts by the CBN to encourage investment in treasury securities and other savings instruments by the non-bank public will be sustained in 2002. In addition, other financial institutions, including community banks and finance companies will be strengthened to enhance their efficiency and public confidence for the promotion of financial savings.

(v) New Policy Measures For 2002.

(1) **CBN Rediscounting and Refinancing Facility (RRF)**

This new facility is intended to encourage banks to lend long, particularly, to the productive sectors of the economy. Under the facility, banks can issue Promissory Notes, discountable at the CBN at concessionary interest rate, based on their loans/advances with maturities of not less than 5 years for agricultural production, semi-manufacturing/manufacturing, solid minerals and information technology. The RRF is designed to provide liquidity support to banks so as to encourage them to lend long. This facility is not directed at business enterprises and is not a substitute for the capital market. Rather, it will enable the CBN to play its role as the lender of last resort more professionally.

(2) **Framework for Computing Banks' Cost of Funds**

Starting from 2002, banks shall be required to adopt the weighted average framework for the computation of their cost of funds, in accordance with the best international banking practice. Furthermore, the recognised cost items under the new framework shall include:

(a) interest cost incurred by banks for deposit mobilization (including inter-bank funds);
(b) payments for deposit insurance premium of the NDIC; and
(c) cost associated with the CRR. It is noteworthy that banks' overhead cost has been excluded. All things being equal, it is expected that knowledge of banks' cost of fund would assist the CBN to apply commensurate moral suasion in persuading banks to exercise moderation on their lending policies.

(3) **Abolition of Foreign Guarantees/Currency Deposits as Collateral for Naira Loans**

This restriction which had been in effect since 1989, is lifted in fiscal 2002 to further encourage foreign direct investment. However, banks are required to seek prior approval from the CBN before granting such credit to potential beneficiaries.

(4) **Financing the Development of SMEs**

To further enhance the effectivenes of the Small and Medium Industries Equity Investment Scheme (SMIEIS), which was launched in August 2001, banks are required to render to the CBN on quarterly basis, their investment report under the scheme. With the introduction of the scheme, it is expected that improved funding will facilitate the rapid achievement of higher economic growth. CBN's close monitoring, would, hopefully, persuade banks to fulfil their obligation under the scheme.

(5) **Increase in Minimum Paid-up Capital Requirement**

The role which capital plays in the life of business enterprise cannot be over-emphasised. Accordingly, existing banks will be required to raise their capital base to N1.0 billion by end December, 2002 in order to further strengthen their operations, and minimise the risk of distress, while new banks shall require N2.0 billion as their minimum paid-up capital.

(6) **Remittance of VAT and Duty Collections**

It has been observed that some banks do not remit VAT and custom duties collected on behalf of the Federal Government to the CBN within the stipulated seven days time frame. These sources of cheap funds have influenced banks to discourage small savers by insisting on unrealistic minimum deposit base while at the same time, constituting a leakage in the monetary policy transmission process. Consequently, banks that keep these deposits for more than the stipulated period will be required to pay interest on such deposits as directed by the CBN, while such deposits are to form part of banks' deposit base for the purpose of computing their CRR.

(7) **De-regulation of the IFEM**

Since its inception, the operations at the IFEM have been conducted transparently, by the CBN. Accordingly, every legitimate demand for foreign exchange has been met on timely basis. Nevertheless, evidence of speculative behaviour by some rent seeking authorised dealers abound - as evidenced by the widening arbitrage premium between the IFEM, parallel market and bureaux de change rates. In the continued effort to stabilise the exchange rate, as well as ensure a single exchange rate for the Naira, the IFEM has been further deregulated in fiscal 2002. This will allow bureaux de change operators to source their foreign exchange requirements (in Travellers Cheques) from the IFEM. It is hoped that this will help to "de-mystify" foreign exchange transactions in the economy. Accordingly, licensed bureaux de change operators who satisfy all the required conditionality will be allowed to source their BTA/PTA requirements from the IFEM. By enhancing market access, the tendency to hoard/speculate will decline and the economic rent derivable therefrom, shall similarly diminish. The recent entry of Travellex (Thomas Cook), a bureau de-change operator in the domestic market is consistent with the policy of deregulation.

III Limitations and Strategies for Policy Implementation

III. 1 Limitations to Monetary and Financial Policies in 2002

Monetary policy measures are intended to lend support to the achievement of the overall objectives of macroeconomic policy. However, the effectiveness of monetary policy depend on the operational environment. Lessons of experience have revealed that the efficacy of monetary policy has always been constrained by the fiscal operations of the government. Furthermore, the perennial political, ethnic and religious upheavals in the country are also inimical to the effectiveness of monetary and financial policies in Nigeria.

The structure of the financial system plays a critical role in the effectiveness of monetary policy. The speed of the transmission mechanism of monetary policy instruments is generally influenced by the structure of the financial system. All things being equal, the more competitive the financial system, the faster the speed of the transmission mechanism and the greater the effectiveness of monetary policy instruments. In Nigeria, the banking system is very oligopolistic. With 89 banks operating in the system, empirical evidence has revealed that ten (10) banks control slightly over 50 per cent of the total deposit liability of the banking system. The need to encourage greater competition (free entry and exit), in the industry cannot therefore, be over-emphasised.

The vulnerability of the Nigerian economy to external shocks - especially, to a sudden fall in the price of oil, has long been recognised, as a major constraint to the successful implementation of economic policy over the years. Nigeria derives approximately 95 per cent of its foreign exchange and 78 per cent of government revenue from oil receipts. Against this backdrop, the achievement of monetary policy objectives in 2002 can be undermined if the price of oil should decline below the baseline of $18.0 per barrel.

III.2 Strategies to Boost the Implementation of 2002 Monetary Policy Measures

The factors highlighted above constitute serious constraints to the achievement of the policy

targets in 2002. However, the CBN has adopted a mixed strategy to enhance monetary policy implementation during the year.
Accordingly, the following strategies will be vigorously pursued.

* Close monitoring of policy implementation through enhanced surveillance of the financial system.
* Increased consultation with the Government to ensure effective coordination of monetary and fiscal policy implementation.
* Continuous dialogue with the banks through the Bankers Committee, Seminars and bilateral discussions to enhance effective policy implementation.
* Zero tolerance and severe sanctioning of banks who breach monetary policy guidelines.

IV. Concluding Remarks.

This paper has reviewed the monetary and financial policies for 2002 as well as the factors that could undermine the achievement of the policy objectives. We also highlighted those strategies that would be pursued by the CBN to enhance policy effectiveness. It was also emphasized that monetary policy is highly vulnerable to fiscal shocks including social and political instability. Similarly, the need for the government to make a clean break from the unorthodox practice of monetary financing of its budget deficit was also emphasised. In this regard, government should embrace the best international practice of sourcing funds from the capital market if and when deficit financing becomes inevitable. Such practice will impose the required market discipline on government's fiscal operations.

The new monetary policy framework, which is cast in the medium-term framework, represents a good strategy - in that it recognises the problems of time inconsistency and the lag inherent in the transmission mechanism. Given the flexibility which the framework affords, the likelihood of achieving the stated monetary policy objectives in 2002 is very high - barring serious fiscal surprises.

SELECTED MACRO-ECONOMIC INDICATORS

	1999	2000	2001	2002 [2/]
Real GDP Growth (%)	2.8	3.8	4.6 [1/]	5.0
Inflation Rate (%)	6.6	6.9	18.9	13.0
Fiscal Deficit as percentage of GDP	8.4	2.9	4.1 [1/]	3.5
Growth in Broad Money (%)	31.0	48.1	27.0 [1/]	15.3
Growth in Net Claims on Government (%)	32.0	-162.3	87.8	
Growth in Credit to the Private Sector (%)	29.2	30.9	43.3	34.9
External Reserves (US$ Billion)	5.5	9.9	10.4	-2.0
Average IFEM Exchange Rate (N/$)*	97.60	106.19	113.01	-
Average Parallel Market*Exchange Rate (₦/$)	101.81	121.43	134.41	-
Savings Deposit Rate (%)*	5.3	4.9	5.0	-
3-Month Deposit Rate (%)*	12.7	10.5	17.9	-
Maximum Lending Rate (%)*	28.6	25.8	31.2	-

1/ Provisional *Average for December, 1999-2001
2/ Targets

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EXTERNAL SECTOR POLICIES IN THE 2002 FEDERAL GOVERNMENT BUDGET: AN ANALYTICAL REVIEW AND ASSESSMENT

By

T. ADEMOLA OYEJIDE*

INTRODUCTION

In accordance with tradition, the Federal government budget for fiscal year 2002 was articulated against the background of a review of the previous year's budget proposals and the response of the economy. The budget for year 2001 was aimed at consolidating "the path of the previous year in laying a solid foundation for a private sector led market-driven and growth-enhancing economy in which unemployment and poverty will be reduced". The budget offered what was described as a "comprehensive package" of economic policy reforms aimed at generating efficiency and effectiveness in the use of resources. In particular, it had a "primary target" focus on lowering the inflation rate.

Many of the targets set for the 2001 budget were not met. Government activities resulted in expansions that impacted negatively on macroeconomic stability. The Central Bank of Nigeria found the environment for conducting monetary policy not to be conducive because of the massively expansionary fiscal operations of government generated through monetisation of excess oil export receipts and monetary financing of fiscal deficits. Large injections of liqidity into the economy from these two primary sources had the predicable effects: rapid growth in monetary aggregates which, in turn, place great pressure on inflationary trends.

Broad policy objectives have been articulated for the 2002 budget, against the background of the failures associated with the implementation of budget 2001. The primary goals are to achieve a high economic growth (with a specific GDP growth rate target of at least 5%) and to alleviate poverty in the context of continuing efforts to liberalize the economy. To achieve these objectives, budget deficit will be minimized, inflation rate will be maintained within a single digit rate, the foreign exchange market will be further liberalized, non-oil export earnings will be increased, trade will be further liberalized although provision will be made for adequate protection to domestic industries.

It is obvious that complementarities and trade-offs exist among the various policy instruments that will be (and are already being) deployed to achieve the primary goals of budget 2002. However, the purpose of this presentation is to examine the external sector policies identified in the budget and discuss whether and, if so, how and the extent to which they might facilitate the achievement of the goals. But the presentation is limited in several ways. First, its focus is primarily analytical. Second, its scope is restricted to an analysis of just two of the external sector policies mentioned or hinted at in the budget. These include trade policy and exchange rate policy which are, arguably, the most important external sector policy components of the standard macroeconomic policy package.

II. TRADE POLICY

The significance of trade for the economy of Nigeria is so obvious that it may not need an elaborate discussion. In spite of this, the evolution of Nigeria's trade policy and trade regime over the last 3 - 4 decades has been characterized by several twists and turns. But the observed periodic changes continue to broadly reflect a number of pivotal principles. First, trade is viewed as an engine of growth. Second, it is assumed that trade policy can be used to influence the trade regime in ways that promote economic growth. The third

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principle borrows from the trade and development literature's policy lesson associated with the observed and, apparently, robust relationship between increasing manufactured exports and rapid economic growth. It leads to the idea that trade policy should be used to enhance manufactured exports as a means of promoting overall economic growth. The focus on promoting manufactured exports is further justified by several considerations. It would help to enhance linkages in the domestic economy, increase and stabilize export revenue; and thus reduce the country's reliance on the oil sector.

Up to the mid-1980s, the central objectives of Nigeria's trade policy were to protect domestic industries and to reduce the country's perceived dependence on imports. To achieve these goals, trade policy provided for low tariffs on raw materials, intermediate and capital goods while high tariffs and even import bans were applied to finished products. More recently, import tariffs has been designed, increasingly, to raise efficiency of domestic industries through greater exposure to import competition; at the same time, several export promotion measures (including duty drawback and manufactured-in-bond schemes) have been adopted.

The import tariff structure for the 1988-2001 period increased import duties on raw materials, intermediate and capital goods; while slightly reducing tariffs on consumer goods. In this process, the incidence of import prohibitions and extremely high tariffs which had hitherto distorted the allocation of resources and encouraged smuggling has been reduced to some extent. Between 1990 and 2001, average import duties fell from 35.7% to 27.5%; the range of tariffs was reduced from 0-200% (in 1990) to 0-100% (by 2001). In 2001, average tariff rate was 38.1% for consumer goods, 25.2% for intermediate goods, and 16.1% for capital goods.

A country that wishes to, can liberalize its trade regime through any (or all) of the following three mechanisms;

(a) unilateral or autonomous reform,
(b) opening of markets in the context of reciprocal regional trade agreements, and
(c) multilateral trade liberalization through negotiations under the auspices of the World Trade Organization. Nigeria's trade liberalization efforts have been carried out predominantly within the unilateral or autonomous mechanism. Trade policy proposals in Budget 2002 appear to follow this tradition.

The proposals are essentially a replica of those made for the two previous budgets. First is the proposal to continue the general liberalization of the economy. Second is the proposal to protect domestic industries. The direction in which further liberalization would go is suggested by two statements, i.e, reduction in the upper bound of the existing tariff regime, and further reductions of duties on machineries, spare parts and raw materials. Taken together, these statements suggest that

(i) the range of tariffs will be further compressed and
(ii) average tariff rate for capital goods will be reduced below the existing 16.1% level.

There are opportunities for Nigeria to take advantage of the regional and multilateral mechanisms for achieving its trade liberalization objectives. In the regional context, both the ECOWAS trade liberalization scheme and the impending ACP-EU trade negotiations will affect Nigeria's trade regime and tariff structure. Similarly, in the multilateral context, the on-going trade negotiations at the WTO may have important implications for Nigerian trade policy.

The ECOWAS case is particularly relevant here. Although it was launched in 1990, the ECOWAS trade liberalization scheme (TLS) remained virtually unimplemented for about a decade. But in December 1999, Nigeria (together with Ghana) articulated the "fast-track" initiative on implementing various aspects of ECOWAS integration. In relation to the TLS, this has two aspects.

First is the decision to fully implement the TLS with effect from April 15, 2000. Second is the adoption of UEMOA's common external tariff of four rates (i.e. 0,10,15,20%) by the entire membership of ECOWAS with effect from 2001. The implementation of these decisions, particularly the second one, will radically alter the structure of Nigeria's import tariff. The full implementtion of this "convergence" decision and its generalization are not undesirable; as the result would be a more transparent trade regime with a limited number of tariff rates (the existing tariff regime has over 5000 tariff lines!) which should reduce corruption by minimizing the discretion of customs officials and drastically cutting down administrative "red tape" and associated bottlenecks.

The negotiation of a successor trade agreement to the Lome Convention series between the EU and ACP is scheduled to begin in September 2002. Although it attracted no mention in Budget 2002, this negotiation could also present an important opportunity for Nigeria to re-allign its trade regime and take advantage of enhanced market access in the EU as a means of promoting manufactured exports. Nigeria's trade relationship with the EU in the context of Lome during the 25 years ending in 2000 was not particularly beneficial to the country. In principle, Nigeria, like other ACP states, enjoyed non-reciprocal and virtually duty-free access to the EU for its export of a wide range of agricultural and indusrial products. But, in reality, over 95% of Nigeria's total exports to the EU attracted no Lome preference margin; and for the export products that qualified, Nigeria's Lome preference margin was quite minimal, only 0.2%. In addition, only 2.7% of Nigeria's exports consisted products enjoying significant preference margins (i.e. over 3%). These results reflect Nigeria's failure to develop significant production and export capacity in the sectors where Lome preference margins have been significant, such as chemicals (5.0%), footwear (5.5%), textiles (7.0%), prepared foodstuffs, beverages and tobacco (8.3%).

The Lome successor trade agreement will be significantly different in one important respect; compared to the non-reciprocal Lome, the new arrangement will be reciprocal, although some asymmetry may be expected to be built in. Nigeria's active participation in the negotiation may well determine the extent to which Nigeria could benefit from the new agreement.

At the multilateral level, new negotiations have begun on the Doha Development Agenda under the WTO. Nigeria's active participation will clearly influence what market access gains it may expect in such sectors as agriculture, industrial products and services. In addition, WTO multilateral trade negotiations also cover a wide range of trade rule,including some substantive review of existing WTO agreements in many of these areas. For instance, Budget 2002 has, as one of its objectives, the "provision of adequate protection to domestic industries against unfair competition from imports and dumping of manufactured goods". There is an existing WTO agreement on the subject of anti-dumping and how to deal with it. Nigeria needs to create the appropriate mechanisms for correctly applying this agreement as a means of achieving its objective without attracting threats of complaints and sanctions from other WTO members that may be negatively affected.

It would appear that Nigeria's trade policy focus has concentrated too heavily on traditional trade policy instruments (e.g. tariffs) and not enough on complementary regulatory and institutional reforms that are needed to ensure that anti-trade biases are removed and a strong supply response emerges. Therefore, there are important challenges in the area of trade policy that must be addressed. These centre on measures aimed at reducing transactions, costs and improving the performance of infrastructure services providers (transport, port services, telecommunications, etc) which are as, if not more, important than the reform of traditional instruments of trade restrictions.

III EXCHANGE RATE POLICY

Budget 2002 re-affirms the commitment of government to continue to liberalize the economy and to include the foreign exchange market in this sustained liberalization process. But it also indicates that priority will be given to the maintenance of stability in the foreign exchange market as well as in the exchange rate itself. But neither Budget 2002 nor the Central Bank of Nigeria's Monetary Policy Circular No. 36, provides elaboration regarding how the exchange rate policy is articulated or how the policy objectives assigned to it will be achieved. Hence, the strategy of the presentation in this section is to summarize what economic theory has to say about the choice of exchange rate regimes in relation to these objectives and to synthesize the implications of this analysis for the formulation of exchange rate policy.

Economic theory suggests that the exchange rate performs a dual role in the economy, both of which are important for maintaining macroeconomic stability. First, the movement of the exchange rate can help achieve and maintain international competitiveness and thus ensure a viable balance of payments position. Second, the exchange rate can serve as an anchor for domestic prices and thus contribute to the establishment and maintenance of internal balance or price stability. While it is not unusual to design and implement an exchange rate policy aimed at achieving both of these desirable policy objectives, the question of what relative weight to be assigned to each of the objectives must be explicitly addressed.

Corresponding to these approaches to exchange rate policy formulation: One is the real targets approach in which the nominal exchange rate is used as an instrument for achieving real objectives, such as a non-inflationary level of demand for home-produced goods and services. The other is the nominal anchor approach under which domestic inflation rate is tied to the inflation rate of trading partner countries. In this approach, the exchange rate is automatically adjusted on the basis of some predetermined scale linked to the inflation differential with trading partner countries. Its effect is to restrain government's inflationary tendencies.

Under the real targets approach, changes in the real exchange rate have significant "switching" effects in terms of increasing exports (provided there is appropriate supply response), reducing imports (if imports are sufficiently responsive to relative price changes), and raising the demand for domestic output.

Under both of these approaches, there are significant policy complementarities (and also trade-offs). For instance, the real targets approach, trade liberalization requires devaluation to maintain both internal balance and the initial current account balance. Similarly, when the nominal anchor approach is adopted, government first makes a nominal exchange rate commitment and must then adjust its monetary policy (and sometimes fiscal policy also) to fit in with this commitment.

Furthermore, devaluation is by itself not sufficient to achieve a real exchange rate objective; the effect can only be sustained if supporting measures (such as reduction of fiscal deficit and control of the growth of monetary aggregates) are simultaneously adopted. In additon, these magnitude of the nominal devaluation required to achieve particular real exchange rate and balance of payments target will depend on whether the fiscal deficit is reduced by increasing taxes, or by reducing government expenditure on traded and non-traded goods.

The discussion above generates a number of principles for the management of a country's exchange rate.

* the optimal management of the exchange rate depends on the economic objectives specified, the source of shocks facing the economy and its structural characteristics;
* neither of the extremes of permanently fixed or completely flexible exchange rate system is optimal in seeking macroeconomic stability;
* in response to random shocks, some degree of flexibility in the exchange rate system is more likely to succeed in stabilizing the economy.

Given Nigeria's economic structure and level of development, its exchange rate policy should be designed to maintain external competitiveness at a level consistent with a sustainable balance of payments position. But it would also be desirable to retain a subsidiary role for the exchange rate as a nominal anchor; this requires that some of the burden of adjustment in the real exchange rate be borne by changes in the domestic price level. Thus, an active monetary policy will complement periodic adjustment in the nominal exchange rate.

Therefore in seeking to improve external competitiveness, it will be necessary to strike an appropriate balance between monetary policy changes and nominal exchange rate adjustments. This "balancing act" should be informed by comparing the short term costs associated with restrictive monetary policy with those generated by the devaluation. Given that in Nigeria governments appear unable to refrain completely from resorting to inflationary finance, a considerable degree of flexibility in the nominal exchange rate may be needed if a deterioration in external competitiveness is to be prevented.

It should be clear from the above that when overly expansionary fiscal behaviour defies the discipline of restrictive monetary policy, nominal exchange rate depreciation may become the inevitable price for maintaining the economy's external competitiveness.

IV. CONCLUDING COMMENTS

Key external sector policies particularly trade and exchange rate policies, play an important role in establishing and maintaining macroeconomic stability in an economy. Budget 2002 claims this as an important objective; its success will therefore depend crucially on the extent to which the appropriate trade and exchange rate policies are articulated and implemented. Nigeria lacks a good track record in terms of the discipline (especially of fiscal behaviour) required in this regard. Hence, Budget 2002 faces an uphill task from the beginning.

There are strong complementarities and trade-off among the key policies needed to maintain macroeconomic stability. Balancing the mix of external sector policies, fiscal and monetary policies are extremely important. Whereas in Nigeria, responsibilities for these policies are distributed across different agencies, the need for effective policy coordination cannot be over stressed. This is, again, an area in which Nigeria's track record is poor; it is therefore an area requiring urgent attention if the expectations of Budget 2002 are to be realized.

REAL SECTOR POLICIES IN THE 2002 BUDGET

By

ENGR. C.C. UGWUH*

INTRODUCTION

* The Annual Budget of Government is an invaluable tool of Economic policy for the purpose of influencing the direction of macroeconomic variables which serves as the signpost of the economic health of the domestic economy.

* For this reason, the Budget requires careful formulation and realistic identification of the critical weak points for the purpose of designing appropriate fiscal policy strategies to achieve the desired policy targets.

* The persistent poor economic performance of the Nigerian economy since the early 1980s has again raised geniune concerns about the efficacy and timeliness of the annual Budget of the Federal Government as well as the appropriateness of the macroeconomic framework forming the background of the policy constituents.

* We must however recognise the challenges of economic policy formulation in an unstable macroeconomic environment characterised by a structurally weak Real Sector with vast under-utilized production potentials.

* Traditionally the Budget serves as a public notice of Government fiscal policy goals for the year. For this reason, the Government has set the convention to consult with all stakeholders so that the policy goals reflected as much as possible the economic priorities of the time.

* The Budget therefore requires strong partnership between the private sector and the public sector.

PLAUSIBLE REASONS FOR THE FAILURE OF PAST BUDGETS

A review of past Budget performance shows convincingly that the failure of the component economic policies to make appreciable impact is due to quite a number of factors that have become increasingly associated with our inefficient planning process and our collective failure to realize the critical importance of policy consistency as a precondition for good planning culture.

* Generally, past Budget failures in Nigeria reflect a general malaise which has constrained the rapid development of the Real Sector of the economy. If we all realize that the prosperity of the Real Sector depends on the optimal spending policies of Government on currently produced goods and the necessity for an efficient tax system that encourages production and investment in the Real Sector; then the real impact of the fiscal policy measures contained in the annual Budgets can be seen in the effects on employment, production and investment in the Real Sector.

* We need therefore to critically examine the plausible reasons for the failure of the past Budgets to address the problems of the Real Sector.

* Experience has shown that the major causes of budget failures in Nigeria are:
  # Weak Federal Government Budget process
  # Budget distortions
  # Laxity in budget discipline
  # Absence of transparency
  # Undue politicisation of the Budget approval process
  # Protracted delay in the release of Votes to the Ministries and other Government Agencies
  # Poor implementation framework
  # Poor coordination of Federal, State and Local Government spending programmes.
  # Monetary and Fiscal

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Policy conflict

* In addition the following structural deficiencies have also been associated with past budgets.
- inappropriate macroeconomic planning framework
- institutionalised policy inconsistency, policy somersault and policy conflicts
- faulty implementation strategies, especially duplications and mis-management
- distortions in public sector spending priorities
- destructive and absurd regime of multiple taxes
- comparatively poor fiscal incentives to the Real Sector compared with the financial sector
- undue politicisation of the budgetary process (the 2002 Budget is a classical example).
- the impact of the 2002 Budget on the Real Sector will depend inexorably on the extent to which its specific provisions meet the expectations of the Real Sector operators.

THE GENERAL FEATURES OF THE 2002 BUDGET

* The most attractive feature of the 2002 Budget is that the Policy thrust and programmes are in consonance with the prevailing national economic philosophy of private-sector initiated economic development.

* Besides, the 2002 Budget contains specific provisions in the National Rolling Plan (2001 - 2003) and the Nigerian Economic Policy (1999-2003) which is quite unique in the sense that these are the two most important Economic Programmes under the present Administration.

* Moreover, the 2002 Budget as an integral component of the Nigerian Economic Policy (1999 - 2003) is deliberately titled towards the following long-term goals:

  * Sustained growth
  * Full Employment
  * High Standard of living
  * Competitive Economy
  * Commanding presence in the West African economy

* These long-term policy goals, will require the creation of an enabling environment for intensive production and investment in the real sector. The 2002 Budget therefore poses a serious challenge for the Real Sector.

* If the Real Sector has underperformed in the past, the reasons have not been too difficult to identify and it is to be expected that the 2002 Budget has adequately addressed these problems. And Government intention is that these problems can be solved by a combination of the following policies:
- Reduce the level of unemployment through expansion in capacity utilization
- Intensified food production to achieve national food security
- Boost agricultural production through a policy of Buyer-of-the-last-resort and Guaranteed Minimum Price
- Rehabilitation of and intensified investment in national infrastructure.

THE PROSPECTS OF THE REAL SECTOR UNDER THE 2002 BUDGET

* The economy is still beset by serious macroeconomic imbalances as a result of conflict between fiscal and monetary policy objectives. It is therefore highly desirable that the 2002 Budget will contain appropriate policy strategies to streamline fiscal and monetary policy instrument so as to encourage production and investment in the Real Sector in the current fiscal year.
* Therefore the Government should adopt strategies to ensure optimum result from its commanding spending powers in the economy so as to create the necessary basis for further expansion of production and investment in the leading sub-sectors of the Real Sector, especially the manufacturing sector.

1. PUBLIC SECTOR SPENDING: PRIORITY SECTORS:

* The spending power of Government is enormous and requires deliberate prioritization to achieve the twin objectives of efficiency and effectiveness in the use of scarce public resources.

* Against the backdrop of estimated revenue of ₦1,156 billion in 2002, the Federal Government spending proposal amounts to N=1,017.7 billion. By all standard, this is a mammoth spending power that

should be judiciously applied to achieve the overall objectives as stated in the budget.

* In a way, this huge public sector spending can be used as a stabilizing influence in the economy if priority is given to the purchases of currently-produced and locally available goods in the economy.

* The benefits of such public sector spending on locally made goods include:
- boost to domestic demand
- intensification of production
- increased investment
- increased employment
- higher tax revenue for Government from personal, corporate and sales taxes.
- increase in per capita income
- open up new consumption possibilities for individuals
- potential reduction in crime rate (as a result of a reduction in the unemployment rate)

* The challenge before Government therefore is how to optimally allocate its proposed expenditure of ₦1,017.7 billion to achieve the desired effect on the Real Sector. We shall return to this matter in the subsequent sections.

2. PROPOSED TAX REGIME: THE IMPACT AND PROSPECT FOR THE REAL SECTOR

* There is no doubt that some existing taxes are not backed by any known existing laws except that these taxes are imposed for unacceptable reasons to raise revenue for states and Local Government without any regard to the impact on the Real Sector.

* The deficiencies in the existing Tax regime arose principally from the fact that it is inequitable to the Real Sector relative to other sectors of the economy.

* In addition, the failure by the Federal Government to lower the Tax threshold in the 2002 Budget to stimulate domestic demand through increased take-home pay for workers cannot be justified.

* At the same time, the present rate of Corporate Profit tax is too high and serve as great dis-incentive to production and in-vestment in the Real Sector. The 2002 Budget has unfortu-nately remained mute on this important issue.

* Nevertheless, the proposal to follow a buyer-of-the-last resort policy in the agricultural sector is welcomed. The policy of Guaranteed Minimum price for agricultural product is equally applauded. Nevertheless, there is still much scope for assistance to the agricultural sector as a vital link source for food and raw materials.

PRIORITIZATION OF PUBLIC SECTOR SPENDING IN FAVOUR OF THE REAL SECTOR: RECOMMENDATIONS

* It was suggested in the preceding sections that the effectiveness of public sector spending proposals under the 2002 Budget would be determined by the impact on the Real Sector, in particular and the economy, in general.

* The desired impact on the Real Sector can only be achieved if priority areas in the Real Sector are identified and prioritized for optimal outcome.

* The sectoral allocation of public sector revenue provides the point of reference but in deciding the priority spending areas consideration should be given to:

  - employment impact
  - production impact
  - investment impact
  - multiplier impact

* In order to achieve all these four impacts simultaneously, any proposed spending plan should be targeted on the public sector activities that utilize the vast range of product in the Real Sector.

* Accordingly in implementing its spending proposals under the 2002 Budget, Government should give priority to the following areas where opportunities to patronize locally made goods are bountiful.

Capital Projects: (Allocation ₦297 billion)

* The allocation for Capital Projects (₦297 billion) should be tied to available local materials to achieve maximum spillover effect.

Health - (Allocation ₦14.9 billion).

* In consonance with the policy thrust for health, the spending proposal should focus primarily on preventive drugs which are available locally and the maintenance of good environmental hygiene where the potential impact on the Real Sector is great.

Works and Housing: (Allocation N32.9 billion)

* The proposed spending on capital construction on road rehabilitation and maintenance have both social welfare impact and Real Sector effect and therefore should be treated as priority spending for the purpose of implementing the 2002 Budget.

Social Overhead Spending

* The social overhead spending which includes expenditure on water Resources and Sports and Social developments. The twin projects, National Stadium, Abuja and the All-African Games Village, offer rare opportunities for the use of public spending to gradually reflate the domestic economy after the prolonged period of recession.

CONCLUSION

* The Government should also remain committed to its proposal for further reduction of duties on machineries, spare parts and raw material.

* The unfortunate consequences of Trade Globalization which has led to rampant incidence of dumping needs to be quickly addressed if the proposed policies for the revival of the Real Sector under the 2002 Budget are to be realized.

* It is evident that the problems of the Real Sector are both structural and entrenched and that the country's development cannot proceed in earnest where the Real Sector is still relatively weak.

* The Budget has become a veritable economic policy instrument for the pursuit of short term goals that accord with national economic priority. Therefore, the 2002 Budget provide a platform for the revival of the Real Sector as a short-term strategy to stimulate production, investment and employment in the Sector.

* We must also realize the grave dangers of poorly conceived economic policy superimposed into the annual Budget. The Real Sector has special needs because it is beset by unique problems which are at the same time economic and social in character.

* The long-term purpose of the Budget is of paramount importance from the perspective of the Real Sector. If there is consistency in policy with the support of an efficient implementation machinery, there is no doubt that the Real Sector can compete effectively against other major sectors of the economy.

* And, finally, it is to be reiterated that fiscal and monetary policy conflict is anathema to an efficient economic system.

* Government should therefore streamline the goals of fiscal monetary policies to achieve an integrated approach to economic policy formulation so that the policy objectives outlined in the 2002 Budget do not become a mirage.

TOWARDS EFFECTIVE POVERTY ERADICATION STRATEGIES IN NIGERIA

By

Professor Ukwu I. Ukwu*

PROFESSOR UKWU I. UKWU*

INTRODUCTION

The eradication of poverty is universally accepted as a primary development objective. Today Nigeria is one of the poorest of the poor among the nations of the world, and we are confronted not just with pockets of poverty - disadvantaged or marginalized areas, groups and individuals - but with a situation of mass poverty, a situation in which most of the population exists at standards of living below those required for full development and enjoyment of individual and societal well-being.

If we are to deal with poverty properly it is not enough to consider the aggregate level. We must understand its structure, dimensions, distribution and dynamics. Who are the poor? Where are they? How poor are they? Why are they poor? What are their circumstances? Are they getting poorer or less poor, and why? In Nigeria the differences between urban and rural areas, as well as the differences between different regions are well recognised. So also are the differences between specific socio-economic groups. Thus more than half the population of Nigerians belong to one deprived group - women - while the youth constitute over three quarters of the unemployed. The sick and the aged have special problems. The two sectors of the economy in which most of our working population are engaged, agriculture and small-scale non-agriculture enterprises, are particularly handicapped.

The prevalent situation of mass poverty reflects the poor management and performance of the Nigerian economy. The level of economic performance of any country depends primarily on two factors: the level of resources relative to population, and the level of productivity. Nigeria belongs to the group of poor countries with high level of resources but low level of productivity. The task of poverty eradication must therefore begin with identifying and mobilizing our resources and improving our productivity[1]. The demands of this task cut across every sector of the development plan and involve every tier of government and every region, locality and community, as well as every firm and household.

The idea of poverty is very wide and elastic. It means different things to different people in different contexts and circumstances. The most basic meanings are reflected in dictionary definitions, thus

1) the quality or condition of being poor;
2) the condition of having little or no wealth or material possessions; indigence, destitution, want (in various degrees)
3) deficiency, dearth, scarcity; smallness of amount;
4) deficiency in the proper or desired quality;
5) poor condition of body; leanness or feebleness resulting from insufficient nourishment, etc.

In relation to people, the basic concept of poverty refers to a serious inadequacy of economic condition, a situation of individual, group or regional lack or deprivation of what are considered the necessities for acceptable living standards, a situation of not having access to a conducive environment and the facilities and opportunities for decent living.

Poverty manifests itself most intimately in the condition of the individual and - since this is the primary context of human social organization, interaction and interdependence - the household. But it may be observed at other significant levels of human organization, in socio-economic groups, communities, regions, nations and groups of nations.

Two basic concepts of poverty are usually recognized: absolute poverty and relative poverty. The concept of absolute poverty refers to a condition under which there is a serious deficiency in or lack of access to

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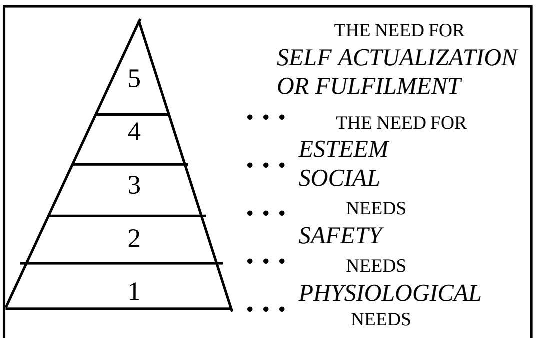
what are considered the basic necessities of normal life. Relative poverty relates the condition of the individual, household, group or community under consideration to some reference standard or parameter, such as the average for the group or region, a target standard or objective, of its ranking on given criteria. In the final analysis, however, all concepts of poverty are relative. Thus. even when we speak of absolute poverty we refer to existence below a reference standard of living. The progressive raising of this reference standard is part of the universal human development process.

For a working definition of absolute poverty we may refer to Rowntree's concept of "primary" poverty which applied to "families whose income was insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency", based on a diet containing the necessary nutrients at the lowest cost compatible with a certain amount of variety, providing basic calories and proteins. But man does not live by bread alone. A certain modicum of other facilities and amenities are required for social efficiency. Hence needs are ordered, such that one strives to meet the needs at the most pressing level up to a point before seeking to meet those at the next level. The kinds of problems one considers most pressing therefore are indicative of one's poverty status.

A most insightful exegesis of this issue is provided by Maslow's classic formulation of a **Hierarchy of Needs,** with the physiological needs - water, food, sexual gratification, and shelter - as the most basic, followed by safety needs, then by the need for esteem and finally by the need for self actualisation or fulfilment. The average Nigerian household spends over 75 per cent of its consumption expenditure on food, a preoccupation which reflects its closeness to the economic level of bare subsistence.

The World Bank has called special attention to the causes of mass poverty in Sub-Saharan Africa. Thus lack of access to skills, facilities and opportunities is seen as the most basic cause of poverty. The reasons for such lack of access relate to the patterns of social and economic organisation, especially to the patterns of social and economic inequality. In a situation of mass poverty, such as we have in Nigeria, where poverty is the lot of the generality of the people rather than the misfortune of a few, the primary reason for poverty must be sought not in the cirumstances of individuals but in the state of the nation and its management. As has been lucidly argued by Kenneth Galbraith, the most developed countries in the world today include some countries very poor in physical resources while the poorest countries include some of the most richly endowed with physical resources, like Nigeria.



MASLOW'S HIERARCHY OF NEEDS

POVERTY IN NIGERIA, AS SEEN BY THE POOR

The nature of main deprivations which define the level and structure of poverty varies with the social and economic conditions of the people in question. But in the final analysis it is perceptions of the people themselves which determine what they "know" and feel about their condition and what they would like to do or to be done about it. So if we are to deal properly with poverty, we should start by understanding their situation, perceptions and feelings.

In this contribution I would like to present for your consideration some notes from the voices of the poor speaking for themselves. The notes are based on a summary of the reports from focus group discussions and questionnaire surveys of poverty in Enugu State in 1997/98 involving 4300 households drawn from communities in all the local government areas of the state.

CAUSES OF POVERTY IN SUB-SAHARAN AFRICA

* Inadequate access to employment opportunities.
* Inadequate physical assets, such as land and capital, and minimal access by the poor to credit even on a small scale.
* Inadequate access to the means of supporting rural development in poor regions.
* Inadequate access to markets where the poor can sell goods and services.
* Low endowment of human capital.
* Destruction of natural resources, leading to environmental degradation and reduced productivity.
* Inadequate access to assistance for those living at the margin and those victimized by transitory poverty.
* Lack of participation, failure to draw programs.

In this analysis we highlight the people's perceptions and responses on the following basic issues:

* What is poverty? What are its characteristics and indicators?
* How do the people assess their own condition and that of their community?
* What are the causes and effects of poverty?
* What are their suggestions on the eradication of poverty?

The findings are based primarily on the focus group discussions and on the relevant questionnaire responses. The focus group discussions were directed towards understanding the participants' perceptions of the meaning, context and impact of poverty as well as their reactions to it and their suggestions on its alleviation and reduction. Relevant questions in the sample household questionnaire also address the individual household assessments of household and community well-being, their perceptions of serious problems, as well as their evaluation of the state of infrastructure and services in their communities.

Concepts of Wealth and Poverty

WHAT IS WEALTH?

* When we talk of wealth (AKU NA UBA) an people who have property and riches. In the lays this meant land, crop trees, especially the oil ree, livestock- goats, sheep and chickens- and old goods.

Artisans, Female, Rural

* Although money in an important indicator lth, it is not everything. Some people may have but lack peace or even children who the money will sed for. There are some other people who do not ts of money, but are having a peaceful life and walk reely and fearlessly. Such people are enjoying what cannot buy and so may be considered wealth in their ht.

Youth, Female, Urban

* If you have a lot of children, then you are... t, you will live long.. "MADU KA EJI AKA"

Elderly Male, Rural

The focus group discussions reveal a broad consensus on the concepts of wealth and poverty, cutting across social and economic categories of interest groups.

Most of the groups see the first sign of well-being as the ability to feed one's self and family. Other often-mentioned indicators include good health, access to money and property (stressed by the youth), and access to investment funds. (see Text Box 3.01). Specific groups stress particular attributes of well-being. Thus urban youth stress satisfaction of basic needs as well as being in a state of "contentment"; the urban elderly mention having children, ability to solve family problems and being in full-time employment; while the rural elderly emphasize having "family".

The peoples' concept of poverty is broad and wide-ranging. Some of the definitions obtained in focus group discussions are reproduced in the Text Boxes Other often-mentioned manifestations of poverty include haggardness and poor clothing, no family (stressed by the elderly), and inability to pay rent (mentioned by urban artisans). The urban male elderly stress inability to feed one's self and family, joblessness, not having a "big brother" or important "connections" and inability to meet community perceptions of obligations such as levies. Rural female traditional crafts producers talk about a condition of "hopelessness" while urban street beggars highlight the state of "lack of respect."

DEFINITIONS OF POVERTY

A poor person is:

* someone who cannot make a farm, and cannot also afford to buy labour.
* a person with very limited kinsmen can be said to be poor.
* one who can neither cloth nor feed himself but resort to begging is poor
* When one is weak and has no one to help him, he is poor.
* There are categories of poverty, but the worst of all is one who has nothing and at the same time does not relate to anybody who has.

Arable farmers, Female, Rural

* A poor persons is someone who cannot eat what his body wants at the needed time. He cannot also buy for himself medicine when he is sick.

Artisan, Female, Urban

Recognising that the poor are not an undifferentiated mass, the focus group discussants distinguish several categories of poverty. The designations are evocative of the sociological context of the communities' assessment of and reactions to various categories of the poor. Thus, while the destitute are to be pitied, there is an element of ridicule about the "soot-mouthed" poor, and the lazy poor is reprobated. On the other hand, the kinless poor and the ill-fated poor deserve sympathy while the hopeful poor and the struggling poor demand encouragement and support.

In order to obtain insight into the people's perceptions of their levels of well-being, the sample households were asked, among other things, to indicate how well they could afford a number of key needs, to identify from a list of possible problems those they

YOUTH PERSPECTIVES ON POVERTY

A poor person

* suffers in want;
* cannot be sure of the next meal;
* is hungry;
* is ill-clothed;
* lacks proper shelter;
* cannot afford education.

Rural Youth, Male

A poor person

* cannot provide for financial needs;
* as parent cannot buy drugs for children; or
  afford to take them, to hospital;
* lacks people.

Rural Youth, Female

A poor person

* has no money to attend to needs.

Urban Youth, Female

ELDERLY PERSPECTIVES ON POVERTY

A poor person is a person who

* cannot provide for himself and his family;
* is jobless;
* looks haggard;
* does not feed well

An example of a poor person is a person who

* is blind or crippled with no help - that is the worst kind of poverty.
* cannot provide for herself, even by cracking kernels;
* is childless;
* is improvident; healthy but shiftless.

considered serious, and to compare their overall condition now with what it was five years before.

On affordability the items listed were ranked in descending order of affordability (by percentage of households) as follows:

1.	food	52.8
2.	primary school fees	52.7
3.	accommodation	51.5
4.	hospitality	46.7
5.	clothing	43.8
6.	hospital bills	37.7
7.	medicine	35.4
8.	secondary school fees	35.1
9.	mobility	28.8
10.	tertiary school fees	12.8

Thus in Enugu State a little over half of the sample households consider they can afford food, primary school fees and accommodation, but less than 40 percent are comfortable with health care bills and secondary school fees and only a small minority can afford transportation and tertiary school fees.

CATEGORIES OF POVERTY

* There are some who cannot find anything to eat, train their children, clothe themselves etc. Some of them can solve some of their financial problems, but cannot boast of a car or bicycle to drive or ride. But the worst amongst all is that class who cannot provide anything for themselves, let alone their families. They are known as 'OGBENYE OGBEGELE' in our Community. They are the poorest of the poor.

Artisans, Male, Urban

SOME TYPES OF POVERTY BY NAME

* "OGBENYE MGBEGELE" (The Poorest of the Poor)
* "OGBENYE ONUNTU" (The Soot-Mouthed Poor)
* "OGBENYE UMENGWU" (The Lazy Poor)
* "OGBENYE MMADU" (The Kinless/Personless Poor)
* "UKPA" (Destitution)
* "OGBENYE CHI OJO" (The Ill-Fated Poor)
* "OGBENYE NWERE OLILE ANYA" (The Hopeful Poor)
* "OGBENYE NWE MGBALI" (The Struggling Poor)

Problems

: The problems perceived by the people tend to vary from one interest group to another. Some of the problems and concerns of members of selected occupational groups are reproduced in the Text Boxes

Food processors and crafts people complain about low turnover, farmers about the high cost of fertilizers and the low level of government support. Traders worry about price fluctuations, farmers and street beggars about the high cost of transport. The litany of street beggars' complaints includes desertion by friends and relations, lack of personal respect, loss of dignity and the stress of "exposure". Artisans worry about low patronage for their business, food processors about the high cost of inputs and about the high level of customer indebtedness.

REFLECTIONS ON FEMALE CASUAL LABOUR

* We are just doing this type of work because we cannot do otherwise. It is not a suitable job for a wonan but we do not have alternative. Most times after the day's job, your whole body in overhauled.
* Sometimes we do not find job to do, because cement is scarce these days and has slowed down construction work. On such days, you go back and starve with your children.

Casual Labourers, Female, Urban

PROBLEMS OF SMALL SCALE INDUSTRY

* If raw materials they use in processing their products become cheaper, it will help them to sell their products to as many people as possible because the cost will not be much and so many people can afford them. Also bad roads add to the cost of items in the market including their raw materials. There is never a time government can share money to everybody. If these problems are tackled people will be encouraged to struggle on their own.

Food Processors (F) Urban

In the questionnaire survey an attempt was made to identify and rank the major problems as perceived. A summary of the responses is presented below.

PROBLEMS OF TRADERS

. High price of commodities in the market, makes it difficult for us to sell and make gain. Effort should be made to bring down prices.

. High prices lead to keeping goods for too long a time. Such goods get spoilt and you may be forced to sell cheaper than you bought.

Hawkers, Female, Urban.

1. Unemployment	(89.5%)
2. Bad roads	(83.6%)
3. Cost of Living	(80.4%)
4. Health Services	(64.1%)
5. Water Problems	(56.2%)
6. Secondary Education	(46.2%)
7. Crime	(30.9%)
8. Primary Education	(30.1%)
9. Security	(27.2%)

The list shows the relative importance of t he problems. Any programme aimed at improving the sorry lot of the people must address these felt problems.

Causes of Poverty

The focus group discussions revealed a strong consensus on the causes of poverty, a reflection, presumably, of the common cultural background. Causes most frequently cited by groups include "destiny", lack of capital, laziness, death of a spouse, and family background. Other prominent causes include having too many children, not being paid salaries as and when due, ill health, machinations of enemies, undue litigation, and not having any "big persons". Other causes mentioned include "isolation", too many dependents, natural disaster, " environmental factors and planlessness.

We may now turn to the people's perceptions on some of the structural dimensions of poverty. In the discussions four of these came up for frequent mention: the age factor, the gender factor, the health factor, and the occupational factor. These will be discussed in turn.

CAUSES OF POVERTY

- Poverty is destiny (AKARA AKA)
- A bad child in the family can cause poverty to that family bringing disaster to the family.
- They must have committed an offence to be poor
- It runs in families, it is hereditary.

Street Beggars, Female, Urban.

- Unemployment or lack of capital for trading. There are people that believe so much in government work. If such a person is laid off and is not given any gratuity, he or she cannot start a new thing. This leads to real hardship.

Hawker, Male, Urban

- Laziness can also cause poverty because if one is not hard-working one cannot be rich.

Food Processor, Female, Rural

In Nigeria age is recognized as a major organizing principle of society. By the institution of the age-grade system an individual is linked from birth to the members of their age cohort (usually three or four years deep). As the cohort passes through the life cycle it goes through successive social grades with attendant status and role expectations. One definition of individual poverty is thus failure to keep up with one's age grade, or inability to meet the expectations and perform the ascribed functions of the age group. Age is a recognized and revered position. Occupants of that position are vested with certain rights and privileges, including the right to be respected, the right to be consulted in important family or village affairs, and the right to be obeyed in appropriate contexts and circumstances. Traditionally, the social obligations are multi-dimensional, encompassing religious, educational, political, judicial and economic domains. In the evolving Nigerian society the religious, educational, judicial and political functions have been taken over by new institutions, leading to role loss and diminished self-esteem for the elderly.

Economically the old occupy a unique position in the community. In recognition of their limited physical capacity and in celebration of their wide network of relationships with other members of the community, the aged are entitled to be "looked after". by the working members of the community through obligatory gifts of food items, including prescribed portions of meat, special right in land and economic trees, and tribute in kind at harvest. An elder who has no relations within the extended family willing and able to render these dues is poor indeed.

The break up of the closely knit extended family system, with large numbers of the active age-group members now likely to be at work away from home, has replaced the regular support system for the elderly with a more voluntary, more flexible and more discriminating system of remittance support. At the same time the urban aged face the spectre of sudden unemployment, the humiliation of retirement "with immediate effect" by insensitive government agencies and "rationalizing" corporate establishments. The complete absence of a national social security system leaves the aged economically the most vulnerable group in Nigerian societies. The only privileges now guaranteed the aged are prolonged and expensive funeral rites.

In the focus group discussions the different perceptions of problems by the youths and the elderly come out very clearly. Thus the youth, urban and rural, male and female, stress the high cost of education and the spectre of unemployment; urban youth are worried about school strikes, rural youth about lack of freedom and lack of capital. The elderly are subject to depression, fear untimely death and complain of the stress of still having to eke out a living at their stage of life, as well as the difficulty of ensuring proper training for their children.

Another significant aspect of the focus group discussion is the light it throws on the gender dimension of poverty, as reflected in the contributions of female groups.

On health care, the reaction of a female food processor to a question about her participation in the immunization programme is worth quoting in full: "Somebody told me to go for immunization and I said 'no', because the nurse will ask me if I have eaten and of course I have not. Some people fall after such injection because they become dizzy."

Women also clearly perceive that more women are poor because the work of looking after the children rests on them. They are obliged to take on most domestic responsibilities and be financially dependent on their husbands. Thus female poverty is built into the system of gender inequality.

GENDER PERSPECTIVES

- Yes, poverty can lead young girls into prostitution as far parents cannot provide for their needs especially their financial needs.

Artisan, Male, Urban

- Early death of one's husband can cause poverty to the entire family

Food Processor, Female, Rural

As reflected in the focus group discussions, the people recognize the very strong relationship between health status and such indicators as nutrition, housing, income and basic infrastructures. Frequently the groups defined the state of "well-being" as a state in which "a person feeds well, feeds himself and his family." Basic needs are invariably listed as food, shelter, clothing. When urged to rank the needs, one group after heated debate arrived at two different rank orders, thus:

1. food, shelter and good health... a person who is well fed has good health and will be able to work harder;
2. good health is most important. A person who is healthy can provide for himself and others.

Some participants among the female youth group in Enugu North were eloquent on the relationship between poverty and health:

> "The two are very highly related. If one does not feed well he or she will not be healthy. The effect is more on children. A sick poor person cannot buy drugs whose prices are in "tau-tau" (thousands of naira). If he at all buys, he may not afford the complete dosage and the sickness lingers. If such people are advised on the type of diet to go on, they do not normally comply because they cannot afford food like meat, vegetables etc. and the sickness worsens." "The two go hand in hand. Poverty leads to too much thinking - what to eat, how to maintain the children in schools and so on. When this happens it leads to sickness and disturb even the little struggle such a person is doing."

Further insight into the perception of the people on their health status is given by the fact that some 64 percent of the sample households identify the state of public health services among their most serious problems, with 65 percent complaining that they cannot afford to buy medicine and 62 percent that they cannot readily pay hospital bills.

Effects of Poverty

Apart from the material deprivations associated with it, poverty is dehumanising and socially disruptive. Focus group discussants stress the social alienation and powerlessness and "mouthlessness" of the poor, Poverty is described as a disgrace, even a "sin".

> **EFFECTS OF POVERTY**
> - A poor person has no respect in the society.
> - Unhappiness
>
> *Street Beggar, Male, Urban*
> - A beggar has no self esteem, no "mouth to talk"
>
> *Street Beggar, Female, Urban*
> - Deprivation can lead to bad habits like armed robbery, causing of confusion in the community and apathy towards community development.
>
> *Artisan, Male, Urban*

Suggested Solutions

However diverse the perceived problems, the coping strategies cluster around some common themes. The most common is to supplement one's income through farming, casual labour or hawking. Mutual support through rotatory credit schemes and communal work groups, for example, is also favoured. In dire circumstances rural groups resort to sale of land or assets, where available. Urban groups recognize the significance of child labour, begging, stealing and prostitution as coping strategies.

> **MUTUAL SUPPORT AMONG WOMEN**
> - We contribute money in meetings or associations and given out the loans in rotation and preferably to those in need.
> - Women form groups which they use to curb the cost of buying labour and to help the weak ones among them. We work for one another in the farm by rotating among the members of the group.
>
> *Arable Farmers, Female, Rural*

Suggestions for poverty alleviation also cut across interest groups. The most frequently canvassed are self help, better roads, fertilizers, free education, subsidised education, expansion of credit facilities, creation of employment opportunities, and price control. Other recommendations include regular payment of workers, family planning, government discipline and massive farming. One urged appointment of more indigenes to government positions and the opening of borders to trade. Communities also take pride in their self help efforts. The discussions also throw light on the public perceptions of government development programmes and their impact on poverty. In general, government programmes receive very cursory mention. Where they are mentioned, they are generally regarded as not effective. Government facilities are seen as not well maintained and their services and supplies irregular.

> **COMMUNITY INITIATIVES**
> - It is by community efforts for example building of Primary Schools and equipping them with seats. These seats we are sitting on, were built by the community. The community built and established the community bank, the Post Office and started the electricity project.
>
> Elderly Male, Rural

ANTI-POVERTY STRATEGIES

Fighting or Alleviating Poverty?

Poverty alleviation features very prominently in international and national policies and programmes. Indeed this session is about "Poverty Alleviation Strategies" However, my position is that the critical thing to do about poverty is to eradicate or minimize it, not merely to alleviate it.

Poverty alleviation is like the labours of Sisyphus, taxing and futile. As long as the causes of poverty are not addressed, as long as more poverty keeps being created, the burden of poverty will continue to grow however zealously we alleviate it. And there is sometimes a rather unsavoury dimension to the practice of alleviation, an aspect of what I may call the House-rat Complex. In our poor neighbourhoods the dwellings are rat-infested, and the rats enjoy nothing more than gnawing the toes of the sleeper. One would expect the sleeper to feel the pain of the sharp teeth, wake up and deal with the rat. But the rat is too clever to let this happen. What it does is to blow cool air on the spot as it gnaws, thereby alleviating the pain and enabling the sleeper to keep on sleeping while it goes on gnawing. Similarly in Nigeria's rat-infested economy there are too many policies and too many organizations and individuals actively creating and deepening the poverty which we seek or claim to seek to alleviate. We need to start our campaign against poverty by changing those things which create or deepen poverty. Poverty is the enemy. The proper objective is to confront, destroy its roots and eradicate it.

The 2002 Federal Government Budget and Poverty Eradication

In this contribution, therefore, I would rather discuss the 2002 FEDERAL government Budget from the perspective of strategies for poverty eradication. Indeed I am particularly heartened to note that the President's budget speech restates the Government's commitment to poverty eradication, and goes on to spell out some measures towards it.

The budget address spells out "the four rad objectives" upon which the FY2002 Budget was built as follows:

<u>One.</u> to eradicate poverty by fostering the opportunities for job creation;

<u>two</u> to achieve high economic growth rate through better mobilization and prudent use of economic resources;

<u>three,</u> to build a strong economy by encouraging private sector participation while providing continuity to economic reform programmes; and

<u>four,</u> to ensure good governance by transforming development administration into a service and result oriented system

Not only does the list give priority to poverty eradication, the other three objectives can also be seen as contributory to and supportive of it. Furthermore, the specific policy objectives also included objectives directly related to poverty eradication; most notably:reducing unemployment, expanding and enhancing the performance of Infrastructural facilities, better funding for education, improved health care delivery, promoting increased food production and improved food marketing, as well as promoting agro-industries and tourism.

In resource allocation, priority has been given to education, health, power, water supply and the works and housing sectors, all of which are expected to advance poverty reduction. More specifically it is stated that in promotion of poverty reduction,

> the rural and urban poor shall, through multiplicity of public and private sector partnership initiatives, be empowered to become more economically productive with a view to improving their quality of life. The projects and measures to be implemented are people oriented. As stakeholders, the people will be fully involved in determining the projects, and will take ownership

The 2002 Budget is of course only the latest of budgets making provisions for poverty alleviation, reduction or eradication. It has been launched against the background of many existing initiatives and progerammes, sound and unsound. These include the NDE, DFRRI, the Better Life and Family Support Programmes, the Rural Banking Scheme, the Nigerian Agricultural and Cooperative Bank (NACB) and the Peoples Bank (both now merged with the NIDB, the National Economic Reconstruction Fund (NERFUND), the ADPs, NALDA, the Family Economic Advancement Programme, (FEAP), the Poverty Alleviation Programme (PAP) now replaced by the Poverty Eradication Scheme (PES)

It is clear that there has been no lack of information and ideas on what to do about poverty. The problem is that the plans and programmes have been distinguished more by their number and variety than by their relevance and quality, while too little attention has gone into finding ways of ensuring that appropriate actions are taken and followed through effectively. We shall consider each of the areas in turn.

Poverty Alleviation: In a situation of mass poverty, general programmes for poverty alleviation run the risk of pouring limited public resources into a bottomless pit of welfare need, or of being so thinly spread or selectively implemented as to be ineffective or perverse in its impact. There is need to identify and target the most vulnerable groups and the hardest cases for special attention. While a comprehensive approach to the problems of these groups must await the establishment - long overdue of a national social security system, all tiers of government - federal, state and local, can significantly increase their budgetary allocations to social welfare programmes and redirect more of such allocations from structures to persons. There is also room for fruitful cooperation between governments, communities, non-governmental organizations and external donor agencies in the design, implementation and support of appropriate schemes.

Infrastructure: The poor state of public infrastructures is widely and rightly acknowledged as a major factor of poverty in Nigeria. While the importance of roads is recognized at all levels, neither governments nor communities have paid sufficient attention to the debilitating impact of poor access to safe water and sanitation on the health and productivity of households and communities.

Most rural communities also lack electricity, a major deterrent to both the spread of industries and other modern enterprises and the retention of the youthful population. There is need for a systematic programme of rural electrification; and the evidence is that many deprived rural communities would gladly contribute to the success of such a programme. Statistics indicate that most communities still need to be provided with access to such basic facilities as post offices, telephone systems, police posts, banks, and secondary health care facilities.

The equitable spread of basic infrastructural facilities in local government areas and communities should receive the systematic attention of governments at state and local government levels.

Capacity Building: The most fundamental task in the war on poverty is to transform the capacity of the people themselves, the households, economic units or groups, to produce; thereby raising their productivity to new orders of magnitude. The people themselves must be empowered to take charge of their own development autonomously and sustainably. They must be able to:

* understand and articulate their needs,
* identify, develop and control their resources,
* acquire the appropriate knowledge and skills to enable them utilize their resources to meet their needs,
* have access to economic opportunities to apply their knowledge and skills to productive activity, and
* have the necessary operational environment and support to take full advantage of the opportunities.

Ultimatey, the outcome of the war depends on how the economy as a whole is managed. This in turn depends on the actions, interplay and interactions of the three principal players - government, firms and households - as well as the impact of external agencies and factors. The responsibility for managing the system as a whole rests with the Federal Government. It must be ready to point the direction and provide the leadership and support to move the nation towards the goal. How the Federal Budget can contribute to meeting this responsibility is one of the major challenges of this workshop.

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