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6. Export Promotion and Economic Growth: The Nigerian Experience.
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7. Borrowing and Prospects of Nigeria's Development. ✓ (3)
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Notes to intending Contributors

The press dates for the issues are 1st December and 1st June. Articles received by 1st October are likely to be published in the December issue while those received by 1st April are likely to be published in the June issue. This is necessary because ample time is required for editorial assessment, review and necessary corrections to manuscripts.

Articles, which should not exceed 25 A4 pages (double line spacing), should be submitted under cover of a signed letter to:

The Editor
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3 hard copies along with a 3.5" diskette, containing the article in WordPerfect 6.0 or Microsoft Word 6.0, should be submitted. All diagrammes, equations, tables and Illustrations should be camera-ready.

In-text citation, which should conform with the following examples, should be used:

1. According to Ajayi (1973), the demand for money in Nigeria is stable.
2. As Aboyade (1966) has argued, "Underdeveloped nations cannot compete effectively in the global market without some degree of protection" (p. 14).
3. It had been argued that the major constraint on Nigerian development is the burden imposed by rent-seeking (Onimode, 1986).
4. To quote one contributor to the debate, "capitalism, without some reasonable degree of regulation, in a World setting is an open invitation to continued underdevelopment" (Anglin, 1967: 123).

A bibliographical listing of all cited works should follow the article in alphabetical order.

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COMBINING MONETARY AND FISCAL ACTIONS IN A MIXED ECONOMY: A MONETARY-FISCAL POLICY MODEL FOR NIGERIA.

By:

DIMIS INUSA MAI-LAFIA

ABSTRACT

The performance of monetary management in Nigeria reveals that there is no way by which monetary policy measures alone can solve all the monetary problems of the economic structure. Monetary policy measures can influence the spending behaviour of the economy by affecting the cost and availability of credit. The extent to which the cost of credit (interest rates) and the availability of credit are both leverages for monetary actions depend largely on the behaviour of the financial market. This paper, therefore, develops a framework that incorporates an economic system in which spending behaviour is integrated via the linkage variables with the financial behaviour of different actors of the Nigerian economy. In other words, a Monetary-Fiscal Policy Model for Nigeria is developed with the purpose of which include: (i) The specification of the lending and borrowing behavioural relations of ultimate lenders and borrowers, and the financial intermediaries. The model points out the factors governing demand for and supply of different types of primary and indirect securities by different actors. (ii) The specification of the function of loanable funds by banks in relation to aggregate demand function for goods and services. The model's main assumption is that the simultaneous use of monetary and non-monetary measures results in the achievements of developmental targets more than the use of just one set of policy actions (either monetary or non monetary) alone, with instrumental levels proportionate to the effectiveness of each policy measure.

I. INTRODUCTION

Some Economists have emphasized that in export economies, a substantial portion of fluctuations in money income can be better explained by a monetary rather than by an income model based on the multiplier mechanism. The usual assumption is that fluctuations in domestic income are not due to fluctuations in domestic expenditure but to cyclical changes in export demand

and or the inflow of foreign capital. Mostly, the formulation of the monetary model is based on the quantity theory of money, and in such a formulation it is assumed that the stock of money is externally determined (Schotta Jr., 1986).

The link between the money supply and the balance of payment is a reflection of the basic assumption that exports are one of the main sources of national income. Liquidity preference, i.e., demand for money balances, is a fraction of the money income. The influence of demand for money with regard to the demand for goods and services, when the latter is considered explicitly, is built in the model via a reaction parameter of the difference between the actual and the desired money balances. Moreover, in such formulations, neither interest rates nor wealth are treated as explanatory variables. Most probably interest rates are not considered owing to the belief that external finance (lending and borrowing operations) is negligible, savers and investors are virtually the same and, given the nature of interest rate structure of a developing economy as pointed by Ajayi and Ojo (1980), Akinnifesi and Phillips (1981) the consequent of this is that the price of loanable funds, i.e., interest rates cannot explain the behaviour of saving and investment. In such rudimentary credit market, money balances are the only type of financial wealth.

Such formulations are of interest to us since the Nigerian economy is vulnerable to fluctuations from outside. But the assumptions that exports are the major determinant of G.D.P. and that the latter is determined by the conditions in the balance of payments and the stock of money are relevant in Nigeria. The only exceptions are: First, in the Nigerian case, both internal and external motivating powers to income formation should be considered. Secondly, the contribution of the Nigerian credit system in the saving-investment process, i.e., its contribution in the mobilization of savings and in supplying loanable funds cannot be totally denied. Thirdly, as Mai-Lafia (1995) empirically proved that the exogeneity assumption of money supply (or specifically that the stock of money is determined through the balance of payments) in the case of an economy like Nigeria cannot be feasible.

It follows from the above that the quantity theory formulation which is based on the existence of only a causal relationship between the balance of payments and G.D.P. seems improper in our case because such a relationship is more than casual. Therefore, a purely monetary model for financial analysis (and policy) for Nigeria is not sufficient. Our task in this work is to develop, within the framework of the multiplier theory, a mixed model in which real and monetary phenomena in Nigeria are interrelated. This paper

comes up with a model: A monetary fiscal policy model for the Nigerian economy.

II. PRELIMINARY SEARCHING FOR THE VARIABLE NEEDED

We start with spelling out the actors in the Nigerian economy.

Actors in the Nigerian Economy

The Nigerian Economy can be divided into two broad sectors as: Spending units and Banking system. The distinction is based on a functional criterion: the spending units are primarily concerned with commodity transactions (production, investment, and consumption), while the banking system is engaged in financial transactions (sales and purchases of financial assets). The spending units sector will be subdivided into the three subsectors: A.1. (Business and, individuals), A.2. (Government), and A.3. (Rest of the world).

Subsector A.1. includes households and business enterprises (whether private or government). Subsector A.2 stands for spending units which have the power to tax and for dependencies of these taxing units not classified as governmental enterprises or banking institutions. Subsector A.3 stands for business individuals and governments outside Nigeria.

The banking system and each Subsector of the spending units will be considered as a homogenous behavioristic group of individuals as well as a distinguished actor in the decision -making process. It includes both monetary and non-monetary financial intermediaries. Therefore, the actors in the Nigerian economy are four: (i) Real Business and individuals, (ii)Government, (iii) Rest of the world, (iv) Banking system.

Before formulating the financing equation of each of the above actors, four general remarks are needed: First, an institutional fact is that government activities in Nigeria are diversified: there are the administration and the governmental business enterprises. The latter includes the governmental business enterprises in the real and the monetary spheres of the economy. Besides, mixed private and governmental enterprises also exist. Second, in formulating the financing equations, only intersectoral flow of funds are considered; the debit/credit position of individuals within each sector is nil. Third, the financing equations are not part of the model, they serve only as a way of arriving at the variables needed for our model. Finally, in each equation, the left hand side stands for sources of funds and the right hand side stands for uses of funds.

The Financing Equations

Financing equations for the government (proper):

$$T \pm \Delta B_g = I_g + C_g$$

T is the tax yields (net of transfers), Δb_g = newly issued government securities (+ indicates deficit and - indicates surplus and debt redemption), Ig = government gross fixed investment, and Cg = government consumption. The equation itself is explanatory.

Financing Equation for the Business and Individual:

$$(Y - T) + \Delta B_p = C_p + I_p + \Delta L^p_n + \Delta B^p_g$$

Y-T= disposable income (gross national product, Y, minus taxes; the latter is net of transfers), C_p = private consumption, I_p = business and individuals gross fixed investment. ΔL^p_n = liquid assets demanded, and ΔB^p_g = government securities demanded.

The equation states that savings of this actor, Y-T-C_p, (which includes already the governmental business enterprise surplus) plus its borrowing from other actors (from the banking system, ΔL^p_n, and government securities, ΔB^p_g.

Financing Equation for the Rest of the World:

$$M - E + \Delta L^b_f = \Delta L^f_n + \Delta B^f_p + \Delta I^f_p + \Delta B^f_g$$

M = imports of goods and services, E = exports of goods and services, ΔL^b_f = foreign liquid assets demanded by the banking system (mostly accumulation of reserves by the Central Bank), ΔL^f_n = national liquid assets demanded by foreigners, ΔB^f_p = demand for business and individuals securities, ΔI^f_p = direct private foreign investment (new private foreign investment and re-invested earnings), and ΔB^f_g = demand for Nigerian government securities.

The equation states that not only the deficit on the current account of the Nigerian balance of payments (M-E) represents the resources at the disposal of foreigners, but such resources are augmented by independent purchases of foreign reserves by the Central Bank of Nigeria, ΔL^b_f

These resources are utilized in different ways: claims on the Nigerian banking system (ΔL^f_n), acquisition of business and individuals securities

(ΔB^f_p), holding of Nigerian government securities (ΔB^f_g) and partnership in business and individuals gross fixed investment (ΔI^f_p).

This equation is the most difficult in an accounting sense, to assess. All the items on the right-hand side of the equation are net of Nigerian claims on foreigners.

Financing Equation of the Banking System:

The resources of the banking system are its liabilities: money (currency and demand deposits) and quasi-money (other liabilities other than money and capital items). The two types of resources will be aggregated into one, labeled: 'liquid assets'. The banking system financing equation is:

$$\Delta L_n = \Delta L^b_f + \Delta B^b_p + \Delta B^b_g$$

ΔL_n = liquid assets supplied, = ΔL^b_f foreign liquid assets held by the banking system, ΔB^b_p = demand for business and individuals securities, and ΔB^b_g = demand for government securities which are all high powered money aggregates.

The equation states that the liabilities of the banking system are equal to its assets. The latter takes the form of accumulation of foreign reserve, ΔL^b_f, and credits to the business and individuals and to the government.

An econometric model built around the above financial equations would grasp important features of the Nigerian financial problem. Missing time series for some items on the financing equation presents a difficulty which we try to get around after collecting the income and financial flows so far considered in a flow-of-funds table (Table I).

The table shows that the variables pertaining to the saving-investment process are at least twenty; eight of which are income flows and the rest, financial flows variables. To overcome the problem of missing series we can aggregate the two markets, market for business and individual securities into, say, a market for securities. This has been done on many grounds including the fact that other liabilities of the banking system other than currency and demand deposits can be considered as money, since they are liquid and available for spending without cost. This procedure cannot be applied with regard to business and individuals securities and government securities: they are quite different in many aspects, besides being issued by different actors.

TABLE I: A SIMPLIFIED FLOW OF FUNDS TABLE OF THE NIGERIAN ECONOMY

SECTORS	Government		Business and Individuals		Rest of the World		Banking System	
FLOWS	S	U	S	U	S	U	S	U
I. Income								
1.GNP			Y					
2.Consumption		C_g		C_p				
3.Investment		I_g		I_p				
4.Exports						E		
5.Imports					M			
6.Taxes	T			T				
II. Financial								
1.National Liquid Assets				ΔL^p_n		ΔL^f_n	ΔL_n	
2.Foreign Liquid Assets					ΔB^b_f			ΔL^b_f
3.Business and Individual Securities			ΔB_p		ΔB^f_p			ΔB^b_p
4.Government Securities	ΔB_g			ΔB^p_g		ΔB^f_g		ΔB^b_g
5.Direct Foreign Investment			I^f_p			I^f_p		

S = sources, and U = uses

The point is that we cannot aggregate them into one type of assets, say, securities or in one market, say, securities market. A way out of this difficulty is to adopt some working rules on both the demand and supply sides of each market.

The Market for Business and Individuals Securities:

We know that annual supply of such securities is considered net of intra-sectoral holdings. Therefore, on the demand side, only two inter-sectoral flows are needed; the rest of the world and the banking system acquisitions. By re-arrangement of the financial equation of the rest of the world, ΔB^f_p can be defined as follows.

$$\Delta B^f_p = (M - E) + \Delta L^b_f - (\Delta L^f_n + I^f_p + \Delta B^f_g)$$

Hence, time series regarding the foreigners acquisition of business and individuals securities can be computed since data on the other items are available. ΔB^b_p, the other component of the inter-sectoral demand, is also available. To get around the missing supply series, the supply forces will be accounted for by formulating a price equation for business and individuals securities. This price will be labeled: 'the loan rate' and is taken to be identical to the rate which the banking system earns on investments other than government securities holdings.

The Market for Government Securities:
On the demand side, the demand of the rest-of-the-world and of the business and individuals for such securities is negligible in comparison with the amount demanded by the banking system. It will be assumed that the latter is the only suppliers of funds to the government so that three financial variables are omitted from the above table: ΔB^p_g, ΔB^f_g, and ΔB_g. The latter is identical to the acquisition by the banking system of newly issued securities, i.e., $\Delta B_g = \Delta B^b_g$. To shows the financial consequences of government borrowing on the loanable funds market as a whole, the demand and supply forces of the government securities is reflected in two magnitudes which are the rate of interest on government securities, r_g, and the supply of liquid assets by the banking system, ΔL_n.

III. FINAL LIST OF VARIABLES

Adding a short-term rate of interest (r_s) representing the opportunity cost of holding liquid assets and monetary policy variable: reserve requirements ratio (R), the model incorporates 12 endogenous and 8 exogenous variables:

Endogenous variables

1. Y gross national product
2. C_p private consumption
3. I_p business and individuals investment
4. M imports of goods and services
5. ΔL_n supply of national liquid assets
6. ΔL^p_n demand for liquid assets by business and individuals
7. ΔL^f_n demand for liquid assets by rest-of-the-world
8. r_s the short-term rate of interest (the market discount rate)

9. r_l the loan rate
10. ΔB^b_p demand for business and individuals securities by banks
11. ΔB^f_p demand for business and individuals securities by foreigners
12. T tax yields

Exogenous Variables

13. E exports of goods and services
14. I_g government consumption
15. C_g government consumption
16. r_g interest rate on government securities
17. ΔB^b_g demand for government securities by banks
18. ΔL^f_n demand for foreign reserves by banks
19. I^f_p direct foreign investment
20. R reserve requirements ratio.

IV. STRUCTURAL FORMULATION OF THE MODEL

The basic features of the model:

a. The model is neither a purely monetary model nor a purely real one. It is a mixed model in the sense that the real and the monetary sectors of the Nigerian economy are interrelated.
b. The behavioristic equations of the model explain the short-run behaviour of our four actors in three markets. The four actors have been mentioned before the three markets are (i) the commodity market, (ii) the liquid assets market (money market) and (ii) the market for business and individuals securities.
c. The variables of the model are cast in money terms, and
d. Real output is assumed to be responsive to the aggregate demand for goods and services.

In writing down the structural equations, the same symbols denoting the model's variables are used. Starred symbols stand for exogenous variables. All time-unsubscripted variables are at time t.

Formulation of Spending Habits of the Actors in the Commodity Market:

To formulate the spending habits of the actors, it is necessary to know the income flows. The minimum number of essential flows for an open economy

are identified to be four, namely: National income, National expenditure, Imports and Exports (Tenbegen, 1986).

To simplify the formulation of the spending habits of the actors, the following working steps are adopted: First, National expenditure are divided into business and individuals consumption and investment (C_p and I_p, respectively), and government consumption and investment (C_g and I_g, respectively). Second, as far as the rest-of-the-world is concerned, its income is not explicitly considered: the rest-of-the-world income is formed in relation to Nigeria-through Nigerian imports and exports. Since exports are considered exogenous, imports represent the demand for foreign goods and services by business and individuals.

In the light of the above simplifications, it follows that we are left with the task of formulating the spending habits of one sector, Viz, business and individuals. The formulation of the spending habits will follow the income formation equation of the economy as a whole.

Income Formation, Y, Equation

$$(1) \qquad Y = C_p^* + I_p^* + C_g^* + I_g + E - M$$

Gross national product is defined as the total sum of consumption and investment by business and individuals and by the government, and of exports and imports (balance of trade). This equation will be interpreted as an income formation equation as well as an equilibrium condition in the commodity market, i.e., the money income of a certain period should be equal to money expenditure during the same period. Here, the period taken is a year.

The Demand for Consumer Goods and Services, C_p, Equation.

In explaining current consumption outlays by business and individuals, real and financial explanatory variables are considered. The dominant real explanatory variable is usually, current disposable income (Y-T). But we are sometimes confronted with the fact that in spite of an income decrease, consumption outlays are either stable or increasing. An explanation is that consumers can either borrow and/or decumulate their savings in the form of money and other liquid financial assets, and use obtained purchasing power (or financial resources) for consumption purposes. This way of effecting consumption outlays indicates the importance of including financial assets as variables in the explanation of consumption behaviour.

Only money and other liquid financial assets are mentioned here because these types of wealth are expected to have influence on consumption behaviour in Nigeria, recalling that the Nigerian wealth owners mostly accumulate their savings in the liquid range of assets. To assess the short-run wealth effect on consumption, the flow of liquid assets (ΔL^P_n) is taken as an approximate indicator of changes in wealth (savings) and this (flow) represents the second explanatory variable. The flow of liquid assets is defined as current savings in the form of money and non-monetary indirect securities by business and individuals.

The consideration of the wealth effect on consumption indicates that in the short-run, there are changes in consumption outlays which are not related to changes in the level of disposable income, i.e., the propensity to consume is not independent of changes in additional purchasing power at the disposal of the consumer. Furthermore, there are short-run changes in the level of disposable income which are not reflected instantly in changes in consumption expenditure. *Habit persistence* may be advanced as a reason for such a delay of consumption reaction to short-run changes in disposable income. The habit persistence hypothesis will be formulated by including one period lagged consumption [C_{t-1}] as the third and the last explanatory variable to represent the influence of habits acquired in the past on current consumer behaviour.

Therefore, the demand for consumer goods and services by business and individuals, Cp, equation can be formulated as follows:

$$(2) \qquad C_p = C_o + \alpha_1(Y-T) + \alpha_2(C_p)_{t-1} + \alpha_3\Delta L^P_n$$

$$1>\alpha_1>0,\ 1>\alpha_2>0,\ \text{and}\ \alpha_3>0$$

Equation (2) postulates that current expenditure on consumer goods and services is governed by current disposable income, lagged (one period) consumption, and current flows of liquid assets. C_o is an autonomous component.

The Demand for Investment Goods, I_p, Equation

In Nigeria, both the governmental and the private business enterprises undertake decisions to invest. However, the criteria behind such decisions are different for the two types of enterprises. Whereas private investment can be explained by the *profit principle*, the governmental investment is influenced preponderantly by social motives. The overlapping of the two components of investment outlays will affect the coming exposition as far as the explanatory variables are concerned.

Current investment outlays by entrepreneurs depend on the use of capital goods in their possession: the more stock of capital they have, the less current investment will take place, i.e., current investment outlays are negatively related to the stock of capital. Since we are concerned with the short-run investment behaviour, the stock of capital will be assumed to be constant.

In the short-run, there are investment outlays which take place even when net fixed investment is nil: fixed capital stock maintenance (depreciation charges for replacement purposes) and inventory adjustment induced by demand. In the formulation of the investment equation, the constant term will capture replacement charges, and any probable reaction of investment to demand will be formulated by including one period lagged G.D.P. (Y_{t-1}) as the first explanatory variable. Lagged G.D.P. is taken as an approximate measure of expected level of demand rather than its change, i.e. the *acceleration principle* is out of consideration on the ground that in the short-run, investment decisions are mostly motivated by profits and by availability and costs of loanable funds.

Expectations of future profits are conducive to investment undertakings. The more optimistic entrepreneurs are, the more investment will take place. Investment outlays are expected to be positively related to current and or past level of profits. As a second explanatory variable, one period lagged profits (Z_{t-1}) will be considered as an approximate measure for profits expectation as well as an indicator of the availability of internal investible funds. The third explanatory variable is financial per se: entrepreneurs demand loanable funds when their internal sources of funds happen to be insufficient to finance an intended volume of investment. The cost of borrowed funds (interest rates) represent one type of financial variables which may affect investment decisions: the higher the cost of borrowing, the less investment will take place. The other type of financial determinants of investment is the easiness/tightness of getting loanable funds. The choice of which type of financial variables to be used in explaining investment outlays in Nigeria, is very important.

In Nigeria, external finance is mostly obtained from the financial intermediaries, and primarily directed to the governmental business enterprises at relatively low costs. This privilege is effectuated by direct control of national intermediaries as well as by direct/indirect control of private intermediaries through qualitative credit controls. Therefore, bank credit is supplied to private business enterprises at relatively high rates of interest. The consequence is that private entrepreneurs almost rely on internal sources of funds to finance their long-term investment. The fact is supported

by their reluctance to rely on direct finance, i.e., demand for loanable funds of the ultimate lenders, in particular equity finance. It can safely be stated that investments of the private enterprises are negligibly affected by the long-term interest rates. In contrast to the long-term finance, the cost and the availability of short-term funds to finance current investment operations is of vital importance to private entrepreneurs. For one thing, the structure of production in Nigeria is specially suited to heavy reliance on short-term credit requirements. Labour is abundant and relatively low in cost so that production processes tend to be labour intensive and require considerable short-term financing. Likewise, the requirements of commercial enterprises are well satisfied by short-term financing of inventories and installments credit. Investment expenditures for plant and equipment beyond what could be supported by internal funds were probably curtailed to some extent by the limited availability of long-term credit. But this inhibition was minimized by the various procedures which evolved for extending nominally short term credits into longer terms.

Recalling that large amounts of long-term debt instruments are issued by the government business enterprises, held to a great extent by the banking system, and that the long-term interest rates on governmental issues are determined as well by the government, it seems that the limitations of such issues were not the cost of government borrowing but the tolerable level of debt monetization. In other words, the cost of external finance was not a limiting factor as for decisions to invest by the governmental business enterprises. The same can be said with regard to private business enterprises, in particular the cost of long-term external funds.

Consequently, we are proposing that the availability of loanable funds long and short-term rather than their cost is the dominant financial determinant of investment in Nigeria. The capacity to raise funds for investment purposes will be represented by a composite variable; the total sum of loanable funds flowing from the banking system and the rest of the world ($\Delta B^b_p + \Delta B^f_p$), and this is the third and last explanatory variable.

Therefore, the demand for investment goods by business and individuals, I_p, equation can be formulated as follows.

$$(3) \qquad I_p = I_o + \theta_1 Y_{t-1} + \theta_2 Z_{t-1} + \theta_3(\Delta B^b_p + \Delta B^f_p).$$
$$\theta_1, \theta_2, \text{ and } \theta_3 > 0$$

Equation (3) postulates that investment outlays are induced by demand, motivated by profits, and are dependent on the capacity to raise loanable funds. Io is an autonomous component.

The Demand for Imported Goods and Services, M, Equation

Although the structure of import changes in time due to structural changes affected by a development process which brings about different weights, for the components of imports (raw materials, semi-finished goods, and or finished goods), import requirements as an aggregate can be related to the aggregate level of G.D.P. Other explanatory variables are the capacity to import (represented by the product of the volume of exports and terms of trade) and capital net flows. Important as they are, the capital net inflows, the capacity to import ranks high in explaining imports of a developing country. Nigeria is similar in this respect: export revenues are vulnerable to changes in demand for Nigerian exports with the accompanying direct adverse or favourable shocks brought about from abroad. Since the shocks are ultimately reflected in the level of G.D.P., the latter will be used as the only explanatory variable of import outlays in Nigeria. Therefore, the demand for imported goods and services, M, equation will be formulated as follows.

(4) $$M = M_o + \mu Y$$
$$1 > \mu > 0$$

M_o is an autonomous component of import.

Formulation of Financial Investment Habits of the actors in the financial Markets

In formulating the spending habits of the actors, it is worthwhile to note that interest rates are absent as arguments in both the consumption and investment equations. The only financial variable in the former is the flow of liquid assets (ΔL^p_n), and the financial variable in the investment equation is the flow of loanable funds from banks and the rest of the world ($\Delta B^b_p + \Delta B^f_p$). The specification of the demand function for liquid assets by business individuals and the specification of the supply function of loanable funds to this actor will specify the functional linkage between the real and financial markets in Nigeria. This is revealed by the following formulation of the financial investment habits of actors in the financial markets.

(i) The Financial Markets

There are two financial markets: the market for liquid assets and the market for business and individuals securities. The first market will be represented by a supply function (equation 5), two demand functions (equations 6 and 7), and an equilibrium condition (equation 8). The second market will be represented by a supply function in the form of a price formation equation (equation 9) and two demand equations (equations 10 and 11).

The Liquid Assets Market

The supply of liquid assets by the banking system, Dln equation: Liquid assets supplied by the banking system will be defined as currency and demand deposits issued by monetary institutions, plus quasi-money issued by non-monetary institutions. The reason behind the choice of such a broad definition of money supply is that the liabilities of non-monetary institutions are so liquid that they can be amalgamated with the liabilities of the monetary institutions into one category. Since money narrowly defined as currency and demand deposits, constitutes a dominant portion of money and quasi-money together, the term 'money supply' will be used here interchangeably with the term 'liquid assets supply'.

Money supply in Nigeria will be treated as endogenous variables for three reasons. First, Export earnings are volatile, so that their imparts (primary and secondary) on the money stock are difficult to contain (in policy sense). Second money balances which supports speculations, and this is important in a country like Nigeria, are usually coming from sources which the monetary authority cannot control, e.g. laundered drug money, smuggling etc. Third, the relatively autonomous behavior of private non-monetary financial intermediaries puts limits on the ability of the Nigerian monetary authority to control the supply of money substitutes.

The flow of foreign assets in or out of Nigeria is determined by the difference between exports and imports. If we assume, firstly, that the stock of money will be adjusted fully to the surplus or the deficit of the balance of payments, and secondly, that the desired reserve ratio of the banking system is not affected by augmentation (depletion) of the foreign monetary base, our first explanatory variables will be the difference between exports and imports (E-M), with a parameter equal to unity.

Apart from changes in foreign assets held by the banking system, one would expect that the supply of money tends to expand parallel to an augmented value of domestic assets held by the banking system. In Nigeria, two domestic driving forces seem to work towards increasing the stock of

money supply; profits out of lending (this is less apparent for government lending) and monetization of debt.

To explain any profit motivated portion of liquid asset supply, it will be assumed that the higher the short-term rate of interest (r_s), the more willing the banks are to create deposits on behalf of their customers. As for monetization of debt, the amount of credit extended to the government by the banking system (ΔB^b_g) is included as the third and the last explanatory variable. Therefore, the supply of liquid assets by the banking system, ΔL_n, equation can be formulated as follows.

$$(5) \qquad \Delta L_n = \overset{\bullet}{(E - M)} + \mu_1 r_s + \mu_2 \Delta \overset{\bullet}{B}{}^b_g$$
$$\mu_1 \text{ and } \mu_2 > 0$$

Equation (5) postulates that the supply of liquid assets is:
(i) governed by the capacity of the Nigerian economy to earn foreign exchange resources, (ii) motivated by profit considerations, (iii) governed by the fiscal operations of the government (the budget deficit or surplus), hence monetization or redemption of government debt towards the banking system.

The Demand for Liquid assets by Business and Individuals, ΔL^P_n, Equation.

In the following discussion on the form of the demand function for liquid assets, it should be remembered that we are adopting a broad definition of money. For convenience, we will formulate the demand function for liquid assets parallel to the formulation of the demand function for money so familiar in literature.

Money is demanded for many purposes, transactions, precautionary and speculative. Corresponding to each purpose, there can be demand for some amount of money. In the Keynesian tradition, the demand function for money is formulated as if there are two separate amounts of money demanded for two broads needs. First, transactions and financial needs for the effectuation of exchanges of goods and services .by business enterprises and individuals. Second, precautionary and speculative needs corresponding, respectively, to the desire for security to have in future cash balances equivalent to a certain portion of total resources, and to the object of securing profits from better knowledge of the behaviour of financial markets.

The scale variable(s) dispute stems from a recent development in the theory of money demand along the broad lines of capital theory. It has been

stated that money can be regarded as one of five broad ways of holding wealth; money, bonds, equities, physical goods and human wealth (Friedman, 1956). The novelty introduced by Friedman is that wealth constraint must enter the demand for money function. In the absence of a direct estimate of wealth, Friedman's permanent income, a weighted average of current and past levels of income, becomes widespread as an alternative scale variable in the demand for money function. Distinction between permanent income and the national accounting income led to a subsequent 'label' distinction between the 'assets' motive and the 'transactions' motive and the demand for money. The first label is used when the scale variable is permanent income and the second label is used when current income is the scale variable.

Now, how can this dispute about the relevant scale variable be settled for the Nigerian case? Our choice is based on the findings of a study which suggests that in low income countries, current income can be a very reliable approximate of permanent income (Adekunle, 1986). Precisely, the scale variable that will be chosen in our function is the disposable income of business and individuals (Y-T). The choice of the scale variable as disposable income rather than G.D.P. is dictated by the nature of the dependent variable broadly defined to include quasi-money having the feature of savings.

For the determinants of the desired stock demand for money: The stock of money actually held is liable to differ from the desired stock. Such a divergence can be eliminated in time by further accumulation or decumulation of money. This adjustment process is liable to be slow or quick, and this is dependent on the ability of money holders to eliminate this imbalance. To allow for such a dynamic element in the form of the demand for money function, the stock adjustment framework is mostly suitable. Thus, in addition to disposable income and the short-term rate of interest, the third and the last explanatory variable will be one period lagged stock of liquid assets held by business and individual (L^P_{nt-1}). Since our relation is a flow relation, the parameter of the lagged stock stands for speed of adjustment per year.

Therefore, the demand for liquid assets by business and individuals, ΔL^P_n, equation can be formulated as follows.

(6) $$\Delta L^P_n = \varepsilon_{11}(Y-T) + \varepsilon_{12}r_s + \varepsilon_{13}(L^P_n)_{t-1}$$
$$\varepsilon_{11} > 0,\ \varepsilon_{12} > 0, \text{ and } \varepsilon_{13} \geq 0$$

Equation (6) postulates that the demand for liquid assets is governed by transactions, precautionary and speculative needs (the first and the second

explanatory variables). The last explanatory variable captures the adjustment behaviour of liquid assets stock (>0 indicates further accumulations, and <0 indicates decumulation).

The Demand for Liquid Assets by Foreigners, ΔL^f_n, Equation.

The annual demand for liquid assets by foreigners will be formulated along the same lines of the formulation of the nationals' demand for such assets. In other words, the determinants of foreigners' demand for liquid assets are: a scale variable, the short-term rate of interest, and one period lagged stock of liquid assets held by foreigners. The scale variables is total resources at the disposal of foreigners resulting from their trade with Nigeria: Nigerian outlays on the Nigerian banking system (ΔL^b_f), minus Nigerian revenues from exports to the rest-of-the-world (E).

Therefore, the demand for liquid assets by foreigners, ΔL^f_n, can be formulated as follows.

(7) $$\Delta L^f_n = \varepsilon_{21}(M+\Delta L^b_f - E) + \varepsilon_{22} r_s + \varepsilon_{23}(L^f_n)_{t-1}$$
$$\varepsilon_{21} > 0,\ \varepsilon_{22} > 0,\ \text{and } \varepsilon_{23} \geq 0$$

It is expected that foreigners, because they have relatively better knowledge of financial markets behaviour than nationals, are most interest-responsive and they adjust their stock of liquid assets quicker than nationals. Therefore, the liquid assets market equilibrium condition is:

(8) $$\Delta L_n = \Delta L^p_n + \Delta L^f_n$$

(ii) Business and Individuals Securities Market

The Loan Rate, r_1, Equation.

The supply forces in the securities market can be accounted for by formulating a price formation equation. This price is labeled: the loan rate. The loan rate is not set by commercial banks. Rather, it is assumed identical to the rate of interest which banks are able to earn on investments outside the government securities portfolio, i.e., from investments in business and individuals securities. And it is set by the Central Bank of Nigeria (The Monetary Authority).

Two explanatory variables of the loan behaviour can be advanced: the short term rate (r_s) and the rate of interest on government securities (r_g). The loan rate will be assumed as positively related to rs, and positively or negatively to rg. That the loan rate is positively related to rs is based on the theoretical notion that variations in the short-term rate of interest are more frequent than those in the long-term rate of interest, and such variations in the short-term rate are transmitted sooner or later as variations in the long-term rate, i.e., the latter varies due to changes in the former with a time lag. Formulating a relationship between the short-and the long-term interest rates (the term structure of interest rates relationship), Klein and Goldberger (1969) adopted the notion that the long-term rate of interest is a moving average of expected short-term rates. Along their line of thinking, experimentation with linear combination of lagged values of short-term rates in an effort to compile a new and empirical time series for expected short-term rates is needed. This is difficult to try in the case of Nigeria due to the fact that there are few and indiscernible turning points in the series of interest rates upon which one cannot rely to gauge, a priori any time lags. Consequently, no lags between variations in rs and r1 will be assumed, so that current loan rate will be related to current short-term of interest.

A priori assumptions concerning the signal ($\pm$) causal relationship between r_g and r_1 cannot be advanced for two reasons. On one hand, given the short-term rate of interest sales of government securities to banks at higher interest rates tend to absorb a substantial portion of banks' financial resources with the consequence that government borrowing operations will induce stringent conditions in the market for business and individuals securities (banks are active buyers of such securities). Less demand for business and individuals securities by banks tends to reduce their prices, hence, the loan rate tends to increase.

On the other hand, since not all of banks' purchases of government securities are effectuated by genuine savings mobilized by them, and at least a part is monetized, then, given other determinants of demand for and supply of liquid assets except the short-term rate (cf equations 7 and 8), the latter (r_s) tends to decrease with monetization of debt. In consequence, the loan rate tends to decrease - granted that the loan rate is not regulated.

Therefore, the loan rate, r1, can be formulated as follows.

$$\overset{*}{\ }$$

(9) $$r_1 = (r_1)_o + \rho_1 r_s + \rho_2 r_g$$

$$\rho_1 > 0, \text{ and } \rho_2 > 0$$

$(r_1)_o$ is an autonomous component.

Two remarks on equation (9) are necessary. First, as formulated above, the loan rate equation is an approximation of the expectation hypothesis on the term-structure of interest rates, assuming as static elasticity of expectation. Second, the statistical verification of this equation is strategic. It reflects the consequences of government borrowing on the liquid assets markets, the market for business and individuals securities, and the commodity market. The latter market is influenced because of the functional linkage between liquid assets holdings by business and individuals (ΔL^{P}_{n}), the flow of credit from the rest-of-the-world and the banking system (ΔB^{b}_{p} + ΔB^{f}_{p}) to the same actor, and consumption and investment outlays by business and individuals.

The Demand for Securities by Banks and the Rest-of-the-World.

Coming to the demand side of the market for securities issued by business and individuals, it may be helpful to recall that we assumed that intra-sectoral transfers are nil. A corollary is that no explanation is needed as for the demand for such securities by the surplus finance dual within the business and individuals actor as an entity. Only the demand for such securities by banks and the rest-of-the-world needs explanation. We start with banks demand function.

The Demand for Securities by Banks, ΔB^{b}_{p}, Equation.

The ability and willingness of banks to lend business and individuals (and other borrowers) are mainly dependent upon the resources at their disposal and the attractiveness of business and individuals' securities (and the attractiveness of securities issued by other borrowers). The financial resources of banks are their monetary and non-monetary liabilities. The annual supply of such liabilities has been explained by supply of liquid assets, ΔL_{n}, equation (equation 5). These same liquid assets constitute ultimately the basis for lending operations by banks: the more liquid assets they create by themselves and the more liquid assets they attract from ultimate servers, the more they are able to invest in securities (and other types of assets). In the mean time, there are other limitations on the ability of banks to lend. These limitations are imposed by monetary regulations on banks lending behaviour. The main type of such regulations is required reserves, as distinguished from free (excess) reserves.

The need for free reserves is part of the investment policy of banks, i.e., free reserves demanded by banks are dependent upon their attitudes towards the attractiveness of or aversion to investment. In contrast to free reserves,

obligatory reserve requirements should be observed by banks regardless of their investment preferences; when actual reserves fall short of the required reserves, banks either borrow primarily from the Central Bank (reserves are also available at the money market outside the Central Bank) or adjust their portfolio downwards to meet reserve requirements. If the Central Bank exercises a kind of light control on the amount and cost of its credit to banks through its discount policy and if, at the same time banks find it difficult to obtain reserves from other sources outside the Central Bank, their ability to maintain past level of operations is lessened. Hence, the credit supplied by banks to their customers tends to become limited in size and high in cost. In general, the higher the reserve requirements are, the more is the depletion of financial resources of banks and the less is the credit supplied by them.

In Nigeria where flexible reserve requirements are pervasively and effectively used as instrument to control the credit capacity of commercial banks (and non banking type institutions) with less utilization of the discount policy, the non-price determinants of the annual demand for securities by banks will be taken as: the annual supply of liquid assets (ΔL_n), and the reserve requirement ratio (R). Banks' demand for securities is expected to be positively related to ΔL_n and negatively to R.

The third explanatory variable is the loan rate (r1); it captures the profit induced demand for business and individuals securities by banks. The higher the loan rate, relative to other rates of interest earned by banks from their investments in other securities, the more is the demand for business and individuals securities by banks. It will be assumed that the loan rate only explains a substantial portion of interest rates effects on banks' demand for business and individuals securities, due to the absence of available data on other interest rates.

The fourth and the last explanatory variable is one period lagged stock of securities held by banks $(B^b_p)_{t-1}$; it reflects the influences of past flows of credit extended by banks on the current flow demand for securities. Therefore, the demand for securities by banks, ΔB^b_p, can be formulated as follows:

*

$$(10) \qquad \Delta B^b_p = \beta_{11}(\Delta L_n) + \beta_{12}R + \beta_{13}r_1 + \beta_{14}(B^b_p)_{t-1}$$

$$\beta_{11}>0,\ \beta_{12}<0,\ \beta_{13}>0, \text{ and } \beta_{14}<0.$$

The above equation (equation 10) postulates that banks' demand for business and individuals securities are expected to be positively related to

liquid assets supply, negatively to the level of reserve ratio, and is profit motivated. The last variables indicates the adjustment behaviour of securities stock held by banks.

The Demand for Securities by Foreigners, (B^f_p), Equation

As far as foreigners financial investment in Nigeria is concerned, three alternative claims are open to them. First, claims on the Nigerian banking system (ΔL^f_n). This has been explained by equation 7. Second, claims on the Nigerian government. This component is negligible and can be ignored, recalling that the bulk of government securities is held by the Nigerian market. Finally, claims on the Nigerian business and individuals. The determinants of demand for such claims are our main concern here.

The scale variable is the same as used in explaining foreigners' demand for liquid assets ($M+\Delta L^b_f-E$). The attractiveness of business and individuals securities to foreign investors is caught up by the loan rate (r_1), assumed to explain a substantial portion of interest rates effects on holding of such securities.

Apart from the scale and interest rate variables, direct foreign investment (I^f_p) is included as the third and the last explanatory variable. The explicit reason behind including I^f_p is its conceived substitutional effect on ΔB^f_p. Whereas in the seventies and early eighties, foreign capital inflow in Nigeria in the form of direct foreign investment overwhelmed portfolio investment (the ratio of the former type of investment to total capital inflows ranged between 60% to 85% (Ashwe, 1986). Nigeria's recent policy of heavy reliance on loan-type of foreign borrowing tends to increase the relative importance of portfolio investment. Because of such a perceived relationship between the two types of foreign capital, it will be assumed that foreigners' holdings of debt claims on business and individuals are negatively related to direct foreign investment. The more are direct private capital inflows, the less are the debt claims held by foreigners. Therefore, the demand for securities by foreigners, ΔB^f_p, equation can be formulated as follows.

(11) $$\Delta B^f_p = \beta_{21}(M + \overset{*}{\Delta L}{}^b_f - \overset{*}{E}) + \beta_{22} r_1 + \beta_{21} \overset{*}{I}{}^f_p$$

$$\beta_{21} \text{ and } \beta_{22} > 0, \text{ and } \beta_{23} < 0.$$

Equation (11) postulates that foreigners' demand for securities is expected to be positively related to total resources at the disposal of the rest-

of-the-world, positively related to the loan rate, and negatively related to direct foreign investment.

Tax yield, T, Equation.

So far, the commodity and the financial markets equations are formulated. The only endogenous variable to be explained is tax yields. The provision of tax yields, T equation will complete the model. The role of the tax in a Monetary-Fiscal policy frame - work for Nigeria has been persistently explained by Ndekwu15. Although Ndekwu's perception has not been on empirical analysis, he still points out an important component of the frame-work; his frame-work which is mainly on the Rate of Government Borrowing Requirements (RGBR) and the Rate of Government Expenditure Requirement (RGER) stresses the importance of the tax on gross national product.

Borrowing a little of this idea, tax yields will simply be related to gross national product. Therefore, tax yields, T, equation can be formulated as follows.

(12) $$T = T_o + \tau Y \qquad \tau > 0$$

T_o is autonomous component.

V. LIST OF THE EQUATIONS

For easier understanding and for the purposes of comparisons and analysis, all our formulated equations are listed below:

The Financing Equations:

(i) $T \pm \Delta B_g = I_g + C_g$ for the government proper.

(ii) $(Y-T)+\Delta B_p = C_p + I_p + \Delta L^p_n + \Delta B^p_g$ for business and individuals.

(iii) $M - E + \Delta L^b_f = \Delta L^f_n + \Delta B^f_p + I^f_p + \Delta b^f_g$ for the rest-of-the-world.

(iv) $\Delta L_n = \Delta L^b_f + \Delta B^b_p + \Delta B^b_g$ for the banking system.

The Structural Equations:

(1) $Y = C_p + I_p + \overset{*}{C_g} + \overset{*}{I_g} + \overset{*}{E} - M$

(2) $C_p = C_o + \alpha_1(Y-T) + \alpha_2(C_p)_{t-1} + \alpha_3 \Delta L^P{}_n$
$1>\alpha_1>0,\ 1>\alpha_2>0, \text{ and } \alpha_3>0$

(3) $I_p = I_o + \theta_1 Y_{t-1} + \theta_2 Z_{t-1} + \theta_3(\Delta B^b{}_p + \Delta B^f{}_p).$
$\theta_1, \theta_2, \text{ and } \theta_3>0$

(4) $M = M_o + \mu Y$
$1 > \mu > 0$

(5) $\Delta L_n = (\overset{*}{E} - M) + \mu_1 r_s + \mu_2 \Delta \overset{*}{B}{}^b{}_g$
$\mu_1 \text{ and } \mu_2 > 0$

(6) $\Delta L^P{}_n = \varepsilon_{11}(Y-T) + \varepsilon_{12} r_s + \varepsilon_{13}(L^P{}_n)_{t-1}$
$\varepsilon_{11} > 0,\ \varepsilon_{12} > 0, \text{ and } \varepsilon_{13} \geq 0$

(7) $\Delta L^f{}_n = \varepsilon_{21}(M + \overset{*}{\Delta L}{}^b{}_f - \overset{*}{E}) + \varepsilon_{22} r_s + \varepsilon_{23}(L^f{}_n)_{t-1}$
$\varepsilon_{21} > 0,\ \varepsilon_{22} > 0, \text{ and } \varepsilon_{23} \geq 0$

(8) $\Delta L_n = \Delta L^P{}_n + \Delta l^f{}_n$

(9) $r_1 = (r_1)_o + \rho_1 r_s + \rho_2 \overset{*}{r_g}$
$\rho_1 > 0, \text{ and } \rho_2 > 0$

(10) $\Delta B^b{}_p = \beta_{11}(\Delta L_n) + \beta_{12}\overset{*}{R} + \beta_{13} r_1 + \beta_{14}(B^b{}_p)_{t-1}$
$\beta_{11}>0,\ \beta_{12}<0,\ \beta_{13}>0, \text{ and } \beta_{14}<0.$

(11) $\Delta B^f{}_p = \beta_{21}(M + \overset{*}{\Delta L}{}^b{}_f - \overset{*}{E}) + \beta_{22} r_1 + \beta_{21} \overset{*}{I}{}^f{}_p$
$\beta_{21} \text{ and } \beta_{22}>0, \text{ and } \beta_{23}< 0.$

(12) $T = T_o + \tau Y$
$\tau>0$

VI. CONCLUSION

To formulate a Monetary-Fiscal Policy frame work for the Nigerian economy, this paper starts by not only showing that there is a relationship between the real and the monetary sectors, but it shows the kind of relationship existing between the two sectors. Strong justifications for a Monetary -Fiscal Policy model have been advanced. One of such justifications is that because of the kind of relationship between the real and monetary sectors in Nigeria, we cannot rely on the quantity theory formulation or on the assumption that a purely monetary model is sufficient for solving the monetary problems of the Nigerian economy.

Our model is composed of 12 structural equations in 12 endogenous variables. Equations 1-4 formulate the spending habits (commodity transactions) of the actors, equations 5-11 formulate the financial investment habits (financial transactions) of the same actors, and equation 12 stands for tax yields.

Although the financing equations are used as a way of arriving at the variables needed for our model they cannot be treated as not being part of the model. This is to avoid the consequence of depriving the model of at least an implicit treatment of certain aspects of the government fiscal policy, in particular the management of the size of the public debt. An implicit treatment of the government securities market can be introduced by considering this market as a residual market in a general equilibrium framework. The annual supply (ΔB_g) is determined implicitly by the financing equation for the government, and the annual demand for such securities by business and individuals (ΔB^p_g), by the-rest-of-the-world (ΔB^f_g), and by the banking system (ΔB^b_g).

To preserve a step-wise solution of the model without violating any theoretical foundations of its formulation, it is required only that banks' demand for government securities is treated as exogenous. This is because of the negligible government securities market outside banks, negligible voluntary demand for them owing to the high opportunity costs, and because of government upper hand on the Central Bank of Nigeria.

With regard to the structure of the model two consequences follow: First, three of the financing equations are introduced as identities; the government, business and individuals, and the rest-of-the-world financing equations. Second, in writing the equations of the model, the three endogenous variables: Dbg, Dbpg and Dbfg can be added to the list of the endogenous variables. The next challenge, which is beyond the space provided for this paper, is to

estimate the model, test for its consistency and simultaneity and finally to test for any error of mis-specification.

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AN APPRAISAL OF THE EFFECTS OF THE STRUCTURAL ADJUSTMENT PROGRAMME (SAP) ON THE CONTRIBUTIONS OF AGRICULTURE TO GROSS DOMESTIC PRODUCT (GDP) IN NIGERIA

By:

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ABSTRACT

There is no denying the fact that agriculture has remained one of the main sources for sustaining the Nigerian economy. It is for this reason, that the nation, sensing the danger being posed by the neglect of the sector decided to embark on several agricultural policies both before and after the introduction of the structural adjustment programme (SAP). Though one of the main objectives of SAP is that of broadening the productive base of the economy so as to enhance productivity, this has not been so with the agricultural sector. This is justified by the fact that this study has revealed that the sector's percentage contribution to Gross Domestic Product (GDP) since the introduction of the SAP has not only failed to meet pre-stocks growth rates but has remained below the pre SAP growth rates. It is therefore undisputable that the various agricultural measures during the SAP have worsened the sector's contribution to total GDP in Nigeria. The paper therefore posits that the new approaches should be vigorously and honestly pursued by the Nigerian Government in order to restore the sector's glory and move the nation forward economically.

I. INTRODUCTION

Owing to its initial role in Nigeria, the agricultural sector is seen as an indispensable sector to establishing the framework for the nation's economic development. This is because as opined by Thirlwill (1989), Akinbosede (1990) Ajit and Hamid (1993) and Jhinghan (1993) it must provide to a large extent the needed factor supplies for industry; it must provide food for the teeming population, it must provide savings, capital and foreign exchange needed for industrialisation; increase rural income so as to improve the welfare of the rural people and it must contribute to the market for non-agricultural sector if the demand for goods and services is to be sufficient to justify their production domestically.

In his view, Evbuomwan, et al (1993) said that there is a concensus in literature that increased agricultural productivity is a vital pre-requisite for rapid economic growth and development. This increased productivity is to ensure the provision of adequate food for the country's teeming population, availability of raw materials for the growing industrial sector, employment of labour, provision of market for industrial goods etc. On his part, Agba (1994) said that the importance of agriculture has also been reflected in the sector's share of the country's total Goss Domestic Product (GDP). That for instance, available statistics show that between 1962 and 1970, agriculture accounted for between 48% and 70% of the total Gross Domestic Product (GDP). This conforms with Jhinghan's (1993) position that agricultural share of Gross Domestic Product in each African economy is substantial, ranging from 30% to 80% depending on the viability of the sector in each country.

Therefore, sustaining agricultural production so as to ensure a continuous growth rate in its GDP is a pre-requisite for improving the living standards in Nigeria. The vital position of this sector has prompted Nigerian leaders right from 1970 to date to adopt various agricultural policies aimed at developing the sector following its declining position in the economy.

One of the primary objectives of the Structural Adjustment Programme is said to be that of the protection or resumption of output growth. This agrees with the view of Yagci as cited by Balassa (1981) that SAP can be seen as the implementation of policies and institutional changes that are needed to modify an economy's structure in order to maintain both its growth rates and the viability of its balance of payments in the medium term. The growth rate being referred to here has to affect all spheres of the economy. Since Agriculture is said to be contributing substantially to the survival of Nigerian economy, it is worthwhile, to ascertain the effect of SAP on its contribution to the nation's GDP. This, of course, is what this paper has tried to address. Thus, the paper which begins with introduction is followed by the conceptual framework; background to the SAP in Nigeria; agriculture policies in the Pre-SAP era and GDP; the Structural Adjustment Programme and agriculture; the effect of Structural Adjustment Programme on the contribution of Agriculture to GDP and conclusion/recommendations.

II. CONCEPTUAL FRAMEWORK

The Structural Adjustment Programme is an IMF/World bank Policy prescription for countries in economic crisis. Agba (1994:204) cited Balassa to have defined the Structural Adjustment Programme (SAP) as:

> Policy responses to external shocks, carried out with the objective of regaining the pre-shock growth path of the national economy. Regaining the growth path, in turn, will necessitate improvements in the balance of payment following the adverse effects of external shocks, since a country's balance of payment position constraints its economic growth.

The external shocks being referred to here continued Agba are those relating to the oil price increases of 1973-74, the global recession of 1974-75 and the decline in the prices of oil in the world market. In his contribution , Osagie (1987) sees SAP as a policy instrument which works towards a reduction of payments deficits, the resumption of output growth and the achievement of structural changes necessary to prevent future balance of payment and stabilisation problems. The Structural Adjustment Programme can therefore be referred to as a policy instrument or framework which is aimed at correcting imbalances resulting from shocks so as to regain pre-shock growth rate(s) in order to enhance a nation's economic growth and development.

Osagie (1992) argued that the IMF/World Bank Structural Adjustment Policies usually incorporate supply-augmenting policies, demand-restricting short-run stabilisation policies and reform measures designed to improve the functioning of markets and the efficiency of resource use. He said that more specifically, a typical IMF Structural Adjustment package includes:

a. devaluation of the exchange rate,
b. deregulation of prices and the elemination of subsidies,
c. elemination of institutions exercising monopoly power in international trade such as marketing boards, and the promotion of free international trade by the elminiation of import licensing, export licensing and foreign exchange controls,
d. eliminating or drastically reducing budget deficits by better tax administration and reduction of public expenditure which may entail considerable retrenchment of staff in the public sector,
e. promoting industrial growth by encouraging higher rates of utilization of capacity and the participation of small-to-medium scale enterprises,
f. promoting agriculture through higher producer prices, better organised extension services and the encouragement of small-scale producers,
g. rationalising the extent of public sector participation in the economy through a programme of privatisation,

h. support for the structural adjustment package of policies provided through rescheduling of private and official loans outstanding negotiated with the creditors clubs of London and Paris respectively. Additional financial support for Structural Adjustment Programmes is provided by the extension of Structural Adjustment loans by the World Bank, the enjoyment of the Structural Adjustment Facility by the IMF and through the provision of new loans by international private banks and bilateral lending institutions.

III. BACKGROUND TO THE SAP IN NIGERIA

In Nigeria, Mbanefo (1992) opined that while the economic crisis which came into sharp focus as from early 1980s could be attirbuted to factors such as the depression in the international oil market and the gross mismanagement of the economy. The genesis of the economic crisis could also be traced to the dependent nature of the Nigerian economy. He further argued that the collapse of the earlier much emphasised export-oriented agriculture which had no forward linkage to the rest of the economy in the face of inelastic foreign demand for traditional exports, the persistent decline in the terms of trade for most agricultural exports and the growing protectionist policies in the foreign markets meant a sharp decline in the volume of export earning as well as the reduction in the ability to pay for imports. Earlier attempts to correct the imbalance between foreign exchange and import demands so as to avoid balance of payments problems through import-substitution policy merely succeeded in replacing one form of structural dependence relationship with another.

The consequence of a shift from dependence on agricultural exports to heavy dependence on oil by early 1970s (Oil boom) was the Dutch Disease as agriculture, the main source of GDP, export earnings and employment prior to the oil boom suffered neglect. This did not only lead to a fall in the share of agriculture in the GDP from about 40% in early 1970s to about 20%in 1980 but also provided much impetus to the nation's propensity to import as its imports reached a level of one-quarter of the GDP in 1980 which consequently gave rise to balance of payments deficits in 1981 and 1982 continued Mbanefo.

Osagie (1992) opined that Shagari's response to the payments deficits of 1981 and 1982 was the Economic Stablization Act of 1982 whose main thrust was the restriction of imports and raising more revenue for government. He observed that despite this act, the continued outflow of foreign exchange, inability of some state governments to pay salaries regularly, continued

retrenchment of workers and intensification of inflation in early 1980s were signals indicating the failure of the Economic Stablisation Act.

Osagie further argued that while the Buhari regime employed measures such as massive retrenchment of public sector workers, tightening of exchange control and import licensing measures among others to stabilize the economy, the Babangida regime introduced the Structural Adjustment Programme. The objectives of this regime's Structural Adjustment Programme included: diversification of the productive base of the economy so as to reduce dependence on the oil sector and imports to achieve a fiscal and balance of payments viability over the medium term; laying a solid foundation for non-inflationary growth and lesseening the importance of non-productive investments in the public sector efficiency; intensifying the growth potential of the private sector and attract fresh foreign loans (Egwin, 1989).

In the words of Osagie (1992) the major features of the Structural Adjustment Programme during the regime are:

- adoption of measures to stimulate domestic production,
- adoption of realistic exchange rate regime through the introduction of a two-tier foreign exchange market,
- further tariff reductions in support of the new exchange rate regimes,
- trade and payment liberalisation by discontinuing the licensing of exports and imports, eliminating exchange control regulations and abolition of the commodity boards,
- reduction in the degree of inefficient administrative controls of the economy and the encouragement of a more market oriented approcah to economic management
- encouragement of further rationalisation and privitisation of parastatals and
- the adoption of pricing policies which eliminate subsidies to agriculture, education, transportation and a commiment to allow prices and interest rates to reflect opportunity costs in the Nigerian economy.

IV. AGRICULTURAL POLICIES IN THE PRE-SAP ERA AND AGRICULTURE'S CONTRIBUTIONS TO GDP

The Nigerian ruling class that received power at the wake of independence also took over the mode and direction of agricultural development policies that were initiated by the British. This is because all

agricultural policies which served the interest of the British colonial capitalists have not been altered in the non-colonial state controlled by the ruling class of the Nigerian Republic (Nzimiro, 1985). However, Nigerian Government became more actively involved in agriculture through various innovative agricultural policies, programmes and institutions in the 1970s when the country began to experience decline in agricultural contribution to the nation's GDP and the emergence of food shortages in the mid 1970s. This turn of event was largely attributed to the Nigerian civil war (!966-170), increasing population growth rate and urbanisation; drought, infavourable external environment and inadequate funding for agricultural development (Ojo et al, 1993)

Garba (1988) argued that since 1972, the Federal Government has deliberately and persistently encouraged agriculture in all its development plans. In 1973 and 1977, it established Nigerian Agricultural and Co-operative Bank (N.A.C.B.) and Rural Banking scheme respectively. It also established Agricultural credit guarantee scheme in 1977 through which loans in default by the trading Banks to farmers are guaranteed with the objective of inducing banks to increase lending to agriculture.

In his contribution, Ajakaiye (1989) said that the Federal Government adopted among others the following policies to develop agriculture after the oil boom era.

(a) Pegging of interest rates on agricultural loans at levels that were considerably lower than commercial rates.
(b) Using laws and regulations to coerce commercial and merchant banks into expanding their credit facilities to agriculture and the rural sector as well as the introduction of special programmes designed specifically to facilitate the extension of loans to agriculture and the rural sector.

According to Nkom (1989), some of the agricultural policies implemented in Nigeria before the introduction of the Structural Adjustment Programme included: the introduction of National Accelerated Food Production Programme in 1972; the World-Bank assisted Agricultural Development Projects (ADPs) initiated in 1975; the Operation Feed the Nation (OFN) of 1976; the Green Revolution of 1980; and the back-to-land scheme initiated by many states in 1984. Thus, the period of barely one decade witnessed at least six major agricultural policies amidst increasing credit facilities.

It was therefore expected that with these policies on ground, the hitherto neglected agricultural sector would have improved not only in its contribution

to Gross Domestic Product but also in its value of exports given at least five (5) years as "gestation period". Surprisingly the agricultural contribution to the Gross Domestic Product (GDP) dropped from her average share of 30.6 percent between 1971 and 1975 to 22.4 percent between 1976 and 1980 and to as low as 6.03 percent between 1982 and 1986, continued Ajakaiye (1989).

To worsen matters, the situation seem to have deteriorated during the period of these agricultural programmes when compared with the 1960s. Arguing in this vein, Ojo, et al (1993) said that the huge resources pumped into the sector was not worth it as the impact of such on agricultural production was not commensurate with the efforts. According to him, between 1970 & 1982, agricultural production remained constant at less then one percent annual growth rate as against the population growth rate of 2.5 percent and 3.1 percent annually for the same period. This era did not only experience decline in export crop production, but, also, domestic food supply had to be augmented with large imports which led to a rise in import food bill from ₦1964.8 million in 1981. Similarly, from 1970 to 1982 agricultural sectors contribution to Gross Domestic Product (GDP) declined from 60 percent annually in the 1960s to between 30 percent and 40 percent annually, added Ojo.

This adverse trend in the agricultural sector and indeed the entire economy despite huge financial commitments amidst dwindling oil revenues compelled the government to enact an Economic Stabilisation Act of 1982 mainly to control its capital and recurrent expenditure. Such control included expenditure on agriculture and foreign exchange utilisation which restricted the imports of agricultural inputs and products.

V. THE STRUCTURAL ADJUSTMENT PROGRAMME AND AGRICULTURE

When it became apparent in the 1980s that the agricultural sector's Gross Domestic Product have been on a continuous decline and the sector could no longer supply domestic food requirements, raw materials for industries and earn enough foreign exchange through exports as a result of varying economic, social and political problems, an economic recovery programme known as Structural Adjustment Programme was enunciated in 1986 by the Federal Government. The main objectives of this programme included restructuring and diversifying the productive base of the economy so as to reduce dependence on the oil sector and imports, achieving fiscal and balance of payments viability over the period; laying the basis for a sustainable non-inflationary or minimal inflationary growth; lessening the dominance of

unproductive investments in the public sector; improving the sector's efficiency and intensifying the growth potential of the private sector.

In order to attain these objectives, the programme's elements included the adoption of a realistic exchange rate policy; rationalization and restructuring of tariffs; strengthening of demand management policies; adoption of measures to stimulate domestic production and broaden the supply base of the economy; adoption of appropriate pricing policies, reduction of complex administrative controls simultaneously with greater reliance on market forces and move towards improved trade and payments liberalisation.

Under SAP, the measures that specifically affected the agricultural sector included institutional reforms and improved pricing policy as well as specific production schemes for local staples. Prominent among these reforms were the abolition of commodity boards, deregulation of interest rates, deregulation of exchange rate, the privatisation/commercialisation of many agricultural enterprises and some agricultural agencies which were hitherto under the control of the government. In the view of Ojo, et al (1993), emphasis shifted to policies on agricultural pricing, trade, investment, production, extension and technology transfer, credit insurance, as well as, other policy instruments so as to encourage the private sector to embrace all the sub-sectors of agriculture and bring them to full potential in the near future. The general objectives of agricultural policy under SAP which were said to aim at invigorating the nations 'flagging' agricultural economy through an entirely new philosophy of development and yet have not been able to bring about any improvement in the sectors contribution to total Gross Domestic Product (GDP) are examined below.

As interest rates have been deregulated, the sector has lost the concessionary interest rates enjoyed by it prior to the introduction of SAP. The result was that loans to the sector began to attract higher rates of interest while agricultural loans' terms became liberalised. Though it is argued that higher interest rates could encourage voluntary inflow of credit into the sector, it cannot be disputed that it greatly increases the burden of repayment on farmers or beneficiaries of such loans. This situation has only increased the number of loan defaulters which has contributed in distressing some Banks while those still virile are unwilling to lend to the sector the result of which is declining agricultural output and the sector's contribution to GDP.

Marketing boards for some crops were abolished to allow individuals export their produce and keep the proceeds of such exports in domiciliary account. This was aimed at narrowing bottlenecks associated with the boards and to encourage farmers to produce for exports and to take advantage of

price and other developments in international markets. This aim had been defeated as the scrapping of these boards had rather brought fortunes to middlemen or dealers. For instance, the scrapping of Cocoa Board is said to have brought fortune to cocoa dealers. The irony is that most of these dealers are educated elites consisting of retired top military officers, ex-ambassadors, University dons, civil servants and foreigners, who benefit from this policy at the expense of targeted farmers. It is thus not surprising to experience declining output in the sector or a decline in its contribution to GDP as the proceeds resulting from the abolition of commodity boards had been diverted into funding expensive life styles of few privileged Nigerians.

The devaluation of the naira also aimed at encouraging exports has led to substantial increases in the prices of agricultural inputs beyond the reach of average farmers which constitute the bulk of the farming population. In effect, the inputs needed to increase agricultural productivity and hence raise the sector's contribution to GDP were not easily affordable by most farmers under SAP

Since Agriculture is said to be indispensable in the economy, this situation has worsened the living conditions of many Nigerians who are faced with high rates of unemployment, poverty and crime. In his view, Falade (1990) said that:

> the devaluation of the naira at a price more than ₦5.00 to U.S. $1.00 is not only obscured, it is unreasonable... the socio-economic problem like inflation, unemployment, diseases, poverty and crime you see all over this country today have their roots in the high exchange rate of the naira.

The fact remains that these indicators can only discourage rather than encourage production in any economy.

The Directorate of Foods, Roads and Rural Infrastructure (DFFRI) and National Directorate of Employment (NDE) were created to ease access to rural areas, so as to facilitate increased food production, ease evacuation of farm produce and stem rural-urban migration. The issue of increased food production has remained an illusion, otherwise, the present inflationary trend as it affects agricultural produce would not be justified. It is however, ironical to expect increases in food production while the percentage of capital expenditure on agriculture declines. For instance, the average percentage of

capital expenditure on agriculture out of total Federal Capital expenditure dropped from 4.15 percent annually between 1970 and 1986 (Pre-SAP era) to 3.17 percent annually between 1987 ad 1992 (SAP era). The figures are computed from table I. To further confirm that there had been no meaningful increases in food production during the period of SAP, table II reveals that the percentage share of the average value of total exports dropped from 8.3 percent annually between 1971 and 1975 to 4.5 percent annually between 1976 and 1980 and further dropped to 3.0 percent annually between 1981 and 1985 (pre-SAP era). Since the programme is deceptive, this percentage share rose to 3.5 percentage annually between 1986 and 1990 only to drop drastically to 1.1 percent annually between 1990 and 1992. The Directorate of Food Roads and Rural Infrastructure and the National Directorate of Employment have not in any way reduced rural-urban migration as "Policies" brought about by SAP in Urban and semi-urban centres have served as important pull factors in the cities thereby aggravating the rate of rural -urban migration.

The policies of SAP such as reduction of subsidy on farm inputs, as well as, the directive on River Basins to disengage from direct agricultural production and rather concentrate on the provision of water for irrigation of agricultural land and other purposes are inimical to increase in agricultural produce. They only succeeded in stagnating or reducing agricultural production and hence decline in the sector's contribution to the Nation's GDP.

The privatisation/commercialisation of publicly owned agricultural enterprises make accessibility to factor inputs almost impossible to the peasant farmers thereby placing the ability to produce agricultural products in the hands of a few privileged farming population. This group constituted a minute fraction of the farming population such that it could not contribute meaningfully to the expected increases in food production and thus, the declining trend of the sector's contribution to GDP as evident in table III becomes eminent.

VI. THE EFFECTS OF STRUCTURAL ADJUSTMENT PROGRAMME ON THE CONTRIBUTIONS OF AGRICULTURE TO G.D.P

The preceding section which discussed the impact of the Structural Adjustment Programme in the performance of the agricultural sector revealed that the sector, despite the various agricultural policies enunciated under the

SAP has performed below expectation. During the period, the sector witnessed very slow output growth and even decline in some years resulting in declining contributions to G.D.P and in the volume and value of agricultural exports.

TABLE I: FEDERAL GOVERNMENT CAPITAL EXPENDITURE ON AGRICULTURE AS A PERCENTAGE OF TOTAL FEDERAL BUDGET (1970- 1992) (₦ MILLION)

YEAR	AGRIC. CAPITAL EXPENDITURE (1)	TOTAL FEDERAL CAPITAL EXPENDITURE (2)	(1*) AS % OF (2)
1970	5.6	22.0	2.5
1971	8.4	173.8	4.8
1972	20.7	457.3	4.6
1973	35.4	565.7	6.3
1974	87.4	1,549.5	5.6
1975	211.2	3,578.2	6.0
1976	129.2	4,219.5	3.1
1977	113.7	5,442.3	2.1
1978	125.0	5,197.0	2.4
1979	98.3	4,837.4	2.0
1980	467.3	8,395.5	5.6
1981	400.4	5,696.9	7.0
1982	278.9	7,950.2	3.5
1983	291.1	5,868.6	5.0
1984	160.9	3,812.2	4.2
1985	87.9	1,707.4	5.1
1986	60.3	8,473.9	0.7
1987	232.4	16,458.0	1.4
1988	213.0	6,179.7	3.4
1989	173.2	15,034.1	1.2
1990	1,598.2	24,429.5	6.4
1991	1,219.0	29,286.2	4.2
1992	941.3	38,453.0	2.4

Source: Central Bank of Nigeria, Lagos

Available data revealed that agricultural output growth rate remained at a decline after its peak of 16.6% in 1985 at the take off of the S.A.P. This figure dropped to 9.3% and 3.6% in 1986 and 1987 respectively before it rose again to 10% in 1988 and again dropped to 5% and 4% in 1989 and 1990 respectively (Odu, 1996).

TABLE II: VALUE OF AGRICULTURAL EXPORTS (₦MILLION)

Year	Average value of Agricultural exports (1)	Average value of Total exports (2)	Percentage in Total (3)
	₦	₦	
1971 - 75	260.8	3,145.3	8.3
1976 - 80	408.7	9,093.9	4.5
1981 - 85	276.6	9,335.1	3.0
1986 - 90	1,656.1	47,666.3	3.5
1990 - 92	1,554.8	145,677.6	1.1

Source: Computed from various issues of the Central Bank of Nigeria Annual Reports and Statement of Account.

Though Ojo (1989) was of the view that the agricultural sector recorded an annual growth rate of 2.6% during the Structural Adjustment Programme as against average increase by only 0.4% a year between 1981 and 1985, he noted that favourable weather condition rather than the direct impact of the Structural Adjustment Policies has been identified as an important factor in better agricultural performance during the programme. He cited a situation where in 1986, adequate and timely rainfall appeared to have induced the growth of 6.5% in total agricultural output, while the reverse was experienced in 1987 when low rainfall led to a fall of 1.8% in total agricultural production.

Odu further argued that the sector responded favourably to the S.A.P as aggregate agricultural production grew at an average annual rate of 5.9%

between 1988 and 1991 as against an average growth rate of 4.4% recordeu between 1984 and 1987. He however observed that if the over 88.5 million Nigerian population is considered, then agricultural production can be said to have grown at less than 4% during the period compared with the minimum real rate of growth of 6.0 percent targeted for the sector during the period. This situation implied food shortage for the teeming population and limited raw materials for agro-allied industries in the economy.

Ojo (199) argued that one remarkable development during the SAP which could be in the area of employment was the increased tempo of movement of individual to the agricultural and related activities. This could have had a marginal impact on output during the period as well as a positive sign for the future but the strategy of shifting the unemployed labour to agriculture could not succeed because of the structure of agricultural production in Nigeria. In addition, most of the labour force being encouraged to go into farming have never been exposed to the farm arena and so could not provide sufficient management skills to achieve success particularly in the programme (NISER, 1990).

Further more, when interest rate became deregulated under the SAP as argued by Odu (1996), agricultural loans attracted higher rates (particularly between 1989 and 1993) than hitherto, making farmers less disposed to banks' credit. In addition, the unwillingness of banks to commit their funds into a high risk sector as agriculture, further exacerbated the poor agricultural credit delivery system and subsequent decline in agricultural production which implied declining GDP in the sector.

The arguments presented in this section so far suggest that the Structural Adjustment Programme has not helped in the agricultural sector's contribution to the nation's Gross Domestic product. The table below gives us a clearer picture of the contributions of agriculture (Crop) to the nation's Gross Domestic Product (GDP) between 1960 and 1995.

From Table III, agriculture's contributions to GDP rose from ₦19,300 million in 1970-74 to ₦22,300.00 million and ₦22,500.00 million in 1975-79 and 1980 respectively before declining to ₦17,840 million in 1981. It however rose to ₦18,237.00 million in 1982 before declining again to ₦ 17,724.00 million and ₦16,920.00 million in 1983 and 1984 respectively. The decline in the early 1980s did not affect agriculture alone but the entire economy as evident in the decline of total GDP from ₦70,395.9 million in 1981 to ₦70,157.09 million, ₦66,389.5 million and ₦63,006.4 million in 1982, 1983 and 1984 respectively before picking up to ₦68,916.3 million in 1985.

TABLE III: AGRICULTURE'S (CROP) CONTRIBUTIONS TO GROSS DOMESTIC PRODUCT AT 1984 CONSTANT FACTOR COST

YEAR	(N'M) TOTAL GDP (1)	(N'M) AGRIC GDP (2)	* (2) AS % SHARE OF (1) (3)	*(N'M) ANNUAL AGRIC GDP INCREASE (4)	* PERCEN-TAGE INCREAS E (5)
1960	N.A	N.A	49	N.A	N.A
1970-74	58,200	19,300	33.2		
1975-79	73,700	22,300	30.2	3,000	15.54
1980	73,200	22,500	30.8	200	0.89
1981	70,395.9	17,840.0	25.3	-4660	-20.7
1982	70,157.0	18,247.0	26.0	407	2.28
1983	66,389.5	17,724.0	26.7	-523	-2.86
1984	63006.4	16,920.0	26.9	-804	-4.53
1985	68,916.3	20,977.0	30.4	4,057	23.97
1986	71,075.9	23,345.0	32.8	2,368	11.28
1987	70,741.4	22,411.0	31.7	-934	-4.0
1988	77,752.5	24,831.0	31.9	2,420	10.79
1989	83,485.2	26,072.6	31.2	1,141.6	4.59
1990	90,342.1	27,206.7	30.1	1134.1	4.35
1991	94,614.1	28,431.0	30.0	1224.3	4.49
1992	97.431.1	29,283.9	30.1	852.9	2.99
1993	100,015.1	30,133.2	30.1	849.3	2.90
1994	101,040.1	31.037.2	30.7	904.0	3.00
1995	103,217.6	32,030.4	31.0	993.2	3.20

* Computed from (1) and (2)
SOURCE: Central Bank of Nigeria Statistical Bulletin, Dec, 1995

In the table, the percentage share of agriculture's contribution to GDP in Pre-SAP years (1960-1986) declined continuously from 49% in 1960 to 25% in 1981 but between 1981 and 1986, it recorded a steady increase until 1987

when it declined from 32.8 percent in 1986 to 31.7 percent in 1987. This decline continued, if not for 1988, 1991 to 1995 when increases were not more than 0.6 percent. Thus, while the highest percentage increase and the lowest percentage increase in the pre-SAP years were recorded in 1985 (3.5%) and 1984 (0.2%) respectively above those of their respective preceding years; during the SAP era the highest and lowest increases were recorded in 1994 (0.6%) and 1990 (-1.1%) respectively when compared with the records of their respective preceding years.

One interesting feature in the table is the fact that even in Pre-SAP years, the annual agriculture's GDP increases were negative (1983 and 1984), the sector's percentage share to total GDP recorded positive increases of 0.7 percent and 0.2 percent for 1983 and 1984 respectively. On the contrary, the only year that recorded negative increase in the sector's annual GDP increase in the early years of SAP precisely 1987 witnessed -1.1 percent in the sector's contribution to total GDP as compared to the record of 1986.

The table also reveals that the highest annual percentage increase for the period considered is that of 23.97 recorded in the Pre-SAP year of 1985 from its -4.53 percent recorded in 1984 while the highest increase recorded in the SAP era was 10.79 percent of 1988. On the whole, while the Pre-SAP average annual growth rate for five years, (1982-1986) was 6.03 percent, that for five years from the commencement of SAP, (1987-91), was 4.0 percent. Though this downward trend could be excused for the fact that some agricultural crops have long gestation period, this did not hold as the trend worsened between 1991 and 1995 when average growth rate was only 3.32 percent.

The analysis from table III point to the fact that the contributions of agriculture to total GDP in Nigeria have continued to decline with the situation becoming worse with the introduction of Structural Adjustment Programme in 1986. Since SAP has not been able to meet up with the Pre-SAP contribution of agriculture to the nation's GDP, it is practically impossible for it to meet up with the sector's contribution to total GDP during the economic crisis which was assumed to be the focus of the programme. All the elements of SAP affecting agriculture should therefore be removed if the sector is to regain its glorious position of the 1960s.

VIII. CONCLUSION/RECOMMENDATIONS

Available data point to the fact that new problems have been created by the effects of the changes in Macroeconomic policies introduced by Structural Adjustment Programme. These problems included scarcity and high cost of

basic farm inputs which have ended up slowing down the rate of technological innovations. The astronomical increases in the cost of most agricultural inputs since the Nigerian economy was deregulated under SAP have affected mostly hoes and cutlasses; agro-chemicals (herbicides and pesticides); tractors, ploughs and other farm equipment as well as fertilisers, the price of which had increased by over 300 percent.

The high cost of inputs in the sector is undoubtedly responsible for the relative decline in the sector's productivity and consequently lessened the sector's contribution to the nation's Gross Domestic Product (GDP). Also, it had compelled continued application of traditional technologies because even the tractor hiring units ran by state governments are of little relevance as tractors are either obsolete or in a state of disrepair. The Structural Adjustment Programme has therefore succeeded in devastating the agricultural sector instead of improving it.

In addition, the Structural Adjustment Programme's policy of cut in public expenditure is inimical to developing countries as it increases the ranks of the unemployed without social security programmes. Moreover, it is unfair to expect countries which are already the poorest in the world to implement adjustment policies which require further reductions in real incomes and expenditure (Osagie, 1992).

From the foregoing , there is the need to do away with SAP and stablise exchange rate, trade policies, interest rates (specifically the restoration of lower interest rates on agricultural loans), as well as, the prices of goods and services so as to stimulate growth particularly in the agricultural sector and the entire economy without which the aspirations towards economic development will be difficult to achieve.

Also, the inputs supply system in the sector should be overhauled to enable rural farmers through their co-operative organisations get easy access to the needed means of production. The provision of modern inputs to rural farmers by the government should be seen as a priority if agriculture is to play its initial role of contributing about 60 percent annually to the nation's Gross Domestic Product (GDP) as in the 1960s.

The Privatisation/Commercialisation of agricultural enterprises is not a healthy development for the sector as it alienates rural farmers from the needed means of production. The fact that agricultural policies both in the Pre-SAP and SAP periods have achieved little or no success imply that something in wrong with the people of Nigeria and not the enterprises. The government should therefore retrieve and control wholly all privatised/commercialised agricultural enterprises. It should rather as a

management strategy extend the "big stick" being applied on managers of Failed Banks to those who have contributed in ruining these enterprises. This should be decreed with the aim of extending the same punitive measures to current handlers of such enterprises and indeed all Nigerian publicly owned enterprises.

Ensuring conducive enabling environment for private sector's investment in Agriculture is necessary for easy access to credit at reasonable cost. This calls for consistency in interest rate policy which would be favourable enough to induce progress. Here, a process of linking Self Help Groups (SHGs) at the grassroots with banks should be intensified to guarantee borrowers adequate credit needed for their productive activities.

Also, subsidies should be mainatined in selected farm inputs which are of general relevance to the majority of farmers, particularly the small-scale farmers. Subsidy in yield improvement inputs such as fertilizers and pesticide, should not only be maintained but raised so as to enhance the sector's productivity.

In order to raise the sector's production, the government, should, in collaboration with local and international capital agencies, arrange for special programme tied soft loans for small-scale farmers. Such loan which has been tried with reasonable success in India, could be tied to programmes like, adoption of small irrigation schemes, high-yielding seeds and other on-farm adaptive research findings.

Given the threat to crops and life occassioned by environmental degradation, there is the need to invest more on environmental protection. Adequate resources should thus be channeled towards checking the menace of floods, soil erosion, deforestation, desertification as well as, pests and disease infestations.

Finally, there is the need to fashion the country's agricultural policies with the aim of stimulating increased food production through an efficient resource mobilization, as well as, a reasonable credit delivery/allocation system. Consequently, a credible financial stablization programme to achieve this goal, will require the immediate amelioration of the various distortions associated with existing high inflation and lending rates in order to spur investments in the agricultural sector for the desired growth.

Once these steps are taken and agricultural policies are logically pursued rather than being varied for political reasons, a new era of dramatic increases in the sector's contribution to the nation's GDP will emerge.

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EFFICIENCY OF THE NIGERIAN SECURITIES MARKET

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ABSTRACT

The Nigerian Securities Market has recorded, undoubtedly, some remarkable successes in providing both domestic and foreign fund for investment and attained meaningful level of growth and development. These noticeable achievements of the securities market notwithstanding, there is still the need to determine the efficiency level of the market so as to assess and improve on the system. Equally important is the fact that it will be possible to identify the factors militating against the attainment of higher efficiency and compare with the efficiency of contemporary securities markets in other economies. This paper in particular examined various aspects of efficiency in the securities market. At the end of the efficiency determination exercise, useful recommendations are put forward for the improvement of the Nigerian securities market.

I. INTRODUCTION

The Nigerian securities market has grown from one branch (trading floor) and 19 securities in 1961 to six trading floors and about 275 listed securities with a market capitalisation of N281.8 billion at the end of 1997 (CBN). In order to promote the development of the Nigerian securities market, the second-tier securities market was established in 1985. Furthermore, the policy of privatisation of public sector enterprises and the decision to establish the Abuja stock exchange are all efforts to ensure that the securities market plays its desired role in the Nigerian economy.

Securities market (stock exchange) which is a market of existing rather than new securities (Alile , 1986) offers opportunities for mobilisation of capital, eliminates investors pressure on cash flow of companies (by the free exchange of the securities between investors e.g. shareholders) and guaranteeing efficient allocation of capital funds. Securities market would also be described by the number and size of the trading floors as well as the quatity and quality of the services offered.

The need for substantial investment fund in the economy, limitation in the lending capacity of financial institution and the high cost of loanable funds

support the concerted concern towards the development of securities market. Such an alternative and cheap source of long-term investible funds must be made not only functional but also efficient.

In order to guarantee continuous increases in investible resources obtainable in the securities market and raise the level of efficiency, the Nigerian Government embarked on meaningful re-organisation of the Nigerian capital market, the Nigerian Stock Exchange Securities and Exchange Commission (SEC), repealed some inhibiting decrees and create an enabling environment to encourage both indigenuous and foreign investors. Privatisation of public enterprises, a policy directed at relieving the Government of financial burden, allowed privatised companies to have access to cheap funds and utilise such funds effieciently.

Capitalisation of the Nigerian Capital Market rose from N4.46 billion in 1980 to N275 billion in 1997. The Nigerian Stock Exchange(earlier known as the Lagos Stock Exchange and now comprising various exchanges and capital trade points in the new dispensation) which started with 19 securities in 1961 has, as at the end of 1997, 264 securities on its floors comprising 26 Government Stock, 57 industrial loan preference stocks and 181 ordinary shares of companies.

The central objective of this paper is to carefully examine the efficiency of the Nigerian Securities Market over the years. It is with this in view that the paper is divided into sections thus:

i Introduction
ii Efficiency of Securities Market
iii Determination of Efficiency of the Nigerian Securities Market, and
iv Conclusion.

III. EFFICIENCY OF SECURITIES MARKET

Various sources on capital market efficiency lay emphasis on trading according to prices, low cost of share transfer, the search and information, the provision of liquidity and the allocation of mobilised resources to most productive areas of the economy. The system described as securities market is however, made up of some vital components known as securities, operators and institutions. It is with this understanding that we thought it appropriate to examine the efficiency of the securities markert in relation to expectations of the three aspects (securities, major operators and institutions).

(i) Securities: For a securities market to be described as efficient, securities must be available in desired quantity and variety to the investing

public and organisations. Securities held by investors should guarantee easy convertibility to cash at minimal cost while yields on such securities must be reasonable and comparable to yields on securities with the same level of risk. Ideally, securities with equal risk must have equal yield. Furthermore, transfer of securities from one investor to the other should be possible at least cost if the securities market is to be efficient.

(ii) Major Operators: For the operators of securities market, a securities market is efficient only when the Government, Companies and other investors are able to obtain long-term investment fund in desired amount at very low cost compared with what obtains in money market and in lending financial institutions. In case of holders of securities (investing public and organisations), the securities market is efficient if their returns (yield) on securities is substantial and guaranteed. Opportunities for quick and unimpeded transfer and conversion of securities must abound.

(iii) Institutions: Effieciency in the securities market demands that all capital market institutions are functional and adequate in number with quality services. In addition to issuing of shares and offering quality professional services, the issuing houses (Merchant banks, Stockbroking firms etc) capacity to underwrite shares must be enormous and complete. In the secondary securities market, however, the quantity and quality of stockbroking firms services and the effective use of the stock exchange floors tell a lot about the efficiency of the securities market. In a more comprehensive and interest seeking context, the issuing houses perceive the securities market efficient, if the shares offered for sale are fully or to some greater degree taken up by subscribers. To the practisioners (Stock-brokers, jobbers etc) in the secondary securities market, securities market may be viewed as efficient if the volume of transaction is large and returns (brokerage fees) are substantial i.e. operations are profitable. Efficiency to them, equally means timely, adequate and correct information about deals in the exchange floors.

The operations of the exchanges promote the efficiency of the securities market by recording ever increasing volumes of deals and it suffices to say that any dormant exchange floor negatively impact on the efficiency of the securities market. It is therefore logical to subsume that every exchange floor as an institution by expectation wants to be efficient by increasing volume of transactions and quality of information management.

At the national level, however, it will be a herculean task to harmonise the diverse interest and expectations into one index of efficiency of the entire securities market. We shall at this juncture consider some measures of development of securities market that can be accepted as measures of efficiency for the comparison of efficiency of nations securities markets with one and another. Such measures as identified by Demirguc-Kunt, A. and Levine, R. (1996) are: Capitalization ratio, Shares/GDP ratio, Turnover ratio, per unit Capitalization and Concentration index.

(a) Capitalization Ratio

The ratio of the value of all shares on a national exchange and the countrys Gross Domestic Product (GDP) is

(1) about the size of the securities market;
(2) an indication (to some extent) of contribution to GDP (not income created by the securities to GDP) and therefore an index of effectiveness;
(3) a good index of development of securities market among nations economies as GDP represents the economy;
(4) not an index of efficiency as it does not show how efficiently fund provided in the securities market is being utilised; and
(5) a mere indicator of proportion of securities to GDP.

(b) Share/GDP Ratio

The ratio of total value of shares traded on the stock exchange and the GDP is

(1) an index of market liquidity;
(2) an indicator of volume and velocity of trade;
(3) a good index of efficiency as increases in ratio, if GDP increases or constant, indicate improved business; and
(4) a good basis for comparing securities market of different economies represented by GDP.

(c) Turnover Ratio

the ratio of the value of total shares traded and capitalization) is

(1) a good index of efficiency as the ratio shows how one Naira invested in securities is being utilised;
(2) an indicator of increase or decrease in volume of transactions;
(3) an indicator of liquidity; and

(3) an indicator of liquidity; and
(4) a good basis for comparison among national economies as capitalization is a universal concept.

(d) Per Unit Capitalization Index (ratio of the value of all shares on the national exchange and the number of listed companies)
(1) shows per unit contribution of the companies to the securities market;
(2) indicates the development of the capital market; and
(3) is not an indicator of efficiency of the securities market.

(e) Concentration Index (ratio of capitalization and ten companies with largest stocks on the exchange)
(1) is not an indicator of efficiency as it does not show improved business or returns;
(2) shows development trend;
(3) is not a good index for comparison among national economies as the concept with largest stocks lacks clear understanding and demacation. The first ten companies with between N10,000.00 and N20,000 stocks in one economy cannot be rationally compared with N500 million and N1 billlion stocks in another economy.

It is clear from the above examination of the various indices that Share/GDP and Turnover ratios stand out as good measures of efficiency of securities market at the national level. We are, however, of the opinion that the accepted ones at the national level are still pregnant with limitations in harmonising the efficiency expectations of major operators and institutions in the securities market.

VI. DETERMINATION OF EFFICIENCY OF THE NIGERIAN SECURITIES MARKET

In this section, the determination of efficiency level of the Nigerian Securities Market was carried out using capitalization ratio (based on the assumption that the measurement is about the contribution of securities to GDP), Share/GDP ratio and the Turnover ratio. The average efficiency ratios are equally estimated for comparison with selected economies' indices.

Table 1 shows the efficiency of the Nigerian Securities Market obtained through the employment of the capitalization ratio for 1980 to 1997 period. The efficiency ratio (capitalization ratio) increased steadily from 0.05 in 1980 to 2.68 in 1996 and declined to 2.49 in 1997. Further analysis also revealed

Market is far below that of Hong Kong (1.26), Japan (0.98) and United Kingdom but more than that of Germany (0.24), Italy (0.15), Finland (0.17), Zimbabwe (0.10), Pakistan (0.04) and Turkey (0.05) (See Table 2).

TABLE 1: CAPITALISATION RATIO OF THE NIGERIAN SECURITIES MARKET, 1980-1997

YEAR	MARKET CAPITALI-ZATION (₦b)	GDP AT 1885 FACTOR COST (₦b)	CAPITA-LIZATION RATIO
1980	4.46	96.2	0.05
1981	4.84	70.4	0.07
1982	4.49	70.2	0.07
1983	5.77	66.4	0.09
1984	5.50	63.00	0.09
1985	6.38	68.9	0.09
1986	N.A	71.1	-
1987	N.A	70.7	-
1988	N.A	77.8	-
1989	12.04	83.5	0.14
1990	16.00	90.4	0.18
1991	22.3	94.6	0.24
1992	32.5	97.4	0.33
1993	46.9	100.00	0.47
1994	61.00	101.00	0.60
1995	171.00	103.20	1.66
1996	285.6	106.6	2.68
1997	275.00	110.6	2.49

Source: CBN - Annual Report and Statement of Accounts Various Issues.
CBN - Nigeria: Major Economic, Financial and banking indicators, April 1996.
Federal Government Budget, 1998.

The picture depicted on Table 3 indicates that the share/GDP ratios of the Nigerian Securities Market between 1980 and 1996 ranged between 0.002 in 1988 to 0.065 in 1996.

TABLE 2: EFFICIENCY OF SELECTED ECDNOMIES' SECURITIES MARKET 1980-91 (Annual average)

ECONOMY	CAPITALI-ZATION RATIO	SHARE/ GDP RATIO	TURN-OVER RATIO
Hong Kong	1.26	0.51	0.41
Japan	0.98	0.53	0.51
Germany	0.24	0.29	1.23
United Kingdom	0.86	0.35	0.39
United States	0.61	0.36	0.58
Italy	0.15	0.04	0.23
Finland	0.17	0.04	0.18
Zimbabwe	0.10	0.01	0.08
Pakistan	0.04	0.01	0.11
Turkey	0.05	0.01	0.08
Nigeria*	0.62	0.009	0.04

Sourrce (1) Asli Demirguc-kunt and Vojislav Maksimovic - Stock market Development and Financing choices of firms in The World Bank Economic Review vol.10 . 1996 No.2 . page 348.
(2)* Nigerias average based on estimates in table 1 - 3.

The fact that the figures are, positive is enough assurance that the Nigerian Securities Market operates at efficient level. This augument of positivity of figures, however, does not help matters as the average, 0.009, recorded for the period under analysis shows that the efficient level is far below that of the seemingly less efficient securities markets of Zimbabwe (0.01), Pakistan (0.01) and Turkey (0.01) as displayed in Table 2.

With particular reference to the turnover ratio, the efficiency of the Nigerian Securities Market (Table 4) dropped from 0.09 in 1980 to 0.01 in 1990 and recorded slight increases to 0.02 in 1996. The declining tendency of the efficiency level is attributed to the inability of the Nigerian Stock Exchange to continuously increase the volume of transactions. An attempt to compare the average turnover ratio of the Nigerian Securities Market for 1980-96 in Table 2 with those of other selected economies efficiency levels

did not only portray Nigerias index of 0.04 absymally low but far below the lowest (0.08) recorded for Turkey for the period 1980-91.

TABLE 3: SHARE/GDP RATIO OF THE NIGERIAN SECURITIES MARKET 1980 - 1996

YEAR	TOTAL VALUE OF SECURITIES TRADED ON NSE (₦m)	GDP AT 1984 FACTOR COST (₦b)	SHARE/ GDP RATIO
1980	388.7	96.2	0.004
1981	304.8	70.4	0.004
1982	215.0	70.2	0.003
1983	361.9	66.4	0.005
1984	256.5	63.0	0.004
1985	318.6	68.9	0.005
1986	497.9	71.1	0.007
1987	382.4	70.7	0.005
1988	132.4	77.8	0.002
1989	570.0	83.5	0.007
1990	238.0	90.4	0.003
1991	234.0	94.6	0.003
1992	491.7	97.4	0.005
1993	804.4	100.0	0.008
1994	985.9	101.0	0.01
1995	1838.8	103.2	0.013
1996	6979.6	106.6	0.065

Source: CBN - Annual Report and Statement of Accounts Various Issues.
CBN - Nigeria: Major economic, financial and banking indicators. AprіL, 1996.

Generally, it is necessary to quickly assert that the comparisons of efficiency of the Nigerian Securities Market with the others in other economies will only be valid and objective if the total environmental package under which securities market operates is considered. In the Nigerian situation, there is low demand for esecurities because of low personal income and availability of other alternatives of investment avenues such as estate and other real properties. The paucity of securities is also responsible for low

trading activities. In addition to the above mentioned problems is the high degree of political instability which wards off foreign equity investment.

TABLE 4: TURNOVER RATIO OF THE NIGERIAN SECURITIES MARKET 1980 - 1996

YEAR	TOTAL VALUE OF SECURITIES TRADED ON NSE (₦m)	MARKET CAPITALI-ZATION (₦b)	TURN-OVER RATIO
1980	398.7	4.46	0.09
1981	304.80	4.84	0.06
1982	215.00	4.92	0.04
1983	361.90	5.77	0.06
1984	361.90	5.77	0.05
1985	318.60	6.38	0.05
1986	497.90	N.A	-
1987	382.40	N.A	-
1988	132.40	N.A	-
1989	570.00	12.04	0.05
1990	238.00	16.00	0.01
1991	234.00	22.30	0.01
1992	491.70	32.50	0.02
1993	804.40	46.90	0.02
1994	985.90	61.00	0.02
1995	1838.80	171.10	0.01
1996	6979.60	285.60	0.02

Source: CBN- Annual Report and Statement of Accounts various issues.
CBN- Nigeria: Major economic indicators, April, 1996.

The future of the securities market in Nigeria is not bleak given the increasing interest of Government in raising the investment culture among the Nigerian populace. Efforts by the Nigerian Government in reorganising, restructuring and creating of conducive economic environment for the development of the Capital Market will see an upsurge in the efficiency level of the Nigerian Securities Market. Some of the measures in concrete terms that have started promoting the efficiency of the Nigerian Securities Market

are the privatisation programme, the deregulation of the capital market in 1992, the repeal of the Nigerian Enterprises Promotion Decree of 1989 and the Exchange Control Act of 1962 and their replacement with the Nigerian Investment Promotion Commission Decree and Foreign Exchange (Monitoring and Miscellaneous) Provision Decree both of 1995. The establishment of the Central Securities Clearing System (CSCS) has also facilitated settlement and delivery of shares and raised the confidence of investors in the activities of the Securities Market.

V. CONCLUSION

We have been able to prove that the Nigerian Securities Market operates at an efficient level even though the efficiency level is declining over the years. Furthermore, it was discovered that the level of efficiency of the Nigerian Securities Market when compared with such levels in other economies is considered rather low at the absymal level.

It was also observed that the efficiency expectations of the major participants and institutions in the Securities Market are quite different. At the national level however, we identify Share/GDP and Turnover ratios as veritable indices of efficiency.

In particular and in case of the Nigerian Securities Market, we observed that the Government has and is embarking on measures and programmes aimed at the promotion of the efficiency and development of the Nigerian Capital Market. In the same vein, the reorganisation and restructuring of the Capital Market based on investigation panel reports is capable of energising the Nigerian Securities Market. Deliberate attempts in forms of new decrees favourable to business among others are being made to encourage indigenuous and foreign investors.

For the promotion of the efficiency and development of the Capital Market, the Government must create economic, social, political, legal and cultural environment. Such an effort will not only endear the Nigerian Securities Market to foreign investors but also motivate the indigenuous ones. Provision of economic facilities and the establishment of more exchange floors demand necessary attention.

Creation of awareness and culture of not holding on to securities will increase the trading activities and thereby raise the level of efficiency of the securities market.

Since the paucity of securities limits the volume of trading on the Nigerian Stock Exchange, more companies should be encouraged to join the

list of quoted companies through adequate education of the benefits derivable in the Capital Market.

Stockbroking firms, Merchant banks and other issuing houses must be able to underwrite issues and offer quality professional services. In the Secondary Securities Market in particular, the Stockbroking firms ability to speed up the conversion and transfer of securities at minima cost must be based on clear and transparent regulations which can seriously enhance the efficiency of the Nigerian Securities Market.

The umbrella organisations, such as Securities and Exchange Commission (SEC) and the Nigerian Securities Exchange (NSE), should provide regulations and supervisory services that will ensure honesty and transparency in the affairs of the Securities Market. Holders of securities will then be.assured that they will obtain equal yields on securities with equal risk.

Lastly, the declining tendency of Government securities is worrisome. All tiers of Government and public corporations or enterprises should be encouraged to patronise the capital market and increase the volume of transactions of the Nigerian Stock Exchange.

It is our candid opinion that all measures and policies aimed at the promotion of the efficiency of the Nigerian Securities Market can only achieve the desired goals if only there is consistency of progressive policies and political stability. These two elements, without iota of doubt, will stimulate domestic investment and inflow of foreign equity capital.

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IMPROVING THE EFFECTIVENESS OF MONETARY POLICY THROUGH THE MARKET INTERVENTION (INDIRECT) APPROACH IN NIGERIA.

By:

WADA ATTAH ADEMU

ABSTRACT

The implementation of monetary policy through the market-intervention approach has been problematic in Nigeria. This is apparent because of lack of organized financial market through which the instruments of this approach work. Added to this problem are the problems of political instability, poor banking habit of Nigerians, inadequate and ineffective communication facilities in the financial markets that have resulted to inaccessibility to market information, and poor banking supervision by the government agent (Central Bank). To make the monetary policy work through the market intervention-approach, it is argued here that the Nigerian financial market be invigorated, the political environment should be made stable, there should be proper banking supervision, financial discipline on the part of the Government and the apex financial institution (Central bank) ought to be granted the autonomy it requires to perform efficiently.

I. INTRODUCTION

Government stabilisation function arises from the fact that every economy, including Nigeria, faces periods of economic fluctuations or business cycles. To be able to regulate the economy, government makes use of fiscal and monetary policies. Fiscal policy involves the deliberate use of various forms of taxes (and subsidies) on individuals and corporate bodies, government expenditures and public debt operations to direct or influence economic activity towards achieving macroeconomic goals of the economy. It is also an instrument for allocating and reallocating resources between the public and the private sectors and between alternative uses (Abubakar, 1985). Monetary policy, on the other hand, according to CBN Briefs (1992) and Adekanye (1986), refers to the combination of measures designed to regulate the value, supply and cost of money in the economy, in consonance with the level of economic activity. Thus, its objectives as identified by Kaufman (1973),

includes price stability, high level of employment of resources, economic growth, and balance of payments equilibrium.

The use of fiscal policy by the Nigerian governments alongside monetary policy has not been without its own problems. For one, it partly accounts for the persistent government budget deficits-excess expenditure over revenue of government usually assessed by its size in relation to national GDP. The extent of these deficits are tabulated below:

Table 1: Budget Deficit as % of GDP (at 1984 constant factor prices)

Year	1985	1986	1987	1988	1989	1990	1991	1992
Budget Deficit (%)	4.4	11.6	8.3	15.6	17.1	24.0	37.4	51.5

SOURCE: CBN Annual Report for various years.

Fiscal deficits may be financed in various ways namely, external borrowing and internal borrowing (banking system and non-bank public). It is most inflationary when financed by the banking system, especially through the Central Bank.

The adoption of monetary policy implies the use of the policy instruments, which are classified as direct portfolio control approach and indirect or market intervention approach.

The direct or portfolio control instruments place restrictions on a particular group of institutions (especially deposit in banks) by limiting their freedom to acquire assets and liabilities. This method is mostly in use in economies where the necessary financial infrastructure for operating indirect monetary control is absent or underdeveloped. Examples of instruments of direct monetary control as noted by Adekanye (1986) are quantitative ceilings on bank credit, selective credit controls, administered interest and exchange rates. Qualitative tools are directed at affecting the ownership mix of deposits and credit. Their use reflects dissatisfaction with the credit allocation generated by the market demand and supply. Qualitative monetary tools are redirect credit by affecting cost differentials either to the lender or to the borrower acquiring different types of credit. However, as pointed out by Olekah (1992), there has been the problem of implementation as the authorities have found it difficult to enforce and monitor credit target desirably. Even where direct controls such as ceilings on credit are strictly enforced, it has been observed that reliance on direct control over a prolonged period of time tends to reduce competition in the financial system, leading to

inefficiency and misallocation of resources in the financial system. The indirect or market intervention approach used mainly in developed financial systems, relies on the power of the monetary authority as a dealer in the financial markets to influence the availability and the rate of returns on financial agents to accept deposits and lend them to users. Thus an efficient financial market in an economy is very important as it facilitates effective performance of monetary policy. Examples of such instruments as identified by Woodworth (1965) are reserved requirements, discount rate and open market operations.

There is a general view among economists and policy makers that monetary developments affect economic and financial performance, but differing views on the extent of the effect and the channels through which this effect is achieved. Usually, when the quantity of money supply changes relative to the demand for money either as a result of monetary policy measures or other measures, there are changes in relative prices and wealth. While these changes are seen as major channels of monetary influence, there are variants on how these changes influence the economy, the main variants being keynesians and monctarists.

To the Keynesians, Monetary policy is not as crucial in regulating the economy as fiscal policy. This, they believe, is because, while fiscal policy has a direct impact on economic activity through government expenditure and taxation, Monetary policy only affect economic activity indirectly by linking interest rates and investment (specifically through the cost and availability of credit). They also believe that monetary policy can be used to influence the rate of growth of the economy through its influence on aggregate demand and hence, output. This school of thought argues that a modest rate of growth of the money supply and price level is necessary for economic growth because it is only in such circumstances that the profit margin will widen and motivate investors to boost investment

Monetarists on the other hand, view money as a substitute for a wide range of asset (financial and real) and therefore observe that an increase in money supply directly leads to increase in prices as a consequence of increased purchases of all types of goods and services. On this basis, they affirmed that the rapid fluctuations in money supply are the cause of instability in the economy. To them therefore, the best policy for regulating the economy is monetary policy and that all that monetary authorities should aim at, is a steady and slow growth of money supply. In their view, monetary policy is preferred to fiscal policy because fiscal policy has no lasting impact

on economic activity other than to shift resources from private to the public sector economy and resources allocation.

The transmission mechanism of the monetarists is that changes in money supply initiate monetary impulses that lead to changes in interest rates and relative prices of both real and financial assets. These changes result in portfolio adjustment by wealth holders, which implies changes in the composition of real and financial assets. Therefore, money supply can exert influence on the demand for investment via changes in the rate of interest.

Modern Economists and policy makers adopt the two policy options in a mix which they consider appropriate for regulating their various economies. Under certain conditions, a vigorous use of particular policy tool may be emphasized to produce the desired effects or one may be used to complement the other. However, in Nigeria as noted earlier, governments' excessive fiscal operation has brought about deficit spending and the resultant high inflationary economy. This makes it necessary to seek for ways of effective use and performance of monetary policy and alongside the use of fiscal policy in Nigeria.

The area of concern of this paper is the market intervention approach. The choice of this approach for the study is due to the fact that it has wider influence on both the financial agents and the non-bank institutions and for monetary policy to achieve its objective, it must have effects on the entire economy. As Kaufman (1973) put it, the efficacy of monetary policy depends on the strength and speed with which the initial impact of the policy actions is transmitted throughout the economy to the ultimate policy objectives. As noted earlier, the market intervention approach is largely used in developed economies. This is because these economies possess developed financial sector and have efficient financial institutions that perform the function of collecting savings from savers and directing the funds to the users of funds. The more efficient the transfer is, the larger the flow, the greater the accommodation of individual preferences, and the greater the welfare gain to the economy (Kaufam,1973). Efficiency of transfer of funds depends on an efficient financial market. An efficient market implies an ordering of trade according to price, low costs of physical transfer, search and information, and a large availability of offers to buy and sell at prevailing market price.

An efficient financial market is very important for the effective performance of monetary policy because it has positive implications for the instruments of monetary policy - it influences the rate of returns on financial assets, the volume of transactions and the speed of transactions, among others. An economy that aspires for effective implementation of monetary policy

must therefore provide facilities that would ensure an efficient financial market for market operators such as Brokers, Dealers, Savers, and Borrowers, to transact business.

II. INSTRUMENTS OF MARKET INTERVENTION OR INDIRECT APPROACH

These instruments are designed to control the over-all money supply , chiefly by way of bringing about changes in the size of the primary reserves of the commercial banking system because the primary reserves determine the volume of their loans and investments and therefore the volume of money in the form of demand deposit as noted by Kent (1960). The instruments include:- changes in discount rates, open market operations and changes in reserve requirements.

Open market operations (OMO):

This involves the buying and selling of short-term and long-term government securities like Treasury Bills and Certificates, Development Stocks and Commercial Papers in the money and capital markets by the Central Bank in order to increase or reduce the volume of money in circulation as observed by Abubakar (1985) and Adekanye (1986). The central bank's behaviour in relation to the sale and purchase of securities determines the volume of money that will be injected into the economy through the banks, since these variations affect the reserves of the banks and hence their ability to give out loans to the public

Discount Rate:

This is defined by Dornbusch and Fischer (1990) as the interest rate charged by the Central bank to banks that borrow from it to meet temporary needs for reserves. Usually, Commercial banks borrow from the Central bank in much the same manner that individuals and corporate bodies borrow from Commercial bank too. Discount rate (cost of borrowing) is varied from time to time by the Central bank to influence the liquidity of the commercial banks, which in turn affects their lending propensity. The rate at which commercial banks lend money to their customers depends on the discount rate. When the rate is high, the cost of borrowing also becomes very high. The effect is that it discourages people from taking more loans at that cost.

Legal Reserve Requirements : This refers to the amount of deposits commercial banks are expected to maintain by law with the Central bank

Two types of reserves are usually kept by banks in Nigeria-Cash ratio and liquidity ratio. Cash ratio is the cash deposit expressed as a fraction of each bank's total demand deposit liabilities while liquidity ratio is the ratio of cash to the deposits of banks. The essence of maintaining these ratios is to meet an abnormal or unforeseen demand by depositors for the repayments of their deposits. Hence it is used for protecting the depositors. It is also an instrument of monetary policy if it is appropriately used. For instance, it can varied to contract or expand the lending capacity of the commercial banks.

Qualitative tools are directed at affecting the ownership mix of deposits and credit. Their use reflects dissatisfaction with the credit allocation generated by the market demand and supply. Qualitative monetary tools redirect credit by affecting cost differentials either to the lenders or to the borrowers in acquiring different types of credit. However, as pointed out by Olekah (1992), there has been the problem of implementation as the authorities have found it difficult to enforce and monitor credit target desirably. Even where direct controls such as ceilings on credit are strictly enforced, it has been observed that reliance on direct control over a prolonged period of time tend to reduce competition in the financial system, leading to inefficiency and misallocation of resources in the financial system.

III. CONSTRAINTS TO IMPLEMENTATION OF MONETARY POLICY THROUGH THE MARKET INTERVENTION APPROACH

The implementation of monetary policy through the market intervention approach in Nigeria has not been easy. Several of the techniques of monetary policy identified above may prove inappropriate. The financial structure may be too rudimentary to permit full use of some techniques. Other techniques may be unsuited to the problems facing the Nigerian economy. Thus, the limitations of monetary policy are problems of workability of the various techniques and applicability of conventional monetary policy to the economic problems and objectives of Nigeria. Obstacles to effective performance of monetary policy are discussed below:

i. Lack of a Well-Functioning Money and Capital Market.

The Nigerian financial market is poorly organised. This is manifested in the form of inaccessibility to market information that has given rise to: uncertainty about the future returns on financial assets thus impairing the investors ability to choose and invest in securities of high yields with low risk premium (Alile and Anao. 1986).the thin nature of Financial markets due to

paucity of volume of securities traded, aversion to ownership dilution of Nigerian businessmen as noted by Phillips (1983), ignorance of many Nigerians about the activities of the financial markets as asserted by Uwah (1992) and Laidi (1992) and manipulation of the accounting information as observed by Amuzie (1993). All these problems are rooted in inadequate and inefficient communications facilities in these markets. This situation inhibits the actions of the monetary authority in its efforts to influence economic activities by using its instruments through the financial markets. For instance, an attempt to mop up excess liquidity would prove difficult because the bulk of the public in whose hands cash is held, does not participate in the market so that no substantial success can be recorded.

ii. Political Instability

Nigeria, over the years has witnessed frequent changes of government that has made any implementation of consistent and stable economic and monetary policies impossible An unstable political environment as observed by Alile (1992) is not only a threat to investment but also a distabilizer to policies and programmes. This situation has discouraged many individuals and corporate bodies from investing in securities that are used by the monetary authorities to control the economy. Moreover, the actions of these authorities to influence the portfolio behaviour of the public have also not yielded positive results because of lack of confidence in the governments. Thus, the effects of high returns on financial assets that could determine the portfolio behaviour of the investors in securities is absent. This renders monetary policy impotent.

iii. Poor Banking Habits of Nigerians:

The banking habit of both the customers and bank staff is far from encouraging. While the Nigerian public does not have a high tendency for taking advantage of investment opportunities created through the banks, the bank staff aggravate this situation by their non-challant attitude to customers. A greater percentage of the Nigerian public prefers to hold onto its cash instead of investing or even operating account with banks. This is because of the ignorance of the cost and benefit implications of holding cash On the other hand, bank staff in Nigeria are so hostile to and unconcerned about the banks' customers that these customers have resultantly preferred keeping their cash in their homes rather than transact business with banks. For instance, it is not uncommon to spend the whole day in the bank hall in an attempt by a customer to withdraw money from his account just as bank staff have little or no time to attend to customers who come there for inquiries except the

customer has established an informal relationship with one or two of them. This scenario has affected the ability of the monetary authorities to reach the cash in the hands of the public with the instruments of monetary control through the banking institutions thus rendering the instruments ineffective.

iv. Inadequate and Ineffective Communication Facilities in the Financial Markets

The primary role of the financial markets is the allocation of the capital stock to their most productive uses in the economy through price signals, that is, a market in which investors can make production-investment decisions, and as well choose among the securities that represent ownership of firm's activities, given that security prices at any time " fully reflect" all available information. This implies existence of an efficient market that requires adequate and efficient information-disseminating facilities like postal and telegraphic services, and telecommunication system. The Nigerian financial markets have not been able to play this role. This is because information-disseminating facilities that are supposed to enhance this role are inefficient and inadequate, thus resulting to the existence of wide time-gap between the time of information dissemination and its receipts as observed by Phillips (1983). This situation allows for information imperfection in the form of information manipulation and distortions by actors in the market with the intention of defrauding the potential investors as opined by Alile and Anao(1986), Uwah (1992) and Laidi (1992). The consequence of this is failure of the use of monetary policy instruments that are used through this market.

v. Poor Supervision of Banks and Other Financial Institutions by the Central Bank.

One of the principal objectives of the Central bank is to promote monetary stability in the financial system. To ensure this, it conducts regular supervision and examination of banks as a means of maintaining surveillance on banks' activities and operations to ensure that banks conform with the banking laws and other directives stipulated by the monetary authorities.(CBN Briefs No 92/07).In practice, the contrary points to this fact. For instance, the quality of services rendered by the Nigerian financial institutions do not show any indications of any superior institution, supervising them for it is not uncommon to see a bank cashier exchanging hot words with a customer, not to talk of a scenario where cheques are cashed or expressed through " connections" with the bank staff as a matter of minutes

while customers who do not have " connection" spend a minimum of three to four hours to cash their cheques. Moreover, it is an open secret to see banks violating the monetary authority's directives if only they know that the benefits that would accrue from such a violation would out-weigh whatever penalty that is spelt against the violators. Thus, the monetary authorities have not succeeded in their supervisory role and enforcement of bank laws. This has immense negative implications for the effectiveness of policies.

IV. SUGGESTIONS FOR IMPROVING THE PERFORMANCE OF MONETARY POLICY THROUGH THE MARKET-INTERVENTION APPROACH.

The significant role of monetary policy in regulating the economy cannot be over-emphasized. Its influence on the nation's economic activity in terms of altering portfolio behaviour of the investing public via the returns on financial assets that are traded in financial markets, makes it important. This therefore calls for serious effort to be made to put in place an enabling environment that would enhance its effective performance. The following measures may serve this purpose.

1.Proper Organisation and Invigoration of the Financial Markets.

The Nigerian financial markets need to be strengthened and properly organised for effective performance in terms of the volume of sales and purchases of securities. This enables securities to be traded in the financial markets. Moreover, information-disseminating facilities that could facilitate accessibility to information in the financial markets such as telephone, telecommunication and telegraphic services should be available to market operators to enable them act timely when investment opportunities exist. In addition, necessary legal instruments and enabling laws should be put in place to allow for efficient operations in the financial market. All these factors combine to provide functional financial markets that would facilitate the effectiveness of monetary policy.

2. Political Stability.

As noted by Alile(1992), an unstable political environment is a threat to investment in general and investment in securities in particular. This is because political upheavals discourage investors from putting their monies in businesses as these investments are prone to losses. This therefore calls for all attempts by governments to achieve and guarantee political stability in the Nigerian economy. Such an effort has the effect of enticing both local and

foreign investors to put their monies in business in the economy. The prevailing peaceful environment would also go a long way in reducing the risk which a politically unstable environment will pose to security holders.

3.Proper Supervision of Banks and Bank Staff

There is a need for the Central bank to design sufficient strategies to ensure that financial intermediaries and banks comply with its directives. It must also make every effort to ensure and enforce stiff penalties on defaulters of its laws. This would imply that Bank Inspectors must be honest, disciplined, and committed and must have the courage to strictly apply the laws to offenders.
Moreover, Central must as a matter of routine, visit the bank halls to observe the quality of bank services and the attitudes of bank staff to customers. This would acquaint the Central bank with the facts of the matter. This would reduce the non-challant and hostile attitudes of bank staff. Not only will the poor attitudes of bank staff be checked through proper supervision but that it helps to reduce fraud to the minimum level, which in turn improves confidence in the Nigerian banking system. The confidence in the banking system encourages high patronage and effective use of the instruments of monetary policy through the banks

In addition, enlightenment campaigns in the rural areas with the aim of educating the rural populace on the merits of patronising the banks should be embarked upon as a matter of deliberate policy. Banks can be made to make this project part of their activities to woo customers for themselves. This strategy, to a large extent, would improve the banking habits of rural Nigerians.

4. Financial Discipline of Governments.

Governments' excessive spending, especially spending from borrowings from the Central bank must be controlled. This is because it significantly affects the monetary base and the money stock as it allows for excess liquidity in the economy through the money multiplier. It should be noted that monetary policy can only work effectively if the economy is devoid of excess liquidity (Adekanye, 1986).. Prudent management of governments finances and strict compliance with the expenditure guidelines on the part of governments will help in matters of monetary control by the Central bank. This is because it would enable the Central bank be in a position to determine the amount of money in circulation in the economy at any time, and thus regulate it accordingly using monetary policy tools.

5. Autonomy of the Central Bank.
The instruments of monetary policy are at the disposal of the Central bank and this bank by law is vested with the power as contained in Banking Act of 1969 Schedule 1 part II, to control other financial institutions, most especially the commercial banks. The unnecessary interference of the governments with the activities of the Central bank needs to be stopped to enable the bank perform its functions using its instruments with which it is equipped to regulate the economy. Furthermore, the situation will go a long way in making the apex bank have firm control of the variables and financial agents that can be monitored to improve the effectiveness of monetary policy.

V. SUMMARY AND CONCLUSION

This paper has undertaken a critical analysis of the implementation of monetary policy in Nigeria and has observed that the direct approach to the implementation of the policy has been the vogue in this country. The market-intervention (indirect) approach has not been in use all this while. From the analysis above, the following conclusions need to be restated.

1. That the market-intervention approach that makes use of open market operations, discount rate, and legal reserve requirements as instruments that are used to implement monetary policy in Nigeria have not been performing effectively because of lack of well organised financial markets, political instability , poor banking habit of Nigerians, ineffective and inadequate communication facilities in the financial markets, and poor supervision of banks and bank staff.
2. That this approach can be made to work if the financial markets are properly organised and invigorated, political stability is guaranteed, proper supervision of banks and bank staff is seriously undertaken by the concerned authorities, financial discipline of governments, and autonomy of the Central bank are ensured.

Implementation of the above suggestions with honesty of purpose and high level of commitment on the part of governments and the monetary authorities will go a long way in improving the efficacy of monetary policy in Nigeria.

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RICARDIAN EQUIVALENCE: A SURVEY OF LITERATURE AND RELEVANCE IN NIGERIA

BY:

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ABSTRACT

Recardian equivalence is the proposition that the private sector saves in anticipation of future tax obligations in view of current deficit fiscal operations of the government. This proposition which implies neutrality of debt/deficit policy has generated so much controversy based upon contradictory empirical research results. Much as there exist diverse opinion and empirical evidence on this issue, there are very sound bases for non-equivalence in Nigeria, and many less developed countries (LDCs). Some of the considerations that point to the non-validity of the proposition in Nigeria include: The household liquidity limitation in Nigeria which involves both credit rationing and differential borrowing rates; the generally low level of income which makes people perceive tax cuts as merely signifying some kind of relief geared towards improving household consumption rather than some surpluses to be saved against future tax obligations; financial repression and capital markets deficiencies. If people save at all, they do so most of the times, either by keeping vault cash outside the banking system or by acquiring more of physical assets. These behavioural pattern surely negate the basis for the Ricardian equivalence, and thus, make it less likely in Nigeria.

I. INTRODUCTION

Ricardian equivalence is the theoretical proposition of the neutrality of debt/deficit policy. This proposition denies all the effects attribute to government debt policy by economic theory. Viewed from the Keynesian angle, public debt is said to stimulate the economy in the short run by creating a 'psychological' wealth effect, an illusion that makes households to increase their expenditure (consumption) following an increase in their income due to a tax cut. From another perspective (more commonly, the monetarists), government debt is seen as competing with private debt for funds, with government having an edge over the private sector due to its vast resources and statutory powers, thereby bidding resources away from private agents

through higher interest rates. This phenomenon is commonly known as 'crowding out' effect. Until the revival of Ricardian equivalence, these were the two dominant theories of public debt effects on the economy.

Much earlier, Ricardo had suggested the equivalence proposition but was not viewed seriously until in 1974 and 1976 when Robert Barro made full exposition of it. Put simply, Ricardian equivalence is the proposition that the private sector saves in anticipation of future tax obligations in view of current debt financed fiscal operations of the government. Today, what earlier on appeared to be an extreme theoretical proposition requiring too many assumption about individual choice and/ or the entire economic environment for it to be real, is gradually being reduced to practical reality. It is indeed an interesting issue, and deserves urgent research attention, owing to the implication of its validity for the potency of government fiscal policy (in particular, debt policy). This paper therefore examines the literature on this subject and, in addition, its relevance in Nigeria.

II. THEORY

The basic proposition of this theory is that government budget deficits and debt are neutral with respect to aggregate demand and interest rate. This hypothesis became prominent in the literature following the work of the new classical macro-economist Robert Barro (1974). His argument is that budget deficits caused by tax cuts will not increase aggregate demand since households will discount such cuts against future tax increases. The basic arithmetic behind this proposition involves a comparison of the maximisation of an individual's inter-temporal utility function in the face of perfect capital markets (see Appendix A. for definitions).

That is maximising,

$$U(t)' = \sum_{i=0} U(C_{t+i})^{(1+p)-1} \quad \text{...} \quad (1)$$

Subject to the life time income constraint of the individual

$$\sum_{i=0}^{\alpha} Y_{t+i}(1/1+r) - \sum_{i=0} (1/1-r)\, C_{t+i} = 0 \quad \text{...} \quad (2)$$

in the absence of government (that is no taxation and by implication, no government purchases are financed through taxation (Seater, 1993). The inclusion of government purchases changes the individual's lifetime income constraint, as equation (2) above becomes

$$\sum_{i=0}^{\alpha} (Y_{t+i} - G_{t+i})(1/1+r) = \sum_{i=0}^{\alpha} (1/1+r)\, C_{t+i} = 0 \qquad (3)$$

Both maximisation problems yield the same first order condition (see appendix B) signifying that the inclusion of government purchases does not affect the individual's consumption time path. Essentially, the individual reacts to tax cuts by increasing savings in anticipation of further higher tax obligations. The only difference between the two situations is that the individual's life time consumption is generally reduced with the introduction of taxation which reduces his lifetime income as can be seen in equation (3).

Following Seater (1993), the equivalence proposition can be illustrated hypothetically as follows.

Suppose the government decides to leave its expenditure unchanged, but reduces tax in the first period by (B) naira per-capita and sells (B) naira debt per capital instead, at interest rate (r) and maturity of (N) years, where (N) may be infinity. The (B) naira per-capita is equal to the naira amount of per-capita deficit, since expenditure is unchanged. The (B) naira debt and the attendant interest are to be paid in some future periods through imposition of higher taxes. The effect of new taxes on the individual can be seen in the analysis that follows.

The individual would use (B) naira of his income to purchase the debt instrument in the initial period and expects interest and principal in the future. Also the individual's tax obligations falls in the initial period by (B) naira, but rises in subsequent periods as government tries to make payments in respect of both interest and principal to the individual. The implications of the analysis so far is that every new inflow to the individual is offset by an equal outflow and so his life time budget constraint is unaffected and so is his consumption pattern. Table I summarises this implication.

From the Table, the equivalence proposition of fresh inflows equaling outflows can easily be visualised. The non effect of government's use of resources simply derives, according to this hypothesis, from its inability to affect the individual's life cycle wealth and of course the individual's life cycle consumption given the dependence of the latter on the earlier. (For a

detailed discussion of life cycle consumption and its determinants, see Hill & Stuart, 1982).

The congressional Budget office (CBO, 1995) explains the Recardian equivalence as follows,

> "If deficit results from lower taxes (government purchases remaining unchanged) they will not induce people to increase consumption.... People will realise that the additional federal debt issued to finance the deficit must be serviced by higher future taxes, and will (the public) increase their savings to meet this future tax commitment. Since the present value of the future tax liability is simply the deficit, if private discount rates equal the rate of interest on public debt, public saving will increase by that amount (as such no effect is to be expected)". (P. 217).

TABLE I: EFFECTS OF A DEBT - TAX SUBSTITUTION ON THE INDIVIDUALS RECEIPTS AND EXPENDITURE

Period	Change in Debt	Interest Earned	Change in Taxes
0	+B	0	-B
1	0	+rB	+rB
2	0	+rB	+rB
.			
N-1	0	+rB	+rB
N	-B	+rB	+rB
N+1	0	0	0
.	.	.	.

III. AN APPRAISAL OF THE THEORY AND SOME EMPIRICAL FINDINGS

A fundamental assumption of the Ricardian equivalence proposition is the principle of infinite horizons of individuals. Both the intertemporal utility function and the table of debt - tax substitution of the individual's receipts and expenditure above explicitly assume that individuals keep on operating from

one period to another and another in an endless succession of periods. That is from period (1) to (2) to.... to N and beyond (N+1, N+2... N+). In this situation Ricardian equivalence effectively holds given the necessary condition that individuals face perfect capital markets. But practically speaking, individuals do not have infinite horizons. Perhaps an honest answer to the question. "How many 200 years old can we count around us". Or "How many people do we know who died at the age of one hundred-and-fifty years and above?" tells us that the infinite horizon model is inappropriate for analysing people's consciousness of future obligations and the tendency to behave accordingly. Clearly as suggested by Seater (1993), finite horizon models are more appropriate for solving problems of individual intertemporal choice than the infinite horizon models, which are at best suitable merely as analytical conveniences. In fact, this incorrect assumption weakens the Ricardian equivalence substantially being that it forms the premise of the permanent income / life cycle hypothesis of which the Ricardian equivalence is a generalised extension.

Barro (1974) sought an escape out of this end by arguing that, if people see their children as extensions of themselves, then Ricardian equivalence holds even in the finite horizon model. This argument implies that the utility of a son (or a daughter) is a natural extension of the father's, and a disutility of the son is an extension of the father's disutility. This is commonly referred to as intergenerational altruism. Altruistic behaviours of parents necessarily change the finite horizon into an infinite one. But unfortunately parents may not always behave altruistically for obvious reasons. Bequest motives of parents, are most of the time, tied to certain necessary attitudes expected of the child (note that altruism ensures Ricardian equivalence only if bequest motive is operative). In the absence of such attitudes, parents' altruistic behaviour may not be guaranteed.

Also childlessness could cause people to have little or no concern for higher taxes to be levied in the future. As such anticipated saving might not take place. Again Ricardian Equivalence fails. In fact, a lot has been written about the non-predictability of altruistic bequest motives {See for example, Kotlikoff and Spivak (1981); Bernhein and Bagwell (1988)}. With life time uncertain and altruism not guaranteed, Ricardian equivalence fails to hold due to the probability that the individual will die before all taxes implied by current debt are collected (Olivera, 1985). Equally crucial is the assumption of perfect capital markets, which individuals are assumed to be facing. This assumption is particularly strained in developing nations where individuals

are rather faced with limited borrowing and lending opportunities. Hill & Stuart (1982) explain this further:

> "Capital markets (in these countries) are fragmented and poorly arbitraged. The lending rate available to any household depends upon it access to financial assets and own productive investments.
> The range of borrowing rates is equally as great given the frequency of non-price rationing (financial repression) in organised capital markets and the notorious variability in thc interest charged in informal markets."

Another important argument against Ricardian equivalence is that many households are liquidity constrained and would prefer tax cut now and their future tax obligations raised by a current debt - for taxes swap. Ricardian equivalence is invalidated by liquidity constraint if the issuance of government debt introduces an element that private markets could not on their own. Liquidity constraint of the household may involve differential borrowing rates. If government is able to borrow at interest rate lower than available to individuals, Ricardian equivalence fails. This is because the present value of the government debt would be less than the value of the current tax deductions.

Uncertainty is another possible source of non-equivalence. Because people are often uncertain as to what their future income will be, they are not sure of the amount of bequests they would want to make. As such they are not indifferent between an additional dollar now and future payment to their children that would have a present value of a dollar. Again Ricardian equivalence fails (Feldstein, 1985).

Leiderman and Blejer (1988) offered a wide variety of reasons why the Ricardian equivalence may not hold even in an open economy. These reasons include the existence of borrowing constraints, distortionary taxation, uncertainty about the imposition of the requisite future taxes, and differences in planning horizons for public and private sectors. Whereas it is logical to think of the government's planning horizon as infinite, an individual's planning horizon appears to be finite unless he is extremely altruistic.

Carlos Alfredo Rodriquez (1994) added to the list of reasons invalidating Ricardian equivalence, the risk induced differentials in rates of interest at home and abroad; and differences in the spending propensities of tax payers and bond holders.

Although for Nigeria at present there little or no direct empirical evidence in support of or against the Ricardian equivalence proposition, there exist sparsely evidence from other LDCs. From developed countries, however, empirical findings are many, though mixed.

In low income economies where credit markets are largely imperfect, it is unlikely that most individuals will have substantial savings that acts as buffer during low income periods as may be anticipated with future higher taxes. The relationship between current private consumption and current disposable income tend to follow the Keynesian hypothesis of one - to - one which in fact implies non-equivalence. Islam & Wetzel(1994) tested empirically and confirmed this for Ghana.

Feldstein (1982) examined the US economy for Ricardian equivalence using the generalised consumption function. He estimated the consumption function including as explanatory variables, current income, various forms of wealth proxies, total revenue, government transfers to individuals. He reported a robust rejection of the Ricardian equivalence based on the decision rule that all the variables except government expenditure (which was expected to posses a negative coefficient) be equal to zero for Ricardian equivalence proposition to be accepted as operative in the U.S economy. His result was however criticised widely on grounds of methodological inconsistencies and incorrectness. (For details see, Seater (1993); Seater & Mariano (1985), Leimer and Lesnoy (9182), Kormedi, (1983).

Kormendi (1983) is another commonly cited case study in empirical investigation of Ricardian equivalence. Kormendi estimated the generalised consumption model similar to the one used by Feldstein. Unlike Feldstein however, Kormendi's methodology has been credited as approximating a higher standard than the approach used by Feldstein. Kormendi's explanatory variables were current and lagged output, wealth, total spending, tax revenue, retained earnings, transfers, government interest payments, and the stock of government bonds. His estimates gave mixed results, but more supportive of the Ricardian equivalence than disclaiming it.

Other empirical studies on this subject used the Ricardian equivalence proposition of interest rates neutrality (insensitivity) to debt - financed government deficit as a measure of its validity or otherwise. In this wise current interest rate is regressed on some measure of government debt policy. John Makin (1983) and Gregory Hoelscher (1983) both used this approach and found that deficits had statistically insignificant effect on interest rates implying validity of Ricardian equivalence.

Barro (1987) used the British consul yield as the regressand in an interest rate based model, with current deficit and stock of government debt as regressors and came out with a supportive result for Racaridian equivalence. Barro (1989) reinforced his submission on the relevance of the Ricardian equivalence by claiming that "overall, the empirical results on interest rates support the Ricardian view". It would appear as if Barro sees contrary evidences as a resulting from either methodological ineptness or inappropriate framework of analysis, such as those of the consumption based studies. This not with standing there are series of interest rates based studies that have Equally reported contradictory results. In a cross - country study, Nicoletti, G (1989) tested the Ricardian proposition and arrived at overall negative results.

On the whole, whether interest rate based or consumption based, the evidence on Ricardian equivalence is still mixed and therefore not a settled matter. Perhaps a shift of focus to developing countries would further classify the situation. Unfortunately, not much empirical evidence is available in respect of these countries.

IV WHY THE RICARDIAN EQUIVALENCE PROPOSITION MAY NOT HOLD FOR NIGERIA

A part from the difficulties arising from the basic assumption of the Ricardian equivalence hypothesis, there are a number of considerations, particularly to Nigeria and most Ldcs, pointing to the non-validity of the proposition in these countries.

The household liquidity limitation in Nigeria and of course in most Ldcs involves both credit rationing and differential borrowing rates. Obviously interest rates have over the years been regulated by the monetary authorities in particular, the Central Bank of Nigeria).

Effectively government borrowed in the past and is still borrowing at rates determined by itself and not market conditions. Such rates coincide with bank rates or differ insignificantly, but more seriously is the issue of differential borrowing rates among individuals. The urban (elite) class, because they posses the relevant collaterals could access bank credit at the prevailing (government determined) rate, but the ruralites as well as the urban poor could more certainly access informal credit outlets, like local thrifts, cooperatives and private money lenders whose rates are quite higher, reflecting more closely what could be the realistic rate of interest, had there been no financial repression. This, kill and staurt (1982) referred to as the 'notorious variability in the interest charged in the informal markets'. The

existence of differential rates either between government and individuals or between individuals effectively invalidates Ricardian equivalence.

In Nigeria, tax cuts merely signified some kind of relief geared towards improving household consumption rather than some surpluses to be saved in anticipation of any future rise in taxes. This is simply due to the generally very low level of household income and the attendant high marginal propensity to consume. Given this situation, it is unthinkable that people will save such 'surpluses' as suggested by Ricardian equivalence. The effect of such would be an expansion in aggregate demand implying non-equivalence. Again since interest rate has been most of the times regulated in Nigeria, the economy's growth rate tended to be decievably high, suggesting that government could continue to accumulate domestic debt (roll over) and never collects any higher taxes. Instead new debts could be issued whenever payment of interest and principal fell due. In such a situation, the debt would become net wealth and as such aggregate consumption is enhanced, invalidating Ricardian equivalence. John Bryant (1985) argued that for Ricardian equivalence to hold, individuals must be capable of estimating correctly their future tax liability or else they are likely to increase consumption today and reduce investment as the bonds are erroneously substituted for investment. This argument pre-supposes in the first instance, the existence of well developed capital markets such that individuals could access easily instruments in the markets, and availability of a wide array of securities. In Nigeria, Neither were people able to estimate their future tax liability nor had access to capital market information. Besides the paucity of instruments and the negative real rates of return on the few financial assets available have often limited people's patronage of the market. If people saved at all, they did so either by keeping vault cash outside the banking system or substituted with acquisition of physical assets (ojo, 1975).

Given these considerations, it would appears as if there has not been much grounds to expect Ricardian equivalence to hold in Nigeria and in most Ldc with characteristics similar to those of Nigeria.

V. CONCLUSION

There is no doubt, the Ricardian equivalence proposition appears to be theoretically splendid especially when viewed against the realities of the advanced capitalist economies. Yet the evidence in support of it from these countries has certainly not been overwhelming. When extended to the Ldcs and Nigeria in particular, a lot of difficulties arise, both from the

impracticability of its assumptions and the absence of the theoretical requirements for its operation.

Nevertheless, there is need for empirical investigations of this subject in Nigeria and other Ldcs, and I would suggest the consumption based approach given the common phenomenon of financial repression and implicit taxation of financial assets in these countries.

APPENDIX A

$$U(t) = \sum_{i=0}^{\alpha} U\,(C_{t+i})^{(1+p)-1} \quad \text{.......... (1)}$$

$$\sum_{i=0}^{\alpha} Y_{t+i}(1/1+r) - \sum_{i=0}^{\alpha} (1/1\text{-}r)\, C_{t+i} = 0 \quad \text{.......... (2)}$$

$$\sum_{i=0}^{\alpha} (Y_{t+i} - G_{t+i})\,(1/1+r) = \sum_{i=0}^{\alpha} (1/1+r)\, C_{t+i} = 0 \quad \text{.......... (3)}$$

Where: $U_{(t)}$ is the intertemporal utility function
C is consumption
Y is income
$(I+P)^{-1}$ is the time preference factor
$(1/1+r)$ is the discount rate
g is government purchases.

APPENDIX B

The comparison is between maximisation of equation (1) in Appendix A subject to equation (2); and maximisation of equation (1) subject to equation (3) with the inclusion of government purchases. The resulting langragian equations yield the same first order condition:

$$U^1(C_{t+i}) = (i+\rho) - 1/(1/1+r)^i \rho$$

Where ρ is the langrangian multiplier.

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EXPORT PROMOTION AND ECONOMIC GROWTH: THE NIGERIAN EXPERIENCE.

By:

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ABSTRACT

Generally, it can be safely argued without doubt that export is an engine of growth, a potent strategy for mutual inter-dependence among World nations and of-course an instrument for technological and industrial emancipation. Since the past few years, against the background of a highly depressed oil market, balance of payment problems, mounting foreign debt, e.t.c. Nigeria has embarked on export promotion drive aimed at boosting foreign exchange earnings from the sale of non - oil export commodities. This goal has been pursued since 1986 within the frame work of the Structural Adjustment Programme (SAP). It is in the light of the renewed Vigour at export promotion, which is being pursued as a reaction to the prevailing down turn in the country's economic furtunes rather than as a well articulated development strategy, that this paper examines the facets of export promotion.

I. INTRODUCTION

A major factor in the strategy for development of most developing countries is the need to import not only basic consumer products but raw materials and capital equipment's for their manufacturing industries. This need to import is accompanied by the importance of export trade, which is needed to obtain the necessary foreign exchange for the required imports. Consequently, most countries have adopted various strategies towards rapidly promoting their export trade. One of such strategies is the provision of readily available financial resources to exporters through, export credit financing.

Some economists do not see this as the only way for a concerted export drive. Thus in the controversy that existed between inward-looking and outward looking (Autarky and Open) strategies of development, delinking and complete autarky have been considered as viable alternative development strategies by those not in favour of international exchange. The Nigerian

approach to development has however encompassed the intergration of her economy with the world economy and the acceptance of international exchange.

According to Morton and Tullock (1978), International Trade brings gains to a nation – whether rich or poor and that it acts as a stimulus to growth. Some observers, though accepting the above assertion, are of the view that the growth is insignificant among the developing countries for the reason that they are less developed and lacked responsiveness to market opportunities and dynamic influences of international trade that is characterized of developed market economies.

Others hold that the reason for limited gain from international trade by less developed countries, is the inadequacy of market opportunities. They point to the slow growth of export earning from many primary commodities, the rest attendant in less developed countries, current degree of specialization in such exports and difficulties of obtaining access to overseas markets for a more diversified range of export products.

Although the level of development and growth of export trade is below the desired one as a result of the monocultural nature of the Nigerian economy to those of other countries in recent times.

Gerald Meier (1976) observes that a unit of foreign exchange saved by import substitution could have earned by export expansion but then the resources used in import substitution could have earned a grater amount of foreign exchange through export promotion in manufacturers than the foreign exchange saved in import substitution that relies on high effective rates of protection.

Nigeria as a developing country has been grappling with the realities of developmental process not only politically and socially but also economically. In the 1960s, agriculture was the main stay of the economy and the greatest foreign exchange earner. However, this prime position occupied by agriculture was overtaken by the oil sector by the mid-1970s. In the circumstances, Nigeria's export earnings increased from N339.4 million in 1960 to N14, 077 million in 1980. The mono-culture nature of the economy makes Nigeria's export earnings susceptible to the vicissitudes of the international oil markets. The intrevent weakness in the economy manifested with the oil glut. This therefore, calls for the need to increase the Quantum of non - oil export as well as diversity export in the light of vagaries of oil furtunes decline of external receipts from about 26 billion in 1980 to about 6.5 billion in each of 1987 and 1988, Geroid, (1976).

II. STRUCTURE OF EXPORT IN NIGERIA

The growth of exports in Nigeria's external trade has been remarkable since 1970. Its value ruse from N339.4 million in 1960 to N885.4 million in 1970. However as a result of the discovery of crude oil in large Quantity and counted with significant increase in oil prices in 1970 as well as OPEC's oil prices adjustments in 1980, the value of total exports increased to N14, 077 million in 1980 before declining to N7636.6 million in export earnings in 1983. There was temporary improvements in export earnings in 1984 and 1985 but this was not sustained as it fell to N8513 million in 1986. (See table 2.1).

TABLE 2.1: STRUCTURE OF NIGERIA'S EXPORT (₦ millions)

	AGRICULTURE		MANUFAC-TURING		PETROLUEM		
YEAR	Value (₦)	Percent (%)	Value (₦)	Percent (%)	Value (₦)	Percent (%)	TOTAL
1960	278.8	82.1	35.5	10.4	8.8	2.6	339.4
1965	311.5	58.0	56.7	10.6	136.2	25.4	536.5
1070	265.2	3.0	74.4	8.4	510.0	57.6	885.4
1975	230.6	4.6	53.8	1.2	4565.1	92.7	4935.5
1976	274.2	4.1	58.9	0.8	6321.3	94.2	6709.8
1977	375.7	4.9	84.1	1.1	7073.8	92.7	7630.7
1978	412.8	6.8	42.8	0.7	5401.6	89.1	6064.4
1979	468.0	4.3	42.6	0.3	9850.5	90.9	10836.8
1980	340.0	2.4	39.0	0.2	13505.5	95.9	14077.0
1981	178.4	1.6	71.2	0.6	10680.6	96.9	11023.3
1982	92.0	1.01	90.2	1.0	8601.6	97.9	8783.8
1983	274.9	3.6	4.2	0.2	7201.2	94.3	7636.6
1984	288.8	3.1	1.8	0.0	8840	96.8	9131.2
1985	324.2	2.9			10890.6	97.1	11214.8
1986	240.0	2.8			8273.6	97.2	8513.0

Sources: 1. Central Bank of Nigeria: Annual Report and Statement of Accounts (1970 - 1986)
2. Federal Office of Statistics: Annual Abstract of statistics, 1964, 1970, 1975 and 1985 Editions.

The post 1982 period witnessed margining increases in its share such that by 1984 it had risen to 3.2 per cent. This trend was reversed in 1985 and 1986 as its share declined to 2.9 and 2.8 per cent respectively (see table 2.1)

Agriculture as the mainstay of Nigeria's economy in the early 1960 provided about 80% of the nation's total export. Apart from the role of agricultural sector in the export trade, there were other exports mostly minerals such as tin, columbite and coal, which played significant roles as foreign exchange earners during this period.

It was noticeable that before 1960, virtually all the nations foreign exchange was obtained from the exportation of primary commodities. However, this leadership role was terminated with the emergency of petroleum as an important export item. By 1965, petroleum's share of the country's total foreign exchange earnings had risen from 25.4% to 57.6% in 1970 and 92.6% in 1974. The vigorous pursuit of oil exploration soon increased oil production from an initial 600 barrels a day in 1958 to 16.500 barrels a day in 1960. (See table 2.2)

TABLE 2.2: NIGERIA'S EXTERNAL TRADE (1975-1986)

Year	Value of Crude Oil Exports (₦)	Value of Non Oil Sector (₦)	Total Value of Exports (₦)
1975	4,563.7	363.4	4,925.5
1976	6,321.6	429.5	6,751.1
1977	7,072.8	557.8	7,630.6
1978	5,653.6	662.8	6,064.4
1979	10,204.5	632.3	10,836.8
1980	13,523.0	554.0	14,077.0
1981	10,2280.3	189.8	10,470.1
1982	8,483.8	120.9	8,583.7
1983	7,201.2	301.3	7,502.5
1984	8,840.6	247.4	9,088.0
1985	10,890.6	324.2	11,214.8
1986	8,223.0	240.0	8,513.0

Source: Central Bank of Nigeria Economic and Financial Review (Various Issues)

A glance at the above table shows the trend of growth in oil earning for Nigerian economy. Between 1970 and 1986, the amount of foreign exchange earned from crude oil export rose from N510.00 million in 1981 and N10, 890.6 million in 1985. The earnings from the non-oil export sector for 1970 was N324.2 million but declined to N240.0 million in 1985.

The other structural side of export is that of industrialization which emphasizes on export of manufactured goods. The need for orientation

towards this is because of the discovery that primary production for export has not resulted in meaningful economic development for developing countries.

The manufacturing sector, which started on an insignificant footing, is today making an impact on the economy. Its contribution to the GDP in real terms stands as N146.4 million in 1962/63 and N472.7 million in 1973.

Inspite of the seemingly impressive growth rate, the manufacturing sector remains not only relatively small in absolute terms but its spectrum is still limited and the range of goods produced are narrow when compared with industrialized countries. The decline in contribution of the manufacturing to the GDP can partially be attributed to the rise in petroleum revenues which reduced the percentage share of the entire non-oil sectors of the economy, hence making Nigeria a mono-product exporting country.

As a result of the dwindling government revenue from crude oil exports in recent years, there is a need to diversify the source of export earnings from crude oil and to find an alternative source of foreign exchange through the promotion of non-oil exports.

III. EXPORT AND GROWTH IN NIGERIA

The measure and degree of GDP of a country's exports determine the wellbeing of such a country. It is in the light of this fact that different governments enact various policies to promote export. For instance, in 1970, approximately 17% of the country's GDP was from exported. The percentage contribution to GDP was lower as a t 1946. For a clearer picture of the growth of Nigeria's merchandise trade, a look at the table 3.1 will be helpful.

Table 3.1 which shows the growth of Nigeria's international trade transactions during the period 1946-1974, witnessed export growth rise from N49,292 (1946) to N5,794,837 in 1974 and the average annual growth rate of export amounted to 22.3%. Thus, in the post war period (i.e. W.W. II), Nigeria's foreign trade has been marked by rapid growth.

However, it is important to note that while the secular trend in over the period under review, the average annual growth of exports is shown in table 3.2. As shown on the table, export growth was particularly high in the periods of 1946-60; and 1970-74. Between 1950-65 the growth dwindled as low growth rate between the late 1960s is attributable to the negative effect of the Nigeria's political crises and the civil war on her external trade. The relatively high growth of exports for the period 1970-74 are a reflection of the vigorous expansion of Nigeria's international trade after the civil war. This is also shown on table 3.3.

TABLE 3.1: GROWTH OF NIGERIA MERCHANDISE TRADE 1946-1974 (EXPORT) ONLY

YEAR	EXPORT ₦'000
1946	49,292
1950	180,446
1955	265.067
1960	339,427
1965	536,538
1970	885,365
1971	1,293,338
1972	1,434,212
1973	2,278,415
1974	5,794,837

Source: Federal Office of Statistics, Trade Export, Annual Abstract of Statistics and Economic Indicator (Various Issues)

TABLE 3.2: AVERAGE ANNUAL GROWTH RATES OF EXPORT (1946-1974)

Period	Export
1946-1950	40.3%
1950-1955	9.2%
1955-1960	5.6%
1960-1965	10.0%
1965-1970	13.6%
1970-1974	67.6%

Source: Federal Office of Statistics, Trade Report, Annual Abstract of Statistics and Economic Indicator (Various Issues)

However, if due conqnisance is taken of the country's foreign trade experience and that of industrialized countries, emphasis in the present export promotion compaign must shift away from primary commodities to manufactured exports. While this paper supports Ajakaiye's (1985) conclusion that export promotion policies and efforts should be directed at sectors that are less dependant on imported inputs, it does not share the view of directing solely promotion policies to agriculture except of course as a basis for manufactured exports. Empirical evidence on export performance in LDCs especially in Nigeria shows that the growth of exports and output has been low compare to what is obtained in developed countries. Similarly the present foreign exchange crunch and external debt problems, even the

manufacturing industries are not likely to be able to utilized their capacities substantially in the short-run, not to mention having exportable surpluses.

TABLE 3.3: VALUE OF PETROLEUM AND NON-PETROLEUM EXPORTS (US $) FOR NIGERIA (164-1984)

YEAR	PETROLEUM	NON-PETROLEUM
1964	81	520
1965	183	569
1966	265	530
1967	207	470
1968	94	497
1969	373	518
1970	713	527
1971	1,352	462
1972	1,786	394
1973	2,941	521
1974	9,003	191
1975	7,461	540
1976	9,408	1,366
1977	10,929	907
1978	9,497	463
1979	16,613	601
1980	24,533	1,435
1981	16,738	1,239
1982	12,839	865
1983	10,185	1,383
1984	12,644	1,925

Source: OPEC Annual Statistical Bulletin, 1984.

IV. CONTRIBUTION OF NIGERIA'S EXPORT

Prior to the emergence of petroleum as the most important export item agriculture has been the main driving force of the Nigeria economy. Agriculture the leading non-oil sector of the economy had supported about 60% of the population directly and provided about 70% of non-petroleum exports. The predominance of agriculture could be measured in terms of the gross national income or foreign exchange earnings. While the agricultural sector was dwindling, the petroleum sector soared. With the petroleum sector's meagre (18%) contribution to the export in 1958, it reached an astronomical proportion of 98% by 1982 and declining just a little to 93% by 1987 as shown in table 4.1.

TABLE 2.1: STRUCTURE OF NIGERIA'S EXPORTS (₦ million)

DESCRIPTION	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
EXPORTS	5794.8	4925.5	6754.1	7630.6	6064.4	10836.8	14186.7	11023.3	8206.4	7502.5	9088.0	11720.8	8920.5	30360.5	31192
Oil Sector (Crude Petroleum)	5365.7	4563.1	6321.6	7072.8	5653.6	10166.8	13632.3	10680.5	8003.2	7201.2	8840.6	11223.8	8368.5	28208.6	28435
Non-oil Sector	429.1	362.4	429.5	557.8	662.8	670.0	554.4	342.8	203.2	301.3	247.4	497.1	552.0	2142.0	2757
EXPORT OF MAJOR COMMODITIES															
Cocoa	159.0	181.8	341.1	314.1	284.3	432.2	301.1	142.7	158.4	226.2	182.2	182.1	370.7	1497.8	[illegible]
Ground nut	6.8		2.0	0.1	0.3	-	-	-	-	1.3	0.2	-	0.1	-	203.2
Palm Kernel	43.7	13.5	27.0	32.6	30.0	11.8	14.1	17.9	11.2	16.6	8.4	6.2	7.5	60.5	1.4
Rubber (Natural)	32.2	15.2	14.4	11.1	11.9	13.0	14.1	17.8	16.0	14.9	16.6	3.8	29.1	-	-
Timber (Log and Sawn)	11.2	4.6	0.9	0.5	0.3	-	-	n.a	n.a	-	-	-	-	-	8.7
Tin Metal	26.4	20.4	15.5	13.3	11.0	16.8	14.2	26.8	n.a	n.a	n.a	4.1	1.3	30.2	850.7
Other Exports	148.8	122.7	152.6	189.1	123.3	147.2	141.8	71.2					89.2	471.8	
IMPORTS	1736.5	3721.5	5148.5	7116.6	8211.7	7472.5	9095.6	12719.8	10770.5	8903.7	7178.3	7062.6	5983.6	17861.7	21445
Oil Sector	52.4	118.0	95.0	102.2	110.0	230.0	227.4	190.8	225.5	171.6	282.4	51.8	[illegible]	3110.1	3803.1
Non-oil Sector	1684.1	3603.5	5053.5	7014.4	8101.7	7242.5	8868.2	12530.0	10545.0	872.1	6895.9	7010.8	[illegible]	14691.6	17642
IMPORT OF PRINCIPLE COMMODITIES															
Beer	2.8	31.9	46.0	72.4	5.5	2.5	2.8	4.1	4.3	3.0	2.9	3.9	4.3	0.2	n.a
Cement	34.0	71.8	73.0	164.2	104.6	162.1	118.8	207.6	220.9	229.5	43.6	40.5	56.0	120.6	n.a
Clothing	23.6	42.3	79.8	103.8	100.4	37.6	52.9	64.7	7.4	19.9	7.3	3.8	n.a	n.a	n.a
Commercial Vehicles	61.4	229.7	606.9	552.6	324.4	262.9	325.1	597.2	268.4	117.5	104.7	99.4	137.0	229.6	
Cotton Piece Goods	7.3	14.4	44.1	5.3	5.7	3.4	-								
Flour	1.8	70.3	97.5	28.6	37.8	48.8	9.6	40.5	7.3	78	7.1	2.1	11.7	1.6	n.a
General Machinery	196.9	489.3	1363.1	1395.9	1633.8	1251.8	-								
Medicines	46.6	86.0	107.1	131.6	142.0	132.9	219.2	282.9	230.9	194.2	122.2	151.7	214.4	471.6	n.a
Passenger Cars	97.0	220.3	361.0	297.6	225.6	146.4	114.4	590.5	453.0	192.2	66.5	109.5	361.2	374.3	n.a
CII Roofing Sheets	1.4	8.1	12.0	150.3	156.2	131.0									
Stock fish	2.1	34.3	409.6	13.9	19.5	34.2	35.0	123.5	73.6	51.9	11.2	-	26.1	67.4	n.a
Sugar	26.2	74.0	78	125.6	173.8	175.0	214.4	480.3	319.1	191.3	126.4	97.5	132.2	230.0	n.a
Others	1183.8	2341.8	2134.8	3098.5	4953.6	3454.3	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: (1) Federal Office of Statistics Annual Abstract of Statistics
(2) Central Bank of Nigeria Annual Report and Statement of Account, 1989.

Other export earners during this same period such as tin, columbnite and coal also played significant role as foreign exchange earners. Its contribution to the GDP increased in real terms from N48.2 million in 1970 to N84.8 million in 1977. This phenomena explains the main objective of the 2nd and 3rd National Development Plan (NDP) in diversifying the economy for the attainment of self-reliance.

Table 4.2 also shows the value of export contribution to Gross National Product (GNP).

Table 4.2: GNP (at market prices) AND VALUE OF EXPORT (US $) FOR NIGERIA (1964 – 1984).

YEAR	GNP	EXPORTS
1964	4,378	601
1965	4,623	752
1966	4,945	796
1967	4,071	677
1968	3,923	591
1969	5,155	891
1970	7,175	1,240
1971	9,599	1,814
1972	10,202	2,180
1973	12,768	3,462
1974	25,478	9,194
1975	32,013	8,001
1976	39,662	10,774
1977	44,004	11,836
1978	52,556	9,961
1979	63,426	17,214
1980	73,237	25,968
1981	77,435	17,977
1982	73,554	13,704
1983	73,703	11,568
1984	77,330	14,560

SOURCE: OPEC Statistical Bulletin, 1984.

V. BENEFITS OF EXPORT PROMOTION STRATEGY.

The benefits include:

1. One major benefit of general export promotion strategies is that they provided at least as much incentives to earn foreign exchange, and

incentives to exporters are fairly uniform and not discriminatory across the commodity groups.

2. Another benefit of the export promotion strategy include the aviodants of quantitative restorations and use of tariffs with relatively simple procedures to permit exporters access to the international prices for their inputs.
3. A well articulated export promotion strategy enables a developing country, regardless of the size of its domestic market to establish plants of economically efficient size and to maintain long production runs.
4. In addition, it permits the explanation of infant industries beyoung the size of the domestic market.
5. Properly programmed and implemented an outward-looking strategy enables a country to realise the benefits of international specialization according to comparative advantage. It provides stimulus to efficiencey as a result of exposure in foreign competition and technology and a prospect of a world-wide market for products.
6. Finally, industries of a country adopting export promotion strategy would also reap the benefits of internal economies of scale that could not have been achieved by providing for only the limited home market available under protectionist policies.

VI. OBSTACLES TO EXPORT PROMOTION

A number of factors can be identified as the major obstacles to export promotion in Nigeria. Some of these factors include:

1. High cost of production in our manufacturing sector due to high dependence on imported intermediate inputs. This limits the competiveness of our exports in our international markets.
2. There are also the problems of vagaries in weather, poor and unstable world prices, and low income elasticity of demand for primary products in the world market.
3. The inaccessibility to foreign markets and the high tariff and non- tariff barriers against export from developing countries are also major obstacles facing Nigerian exporters.
4. Another obstacle to export promotion is the lack of broad domestic supply base to service both domestic and foreign demand.
5. There is also lack of adequate information about Nigeria's potential exports overseas.
6. Tedious and oppressive export documentation processes also hinders growth of export promotion.

VII. POLICY RECOMMENDATIONS

The government should, through the export processing council ensure that the following issues which will further stimulate and speed up the nation's export base are looked into and truly implemented.

1. Provision of information for foreign traders about products available for export from Nigera and names of suppliers of those products.
2. Collecting up-to-date marketing information world-wide and disseminating same rapidly to local firms.
3. Introducing the country's industrial products to other countries through firms and other media. Overseas trade fairs can also be organised to further expose the potentials of the country.
4. Forwarding specific, enquiries received from traders throughout the world to the appropriate suppliers in the country, and to ensure that such enquiries are followed up.
5. Finally, other basic requirements for successful export promotion include: Stable political and economic environment for the attraction of foreign capital and technology, and periodic review of export policy packages so as to ensure that the policies are relevant at all times to the export problems of Nigeria.

VIII. SUMMARY AND CONCLUSION

This paper has undertaken a critical analysis of the export promotion and economic growth in Nigeria and has identified its major obstacles to its development and effective functioning. Solutions that could help to ameliorate its problems were proffered. From the analysis, the following conclusions could be restated:

1. That the Nigerian Export Promotion Council in its present form is not sufficiently equipped to perform in order to achieve its set objectives. Its orientation is severely bureaucratic; its operations ponderous and lacking in openness that should be a feature of a body charged with its functions. Its organization needs fundamental reform for effective performance.
2. That the Standard Organization of Nigeria (SON) must be alive .to its responsibilities. It should help ensure that the manufacturing sector improves on the quality of its products and prices them competively, if the current non-oil export drive is to succeed.
3. That the government must take steps also to improve the existing infrastructures in order to reduce the high cost of production in the

manufacturing sector so as to internalize external economies, and encourages exporters to exlore markets in the developing world.

4. That to speed up export promotion, the government could grant some subsidies in addition to the policy incentives to manufacturers in order to be able to compete effectively in the international markets.

In conclusion, if the objective of export promotion is to be realised, the government has to take concrete steps to follow up and monitor the true implementation of the measures it has already taken. Finally, policy makers should know that policy without implementation is as good as no policy at all.

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BORROWING AND PROSPECTS OF NIGERIA'S DEVELOPMENT

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ABSTRACT

Over the years, Nigeria has had to contend with the Debt problem which aggravated about two and a half decades ago. Each of these years ended with a deficit budget, with the debt issue playing a prominent role. One will appreciate the fact that this problem is not peculiar to Nigeria alone considering the growing external debt in the third world countries of Africa, Asia and Latin America as well as countries in the eastern bloc. This paper, therefore, examines borrowing and the prospects of Nigeria's development. The paper is arranged under major headings and lays emphasis more on Nigeria's external Debts. The introduction deals with the vital intervention role government plays through the macroeconomic objectives of stability and growth. And since expenditure programmes often exceed the resources available, government resort to borrowing to fill the necessary gap. A brief historical excursion is undertaken into the origin of Nigeria's external debt. Borrowing was as a matter of fact, traced to the primitive societies - the non monetised subsistence economies where a person borrowed an item or commodity and returned it in its equivalent in terms of another item or commodity. Nigeria however, in 1958 contracted her first loan from the World Bank The paper goes on to highlight the structure of Nigeria's public debt with emphasis on Nigeria's external debt profile . The causes of Nigeria's debt problem is reviewed and anchored on the low productive base of the economy, and the excessive importation of both consumable as well as capital goods amongst others. On the issue of debt management, the paper submits that external debt management is more intricate to handle as opposed to its domestic counterpart and, therefore, requires careful planning. Government is therefore required to play its role in the control of the access to or the flow of external finance to avoid or at least minimise drastically, the damage being inflicted on the country's external credit rating by frequent applications for external loans. On the prospects of Nigeria's development, in the light of Nigeria's indebtedness, this paper believes that there is still hope for Nigeria if only the abundant human and material resources is merged with a dedicated

leadership and a co-operative citizenry, the economy can be brought out of the woods.

I. INTRODUCTION

In a mixed economy such as ours, Government plays an important intervention role to achieve the broad macroeconomic objectives of stability and growth. Government expenditure programmes often exceed available financial resources mobilised through taxation. This may result in a fiscal deficit or create a budgetary gap which makes borrowing necessary to fill the gap. Consequently, public sector borrowing results in public debt which may be either domestic or external public debt. (Odozi, V.A. 1996, 11-12).

Generally, borrowing as a way of facilitating development in a country is a Post World War II phenomenon. It was initiated by the government of the United States of America under the Marshal plan of 1948 for the rehabilitation of the War - ravaged European Economies. It ushered in a new form of governance in which the government had direct participation in the economy. In the developing countries for example, where there is a savings gap, the role of capital in the development process cannot be over-emphasized. It is important because it helps to accelerate development on the one hand, while on the second, also helps to replenish the foreign exchange situations thereby enhancing the balance of payments positions.

In economic sense, there is no harm in borrowing either internally or externally. The main reason for embarking on external borrowing by the Third World Countries, is to bridge the domestic resource gap in order to accelerate economic development. Such borrowing is healthy provided the proceeds are used judiciously for the purpose for which they were borrowed and in such a way as to facilitate the eventual repayment and liquidation of the debt. Nigeria started to borrow externally in order to quicken the pace of her economic development. (Sanusi, J.O. 1991, 31-32). Since the need for borrowing arose as a result of the inadequacy of capital to meet planned expenditure and development programmes, this paper, therefore, seeks to examine the implications of borrowing by the developing economies with particular emphasy on the Nigerian economy. We shall also examine the prospects of paying off the debt (Loans borrowed externally) as the interest rates on such loans continue to mount inspite of the debt management policies put in place and the role played by the successive Nigerian governments. Onimode putting this graphically, posits that, in the jargon of international finance, the net transfer is the difference between the gross flow of new lending and the debt service (the principal repayments and interest paid from the debtor country). If new loans made to a country in a given year totalled $2

billion repayment of capital totalled $500 million and interest another $500 million, the net transfer - the money available to finance an import surplus would have been $1 billion. As debt service mounts, the net transfer shrinks rapidly and eventually becomes negative unless new loans rise even faster than debt service. (Onimode, B. 1989, 8).

II. ORIGIN OF NIGERIA'S EXTERNAL DEBT

Borrowing is a practice as old as humanity itself. An individual borrows in the certainty that he can return what is borrowed, either in its exact form or in equivalence. In non-monetised subsistence economies, referred to in European writings as primitive societies, a person may borrow a tuber of yam and return a mudu of millet, the exact equivalent being the function of some kind of appreciation of the inherent values of the goods in question. This situation is not much different in a monetised economy where money, in whatever form, gives a measure of precision to the value of products. Here borrowing is less cumbersome, as equivalents are easier to determine. A person who borrows five naira is expected to return five naira. (Bashir, I.L. and Gana, A.T. 1992, 26).

Nigeria, like all Third World Countries, has been incorporated into the international capitalist system whose operational ethic is private accumulation, whether by the individual or by a firm. The origin of Nigeria's debt (borrowing) can therefore be traced to the mode of production and distribution which enthrones competition as the dominant norm of economic behaviour. In such a system, greed, the dominant ethic enthroning the Machiavellian principle that the means justifies the end in human relations, dominates.

Nigeria's external debt dates back to the pre-independence era. Sources from the federal ministry of finance indicated that Nigeria contracted her first loan from the World Bank in 1958. The loan, which was a relatively small amount of US $28 million was meant for railway extension in the country. The country's external debt remained relatively low during the oil boom years so much so that during that period, the country's foreign exchange position was said to be healthy that Nigeria had to lend money to such institutions as the International Monetary Fund (IMF) under the "Oil facility" in 1974. It was infact, the general perception that Nigeria was relatively "under borrowed". (Sanusi, J.O. 1991, 35).

However, the position changed dramatically in 1977 as the celebrated oil boom was replaced by an oil glut. The reverse in our oil fortunes brought a lot of pressure on government finances and consequently, it became absolutely necessary to borrow for balance of payments support. This led to the first major borrowing of US $1.0 billion from the International Capital Market (ICM). This loan was

generally referred to as the "Jumbo Loan". The loan had a short maturity period with very high interest rate.

From 1978, Nigeria's external borrowing rose rather sharply. Most of the loans were raised from the private capital markets as funds from the bilateral and multilateral institutions were not easy to source. In order to further complicate issues, some state governments resorted to borrowing from external sources to finance all sorts of projects regardless of their viability. Most of the loans were used to finance white elephant cum prestigious projects which were unproductive.

It has to be noted that while the debts incurred between 1970 and 1978 consisted mostly of soft long - term loans from both bilateral and multilateral institutions, the loans borrowed after 1978 were from private capital markets with very high interest rates.

The sharp decline in oil earnings as a result of the oil glut, led to the country's difficulty in meeting her external loan obligations. '"In order to maintain the country's international credit - worthiness and her external trade afloat, government started negotiations in March, 1983 with major international commercial banks for refinancing of some of the payments arrears ... In a further bid to ease the external payments problem: Nigeria for the first time, approached the International Monetary Fund (IMF) for a balance of payments support loan of some₦ 1.7 billion and the World Bank for a₦ 300 million a year (for five years) structural adjustment loan (CBN, Annual Report and Statement of Account, December, 1983).

In Nigeria, the development plans executed since independence, have two main sources of finance; the internal source and the external source.

III. SOURCES OF FINANCING DEVELOPMENT IN NIGERIA

Sources of government revenue in Nigeria is shown on diagramme I:

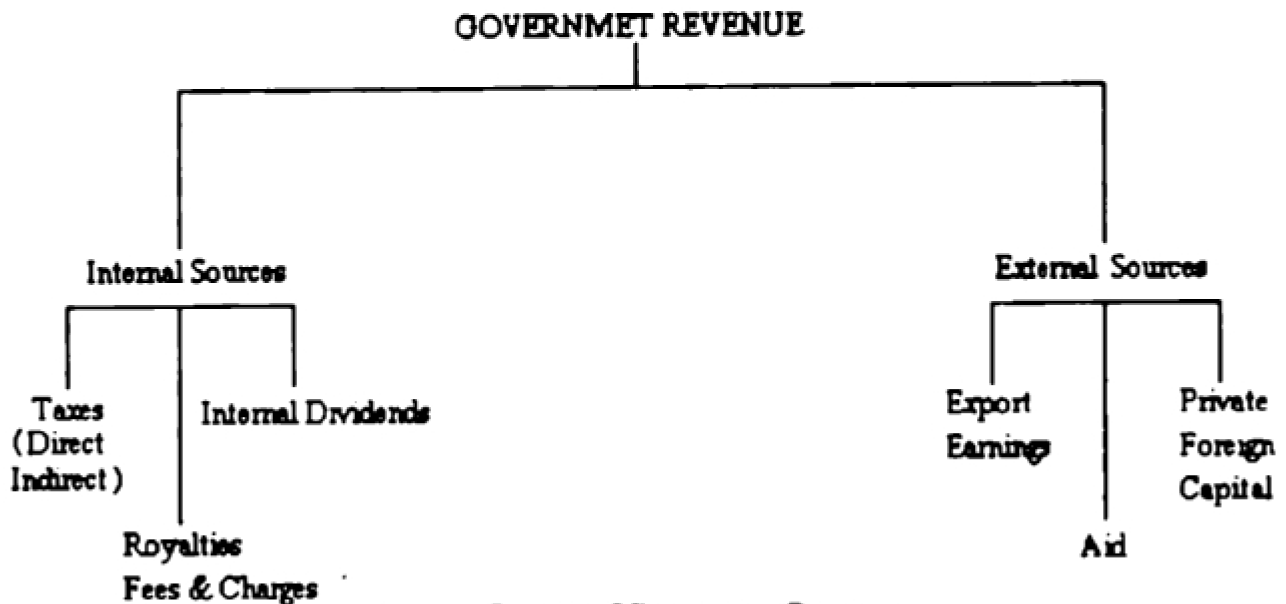

Figure I: Sources of Government Revenue

(a) Internal Sources

(i) Taxes: Taxes are the principal means employed by the government to divert resources from the private sector tc the public sector to finance government's development.

(ii) Royalties, Fees and Charges: Government also uses the revenue generated from the above sources in financing its development projects.

(b) External Sources

There are three main external sources of generating revenue available to Nigeria. These are export earnings, foreign aid and foreign private investment.

(i) Export Earnings: Nigeria is heavily dependent on one commodity (Mineral Oil) for the bulk of her export earnings. This has been the case since the 1960s and particularly since the early 1970s. Today, it accounts for well over 95% of the country's export earnings and over 85% of the government's total revenue.

(ii) Foreign Aid: This is another source of external revenue in Nigeria. Aid is usually either bilateral when it comes from government or multilateral when it is granted by a multilateral or international agency. Unlike bilateral assistance, multilateral aid is undertaken by the World Bank Group and the African Development Bank to finance the nation's development projects. The World Bank operates in conjunction with the Nigerian Industrial Development Bank, the Nigerian Agricultural and Co-operative Bank and the Nigerian Bank for Commerce and Industry.

By and large, these institutions are among the channels through which external finance is attracted into the country.

(iii) Private Foreign Capital: The third source of external revenue (finance) is private foreign capital. This is received from foreign private firms/investors or by means of export credits. Export credits are usually easy to obtain since they finance the exports of the donor countries.

Given the highlights of the sources of financing Development in Nigeria Internal and external, it is instructive to note that these go a long way to determining the structure of Nigeria's public debt which in turn, is divided into domestic and external debt depending on whether the source of the finance is internal or external.

IV. STRUCTURE OF NIGERIA'S PUBLIC DEBT

The structure of the Nigeria's public debt can be looked at in two perspectives, namely Domestic and external debts.

Domestic Debt

The ownership structure of domestic debt instruments was dominated by non-bank holders of government securities, comprising a wide range of both private and public institutions as well as individual investors - insurance companies, savings - type institutions, state and local governments etc. Between 1960 and 1977, non-bank public holdings of debt instruments averaged 52.1 percent, holdings by commercial banks accounted for 26.7 percent and the Central Bank held 20.8 percent while Merchant Banks accounted for 0.4 percent (Odozi, V.A. 1996, 10)

The origin of domestic debt in Nigeria dates back to 1946 when the first development stock of ₦600,000 was floated. The first Treasury Bills and Certificates worth ₦8 million and ₦20 million, respectively, were issued in 1968. Since then, Nigeria's domestic debt has grown very rapidly reaching ₦341.8 billion by December, 1994. The increase in domestic debt is a reflection of the rapid expansion in government programs and changes in the macro-economic environment, as well as the practice of rolling-over previous debts. Most domestic debts have been raised principally through the issuance of treasury bills and bonds. The Central Bank of Nigeria remains the largest holder of these debt instruments to its underwriting roles.

External Debt

External debt can be broadly classified into private and official debts. The private debts constitute uninsured short term trade debt arrears that were contracted through the medium of bills for collection, open account, etc. and commercial banks' debts contracted through loans and/or letters of credit (often referred to as London Club Debts). On the other hand, the official debts comprise of the Paris Club Debts, that is the debts insured by the export-credit agencies of the Paris Club Members. (Omoruyi, S.E. 1995, 362).

The origin of external debt in Nigeria date back to 1958 when a sum of US $28 million was contracted for railway construction. Between 1958 and 1977, the problem of indebtedness was minimal. In 1970, external debt only amounted to US $488.8 million. Thereafter, it even declined sharply to $234.5 million in 1971 and then rose again to $496.9 million at the end of 1977. (Central Bank of Nigeria, Economic and Financial Review Vol.26, No.2 June 1988, 29). All this time, because of the oil boom, borrowing was on small scale. From the late 1970, however, things changed. The volume of debts became increasingly alarming. Consequently, the International Capital Market (ICM) became dominant in the Nigerian Political Economy. Jumbo debts were to support balance of payments and to establish the steel industry, which up to today is not yet in operation.

With the increasing demand for international capital, debt from the ICM rose astronomically from₦ 1 billion in 1979 to ₦5.5 billion in 1982 and then on to ₦40.5 billion in 1987. At the 1987 level, it represented 40.2 percent of the national external debt. In 1982, trade arrears made up for the balance. Total trade arrears jumped from ₦2.0 billion in 1982 to ₦47.6 billion or 47.2 percent of the total external debt. (CBN Economic & Financial Review Vol.26, No.2 June, 1988). Thus Nigeria's outstanding external debt rose from₦ 1.3 billion in 1978 to ₦10.6 billion in 1983 and then to ₦100.8 billion or $234.4 billion in 1986. According to (Obadan, 1987, 1) External debt did not become an issue of Economic importance in Nigeria until 1983. The astronomical rise of the indebtedness in 1986 is partially and mainly explained by the devastating devaluation of the naira following the introduction of the Structural Adjustment Programme (SAP) as from that year.

By September 1987, following the massive depreciation in the exchange rate of the Naira, the value of Nigeria's external debt stood at ₦181.6 billion (Business Times 1987, 1). This astronological increase in Nigeria's debt would only be appreciated by means of a graphical representation as we delve into the genesis and causes of such an increasing debt problem in the country.

V. CAUSES OF NIGERIA'S DEBT PROBLEM

Numerous factors have contributed to the increased size of Nigeria's public debt (domestic and external) which by the end of 1994 stood at ₦990.6 billion. The major factors included the rapid growth of public expenditure, particularly for capital projects, borrowing from the international community at non-concessional interest rates, decline in oil earnings from the late 1970s and the emergence of trade arrears which neo-colonialism facilitated by promoting the consumption of foreign goods. Bashir & Gana put it thus: In spite of the campaign to persuade Nigerians to consume what they produce and desist from cultivating taste for foreign goods, the ruling elite remains the champion of foreign taste. Their sermon is thus: do what I say and not what I do! since foreign goods have to be paid for by foreign currencies, we can only purchase them through the availability of foreign currency or, in the alternative, through borrowing.

Domistic Debt Problem

The rapid increase in the stock of domestic debt was caused primarily by the need to finance rising government expenditures. In the 1960s and much of the 1970s, domestic debt instruments were issued to develop the money market, mobilise domestic savings and assist monetary management. However, with the sharp decline in government revenue since the early 1980s, owing to the collapse of prices in the international oil market, borrowing by government from internal sources increased tremendously. Inspite of efforts to rationalise public expenditures, much has not been achieved in reducing or controlling them given the diverse socio-economic responsibilities of the government. Moreover, higher domestic and international inflation rates have resulted in increased cost of government administration and development programmes.

External Debt Problem

Many factors are responsible for the rapid increase in Nigeria's external debt. As a developing economy characterised by a low productive base, the supply of goods is augmented with imports. Giving this situation, there has been a substantial growth in import. Nigeria's import bills as at 1994 amounted to about ₦161.1 billion. The inability to settle import bills has led to the rapid build-up of trade arrears due to substantial decline in foreign exchange earnings. Another cause of external debt problem could be linked to some project - tied loans which were often contracted without consideration for economic viability. Upward movements in interest and exchange rates have also affected the size of the debt stock.

It is in the light of the factors enumerated above, that several scholars have had to blame the different governments over their inability to effectively manage

the debt crisis of the nation as the governments again and again awarded contracts on projects which were not viable economically while the interest rates on capital (loans borrowed) continued to double if not triple as government spent huge sums of money in servicing the interest rates as opposed to paying off the loans (debts).

VI. THE NIGERIAN ECONOMY AND DEBT MANAGEMENT

External debt management is more intricate to handle as opposed to its domestic counterpart and therefore, requires careful planning. It involves a conscious and carefully planned schedule of the acquisition, development and retirements of loans acquired either for development purposes or to support the balance of payments. External debt management requires estimates of foreign exchange earnings, sources of external finance, the projected returns from the investment and the repayment schedules. It also includes an assessment of the country's capacity to service existing debts and judgement of the desirability of contracting further loans. The following pragmatic approaches have been taken in recent years to reduce the burden of the external debt of Nigeria.

a. **Embargo on New Loans**

The essence of placing embargo on new loans is to check the escalation of the level of total debt stock and minimise the problem of additional debt burden.

b. **Limit on Debt Service Payments**

This requires the setting aside of a proportion of export earnings to meet debt service obligations to allow for internal development. In the case of the State Governments, they are required to spend not more than 10 percent of their total revenue on debt servicing while in the case of the Federal Government, 30 percent of export earnings are allocated for debt servicing.

c. **Debt Restructuring**

The restructuring of debt involves the conversion of an existing debt into another category of debt through refinancing which involves the procurement of new loans by a debtor to pay off an existing debt; rescheduling which involves changing the maturity structure of the debt by about 4-6 years; buy back which involves the offer to a substantial discount to pay off an existing debt; issuance of collateralized bonds, etc.

d. **Debt Conversion**

This was introduced to compliment other strategies for debt management. Debt conversion, in a broad sense, is the exchange of monetary instruments

(promissory notes) for tangible assets or other financial instruments. It is a mechanism for reducing a country's external debt burden by changing the character of the debt. Conversion comes in various forms and includes debt for equity and debt for cash. In Nigeria, debt conversion exercise involves the sale of external debt instrument fora domestic debt or equity participation in domestic enterprises. Essentially, the programme was aimed at stemming the tide of resource transfer through the encouragement of capital inflow, repatriation of flight capital and recapitalisation of enterprises in the private sector. Through the appropriation of the substantial discounts offered and the commissions paid, the country reduced its debt stock as shown in table I below.

It should be borne in mind however, that the creditor governments did not really want their money back. In the 1950s and 1960s, when debt crises were caused mainly by the accumulation of official and officially guaranteed debt, the standard procedure for handling a debt crisis was to convene the 'Paris Club' consortium of creditor governments and reschedule the debts so that annual service payments would be lowered and positive net transfers could be resumed. (Onimode, B. 1989, 10). Since the consequences of huge external indebtedness on the Nigerian economy is enormous, and the repercussions far reaching, government need to beef up its role in external financing to ensure that the repercussions of external indebtedness is drastically reduced if not completely eradicated

TABLE I: NIGERIA'S DEBT REDUCTION, 1986 - 1990

Year	Initial Debt (From) in %	Debt Reduction (To) in %
1986	44.00	38.89
1987	42.00	27.93
1988	36.33	30.20
1989	39.50	29.00
1990	40.60	30.40

(Source: Business Times, Monday January 13, 1992, p.8).

VII. ROLE OF GOVERNMENT IN EXTERNAL FINANCING

Apart from the measures mentioned above, there is also a need for government to regulate the access to or inflow of external finance. This is necessary for several reasons. Firstly, although when it is brought into the country, external finance replenishes and enhances the external reserve situation, it carries

with it future balance of payments danger in the eventual repatriation of the principal amount and interest in the case of loans, and the capital and dividends in the case of direct investment. Unless regulated, repayment may exhaust the external reserve of the country, thereby plunging the country into more serious debts and balance of payments problems thereby damaging the country's international credit rating, which in turn will be very prejudicial to the country's future borrowings.

Secondly, the regulation of access to or the inflow of external finance is also necessary to ensure that the country does not borrow indiscriminately. Nigeria's experience during the period of the oil boom euphoria clearly showed the colossal waste that resulted from unplanned inflow of external finance in the absence of adequate infrastructural facilities, executive capacity and appropriate technology. Furthermore, since identification and formulation of sound projects are pre-conditions for attracting foreign capital, government should therefore promote measures to facilitate projects and its formulation.

Government should also control the access to or the inflow of external finance to avoid or minimise the damage to the country's external credit rating by avoiding going to the market too often and with too many loan applications at the same time. This implies that government should lay down well-considered guidelines for external borrowing. That is,defining the purpose for the loan to be borrowed, duration, moratorium requirements and commitment, negotiation, fees, etc. including the conditions under which the government will approve and guarantee loans as appropriate. The question therefore, is not whether the government has a role to play in external finance, but what form that role takes or can take.

Despite the negative effects borrowing has had on the Nigerian economy, great prospects still abound for Nigeria's development if and only if all hands are put on deck as Nigeria is still richly endowed with innumerable human and natural resources that can propel the country out of the woods.

VIII. PROSPECT OF NIGERIA'S DEVELOPMENT

Although the management of Nigeria's external finance over the last decade may have been poor, all hope is not lost for the future. Nigeria is a country which is blessed with human and material resources. With a dedicated leadership and a Co-operative citizenry, the economy can be brought out of the woods. After all, we are not as indebted to the World Bank and Western Creditors as the Latin American Countries. The important thing is that Nigeria as a nation should be able to identify her priorities and then adopt appropriate monetary and fiscal policies to achieve her set targets.

Nigeria cannot continue to depend on external sources for the supply of a significant proportion of its consumer goods. This calls for more trade restrictions and better incentives to encourage increased local production.

An overhaul of Nigeria's present industrial structure is necessary. Hopefully, the establishment of support facilities for industrial development by the government - the Project Development Institute (PDI), the Federal Institute of Industrial Research (FIIR), the Raw Material Research and Development Centre (RMRDC), etc. would help to discourage the establishment of heavily import - dependent industries which threaten the survival of existing ones while at the same time policies should be put in place, to encourage industries which are closely related to the country's resource base.

Further incentives in the agricultural sector should help to boost agricultural output thereby making the nation less dependent on import. In addition to the present measures adopted by the government rescheduling Nigeria's external debt, the nation's current policies to develop other non-traditional export items, if properly implemented will go a long way in supplementing the nation's foreign exchange earnings, and subsequently make us less dependent on the advanced industrialised countries.

Lastly, it is hoped that the bold and far reaching economic measures (goals) of government - Vision 2010, if accompanied by relevant and consistent monetary and fiscal policies with a conducive environment for external finance would not only correct the structural imbalance in the economy; place the nation on the path of sustained growth but would also bring the Nigerian Economy back to buoyancy sooner than later.

IX. CONCLUSION

No developing country can boast of having enough capital, internally generated to finance its development. Nigeria is not an exception. It is therefore necessary and indeed inevitable that capital has to be brought from abroad to supplement internally generated resources to finance even development. While foreign capital has its own problems, the fact remain that, a developing country like Nigeria still needs it.

Although the theory of borrowing is tied to the theory of economic development, the practice of borrowing in the 20th century has demonstrated beyond any doubt that it is a trap for perpetual enslavement of the poor nations by the rich nations. It is therefore advisable that a favourable atmosphere be created to encourage foreigners to bring their capital and invest in the country.

X. RECOMMENDATIONS

The repayment arrears that have built-up in recent years have seriously affected Nigeria's Credit Worthiness in the international capital market. Thus, for a country like Nigeria, now facing less favourable conditions and whose policies have proved less effective, there is a need for urgent measures to deal with the severe payment difficulties.

Some of the measures include the following:

i. Improved mobilisation of domestic savings through more attractive interest rates on deposits and fostering the development of financial institutions and instruments.
ii. Formulation of policies to discourage capital flight and encourage repatriation of private foreign asset through the maintenance of appropriate exchange rates, investment incentives as well as a generally sound demand management framework.
iii. Careful choice and monitoring of public sector investment project, and in general a more efficient allocation of public sector expenditure.
iv. Reform of public sector enterprises - putting their activities on a cost - effective basis, with realistic pricing of their goods and services - thereby reducing the fiscal burden of subsidies, and where appropriate, privatising the enterprises.
v. Setting up of a committee made up of Government Representatives, Bankers and Industrialists to Monitor Nigeria's external indebtedness and avoid the country's poor credit rating in the international capital market.
vi. Articulation of clear criteria for the evaluation of new project financing to take account of the pay back periods of the projects and the benefits to the economy. The structuring of such loans must always be based on a realistic output profile.
vii. Introduction of additional incentives to attract direct foreign equity investment. Such incentives should include the removal of existing bottlenecks to the remittance of dividends and capital; and a review of outdated regulations guiding foreign investment in the country. Of course, political stability and consistency in government policies would continue to be the greatest factors affecting the flow of investment capital into Nigeria.
viii. While a number of recommendations have been proffered for Nigeria to get out of the debt crisis, Akor, 1992, opined that "the only option lies with the Nigerian churches to request Christian Europe to forgive Nigeria its debts...."

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THE SOUTH KOREA'S MASAN FREE EXPORT ZONE EXPERIENCE: LESSONS FOR NIGERIA'S EXPORT PROMOTION DRIVE

By:

ILIYA SAIDU KURE

ABSTRACT

The oil glut of the early 1980s saw the country into a serious balance of payments crisis. There was no adequate foreign reserves to pay for imports of goods and services including foods of different kinds. As this problem intensified, the government sought to diversity the economy away from mono product nature. As a result, the structural adjustment programme was introduced in 1986 with one of its policy thrust to promote exports from agriculture, solid minerals sectors, e.t.c other than oils. The Ideals of export promotion Initiated by IMF was copied from Newly developed countries (NICS) of Asia and Latin America which adopted Export promotion strategies long before Nigeria. The objective is to ensure stable source of foreign exchange earnings, transfer of technology and Managerial skills, boosting domestic employment and to woe foreign capital. The paper has discussed the policy thrusts of Export processing Zones as applied in Nigeria and other Third World Countries with a special reference to Masan Free Export Zone in South Korea. From the analysis, it was revealed that the costs incurred outweight the benefits inspite of significant success attained in Korean experience. Policy implications and recommendations as to which way forward is provided at the concluding part of the paper among which are: (1) Instead of relying on foreign markets of the West, regional and sub-regional trade should be encouraged within Africa and diversification of trade among less developed countries based on the doctrines of international division of labour ought to be pursued vigorously; (2) The Nigeria's political system must be stabilized along democratic posture and economic policies ought to be consistent if foreign capital is to be attracted.

I. INTRODUCTION

Owing to the depression in most economics in the wake of the collapse of the World oil market in the early 1980s, earnings from Nigeria's exports (mainly

crude oil) fell steeply and became very inadequate to pay her alarmingly growing import bills. The country was therefore, forced to embark on massive retrenchment of workers, reduction of government expenditure, slashing of imports and devaluation of the naira. All policy measures designed to deal with the problem, including the stabilization measure of 1982 as well as the restrictive Monetary policy and stringent exchange control measures of 1984, proved ineffective (Awoseyila, 1992). Consequently, the government introduced the Structural Adjustment Programme (SAP) in June 30th, 1986. A major objective of the SAP was to reduce, through promotion of non-oil exports the economy's excessive dependence on crude petroleum as major source of foreign exchange.

Since the inception of the SAP, the Federal Government has introduced a number of far reaching economic and financial measures aimed at promoting non-oil exports. Such measures include the promulgation of the incentives and miscellaneous provision Decree, No.18 of 11th July 1986, the establishment of the Nigeria Export Import Bank (NEXIM) to provide different funds and financial assistance to exporters, the introduction of the Nigeria Economic Reconstruction Fund (NERFUND), the setting up of Small and Medium scale Enterprises Fund (SEMFOUND) and the deregulation of the Foreign Exchange Market (FEM) which has resulted in significant depreciation of the naira exchange rate. The hope was that the depreciation of the naira would enhance price competitiveness of Nigerian goods in foreign markets (Awoseyila,1992).

Inspite of the above measures to boost the export of non-oil commodities, manufactured exports still account for an insignificant proportion of total exports. For example, exports of non-oil manufactured exports as a percentage of total exports is shown on Table 1.

TABLE 1: EXPORTS OF NON-OIL MANUFACTURED EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS, 1982 - 1995

1982	1983	1984	1985	1986	1987	1988
0.16%	0.12%	0.16%	0.07%	0.04%	0.51%	0.60%

1989	1990	1991	1992	1993	1994	1995
0.55%	0.67%	0.92%	0.53%	-	2.5%	2.7%

Sources: 1. CBN Statistical Bulletin. vol. 1 Dec. 1990 p.144
2. CBN report and statement of accounts 1992 p.126.
3. Economics & Statistical Review, 1995, p.21

The volatility of the World Primary commodities market (including that of crude oil) and its adverse implications for foreign exchange earnings and planning

further necessitated the need for supplementary export-enhancing measures. The promotion of exports from non-oil sources and the subsequent establishment of the Export Processing Zones (EPZs) has been identified as one policy option with the potential for boosting manufactured exports.

A Decree No.34 of 1991, concerned with export processing zones was essentially, meant to promote foreign and domestic trade transactions. This decree empowered the port of Calabar to be used as Nigeria's premier EPZ. The Ideal of an EPZ is to create an enabling environment with suitable financial and other incentives to promote economic activities channelled towards processing local and imported raw materials into finished goods for export. The main thrust of EPZ was importation, processing and exporting of trade items and produce. The bulk of the transactions were conducted in foreign currencies (Awoseyila,1992).

This far explains the background of the paper. However, the paper will examine the Export Processing Zones in Nigeria. Policies and strategies aimed at promoting exports, the characteristics of Export Processing Zones in Nigeria and an analysis of experience of Masan free Export Zone (FEZ) in South Korea with lessons for Nigeria.

II. POLICIES AND STRATEGIES

Apart from formally establishing the Nigeria Export processing Zones (EPZs). Decree No.34 of 1991 also established the Nigeria Export Processing Zones Authority (NEPZA) and its Governing Board which has the minister of trade as its chairman. According to Awoseyila (1992:47), the second schedule of the Decree authorised the types of activities that can be carried out in the zone as follows:

i. Manufacturing of goods for exports;
ii. Warehousing, freight, forwarding and customs clearance;
iii. Handling of duty free goods trans-shipment, sorting, marketing, packaging e.t.c;
iv. Banking, stock exchange and other financial services, insurance and re-insurance;
v. Import of goods for special services, exhibitions and publicity;
vi. International commercial arbitration services'
vii. Other activities deemed appropriate by NEPZA.

The above policies are meant to introduce potential exporters of mainly manufactured goods. The provision of warehousing and other charges undertaken before goods are exported are to be provided at minimal cost by the authority. Banking services, and insurance will be made available including elimination of any form of duty on imported goods and services and all international laws

governing international trade will speedily be processed to facilitate easy imports and exports within the zone. These form some of the numerous incentives provided to entire foreign investors in the zones.

Further more, the authority was to establish and maintain a fund which include:

a. All money received from the Federal Government;
b. Proceeds from all activities, services and operations of the authority;
c. Grants, gifts and donations made to the authority and acquire from time to time to the authority (Awosevila,1992).

Approved enterprises operating within the zone are to be exempted from all Federal, States and Local Governments Taxes, Levies and Rates and are required to operate domiciliary account with a bank within the zone or customs territory in order to facilitate the receipts of OverSeas payments and to ease local payments. Enterprises are not allowed to move funds related to its activities into and out of the zone without the knowledge of the Central Bank of Nigeria to enable her regulate effectively the amount of funds coming in and out of the zone and to avoid irregular or unauthorised payment abroad.

Ezeh (1997:30), indicated that the following package of special incentives were approved in the zone.

a. General laws pertaining to taxes, levies, duties and foreign exchange do not apply within the zone;
b. Tax holiday to all prospective firms in the zone;
c. Repatriation of foreign capital investment in the EPZ at any time with capital appreciation on the investment;
d. Unrestricted remittance of profits and dividends earned by investors in the zone;
e. No import or export licence required;
f. Rent free land during the construction stage of factories;
g. 100 percent foreign ownership of enterprises in the EPZ is allowed;
h. Sale of up to 25 percent of goods produced is permitted in the domestic market, and
i Employment of qualified foreign expertise by companies operating in the zones.

These beautiful incentives were so designed to make both local and foreign investors that may wish to invest in the zone more comfortable. The removal of taxes, levies and other duties is aimed at reducing production cost at the initial stage of operation of firms in the zone. This is further enhanced by granting tax holiday to all the firms manufacturing and exporting at least 50 percent of their annual turn over for at least three (3) years. Easy repertriation of foreign capital

and unrestricted remittance of profits and dividends is essentially aimed at drawing into the zone foreign investors. Import and Export licence are not required, this is to hasten importation of needed inputs and the exportation of finished produce. Land were to be rent-free and the 100 percent Foreign Ownership of enterprises in the EPZs is to eliminate in all ramifications the involvement of government at whatever level in business enterprises. The sale of up to 25 percent of goods produced to local consumers is designed to enhance domestic consumption (market) and stemmed importation of such goods. Finally, the recruitment of foreign experts will enhance the transfer of technical and managerial skills to Nigerians through teaching and imparting of such ideas and the practical demonstrations of same by the expartise.

In addition to the enumerated incentives above, payments for labour Wages and salaries are to be made in foreign currency into their domiciliary accounts. This is aimed at removing discrimination interms of Wages paid in the zone amongst the local labours and their foreign counterparts.

The authority, that is, (NEPZA) is responsible for registering and deregistering any approved activity in the zone. However, the authority do not grant approval to a person or company to carry out on the zone any business of banking and Insurance unless the company is registered and licensed under both the Banking Act of 1969 and the Insurance Act of 1976.

Government's realisation of the importance of Foreign Investment informed its interest in the export processing zone and subsequently the idea to make avialable such laudable incentives to attract foreign investors into the economy to boost domestic employment, income and foreign exchange earnings.

III. CHARACTERISTICS OF EXPORT FREE ZONES

The export free zones are special areas demarcated, usually fenced and secured, within which an elaborate infrastructure of Roads, Rail ways, Drainage, Water, Electricity, Telephone,Sea and Air ports e.t.c are provided. The purpose of setting these zones was to enhance foreign exchange earnings, raise employment, and effect a transfer of Technological and Managerial know-how to the host countries. Accordingly, a battery of economic and political incentives are established to attract foreign, especially international capital to set up industries within the particular countries. UNIDO, a leading advocate and facilitator of Export-Free Zones, gives a list of suggested incentives which Third World countries should implement (Skarstein, 1979), in Shehu (1986:167). These are as follows:

1. Exemption of firms within the zone from duties on imports of machinery, raw materials and components;

2. Exemption of such firms from import taxes for 5-10 years;
3. The granting of holidays from direct and indirect taxes, surcharges, e.t.c;
4. Exemption from Foreign exchange control and the allowing of profits repatriation;
5. Arrangements should be made for the provision of credits and loans at advantageous rates of interest;
6. Firms should also be charged preferential tariff rates on Transportation, Water, Electricity, Rents, Telephone, etc;
7. Standard facilities and offices should be constructed within the zones, so that firms can buy or rent them, to avoid costly initial outlays;
8. Workshops, Repairshops, Canteen, Medical Services, Clinics, Banks, Post and Communications, Filling Stations, Security Services, Warehouses, Transportation and Forwarding Agencies, Insurance, Recreational Facilities, should be provided by the government in the zones.

The main thrusts of the above incentives is not far from transferring technologies and expertise knowledge into the domestic economy from the metropolitan countries. It is meant to provide an enabling atmosphere for potential local and foreign investors to produce and export the goods in order to enhance the foreign exchange earnings of the local economy. In terms of actual operations as most exports free zones, all these facilities and more are usually provided. Although differences exists, an average export free zone should in practice provide the following incentives to firms Viz:

1. There should be no customs duties for both imported inputs and the products meant for exports;
2. There should be no business tax and any other form of tax like value-added tax;
3. Payment of income taxes by foreign employees is prohibited;
4. Full remittance (100%) of profits and dividends by foreign investors without paying any tax;
5. There should be 100 % exemption by firms within the zone from paying corporate income tax, individual business income tax and property tax for the first 5 years of firms operations;
6. The firms are to enjoy another 50% exemption for (5) above for an additional 5 years;
7. There is also room for further exemptions if request are sought for by the firms;

8. Inputs that are banned to be imported into the country and other commodities are exempted within the zone;
9. The zones is entitle to a separate administrative authority, some times with its separate police force. This authority organises through a simplified procedure, the import and export of goods and foreign exchange authorities. Indeed in some cases, separate passports are issued to workers in the zone;
10. Uninterrupted power supply at a substantial discount are made available and an automated feeder line back ups to put power outages in check ought to be in place;
11. The provision of export subsidies at concessional rate is also made available on local borrowing;
12. All forms of unions activities and collective actions are rendered illegal. This is meant to ensure uninterrupted production and other business activities within the zones;
13. Minimum wage laws and other labour legislation are exempted in the zone. (Shehu, 1986:168).

The primary beneficiary of the incentives highlighted above are foreign investors that are expected to bring in their capital into the zone. The banned on union activities and the exemption from minimum wage laws is usually aimed at ensuring maximum exploitation of the workers and to sustained high level of productivity at all times. It is also directed at complete elimination of industrial actions which could result into stop pages on production activities.

In relation to Masan Free Exports Zones in South Korea, Peter (1984) outlined non fiscal incentives to the firms in the zone to include simplified customs clearance procedures for imported capital goods and raw materials for exported products. The FEZ firms were also exempted from most statutes restricting commodities which may be imported provided these commodities are not resold domestically. Although FEZ firms were exempted to export most of their output, sales within Korea was somehow permitted unlike other goods whose local sales were limited to a maximum of 30%, electronics were not sold domestically. In this regard intermediate goods rather than final consumer goods, receive the most favourable treatment.

The concentration of administrative offices in the FEZ areas were meant to lias between firms in the zone and the various government departments. This assisted in reducing firms administrative cost. Firms were permitted to build factories on rented FEZ land or to rent space in the standard factory building provided. Consequence to the above, in the later 1981, the rental space was full for several years and electricity was available at a 30% discount relative to

commercial users outside the FEZ areas. Kawahana (1974), further posited that, strict labour laws constrained the activities of Korea employees of FEZ firms. He argued that, the zone firms were treated identical to essential public utilities in which unions were prohibited and collective action of all kinds was illegal. New firms entering the zone were given official guarantee that their workforce will not be allowed to unionize. Remittance from the local sale of capital equipment was permitted up to a maximum of 20% of the value of total capital investment each year after the third year of operation.

Koo (1981), reasoning alongside with Kawahana (1974), observed that obviously the incentive package offered to FEZ firms was a favourable one, and hence, the remarkable success in exports promotion in South Korea. This to some extent explained the reason why Masan FEZ featured prominently in producing manufactured produce for export in South Korea.

IV. KOREA'S MASAN FREE EXPORT ZONE

The desire to establish the Masan Free Export Zone (FEZ) was informed by the significant Balance of Payments (BoPs) and employment problems that characterised Koreans' economy in the late 1960s. It was an attempt by the Republic of Korea to shift away from an import substitution trade policy and focus attention on the establishment of export processing zones. Thus the major objective for setting up the Masan FEZ, is to attract foreign investments, expand employment, the achievement of rapid rates of industrial development, procurement of foreign exchange, and to effect a transfer of technology into Korea.

According to Peter (1984), it was hoped that these zones would attract foreign investment in export oriented manufacturing activities and would thus contribute to the export-led growth path to which Korea had become committed. this hope was influenced by the apparent success of the free trade conditions existing in Hong Kong and Singapore in attracting this type of investment, and, more particularly, by the view that Korea was competing with Taiwan for Japanese investment and that Taiwan's establishment of large Export processing Zones in Koahsiung in 1966, left Korea at a disadvantage.

Two Exports Processing Zones were therefore established. One was at Masan on the South eastern cost of korea Peninsula and a second was at Iri on the Mid Western Coast. These zones were to attract foreign investment in labour intensive, high value-added manufacturing activities and through this, it was to promote foreign exchange earning through increased exports, expanded employment in the Masn area, and improved technical knowledge among local firms through technological transfer (Shehu, 1986).

The Masan site was chosen owing to its proximity to the Southern industrial centre of Pusan, to which it was connected by a good highway, the harbour facilities existing in Masan, proximity to Japanese ports, and the labour surplus condition existing in the Masan area at the time. In 1970, an administrative office was established to oversee the operations of the zone and to accept applications from prospective firm wishing to enter (Peter, 1984).

In common with export processing zones elsewhere, the Masan zone consist of a fenced area of land which is essentially outside the normal customs jurisdictions, imported raw materials and intermediate goods may be brought into the zones duty free for processing into final consumer goods or more developed intermediate goods. The zone provided virtually all incentives that were highlighted.

One of the distinctive feature of the zone is that it was completely dominated by Japanese firms. The official composition of firms in the Masan FEZ in December 1982 is shown on Table 2. The Table shows that 65 percent of total investment in the zone was fully owned by Japanese firms, 25 percent was jointly Japanese-Korean, 2 percent fully American owned 5, percent joint American-Korean, and 5 percent was fully owned by Koreans. These figures demonstrate the extent of the actual Korean ownership. Some firms which are officially listed as joint Japanese-korean investments, for example, are known to be fully owned by Japanese but are labour intensive, and hence, Korean Involvement. However, owing to the secrecy involved, it is not possible to estimate the true extent of Korean Ownership (Peter,1984).

However, the labour force is largely female oriented, consisting of 75 percent to 80 percent of the work force of Masan. This is similar to other zones, as 80 percent of the labour force in all zones combined is female, and are of the ages between 16 and 25. part of the reason advance for the large female population is that the wage rate in the rest of the country is so low that it can not maintain the workers' family, hence wives, sisters and young children have to seek for employment in order to supplement their means of survival. The average wage rate for a female worker in the Masan zone in 1981 was 146 dollars a month. Workers work for 24 days a month, at 8 hours a day albeit frequent overtime. In this, the Masan zone hourly work was above the normal 40 hours a week (Skarstein,1979).

TABLE 2: **MASAN FEZ: DISTRIBUTION OF TOTAL INVESTMENT AND COUNTRY OF ORIGIN (DECEMBER, 1982)**

	Fully Foreign		Joint Foreign Korea					
	Japan	USA	Japan/ Korea	USA/ Korean	Others/ Korean	Fully Korean	Total	Industry exports and Total FEZ
Electronics and electrical goods	45.6 (18)	1.3 (1)	0	0.4 (1)	0	0	47.2 (20)	61.5
Metal Products	7.7 (6)	0	12.0 (6)	1.1 (3)	0	3.4 (3)	24.2 (18)	8.2
Non-metal Products	0.2 (1)	0.2 (1)	0.6 (2)	0	0	0.6 (2)	1.5 (6)	0.4
Machinery	1.6 (3)	0	0	1.2 (1)	0	1.3 (1)	4.1 (5)	1.8
Precision machinery	5.7 (4)	0	2.5 (3)	0.2 (1)	0	0	8.4 (8)	12.4
Textiles	0.3 (2)	0	1.9 (6)	0	0.3 (1)	0.2 (1)	2.7 (10)	5.0
Shoes	6.6 (2)	0	2.2 (2)	2.1 (1)	0	0	5.0 (5)	6.1
Others	3.6 (6)	0	3.9 (5)	0	0	0	7.0 (11)	4.3
Total	64.7 (42)	1.5 (2)	23.2 (24)	5.0 (7)	0.3 (1)	5.4 (7)	100 (83)	100

Source: Calculated from data provided by administrative office, Masan Free Export Zone.
Note: Figures in parentheses indicate the number of firms.

According to Westlake (1985), with respect to employment objectives, it has been argued that, up to 1984, all the zones in the developing World together employed less than 1 Million workers which constitutes about 2.5% of the officially registered industrial labour force in the Third World. It must be acknowledged that though, the proportion of employment represent total employment for a few countries, for instance, the EPZ's in Mauritius and Singapore employ about 35-55% of the workforce in the manufacturing sector in these countries. Yet the condition of work in the FEZ's is usually harsh. Beside long working hours and poor conditions of service, labour productivity is generally high in the zones as it is in developed market economics, and this is maintained through a rapid rate of labour turn over of about 5-10% a month, so that the total work force is squeezed out, exhausted and is replaced in one or two years (Westlake, 1985) in Shehu (1985). Retrenchment is done at will owing to the absence of unionism. For example, Hamilton (1983), reported that during the 1974-75 economic depression, half of the 40,000 workers employed in Mexico's FFZs were retrenched.

In terms of the objective of raising foreign exchange through Export Free Zones, not much had been achieved. This is attributed to the fact that with the exception of korea, Taiwan and Columbia, the import content of production within

the zones has been quite high, at least 60% in most countries. This stood at 68% in Srilanka in 1983, 73% in Philippines in 1982 (Westlake, 1985). The wages and salaries were low and payment for electricity, water, and transport were highly subsidized. Moreover, the construction of such infrastructure as factory buildings, administrative buildings, roads, railways, bridges, water and electricity supply etc, have high import component. And in most EFZs, where foreign consumer goods are freely imported, workers spent a large proportion of their wages in the purchase of these goods, hence foreign exchange earned was taken out of the country by the metro-politan firms.

The transfer of technology objective has also proved elusive to most of the countries mentioned above. This was not unconnected with the fact that most of the production in the zone utilised simple technologies instead of sophisticated ones. Most sophisticated technical processes are undertaken within the developed countries and only a mere assembly is made in the Third World. Technological transfer was therefore a mirage as this was echoed by the international labour organisation (ILO) that it was such meagre and could not contain adaptation principle enshrined. Despite this, some managerial and quality control of know-how were transferred.

Inspite of the problems analysed, specific results were achieved with respect to rapid industrial growth, especially in those countries that are adjudged the most successful including Korea. According to Hamilton (1983), Taiwan, South Korea, Hong Kong and Singapore did achieve average annual growth rates of 9% during the 1960s. In South Korea, manufacturing sector rose at 23.4% per annum between 1966 and 1972, while the share of manufacture in GNP rose from 15% in 1965 to 26% by 1973. Yet, it is not clear if the proportion of this growth can be attributed to the FEZs. Indeed, it has been canvassed that whatever gains in overall industrial production are achieved, the zones in most of the Third World countries have remained an isolated enclave.

V. LESSONS FOR NIGERIA'S EXPORT DRIVE

Today some of the Countries that are considered successful in their export promotion drive are the most indebted Third World Countries. According to Toyo (1986),the examples of Brazil,South Korea and Poland,showed that export promotion by technologically less development Countries do not diminish foreign indebtedness. Brazil and South Korea are deep in the debt trap. Poland abandoned her revolutionary policy of self reliance and ran into debt trap when in the 1970s She embarked on importing foreign technology with the backing of foreign creait in order to develop sophisticated indigenous products for exports.

The Nigerian Government adopted the export promotion propaganda of the International Monetary Fund and similar multi-lateral dominated bodies as a way out of its economic problems in the mid 1980s. The aim was to pursue policies that could attract foreign loans and direct foreign investments,synonymous with import-substitution that was pursued.

Machineries, equipments and other inputs have to be imported for exports-led industries. Profits will be repatriated, the salaries of expatriate personnel will be paid for in foreign currencies and its remission abroad is permitted, interest on externally borrowed funds and short-term trade debts have to be serviced. Moreover, the locally available inputs will not be utilized by industries directly, they have to be re-processed to a suitable form for industrial usage. This requires equipments and research that demand substantial amount of financial resources. The implications here is that the foreign reserves of Nigeria will be highly depleted.

Export promotion propounded by the International Monetary Fund and accepted by the government of Nigeria has thrown the Country into another debt trap and economic dependence on the Western economies. For instance, export-promotion does not necessarily emphasize the use of local raw materials indicating that the bulk of the inputs required for export-promotion have to be sourced from outside the Nigerian EPZ.

Moreover, the desire for Nigeria to capture foreign markets looks rather illusive as the markets in advanced capitalist states for the exports of under developed nations are severely limited by the extent of the markets. This is in view of the fact that that the trade policies of the leading capitalist economics are so discriminatory to the satellite economies, such that their performance have been adversely low. South Korea in Asia and Brazil in Latin Amirica recorded little success in their quest for export-promotion because of the so called openness of some capitalist states and which is no longer tenable.

A lesson to be learned from export promotion is affirmed by the fact that if the exports are to be from existing industries, it is reasonable to argue that since they are currently working very much below capacity, the effort to export will at best lead to higher capacity utilization. The expectations are that the present levels of sale at home will have to be sustained. This is to solve the real problem of the existing industries which hinges on available raw materials. It is perceivable that export promotion was primarily to transform raw materials imports as much as possible into production for exports. This is to make the foreign exchange lost in raw materials imports to be compensated by the foreign exchange gained through exports. The amount of foreign exchange gained in this way will depend on the

level of value-added. This level for Nigeria and LDCs as affirmed by Toyo (1986) is very low.

Export promotion has a very weak base to thrive in LDCs in the absence of subsidies to the sector. In Nigeria, for this to succeed, this will amount to further subsidising expatriate capital at the expense of the domestic economy. Studies have shown that total investment in Masan FEZ were mainly foreign and even those considered fully owned by the Koreans falter on unproductive grounds. This hitherto could subject the Nigerian state into neo-colonialism where the destiny of the economy is manipulated by imperial capital to their own benefits.

An option out of the Masan FEZ lies mainly in the lessons that may be drawn from it by other countries at earlier stages of their economic development. The fact that Korea's overall policy of export-led growth has, by most assessments been dramatically successful, does not necessarily mean that each component of the policy was equally successful. The Masan FEZ has undoubtedly achieved many of its purpose at a relatively low cost. To a certain extent, the nature of these costs distinguishes the FEZs from most other aspects of Korea's export promotion policy. Large investments in publicity, supplied infrastructure and major tax concessions made this investment to be worthwhile.

The growth of Industrial sector and export markets of newly industrialised countries (NICS) owed much to the United States. The US created conducive atmosphere for the emergence of the NICs in the provision of markets for their products. They encouraged investment and promote the transfer of technology flows as well as provide political and military support for governments that are able to implement their policies against whatever domestic opposition this might create.

But, there is dangers involved in an export promotion drive by developing countries (Frank, 1981). This is because the objectives of industrilisation, employment creation, foreign exchange generation, technological transfer, courting of foreign investment and infrastrastructural development, are deemed to fail with heavy dependence on foreign technology.

Nigeria's export processing zone situated at Calabar, share a lot of characteristics with the Masan FEZ in South Korea. The incentives provided and policy thrusts of Calabar export processing zone are tilted at the same direction, all aimed at achieving the same goals as desired by South Korea. The Calabar FEZ is to generate the employment for the teeming unemployed youths available in this country. It is percieved to achieve same level of technological transfer and managerial skills from the metropolitan nations and also to boost foreign exchange earnings of Nigeria through exports of manufactured goods from the zone. The attainment of these objectives in Nigeria without subjecting the economy into

further problems of debt crisis, balance of payment crisis and dependent nation on imported inputs and foreign experts is far from reality. The experience of Masan FEZ is clear and more than enough to give a warning signal to any Third World nation that seek to adopt the programmes.

Ige (1986), assertedd that export promotion strategy of industrial development does achieve some success, but the costs are not much out of proportion that it is not an option for a country like Nigeria.

VI. POLICY IMPLICATIONS

After 7 years of laying the foundation of the country's export processing zone at Calabar, a lot needs to be done to effectively put the zone into full operation. Inadequate funding and bureaucratic red-tapism is one of the major obstacle prohibiting the smooth take off of the zone. The necessary facilities and infrastructures required to make the zone worth while to attract both local and foreign investors are lacking.

Furthermore, Nigeria's political arena has been in the dark for the past decade and this could strongly discourage especially, the influx of foreign capital into the economy even if the infrastructural facilities and the proposed incentives are tenable. The implementation of the proposed incentives as contained in this paper will amount to another era of neo-colonialism and this could be dangerous for a nation striving to develop industrially and otherwise.

Nigeria is one of the most indebted nations in Africa and to put the zone into proper shape, imports of imputs and machines is inevitable. This may worsen the Nigera debt problem and further subjecgt its citizens into poverty, hunger and misery.

For Nigeria to reap up the fruits of export free zone, concerted efforts should be made by the government towards providing the authority with adequate funds to enable her put in place all the required facilities and intruastructures such as uninterrupted water and power supply, modern and efficient telecommunication system, excellent internal raod net work, modern catering and recreational facilities, banking services, custom services , ware houses etc.

All forms of bureaucratic red-tapism should be removed to allow for smooth execution of policies and projects in the zone. And instead of relying on foreign markets of the West, regional and sub-regional trade should be incouraged within Africa and diversification of trade among less developed countries based on the doctrines of International division of labour. If this is realised, it may reduce the vagaries of over dependence on western capitalist nations.

The government shoud de-emphasize the use of foreign imputs and machines and our own locally sourced raw materials and fabricated machines should be emphasised in producing goods in the zone.

The Nigerian political structure must be stabilized along democratic posture and economic policies ought to be consistent if foreign capital is to be attracted.

The agricultural ptentials in this country should be harnessed and exploited and efforts should be directed at rural development, viz; provision of rural raods water and power supply, health facilities etc. These will make life meaningful for rural population and it could as well attract cottage and small scale industries in rural areas.

The opportunity cost of the export push should carefully be weighted against the benefits to avoid plundering the economy into further crisis as it were during the proceeding system, that is import-substitution.

The adoption of export promotion policies by the government is an acceptance of the fact that foreign capital will highly be subsidised accordingly. Production efforts should be made to support mass domestic needs such that export policy would largely be an extension of domestic production and needs (Shehu, 1986).

Considering the disadvantages of export promotion, Nigeria's focus should be directed at the domestic economy, regional and sub-regional economies before thinking of production for exports to the so called developed countries. This, if pursued vigorously, may yield some fruitful results in terms of exports drive.

VII. CONCLUSION

The main thrust of this paper shows that export-push policy will amount to another era of domination of the Nigerian economy by the foreign firms with imported inputs and technology and this cannot hold any premise for Nigeria's export promotion drive. This paper agrees with Ozo-Eson that "Nigeria's rush toward an export promotion strategy cannot overcome our economic stagnation since export-based industries can also evolve in a dependent structure" (Ozo-Eson, 1986).

An examination of Koreans experience shows that most countries that adopted export promotion as an economic policy are highly indebted and they also suffered high level of foreign exchange depletion, hence, Nigeria's case cannot be an exception. South Korea and other NICs countries succeeded to some extent because of the encouragement, accorded them by the United States through openness and provision of market for NICs products. With respect to Nigeria, the value added of her export is dismally low and the extent of the market for her

products in the developed economies is limited owing to the discriminatory trade policies of the capitalist economies.

To promote exports, this thesis insist that Nigeria should look inward and promote domestic production through the application of locally sourced inputs and technologies. Nigeria should improve in its structure and quality of trade within the regional and the sub-regional African states and other less developed countries (LDCs) of the world.

Finally, let us realised that with the experience of Masan, Nigeria will have borrowed its objectives in developing indigenous led technology that avowd foreign type.

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INFLATIONARY EFFECTS OF THE PETROLEUM INDUSTRY ON THE NIGERIAN ECONOMY

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ABSTRACT

The need for the establishment of a viable petroleum industry in Nigeria has been recognized following a number of market surveys sponsored internally and externally. The establishment of this market is conclusively, due to the existence of a large and steady expanding domestic market for the whole range of basic petroleum products. Petroleum by their very nature are derived primarily from hydrocarbon elements which are found in abundance in Nigeria. It is therefore clearly worthwhile that modern technology be exploited in order to utilize this readily available and large raw materials base for the growth and development of the economy. The establishment of a viable petroleum industry, though capital intensive, is worth embarking on because its products serve to up rage the standards of living of the populace.

I. INTRODUCTION

The development of the economy has increasingly depended on the revenue from petroleum as far back as 1970. Due to the development in the oil sector, substantial resources are becoming available to Nigeria by way of government revenue, private income and foreign exchange. Since oil is a wasting asset, it is the development strategy of the government to utilise the resources from oil to develop the productive capacity of the economy and thus permanently improve the standard of living of the people.

Nigeria's petroleum industry has been described as the most dynamic sector in Nigeria in recent times; and the development of oil resources as the most significant event in recent years. There is no doubt about the fact that oil has been dominating the Nigerian export trade since the gradual decline of the agricultural sector (business in Africa, June 1998). With the increasing dependence on oil revenue therefore, and the virtual neglect of other important sectors such as agriculture, Nigeria has put all her eggs in one basket and the current structural Adjustment Programme justifies it.

This paper is set out to study the linkage between inflation and oil boom and the extent to which persistent inflation in Nigeria has affected the oil revenue and the misplacement of investment strategies.

The paper is divided into five sections, section one is the introductory aspect of the paper. Section two examines the growth and development of the oil industry, section three looks at the economic impact of petroleum to the Nigerian economy. Section four analyses the oil industry and the inflationary pressures in the economy. Finally, section five serves as the concluding part of the paper.

II. GROWTH AND DEVELOPMENT OF THE OIL INDUSTRY

Oil was first struck at Oloibiri in Rivers state in 1958. Later discoveries in Bendel state now Edo state in 1960's and 1970's transformed Nigeria from an insignificant exporter to one of the ten top exporters in the organisation of petroleum exporting countries (OPEC). Production rose from about 67.5 thousand barrels per day in 1962 to a peak of 2,302 thousand barrels per day in 1979. After 1979, a declining trend is observable going from 2,058 thousand b/d in 1980 to 1,439 thousand b/d in 1981. The production level currently is fluctuating based on the market demand of the product. For instance, the third and last quarter production levels of the 1996 indicates that the output varies between 1,896 thousand b/d to 2, 406 thousand b/d (Nzelu, 1997).

The value of export on the other hand grew from $47 million in 1962 to a peak of $25.6, 6 billion in 1980 and after which a decline trend reflecting the glut in world petroleum industry is observable. There is no doubt that Nigeria earned massive petrodollars starting in 1971 and that the earnings enhanced the ability of the country to increase its productive capacity in industry and agriculture through a well thought out investment strategy. When oil export is considered as a percentage of total exports, it is obvious that a structural transformation of major proportions has taken place. In 1962, oil exports represented only 10 percent of total exports, from 1970's to date, the percentages consistently exceeded 90 percentage (Osagie, 1984).

This shows an extreme degree of commodity concentration in the export sector and the vulnerability of the Nigerian economy to adverse conditions in the global market for petroleum. Moreover, as the lion's share of government revenue is derived from petroleum industry, the fiscal fortunes of Nigeria are similarly precariously poised on a single basket of eggs, which in this context is oil. from 1980s and 1990s, Nigeria has been confronted with the serious problem of diversifying its revenue base. The magnitude of the current crisis in the Nigerian oil industry must be clearly handled if properly understood.

The downward trend in crude oil production, export and prices is evident. This has created budget and balance of payment problems whose effects have been felt in all sectors of the Nigerian economy (Helleiner 1994).

Nigeria's oil has two main advantages that stimulate the sales and demand for it. These are in terms of location and quality. The advantage of location include both international shipping charges and security of supply routes.

The quality advantage on the other hand, derives from the low sulphur content, 0.3% for API, 34.6^0 crude oil (O.A Ezeoba Nwokedi 1988).

Nigerian crude oil is also attractive on the western European market because of relatively high fuel yield and excellent blending properties. Its relative low kerosene yield makes it some what unattractive for the much smaller west African market.

Average characteristics of Nigerian crude oil are as follows, specific gravity 34.6^0 API; simple distillation ratios by percentage of weight, gasoline 27.1 percent, middle distillate 41.1 percent, residue 31.8 percent, sulphur, power point 37^0 (Lukman, 1988). These outstanding characteristics calls for the demand of the Nigerian petroleum high in the international market.

III. ECONOMIC IMPACT OF PETROLEUM TO NIGERIA'S DEVELOPMENT

The aim of any economy in developing a particular sector is to maximise economic welfare. Economic welfare thus can be measured by the amount of goods and services available for consumption; and since people consume from income, one can conveniently use total income as measured for gross domestic product (GDP) or Gross National Product (GNP) as a good indicator of economic welfare, hence as one of the criteria for evaluating the petroleum industry's total contribution to the Nigerian economy (Ezeoba, 1983).

The contribution can be examined by reviewing the production and export performance of the petroleum industry. This include payments made by the industry for use of domestic resources, direct contributions to local wages and salaries, rents and payments for domestic inputs.

The production and exports of petroleum has always been on the increase. The volume of exports has equally followed the same pattern as production because the annual average export/production ratio for the entire period is 97.67% which suggests a strong correlation between the magnitudes. Given the level of prices and the value of the barrels of export, one argues that the petroleum sector is contributing enormous revenue to the Federal Government and the entire economy. The table below demonstrates this:

TABLE I: NIGERIA PER CAPITA INCOME, OIL REVENUE AND NON-OIL EARNINGS 1985-1994

Year	Per Capita Income (N)	Oil Earnings (N)	Non-Oil Earnings (N)
1985	913.15	10.9	3.69
1986	912.23	8.1	4.19
1987	879.46	19.0	6.03
1988	935.50	18.1	6.38
1989	983.50	41.3	8.94
1990	1042.75	54.7	13.9
1991	1064.62	68.8	19.3
1992	1077.20	115.4	23.2
1993	1136.53	106.2	32.7
1994	1207.68	118.7	33.8

SOURCE: CBN Economic and Financial Review Vol. 4 No. 2 1994.

From table 1, one can deduce that oil earnings has been on an increase, except in 1986 when it fell from 10.9 to 8.1 but from 1986 to 1994, it has consistently increased with slight fluctuations. The increase in oil earnings has a macro-impact on the entire economy, because it influenced incomes, changed the fasting habits of most Nigerians, more especially the rich class but complicated the lives of the majority poor because of its inflationary tendencies. Total income generated in the petroleum sector has grown steadily over the entire period, its share of total income has also increased significantly. This means that the oil sector has been growing faster than the rest of the economy.

Also comparing the growth performance of petroleum to those of agriculture and manufacturing sectors, while the annual percentage change in value added agriculture decreased from 22.50% in 1985 to 1.17% in 1990/91 and was at 5.34% in 1994 that of petroleum increased from 118.18% in 1984 to 280.33% in 1984 and 1985 respectively. Even that of manufacturing sector has been more consistent than that of agricultural secter.

The impact of petroleum can also be analysed through the direct revenue it accrues to the Federal Government account each year. The government share of crude oil as a result of the various joint venture agreements with the international oil producing companies is roughly 70% of total oil produced (Dr. P.C.O. Nzelu 1996). This revenue is made up of rents. royalty, premia and profit tax. What the producing companies set include

a. recovery of the actual cost of production and
b. profit margin.

Currently, the profit margin stood at 3.6 dollars per barrel while the theoretical technical cost is 3.8 dollars per barrel (E. Osagie 1988). But because of the technicalities involved in the computation of these figures, Nigeria has been losing millions of Naira annually in the oil industry and stands to lose even more in years to come if a comprehensive policy review of the country's energy sector is not undertaken urgently. A reappraisal of policies and regulations guiding the oil industry has become impressive if all avenues of loss and to lay a solid foundation for a more vibrant economy while the oil and gas revenues still abound. The extent of the share of petroleum to the economy is shown in table II

TABLE II: NIGERIA REVENUE FROM OIL AND PERCENTAGE SHARE OF PETROLEUM IN TOTAL REVENUE

Year	Revenue (N)	Share of Petroleum in Total Revenue (%)
1971	603.0	52.46
1972	735.0	41.44
1973	1,368.6	71.36
1974	4,184.0	80.81
1975	4,568.0	86.98
1976	4,834.0	83.97
1977	6,299.2	84.86
1978	5,183.7	86.79
1979	10,433.1	88.89
1980	13,123.4	91.06
1981	17,168.2	93.26
1982	22,730.4	94.86
1983	20,896.0	92.36
1984	24,160.0	96.33
1985	27,186.5	94.47
1986	41,036.3	94.88
1987	38,893.8	96.24
1988	44,109.7	95.89
1989	48,038.0	97.24
1990	46,134.8	98.16

SOURCES: 1. OPEC, Annual Statistical Bulletin, 1990
2. Kaduna Refinery and petro-chemical (KRPC) Bulletin 1991.
3. Annual Budgets

With all the contributions and evidence produced so far, it can be argued that the petroleum sector by virtue of its fast growth rate has gradually spear-headed a structural tans-formation of the National economy. But it has to remain fresh in our minds that the money pumped into the economy if properly utilised would have created economic integration within the sub-sectors of the economy and thereby, boost the productive sectors thus, reduce the degree of the inflation within the economy.

IV. THE OIL INDUSTRY AND THE INFLATIONARY PRESSURES IN THE ECONOMY

The origin of the persistent rise in prices of goods and services can be traced to government and its use of the oil revenue. It is evident that export of petroleum earns valuable foreign exchange in Nigeria, and that petroleum and money are so important to modern living that shortages disrupt essential transactions.

Indeed, the occasional petrol shortages experienced by Nigerian towns and villages due to inefficient distribution, which is as a result of incompetence and corruption on the part of bureaucrats and the business class.

The links between petroleum and money are easily obvious. More important, a proper grasp of the relationship between the domestic and the world economy is essential to the identification of these relationships. The monetisation of petro dollars shows how closely related petroleum is to money stock, which in essence has direct bearing on the inflationary pressures in the economy.

Looking into the rate of increase in money supply in the economy one would not be in doubt as to the over monetisation of the economy by the Federal Government. The enormous post-war reconstruction of the early '70s' and expenditure on the gigantic capital programmes embarked upon by all the governments under the third national development plan show the heavy spending set in motion through the government, enhanced its financial position.

Table III shows the stupendous rate of increase in the money supply from 1972-1982. One would notice that both the currency outside banks and the total supply have been on the increase, thus testifying the fact that the economy has been continuously over-monetised. The central bank Anti-Inflationary task force declared that the annual growth rate in money supply escalated to 56.6, 75.8, 81.5 and 91.3 percent in the first four months of 1975 respectively (CBN, Economic and Financial Review Vol. 19, No. 1 1982). This annual growth rate of money supply especially in 1974 and 1975 far outstrips those of all the developed industrial countries as well as the developing countries of the world. Even compared with other OPEC countries where the growth rate of the money supply

has been generally high, the recent growth rates of money supply in Nigeria is alarming.

TABLE III: NIGERIAN MONEY SUPPLY (N MILLION)

End of Year	Currency Outside Banks	Demand Deposits	Money Supply
1972	385.2	315.0	700.2
1973	435.9	391.3	827.2
1974	569.8	608.5	1,178.2
1975	1,030.7	1,013.4	2,044.1
1976	1,540.0	1,941.8	3,481.8
1977	1,593.5	2,453.9	4,047.4
1978	2,157.2	2,628.6	4,785.8
1979	2,350.8	3,795.8	6,146.6
1980	3,185.9	6,040.9	9,226.8
1981	3,862.0	5,883.0	9,745.0
1982	4,223.0	5,826.0	10,049.0

SOURCES: 1. CBN, Economic and Financial Review, Vol. 17, No. 2 1979.
2. CBN, Economic and Financial Review Vol. 19 No. 1 1982.

The alarming rate of money supply is influenced by the earnings from petroleum. As indicated from table III, the amount of money kept outside the banks is about 50% of the total money supply therefore the monetary authorities had no direct control of such monies, and since the same is used to facilitate transactions, its velocity will have a direct influence on the inflationary pressures experienced in the economy. These makes it difficult for the monetary authorities to control inflation, since the parameters are not accurate for proper policy implementation.

To even make things worst, the investment projects designed to provide economic and social infrastructures were expanded contrary to the stipulated way to provide externalities for all sectors of the economy and increase the entire currency in circulation as business men and contractors called for and withdrew money from the banks, and the Udoji committee, which drab doubled the basic minimum wage in the public sector, represented a climax in inflationary tendencies that led to the widespread strikes and unrest in the private sector on which the udoji recommendations were not binding. The employers, however, passed on the cost of increased wages in the form of increased prices to the consumers. The increase in price did not only affect consumer goods but extended to increase in rents and food

stuffs which left the worker worst off in purchasing power. The current manifestation of the galloping inflation had made the civil servants, peasant farmers to live below the level of living conditions. The market traders have continuously and consistently demanded for their own share of the 'oil boom' money by increasing the various prices of goods. The consequent effect of this, was the continued importation of consumer goods which had a negative effect on Nigeria's balance of payment records.

The oil boom years equally witnessed a massive recycling of petrodollars. In the case of Nigeria, we imported food, cement, hosted FESTAC and our compatriots went each summer on spending sprees to Europe and America. Our political class in the second republic fell in love with and acquired private jet planes, the widespread practice of over invoicing of imports and other forms of foreign exchange linkages further promoted recycling.

Nigeria got caught in an international debt problem, whose gravity is still holding the economy backward.

The pronounced inflation of the '70s' was carried over to the '80s' and '90s', so that this led to continuous agitation for higher wages in almost all the sectors in 1992/93. With all the increases in wages and salaries, plus the increased government expenditure, including the Federal capital development expenditure, Nigeria was thrown into a serious galloping inflation problem as prices of items continue to increase at about 100-200 percent monthly which led to a substantial reduction in real wages.

V. CONCLUSION

It is clear that Nigeria earned sums of foreign exchange from the export of crude petroleum in the 1970s, 1980s and 1990s, and that they borrowed large amounts from the Eurodollar money market starting from 1978. How was the money obtained spent? The agricultural sector, in spite of the Green revolution, operation Feed the nation and Go back to land remained under developed; our manufacturing enterprises remained largely inefficient and excessively dependent on imported inputs; our infrastructural facilities remained out dated and inadequate. The lion's share of the oil money was used to finance over paid contracts, pay agents and consultants performing one service or the other and finance distributive trade, particularly the import of such consumer items like rice, stock fish, salt and even water. The way the oil money was spent widened inequalities in the interpersonal distribution of income and wealth in the Nigerian society. Oil agents, contractors and politicians improved their wealth position at the expense of salary earners, farmers, the unemployed, the old, the disabled, the sick and the children.

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FISCAL FEDERALISM AND REVENUE ALLOCATION FOR ECONOMIC DEVELOPMENT IN NIGERIA (1991-1998)

By:

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ABSTRACT

This paper reviews the principles, the structure, the development and performance of the Nigerian Fiscal Federalism since 1946 when the first Fiscal Commission was established by the colonial government. It shows that the economy has witnessed several changes in revenue mobilisation, allocation, principles and formulae. However, these changes have not been satisfactory to all the participating units in the economy. It also shows that the economy has been structurally defective, first depending on agriculture and then later on oil. This mono-cultural disease, coupled with some government policies of creating more states and local councils without consideration for their economic viability, provided the background for fiscal and social crisis which emerged in the recent revenue mobilisation, allocation and fiscal operation in Nigeria. The paper also draws attention to the fact that the search for acceptable fiscal operation in Nigeria is not yet ended. On this note, the paper goes ahead to make several relevant proposals that will help ameliorate the fiscal crisis in the economy.

I. INTRODUCTION

Nigeria operates federal system of government with a federal Government located at the Federal Capital territory Abuja, 36 states and 774 local government councils. But in reality, the country is administered under the military rule as a unitary state. This is because anytime the military intervenes in the democratic government, its first assignment is to suspend the constitution of the Federal Republic of Nigeria which defines inter-governmental fiscal relation among the three tiers of governments i.e. Federal Government, State governments and local government councils. When the constitution is suspended the relevant sections and provisions which defines the constitutional responsibilities of each level of government become null and void. The military administration has been in power for most of 39 years of independence, while the Federal constitution preceding each military administration is traditionally on suspension, it is therefore difficult to regard Nigeria strictly as a federation under the military regime. Generally.

under the military administration, the fiscal operation in Nigeria is largely unitary with the Federal Government hijacking all the most lucrative and elastic sources of revenue belonging to states and local government councils. It is in recognition of this fiscal imbalance between the Federal Government and other levels of government that the sharing of the Federally collected revenue using an approved revenue Allocation formulae becomes imperative for economic development in Nigeria.

This paper is prepared in four sections. Section one examine the review of related literature on the general principle of fiscal federalism in Nigeria. section two deals with the structure of Nigerian fiscal federalism and Revenue allocation. section three analysis proposals for an effective fiscal federalism that would enhance economic development in Nigeria. While section four contain the conclusion.

The choice of whether a country becomes a unitary system, confederation or a federation is political, economic, cultural as well as historical decision, once made have implication for political governance, macro-economic management and economic development as well as attainment of social stability. The section of the paper below will therefore review related literature on the general principles of fiscal federalism in Nigeria.

II. LITERATURE REVIEW.

Fiscal operations are typically carried out by many units of government or Jurisdictions in a federal system of government (Musgrave Musgrave (1984).

In Nigeria this multi-unit system includes the Federal Government, 36 state governments and 774 local government councils. Canada, Australia, West Germany and United States of America are further illustrations of a three tier arrangement, whereas the United Kingdom, Switzerland and Holland operates with two-tiers only i.e. Central and local governments. This multi-unit fiscal arrangement as it prevails in any particular country reflects the historical forces of nation-building, wors and geography. Typically modern nations have not been formed as a free association of individuals but have emerged by combination of pre-existing sovereign jurisdictions which then join into national units. In so doing member states may retain certain fiscal prerogatives while surrendering others to the fiscal Jurisdiction of the federation. Political history thus tells much in explaining the operation of fiscal federalism in any one country, but not all. There are also good economic reasons why certain fiscal functions should be operated on a more centralised level while others should be decentralised. A study of any federal constitution shows clearly how complex are the motives and factors involved in the formation of federal systems, (Adedeji(1969). But inspite the

variations, it is possible to discern what might be termed the essential principles of fiscal federalism. One, the allocation of functions between the Centre and other two levels of government (i.e state and local government councils). Whatever may be the basis for diving the spheres of government among the three tiers of government, each should be given adequate fiscal powers if it is to be able to discharge its duties and responsibilities and still preserve its autonomy. fiscal independence is a concomitant of local self-governance, which the federating units desire to preserve. It is however ararity for the fiscal powers granted to federal states and local government councils to prove adequate at all times. As W.A. Mackintosh has observed "Nothing is more certain in a federal constitution than that division of functions made reasonably decades ago will prove impracticable under the changed circumstances of a later age and that a disparity between functions and revenue resources will emerge".

The Australian Commonwealth Grants Commission in its first report published in 1934 also observed that "It is impossible in a federation to adjust nicely the functions entrusted to the members to their financial resources, some members may have more financial power than actually needed and another less. Consequently, some adjustment may have to be made in the form of redistribution of the revenue from the more favoured to the less fortunate members of the Union".

The second feature or principle of fiscal federalism is the freedom that both the centre and units government exercise in the disbursement of revenue. In order words full freedom of financial operations must be extended to both federal as well as to lower level governments in order that they may not suffer from a feeling of neglect in the discharge of their normal activities and in the achievements of their legitimate aspiration.

Thirdly, resources available to the various levels of government must be adequate, as far as possible, to meet the need and responsibilities of each government. Such revenue must also be elastic in response to expanding needs. Adequacy and elasticity of resources are two requirements which must go hand in hand. It is desirable to allocate sources of revenue to the unit of government in order to achieve stability. It is more important for local revenue to be stable than the state revenue, and more important for state revenue to be stable than the Federal revenue. This should be so because, in an emergency, the federal government with its greater recourse to internal and external borrowing is better able to bear financial shocks and strains than the state and local governments. for example whereas revenues from property and income taxes fluctuate little with changes in the level of income, revenues from export taxes are relatively unstable. thus, while property and personal income taxes are appropriate as sources of

revenue for the state and local governments, export taxes, because of the instability of their revenues, are more appropriate as a federal source of revenue.

The fourth essential principle of fiscal federalism is administrative economy and efficiency. The fiscal system should minimise fraud, evasion, cost of collection, and double taxation. These objectives can only be achieved if tax Jurisdiction is allocated between the federal and units governments in full recognition that certain taxes are better administered in the interest of efficiency and minimisation of cost at the federal level while others are better administered at the local level. In modern federations, particularly in Nigeria attempts have been made to allocate fiscal powers in such a way as to achieve the criterion of minimising cost and maximising efficiency. Yet a great deal of centralization of tax administration has taken place, with the unit governments being left with little fiscal autonomy. thus, the efficiency criterion tends to conflict with the principle of fiscal independence. Yet, given the scarcity of administrative resources, it seems that it is an inevitable principle of fiscal federation that fiscal power should tend to be concentrated in the federal government.

Finally, if economic equilibrium is to be achieved, not only should the federal government have constitutional authority to impose direct and indirect taxes, but it should also be given constitutional powers to transfer resources from the relatively more developed parts of the country to the relatively less developed parts by means of grants-in-aid. Indeed poverty anywhere in a federation is a limitation to prosperity everywhere, (Adedeji, 1969).

These then are the basic requirements of fiscal federalism. A study of federations all over the will no doubt reveal considerable variation in the extent to which these principles are present. For example (Okigbo, 1965) defined fiscal federalism as the existence in one country of more than one level of government, each with different expenditure responsibilities and taxing powers in varying degrees. (Nicholas, 1975) defined fiscal federation as a series of legal and administrative relationship established among units of government possessing varying degrees of real authority and Jurisdictional autonomy. (Hyman, 1992) defined fiscal federalism as a division of taxing and expenditure functions among the levels of government in a federation. A federal system of government allows both centralised and decentralised collective choices to be met by each tier of governments. Thus the proponent of decentralisation argues that the lower levels of government perform more efficiently than higher levels of government. Thus a local government will perform more efficiently than the state government, while a state government will perform more efficiently than the federal government. However, others especially the advocates of centralisation believe the opposite. The truth lies in between the two extremes. The facts of the situation are that some

governmental functions are more efficiently performed by lower levels of government while others are carried out better by the federal government depending on the content of the spillover costs and benefits in the functions to be performed (CALL, 1980). Those functions with national spillover costs and benefits are better performed by the federal government while those with geographic spillover costs and benefits are better reserved for such geographic areas. Fiscal federation recognises that the role of the state in economic management may have to be performed by two or three governments and not one central government as in a unitary state. Fiscal federation, by specifying the functions to be performed by each tier of government and providing for the financial resources to be used in supplying public goods and services, demands prudence in the management of these resources in order to achieve stability and economic development.

III. THE STRUCTURE OF NIGERIAN FISCAL FEDERALISM AND REVENUE ALLOCATION.

Fiscal structure relates to the disposition of powers to raise revenue and incur expenditure among the tiers of government (Adedeji, 1969). In Nigeria, the disposition of tax powers and expenditure responsibilities is among the federal, states and local government councils. The search for an ideal fiscal structure for Nigeria has been a long one, dating back to 1946 when the colonial government appointed Sir sydney Phillipson the then financial Secretary to the Nigerian government as Commissioner of revenue to work out detail of the financial arrangement under the 1946 constitution in the light of (a) the revenue estimated to be derived from the regional councils' share of direct tax plus any other revenue from fees, licences etc declared to be regional (b) the block grant from Central revenue. The first type of regional revenue was termed "declared revenue" while the second was called non-declared revenue. It was now left for the commissioner to develop, (1) The criteria for declaring revenue as regional (2) the basis for determining the size of the block grant from Central revenue (3) the formulae for allocating these grants among the regions (now states). The Commissioner in his recommendation recognised the supremacy of the central government under a unitary constitution and as such the fiscal supremacy of central government was unchallenged and no problem of central-regional fiscal equity had yet arisen. This supremacy of the central government was enhanced by the fact that the regional council possessed no legal powers of appropriating revenue for regional expenditures. Instead, all revenues accruable for regional purposes ere voted to the regions by the Nigerian legislative council.

According to (Adedeji, 1969), the position of regional authorities was analogous to that of a "house keeper" who was provided from time to time with a variable amount for running the house to the best advantage possible. It was entirely for the house holder (the central government) to determine what amount should be made available at any given time for maintaining the house. The formula derived by the Commissioner for determining the aggregate of declared regional revenue was in close keeping with the spirit of a house-keeper-householder relationship.

The formula for deriving the total amount available as central grants to regional authorities may be stated as follows:-

A = R -(g+s+r)- E where

A = total central grants available for regional allocation (non-declared regional revenue)

R = Total Nigerian revenue.

g = grants received under the colonial development and welfare Act.

s = amount set aside as estimated surplus

r = aggregate of total declared regional revenue

E = total recurrent of the central government (i.e excluding expenditure on colonial Development and welfare schemes).

Thus, the house-holder not only provided for his own expenditure first, but also made due allowance for a budget surplus before allocating the balance remaining among his three house-keepers". While it was relatively easy to derive a formula for determining the total grant available for allocation to the regions, it was not so easy to work out the formula for sharing this total grants among the three regional authorities.

It was an attempt to fashion out a workable and acceptable formula for sharing of revenue among the Central and regional authorities that many commissions were set up after the maiden commission in 1946. Between 1946 and 1960 when Nigeria got her independence, three of such Commissions were appointed by the British government to help proffer solutions to the problems of revenue allocation in the country. These were Hicks - Phillipson Commission of (1951), Chicks Commission of (1953) and Raisman Commission of (1958) the last before independence. The issue of revenue allocation re-occurred immediately after independence in 1960 and old method of appointing Commissions was adopted by the Federal Government.

Between 1960 and 1979, four different revenue allocation Commissions were appointed to provide equitable revenue allocation formula for the country. These

20% in 1991 to date. Although the federal government share of the Federation Account declined from 53% in 1980 to 48.5% in 1991 to date the statutory allocation to special Fund, which is under the control of the Federal Government increased progressively from 2.5% in 1980 to 7.5% in 1991 to date. The establishment of the Federation Account and Stabilisation Fund in 1989 neutralise the effectiveness of the Revenue mobilisation, Allocation and fiscal Commission as a potent organ of revenue sharing in Nigeria. This is because it is not all revenue paid into the Federation account that is shared according to the new Revenue Allocation Formula. For example the Report of the Revenue Mobilisation, Allocation and Fiscal Commission in 1990 showed that in 1989 and 1990 only 72% and 66.4% of revenue paid into the federation Account respectively were shared according to the new Revenue Allocation Formula, while the balances were transferred into the Stabilisation Fund which is under the Federal Government.

TABLE I. FEDERATION ACCOUNT AND STATUTORY ALLOCATION FORMULA (1980-1998)

	1980 (%)	1982 (%)	1987 (%)	1990 (%)	1991 (%)	1992 (%)	1988 (%)
1. Federal Government	55.0	55.0	55.0	50.0	48.5	48.5	48.5
2. State Government	34.5	30.5	32.5	30.0	24.0	24.0	24.0
3. Local Government	8.0	10.0	10.0	15.0	20.0	20.0	20.0
4. Special Fund	2.5	0.5	2.5	5.0	7.5	7.5	7.5
TOTAL	100	100	100	100	100	100	100

Source: Approved Budgets of the Government of Federal Republic of Nigeria (1980-1998)

The disbursement of the Stabilisation fund as grants by the Federal Government to lower levels of government is done without the Revenue Allocation Formula. In respect of the non-declared revenue which make up the Federation Account, two issues are still unresolved.

First, how the Government will determine the aggregate of such revenues, since they are the basis of government's grants to lower levels of government apart from the statutory allocation which is shared by the Federation Account Allocation Committee of the Federal Government.

Second, Should the Federal Government have complete freedom in fixing the amount of the grants or should there be some guiding principles? And once the aggregate is decided, on what basis is it to be allocated among the 36 states and 774 local government councils?

These issues are addressed in the next section of this paper.

TABLE II. FEDERAL GOVERNMENT FINANCE ESTIMATES IN BILLIONS OF NAIRA (1991-1998)

	1991	1992	1993	1994	1995	1996	1997	1998
Federal collected revenue	224	248	260	246	213	232	254	241
less Federal Government independent revenue	(18)	(21)	(18)	(12)	(14)	(20)	(24)	(26)
less Value Added Account	(20)	(17)	(26)	(22)	(20)	(23)	(22)	(26)
Total Federation Account	186	210	222	212	179	189	208	189
DISTRIBUTION OF FEDERAL ACCOUNT								
Federal Government 48.5%	48							
State Government 24%	90	102	108	103	87	92	101	92
Local Government 20%	45	50	53	51	43	45	50	45
Special Fund 7.5%	37	42	44	42	36	37	42	37
Total Expenditure 100%	14	16	17	16	13	15	15	15

Source: Federal Ministry of Budget and Planning (1991-1998) Lagos.

Note: Special fund is made up of allocation for derivation, (1%) ecological problem,(2%) development of mineral producing areas (3%) and stablization funds (1.5%).

V. REVENUE ALLOCATION FOR ECONOMIC DEVELOPMENT.

The review of Nigeria experience of fiscal federalism from 1960 to 1998 showed that the federal constitution has remained suspended for most of the years. Hence, inter-governmental fiscal relations that occurred under the military administration did not conform to the spirit of fiscal federalism. The strict division of powers to raise revenue and incur expenditure among the tiers of government did not exist under the military regime with the suspension of the federal constitution. These have adversely affected fiscal management and economic performance in Nigeria. Today all the three tiers of governments are having fiscal crises resulting in fiscal imbalances. The Federal Government fiscal operations from 1980s and 1990s have resulted in overall deficit ranging from 2.1 percent of GDP in 1984 to 15.4 percent in 1995 (Bello, 1996). These overall deficit were incurred in the attempt to provide social goods and services to the people and were financed largely by borrowing from both domestic and external sources. These reckless borrowing and subsequent mismanagement of resources has led to macroeconomic instability in the country. The fiscal operation of the state and local governments are in crises as result of inadequate revenue base. The deficit recorded by the state have been low ranging from₦ 2.2 billion in 1991 to₦ 5.5 billion in 1995/96. However much of the statutory responsibilities have been neglected while capital expenditure have been abandoned with adverse

consequences for economic development and growth. It is therefore in reviewing our vision about the prospects for economic development to really examine, the causes of government failure in Nigeria. Theoretically, government intervenes in a market economy in order to achieve efficient allocation of resources so that the economy can attain equilibria in all sectors, and thus enhance the general standard of living of the people. However despite the abundant human and natural resources with which the country is endowed, the economic performance has been deteriorating with the passing of each year due largely to the acceleration of inflationary pressure which averaged 57.8 percent between 1991 and 1996. Unemployment is ungoverned with increasing insecurity of life and property while the economy remains precariously dependent only on export of crude oil which provides over 80 percent of the foreign exchange earnings and government revenue but less employment. The objectives of this section therefore is to present some proposals for consideration by arguing that a return to the tenets of fiscal federalism would enhance the prospect of economic development in Nigeria in a post military era. Some of these proposals are presented below:

i. In order to promote fiscal balance and economic development, there is need to restore the provision of federal constitution with respect to inter-governmental fiscal relations. This would ensure balance between the functional responsibilities of each tier of government and the financial resources to be used. Thus the three tiers of government working in unity and co-ordination would enhance fiscal management and economic development of the country.

ii. There should be optimum number of states and local governments in the country. Given the limited financial resources that can be federally collected to meet the recurrent and capital expenditure of the three tiers of government, the guiding principle for further creation of states and local government should be economic viability. This is because there is inevitably a high level of recurrent expenditure in the creation of new states and local governments. These include accommodation for the officers and staff of the new states and local governments, provision of basic infrastructural facilities such as House of Assemblies and legislators welfare; the construction of secretariat and government houses etc. However, the limited financial resources from the Federation Account being received by each government either state or local government is currently inadequate to meet the provision of public goods and services.

iii. Review of functional Responsibilities of each tier of government. In order to ensure fiscal federation and achieve political stability, there must be a review of division of the taxing and expenditures function so that an optimal structure of functions would emerge. This should precede the review of revenue sharing formulae and allocation from the Federation Account should be related to the functions being assigned to each tier of government. In addition, there may be need to provide specific grants from the Federation Account to other tiers of government rather than the Federal Government to take more responsibilities that could best be performed by the state or local governments.

iv. The devolution of fiscal responsibilities among the three tiers of government should de-emphasis the unscientific notion of sharing of national cake rather than backing it. All the tiers of government should be trained in the art of cutting their coat according to their cloth. The fiscal transparency and accountability should be the guiding principles of inter-state federal-fiscal relationships - allocation of revenue on the basis of derivation and allocation on the basis of even progress should be encouraged. Through this derivation principle, each state should receive, in addition to the full amount of its share of the declared state revenue, a block grant from non-declared revenue in strict proportion to the contribution which that state had made to the total federally collected revenue. However, to have applied this principle strictly will inculcate a sense of financial responsibility and thereby facilitate further devolution of financial powers. We shall also recognise that this will lead to.

   a). Weaken the power of the Federal government
   b). uneven distribution of revenue resources, creating very rich and very poor states.
   c). the break-up of the Federation
   d). keep a poor states in humiliating positions of dependence. Moreover data are not even available to determine how much revenue have been derived from each state.

Fortunately, the principle of even progress do not have these disadvantages l isted above.

The spirit of a federal system any where in the world is to have a balance development and even progress through out the federation and Nigeria is not an exception. Therefore to preserve the unity of Nigeria, the balance development and uniform or identical standard of living of the people through out the country, the allocation of revenue and expenditure to all state should take cognisance of the following:-

a). The constitution allocates to the states certain areas of activity and the state must be provided with the funds to undertake these activities.

b). The states irrespective of their financial viability are expected to perform the same functions and should be given enough funds to perform those functions.

The principle of equality should be strictly applied to the distribution of resources among the states and local governments, bearing in mind that all states and local governments within the federation are expected to perform the same statutory functions and should therefore be treated equally. This principle has proved over the years to be the least controversial of all the competing principles for sharing revenue in Nigeria. While encouraging the application of the principle of equality in sharing revenue in Nigeria, we should try to discourage the sharing of revenue in Nigeria on the basis of the population figures due to the following reasons.

Admittedly, population sensus is one of the most politicised issues in Nigeria's political system. This is because most Nigerians believed that high population is the only gate way to the sharing of National cake, getting more states, local governments and council wards, winning election, getting political appointments and attraction of essential amenities of life. These are the reasons why the successive census figures have been so disputed that the outcome of the various population counts generated one upheaval or the other. It is therefore not out of place to say that one of the critical variables that led to the collapse of the First Republic was the 1963 disputed census figure. The figures were rejected as a result of gross manipulation and abuse of the figures. The figures were rejected while the subsequent 1973 exercise was also rejected because of its widespread unacceptability.

The author is therefore reluctant to give serious weight to the index of population in any revenue allocation formulae in Nigeria.

V. CONCLUSION

This paper has concentrated on the economic rational for a decentralised fiscal system as against centralization which is the main feature of a unitary state. The paper also discussed the basis for intergovernmental fiscal relations among the levels of government in a federation and the structure of Nigeria fiscal federalism under the military administration when the federal constitution was on suspension. Some current problems in Nigeria fiscal federalism and revenue allocation are also discussed.

These include the fiscal crises of the states and local governments as a result of unequal fiscal capacity between them and the federal government that allocates to itself the most lucrative sources of revenue and the largest portion of the federation account.

The paper also discussed the implications of fiscal imbalance between the lower levels of government and the federal government for the macro-economic development in Nigeria. Some proposals were made on how to promote fiscal balance between the federal government and two other layers of government in Nigeria (i.e. states and local government councils) These proposals include:

a). That even though it is impossible in a federation to adjust nicely the functions entrusted to lower levels of governments to their financial resources. It is necessary to increase their share of the federation account to match with additional responsibilities entrusted to these levels of government by the federal constitution. The federal government should try to increase the volume of federation account, declare all revenue accrued to it to be shared by the three tiers of government because increasing the ratio without increasing what is to be shared will not improve the financial position of these levels of government.

b). As a matter of fact, any decision to create states and local government in f uture should be based purely on economic viability and consideration, since the financial resources that may be federally collected to meet the current and capital expenditure of these new states and local government are limited.

c). There is need to review the principles currently in use for the sharing of r evenue horizontally among the states and local government. For instance the use of population principle not only create fiscal imbalance among states and local government but also affects adversely the prospects of generating accurate census figures in future.

d). Finally, the principle of derivation should be given heavier weight in the sharing of federation account to compensate the people in the area for environmental pollution that characterised such areas.

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