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ENCOURAGING GROWTH TO REDUCE POVERTY IN NIGERIA

BY

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ABSTRACT

This paper discusses the challenge of poverty reduction in Nigeria from the macroeconomic perspective. It argues that the country's growth performance needs to be improved substantially in order to raise standards of living to appreciable level and achieve a visible reduction in poverty. A broad range of economic and social indicators of growth is utilized to explain the unsatisfactory growth performance in the past. The essence of our argument is that macroeconomic policy inconsistencies, structural bottlenecks, and institutional deficiencies have increased the risk of investing in Nigeria both by local and foreign investors, undermined growth, and militated against poverty reduction objectives. It concludes that a systematic attack on poverty would be difficult with the current total debt stock.

I. INTRODUCTION

The incidence of poverty has been on the increase in Nigeria. Available data placed 43 percent of Nigerians as living below the poverty line in 1985 - 86. The ratio increased to 53 per cent in 1996 and rose steeply, thereafter, reaching an estimated 70 million people or 66 percent of the population in 1999. With these figures Nigeria now accounts for nearly one-fourth of sub-Saharan Africa's poor (Global Economic Prospects, 2001)

In the past poverty regarded as a rural phenomenon in Nigeria, but recent studies have concluded that urban poverty has grown faster than rural poverty, owing largely to the massive migration from rural areas to the cities, with the incidence of urban poverty almost matching that of rural poverty (World Development Report, 2001). The poor in Nigeria have limited access to savings and credit facilities, good roads, pipe borne water, innovative technology and output markets. They are predominantly in the agricultural sector, and in petty trading, utilizing traditional inputs. Moreover, female-headed households, widows and single mothers are particularly vulnerable to poverty.

Against this backdrop, the Federal government has in recent years embraced poverty reduction as one of the core objectives of the macroeconomic policy of the

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government. In addition, the multilateral financial institutions such as the International Monetary Fund (IMF) and the World Bank have equally emphasized the central role of poverty reduction strategies in their programs with Nigeria.

This paper investigates the interrelationships between sectoral macroeconomic policies that underpin growth and provide the basis for poverty reduction. Understanding the policies that lead to sustainable economic growth is a first step in developing strategies for improving the lot of the poor. Although a number of papers have been written on poverty in Nigeria, most of these studies have focused on measuring and monitoring poverty in the country [1], while others have assessed the impact of poverty alleviation strategies [2]. Those that have addressed macroeconomic policy issues adopted different approaches [3] and came up with conflicting results. This paper contributes to the growth and poverty reduction debate from a sectoral perspective, by shedding light on the implications of inconsistencies in macro-economic policy, while focusing on poverty reduction as a central objective of policy. Economic growth in Nigeria is analyzed using data spanning the period 1980-99.

To put the discussion into proper context, the rest of the paper has been divided into five sections. Following the introduction, Section II gives a brief overview of poverty alleviation strategies that have been adopted in Nigeria. Section III presents the theoretical background and review of the literature on the linkage between growth and poverty reduction, while section IV undertakes a sectoral analysis highlighting macroeconomic policy inconsistencies that have militated against growth, and contributed to greater incidence of poverty. Section V, concludes the paper.

II. POVERTY ALLEVIATION STRATEGIES IN NIGERIA

Successive government in Nigeria had collaborated with various international organizations notably the World Bank, United Nations Development Programme (UNDP), United Nations Children Education Fund (UNICEF), and United Nations

[1] see for example studies by Anyanwu 1997, Job, 1998 and Ajekaiye.pppppp
[2] see Ogwumike, 1998, Okunmadewa, 1998 and Ndekwu, 1998.
[3] see Aigbokhan, 1997, Olaniyan, 1997, and Sagbanah, 1997.

Industrial Development Organization (UNIDO), to initiate specific multi-dimensional and multi-faceted programmes to meet the needs of the poor. These programmes, focused on employment creation, improved welfare and increase productivity. They include the programmes undertaken by the National Directorate of Employment (NDE), Directorate of Food, Roads and Rural Infrastructure (DFRRI), Peoples Bank, and Community Banks, as well as the Better Life Programme.

For instance in fiscal 1997, the government through its budget of " growth and development" established a poverty alleviation programme called the Family Economic Advancement Programme (FEAP) with an initial allocation of ₦4.3 billion. The programme was designed to facilitate the setting up of productive cottage enterprises by communities and cooperatives that would utilize locally fabricated equipment in the rural areas. In 1998, budgetary allocation to FEAP was increased by ₦3.3 billion to ₦7.6 billion.

In terms of their impact on the targeted groups, all these initiatives achieved limited success owing largely to lack of commitment, continuity and coordination notwithstanding the huge financial resources committed to them. It was against this backdrop that the Obasanjo Administration, which came into office in May 1999, set up a panel to review, rationalize and harmonize the functions of all sundry poverty alleviation agencies, to enhance their effectiveness. The Poverty Alleviation Program (PAP) was, consequently introduced to bring immediate succour to Nigerians living below the poverty line. The PAP was geared towards socio-economic empowerment of the people, which was to be achieved through programmes targeting and direct provision of employment opportunities. The government instituted a fund, to finance such projects as, rural electrification, water supply, primary health care, agriculture, food security, education, and direct employment of youths. In line with these targets, a number of projects were embarked upon with about 223,300 people employed or 0.2 percent of the population (Taiwo, 2001). However, despite the fact that substantial budgetary allocations were made in fiscal 2000, the impact of PAP was hardly felt. This probably explains why the government replaced the PAP with the National Youth Employment Scheme in fiscal 2001.

III. THEORETICAL BACKGROUND AND REVIEW OF LITERATURE ON GROWTH POVERTY REDUCTION

A. Theoretical Background

From the basic macroeconomic model of an open economy;

$Y = C + 1 + (X - M)$ ...(1)

Where Y = National Income

C = Consumption

I = Investment

X = Exports

M = Imports

This equation reflects transactions, valued at market prices of the entire economy for a specific period (generally a year) covering goods, services, income and transfers from abroad. From equation (1) we can deduce that;

$Y + M = C + 1 + X$ ...(2)

Where; the right hand side is the supply equation and the left hand side is the demand equation

Equation (1) could be further rearranged to derive;

$Y - C - 1 = X - M$ .....(3)

since $S = Y - C$, where S = savings, we can write equation (3) as;

$S - 1 = X - M$ ....(4)

Equation (4) shows that in an open economy, the savings investment balance is equal to the current account, balance of the external sector. When investment exceed savings there is a deficit in the current account, and when investment is less than savings, the current account shows a surplus. Equation (4) can be further disaggregated into three sectors viz; private, government and the rest of the world. Given that consumption can be broken into private and government, we could indicate that;

$$C = Cp + Cg \quad ...(5)$$
$$I = Ip + Ig \quad ....(6)$$

Where Cp = private sector consumption
Cg = public sector consumption
Ip = private sector investment
Ig = public sector investment.

We now have;

$$Y = Cp + Cg + Ip + Ig + X - M \quad ....(7)$$

But income can be disaggregated into private sector income and taxes;

$$Y = Yp + T \quad ......(8)$$
$$(T - Cg - Ig) + (Yp - Cp - Ip) = X - M \quad ....(9)$$

Equation (9) can be restated as;

$$(Sg - Ig) + (Sp - Ip) = X - M \quad ... (10)$$

In other words fiscal deficit plus private sector savings investment gap is equal to the current account balance. The macroeconomic policy implications of the above exposition is that to enhance growth, an economy must seek to control fiscal deficit, encourage private sector savings, as well as improve the viability of the external sector. To elicit economic recovery and growth, to reduce poverty, emphasis must be placed on investment, a supply phenomenon while savings are a prerequisite to increased investments. To address the issue of poverty therefore, it is expedient to implement appropriate and consistent macroeconomic policies that would promote efficiency in the financial sector, reduce import dependency and curtail fiscal deficit.

B. REVIEW OF LITERATURE

The endogenous growth model has been widely applied to explain growth in developed and developing countries. This model is based on the assumption that, for a given starting level of real per capita income, growth is enhanced by lower government consumption, higher levels of investment, and improvements in terms of trade among other factors (Barro, 1996). It has, however, been observed that inefficiencies as well as structural constraints could result in a condition of decreasing marginal productivity of capital. Thus, increase in investments may not automatically imply increase in output. While we subscribe to this view, we are inclined to accept that barring structural impediments, investments create employment opportunities, which could be harnessed to reduce incidence of poverty.

Excellent surveys of the literature explaining Africa's dismal economic performance in recent years and attendant inability to reduce poverty are provided in (Collier and Gunning, 1999). Specifically, (Bevan, Collier and Gunning, 1999) compared the Nigerian and Indonesian economies. They drew on the unifying elements, such as, the determinants of growth, the importance of historical and organizational factors in determining alternatives to redress poverty, as well as the relative roles of ideas, interests, and ideology in influencing decision-making. They found that although both countries benefited from the discovery of oil and were liberated from colonialism, they differed greatly on how they dispersed their windfall profits and the environment that they created for development.

In their empirical analysis of growth and poverty reduction, (Roemer and Gugerty, 1977) concluded that economic growth benefited the poor in almost all the countries in which substantial growth had taken place. They posited that economic growth appeared to be the best way to reduce poverty and that targeting income redistribution at the expense of economic growth was inimical to poverty reduction.

The existence of a direct relationship between overall growth and income of the poor, such that the income of the poor rises proportionately with overall growth was the contribution by (Dollar and Kraay, 2000). They also observed that openness to foreign trade benefited the poor just as much as it benefited the entire economy, while inflation exerted more pressures on the poor. High degree of exchange rate overvaluation, excessive indebtedness and substantial country risk for investment were found by (Collier, Hoeffler and Patillo, 1999) to have hampered growth in sub-Saharan African countries and with high population growth of the region increased the incidence of poverty.

Most of the empirical literature on growth and poverty reduction, emphasized the relationship between output, growth and investment. A large number of combined cross-sectional times-series econometric models found a positive and significant relationship between the rate of growth of real GDP and the ratio of investment to output. Studies by (Barro, 1996), (Collier and Gunning, 1999) include a near-global sample of countries, while that of (Ghura and Hadjimichael, 1996) deal with African countries. International comparisons also suggest that the problem of low investment is central to the explanation of low growth and high poverty incidences in sub-Saharan Africa. All through the 1990s, (Hernandez-Cata, 2000) indicate that the ratio of investment to GDP for the region fluctuated around 17 per cent, below the ratios attained in Latin America (22 per cent) and Asia (29 per cent). In the light of empirical evidence, it is obvious, therefore, that raising investment ratios must be an integral part of any strategy to enhance growth, improve living standards and, consequently reduce poverty.

A corollary to the low investment ratios, is the perception by domestic and foreign investors of low after, risk-adjusted rates of return on capital. A collection of studies edited by (Collier and Patillo, 2000) provide considerable evidence for the negative relationship between private investment and risk, coupled with the risky business environment in Africa. Large fiscal deficits, often discouraged private investment through increased cost of capital. Thus the fiscal deficits created distortions and permitted capital fight at the expense of growth and poverty reduction.

Another obstacle to growth and development in sub-Saharan Africa were international trade restrictions. For instance (Rodrik, 1998), found that trade policies in the area had significantly discouraged growth, while (Coe and Hoffmaister, 1998), on the basis of their gravity model found relatively low levels of bilateral trade with industrialized countries resulting mainly from the small size of the average African economy and low rates of economic growth since 1970. These findings confirmed the notion that trade liberation would encourage growth.

While some schools of thought may argue that higher income per capita may not be enough and that poverty reduction must be accompanied by more equitable distribution of income and wealth, we are inclined to go along with (Ozo-Eson, 1998) that, given the low level of per capita income in Nigeria, redistribution alone could not provide a long-term solution to the issue of poverty in the country.

IV. ANALYSIS OF ECONOMIC GROWTH INDICATORS IN NIGERIA

The analysis in this paper is predicated on the notion that, as countries become richer, on average, the incidence of income poverty falls while other indicators of well-being, such as average levels of education and access to health facilities, tend to improve as well. In Nigeria, despite the rich resource endowment, the country has remained one of the poorest economies in the world, with a per capita income of about ₦30,000.00 (US$330.0) in 1999. This section analyses developments within economic sectors that have undermined poverty reduction objectives of the government.

A. MONETARY DEVELOPMENTS

The analysis is focused on the ability of the Nigerian monetary sector to encourage investment for economic growth and reduction in poverty. Specifically, from the theoretical framework and empirical evidence, financial savings must be stimulated, to enhance availability of liquidity, which would translate to higher levels of investment. It is the ability of the financial system to effectively and efficiently mobilize resources as well as create credit that encourages savings.

The size if the financial super-structure as measured by gross domestic investment/GDP ratio, averaged 10.8 per cent between 1980 and 1999, while savings/GDP ratio averaged 13.5 per cent in the same period. From Figure 1, investments declined substantially in Nigeria, over the years and were below savings with large gaps.

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1. Computed from data in the CBN Annual Report, 1999. See also Africa Regional Database.

The low savings and investment ratio in Nigeria, during the period, is indicative of the shallowness of the financial market and overall decline in economic activity. In Nigeria, the problems of low investments are central to the explanation of low growth. Gross domestic investment as a proportion of GDP averaged 22 percent in low-incomes economies, 26 per cent in middle-income countries and 18 per cent in high-income economies in 1997 (World Development Indicators, 1999) Gross domestic savings relative to GDP averaged 17 per cent for low income, 26 per cent for middle-income and 22 per cent for high – income economies in 1997.

Another indicator of development in the monetary sector is movement in real interest rates, which are key price variables in the macro-economy. From the point of view of monetary policy implementation and financial market operations, the level and structure of interest rates provides a gauge of monetary policy stance and play an important role with regard to savings mobilization and demand for and supply of loanable funds. From the point of view of the real sector, interest rates are key factors with respect to decisions on financing physical investment. Positive real interest rates generate positive returns on investment and savings, which enhance growth. In Nigeria, the Minimum Rediscount Rate (MRR) serves as the nominal anchor, and prior to 1996 it was negative in real terms (Table 1). Thus returns on financial assets were negative in real terms, culminating in discouragement of financial intermediation as the propensity to consume and import were stimulated (UNDP, 1997). These developments encouraged corruption, inefficient investments and lured banks into unproductive lending and non-performing loans in their portfolio. However, between the period 1996-1999, interest rates became positive in real terms following the liberalisation policy in 1994 and the resultant increase in MRR. It is pertinent to observe that policy reversals in the early 1990's militated against the ability of interest rate to send adequate signals to the markets. Another indicator of monetary development, is interest rate spread between deposit and lending rates (intermediation margin), used to measure banking system's efficiency. This had been persistently high in Nigeria, reaching 16.6 percentage points in 1998, suggesting the inefficiency of the sector for providing financial services that encouraged investment to generate economic growth.

Figure 1: Savings and Investment Ratios 1980 - 99 (in percent of GDP)

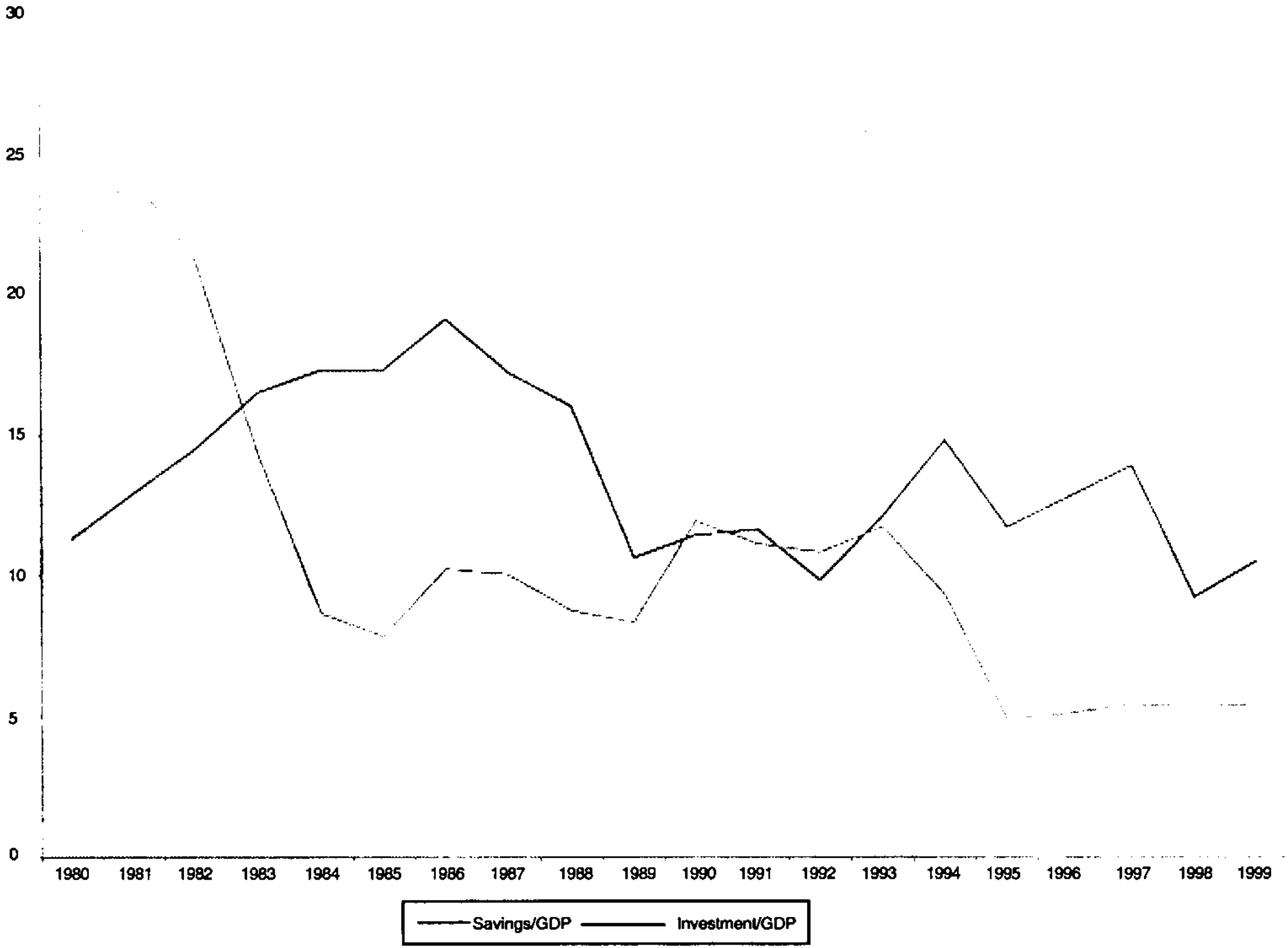


Table 1. Selected Nigerian Economic Indicators, 1980 – 1999.
(Period averages, in units indicated)

	1980-83	1984-87	1988-91	1992-95	1996-99
Monetary Developments					
Broad Money					
Level (₦' million)	16,552.1	25,001.6	60,022.1	225,686.3	505,241.8
Growth	17.9	11.8	30.9	39.0	22.2
As % of GDP	31.4	32.0	25.4	24.0	17.0
Currency Outside Banks/M2	24.2	21.3	24.3	31.6	33.4
Savings/GDP (percentage)	13.8	17.7	12.4	12.1	11.6
Gross Domestic Investment/GDP	20.4	9.2	10.0	9.2	5.3
S – I/GDP (percentage)	-8.6	8.5	2.4	2.9	6.3
Interest (MRR)	7.0	10.7	16.1	17.6	14.6
External Sector					
Overall Balance (₦' million)	-579.6	-5,501.7	-16,224.4	-95,249.0	-149,845.0
Current Account Balance/GDP (%)	-0.1	-2.0	-0.3	-3.3	-0.4
Months of Import Equivalent			4.8	2.2	8.5
External Reserves (₦' million)	2,419.7	2,753.9	23,983.1	38,006.8	300,799.7
Foreign Private Capital/GDP (%)	1.3	1.3	0.3	2.3	0.5
Real Sector					
Real GDP growth rate	-1.0	1.7	7.6	2.3	2.9
Agricultural Output/GDP	32.9	43.5	39.9	38.3	39.9
Capacity Utilization	64.0	39.6	40.6	34.1	33.4
Consumer Price					
Level (index, 1985 = 100)	54.2	104.3	269.4	1,113.0	3,002.0
Inflation	15.4	15.3	31.7	58.0	13.6
Government Sector					
Total Expenditure net lending/GDP	41.1	27.7	27.9	26.3	19.8
Capital Expenditure/GDP (%)	13.3	7.9	7.6	8.8	9.2
Overall Budget/GDP	-0.2	1.7	-7.2	-7.6	-3.0
Domestic Debt/GDP (%)	26.6	37.9	30.4	30.4	16.7
External Debt/GDP (%)	11.0	49.1	103.7	83.9	78.7

Sources: Compiled from CBN Publications.

From the empirical literature, broad money relative to GDP is used as an indication of monetization of the economy. The ratio tends to be higher as stability is achieved in macro-economic management. In Nigeria, Broad money relative to GDP fell from 31.4 percent in 1980-83 to 25.4 per cent in 1988 – 91 reaching an all time low of 17.0 percent in 1996-99 (Table 1). This trend reflected the distress in the financial sector, culminating in lack of confidence in the banking system, and consequent dearth of investment.

Banking system credit remains the main vehicle through which changes in the money supply are regulated. The ratio of domestic credit provided by the banking sector to GDP is used to measure the growth of the banking system because it reflects the extent to which savings is stimulated. This ratio decreased from 23.7 per cent in 1990 to 10.3 per cent in 1997 suggesting that banks had departed from their traditional role of savings mobilization, and reinforcing the existence of a large informal sector for funds. This is further reinforced by the ratio of currency outside banks as a proportion of broad money. It averaged 24.6 per cent in the review period emphasizing self-financing in Nigeria. The overall monetary sector developments, including financial sector distress, were such that the desired macroeconomic stability, which would have promoted sustainable economic growth to reduce poverty were severely compromised.

From Table 2, in the United States and the United Kingdom (Nigeria's major trading partners) the ratio of savings and investment to GDP are consistent and the gap between the ratios very narrow. These economies are characterized by efficiency in their financial services delivery, which encourage intermediation between savers and lenders. As these economies developed, savers accumulated claims on financial

Table 2. Selected Economic Indicators for Nigeria's Major Trading Partners, 1990 - 99 (Period averages, in units indicated)

	US		UK	
	1980-90	1990-97	1980-90	1990-97
Monetary Developments				
Broad Money				
Growth	4.9	6.6		
Level ($' million)				
Domestic Credit*/GDP	114.4	148.7	123.0	129.3
Savings/GDP (percentage)	19.0	16.0	19.0	15.1
Gross Domestic Investment/GDP	20.0	18.0	17.0	16.0
Real Interest Rate		6.7		4.2
Interest Rate Spread		–	2.2	3.0
External Sector				
Overall Balance ($' million)				
Real Effective Exchange Rate (1990=100)		106.5		102.5
Current Account Balance/GDP (%)				
Months of Import Equivalent				
External Reserves ($' million)	15,596	58,907	20,651	32,317
National Income and Prices				
Real GDP growth rate	3.0	3.0	3.2	2.0
Per Capita Real GDP				
Level		29,080		20,870
Growth		2.8		3.7
Consumer Price				
Average Annual Growth Inflation	4.2	2.9	5.8	3.0
Government Sector				
Total Expenditure net lending/GDP	22	22.2	38.3	41.7
Capital Expenditure/GDP (%)				
Overall Budget/GDP	-2.8	-1.6	-4.6	-5.3
Domestic Financing/GDP (%)	-2.8	-0.9	4.3	–
External Debt/GDP (%)	–	–	–	–

B. THE EXTERNAL SECTOR

In an open economy, to encourage investment, barriers to trade must be eliminated. Policies implemented should be such that would stimulate export led growth. Prior to the Structural Adjustment Programme (SAP) in 1986, trade and exchange control measures were employed to address balance of payments problems, with import licensing requirements and outright banning of the importation of some commodities being the most used. Export promotion was embarked upon to enhance foreign exchange inflows and diversify the export base. All these measures had limited success, as trade arrears emerged in 1982 and the level of foreign exchange reserves dwindled. Refinancing agreements that involved issuance of promissory notes were entered into, to spread the maturity of debts.

After 1986, in order to achieve balance of payments viability, market-determined exchange rate mechanism was put in place through the Second-tier Foreign Exchange Market (SFEM), as trade and exchange controls were removed. There were some policy reversals between 1994 and 1998 as customs and excise tariffs were reviewed downwards and a number of imports hitherto banned were removed from the import prohibition list. Arrangements for imports verification and duty payments were to be strengthened in 1998 with the proposed Automated System for Customs Data (ASYCUDA) which is yet to take off.

To guage the contribution of net exports of goods and services to overall national output we have employed the ratio of the current account balance to GDP in this study. The ratio was negative all through 1980-99, indicating higher levels of imports to exports, as the balance of payments was persistently in deficit and the export sector was dominated by one product- crude oil. The sudden collapse of oil prices in 1980 – 81 as well as reduction in OPEC quota, meant economic crisis for the country. By 1988, the price of oil had fallen to its lowest level since 1973. Prices in the 1990s have been lackluster and never really recovered to the pre-1980 levels. The composition of imports remained virtually unchanged throughout the period, as capital goods and raw materials constituted the bulk. Other factors that contributed to the balance of payments disequilibra were non-performance of the non-oil sector, increased external debt burden, and misalignment of the exchange rate of the naira.

Again, growth in external reserves had not been too impressive in Nigeria as it had been extensively used to finance continually overall balance of payments deficit. It fell between 1980 and 1988, picked up between 1989 and 1991, due to lagged effects of abolishing exchange controls introduced in July 1986. Between 1992 and 1999 it increased, as a result of favourable oil prices in the international markets.

Compounding the unimpressive performance of the external sector, the naira also depreciated sharply from 1986 to date. The annual average exchange rate of the naira vis-à-vis the United States dollar was 0.5464 in 1980, deteriorating to 92.3 by 1999. Theoretically, depreciation of a currency, should encourage exports and discourage imports, Nigeria, however, being a mono-culture economy, the desired effects of depreciation were not realized. Instead, the impact of high real exchange rate volatility had been inflationary, which promoted neither growth nor employment to reduce poverty. Black market premium, an indicator of the restrictiveness of foreign exchange allocations as well as macroeconomic imbalances still prevail.

In low-income countries investment can exceed savings if foreign savings are available. This would be in form of foreign direct investment in equity and management by nonresidents in enterprises. From Table 1 the level of foreign direct investment/ GDP ratio had been dismal suggesting that foreign investors had found the costs and risks of investing in the country too high and moved their capital to relatively more stable countries such as Ghana, Botswana and Uganda. The external sector could, thus, not be relied upon to generate export led growth, and create employment to reduce the incidence of poverty.

C. FISCAL SECTOR

The fiscal sector remains the major sector through which government's commitment to reduce poverty can be effectively gauged. Budgets that are pro-poor and pro-growth will orientate fiscal expenditure toward the social sectors, basic infrastructure and other activities that help the poor to participate in, and benefit from, the country's economic growth. A close examination of Table 3 and Figure 2, confirm that the government had not been too committed to the issue of poverty reduction in Nigeria. Apart from the fact that, until recently there was no specific poverty alleviation policy, capital expenditure on social and community services which is generally regarded as pro-poor, was for the greater part of the twenty years covered by this study less than 15 percent of total capital expenditure; it attained it's highest level of 24.2 percent in 1980 and has declined, since then. From 1987 to 1999, it achieved the lowest ratio relative to the other categories of capital expenditure, suggesting that the government had only been paying lip service, to the poverty reduction issue. On the other hand, capital expenditure on transfers, which includes amortization of debt and allocations to government agencies and parastatals, was as low as 2.2 percent in 1980, gaining prominence, thereafter, as it increased significantly to an all-time high of 75.9 percent in 1992.

Secondly, it was observed that between 1980 and 1999, total government expenditure relative to GDP declined steadily, and averaged 28.6 percent in the twenty year period (Table 1). This ratio, attained a peak of 41.1 percent during the period 1980-83 which was the era of the second civilian administration in the country suggesting the expensive nature of democratic regimes in Nigeria. Total expenditure relative to GDP averaged 17.4 per cent for low-income, 19.9 per cent for middle – income and 32.1 per cent for high-income economies in 1996. Nigeria's ratio is close to that of developed economies, but rather than executing productive ventures, large sums were spent on so-called "priority projects" of doubtful viability. Consequently, basic infrastructure, such as roads, water supply, telecommunications and electricity were allowed to deteriorate to the current state of disrepair.

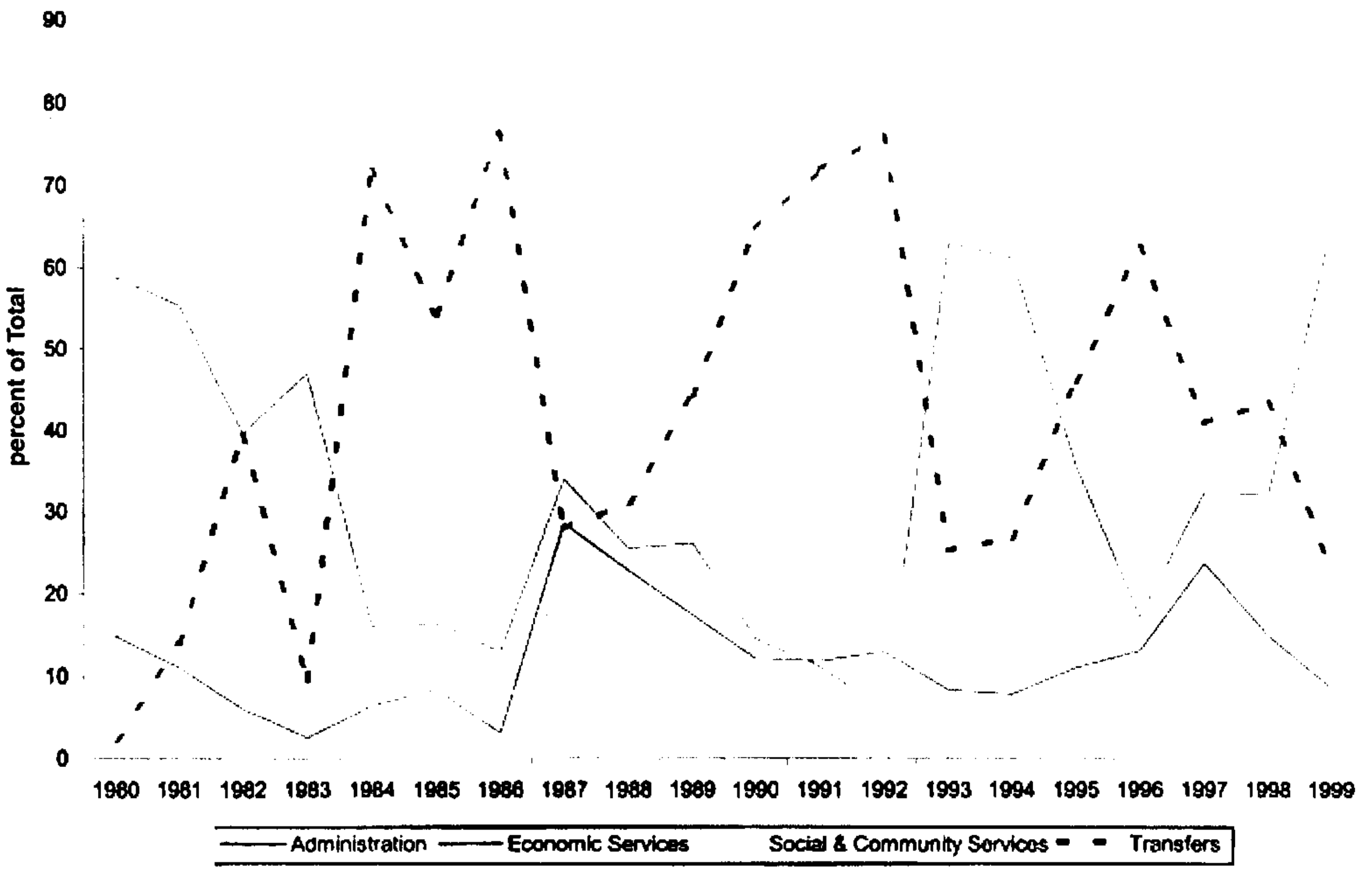
Table 3: Functional Classification of Capital Expenditure (% of Total)

Year	Administration	Economic	Social & Community Services	Transfer
1980	14.8	58.8	24.2	2.2
1981	11.0	55.3	19.8	14.0
1982	6.0	39.6	15.1	39.3
1983	2.5	46.9	21.0	9.6
1984	6.4	16.0	5.8	71.8
1985	8.4	16.3	21.1	54.1
1986	3.1	12.9	7.7	76.9
1987	28.5	33.9	9.7	27.9
1988	22.8	25.5	20.7	31.0
1989	17.4	26.1	12.3	44.2
1990	12.1	14.5	8.7	64.6
1991	11.8	11.1	5.3	71.8
1992	12.9	5.9	5.4	75.9
1993	8.3	62.8	3.7	25.2
1994	7.8	61.1	4.4	26.7
1995	11.0	35.6	7.6	45.8
1996	13.0	17.1	7.5	62.4
1997	23.6	32.3	3.3	40.8
1998	14.9	32	9.9	43.3
1999	8.6	65.0	3.4	23.0

Source: The Changing Structure of the Nigerian Economy and Implications for Development, 2000.

Thirdly, recall that a government that is committed to enhancing growth has to curtail budget deficit. In Nigeria, the consolidated fiscal position, depicted by overall budget deficit/GDP ratio was within tolerable limits of internationally accepted standards of 3 percent of GDP between 1980-87. From 1988 - 95 it expanded to over 7 percent of GDP and was financed through external borrowing, domestic debt and the draw-down of reserves. The bulk of the domestic financing was from the banking sector, thus crowding out private investment with detrimental effects on growth.

Figure 2. Fuctional Classification of Capital Expenditure



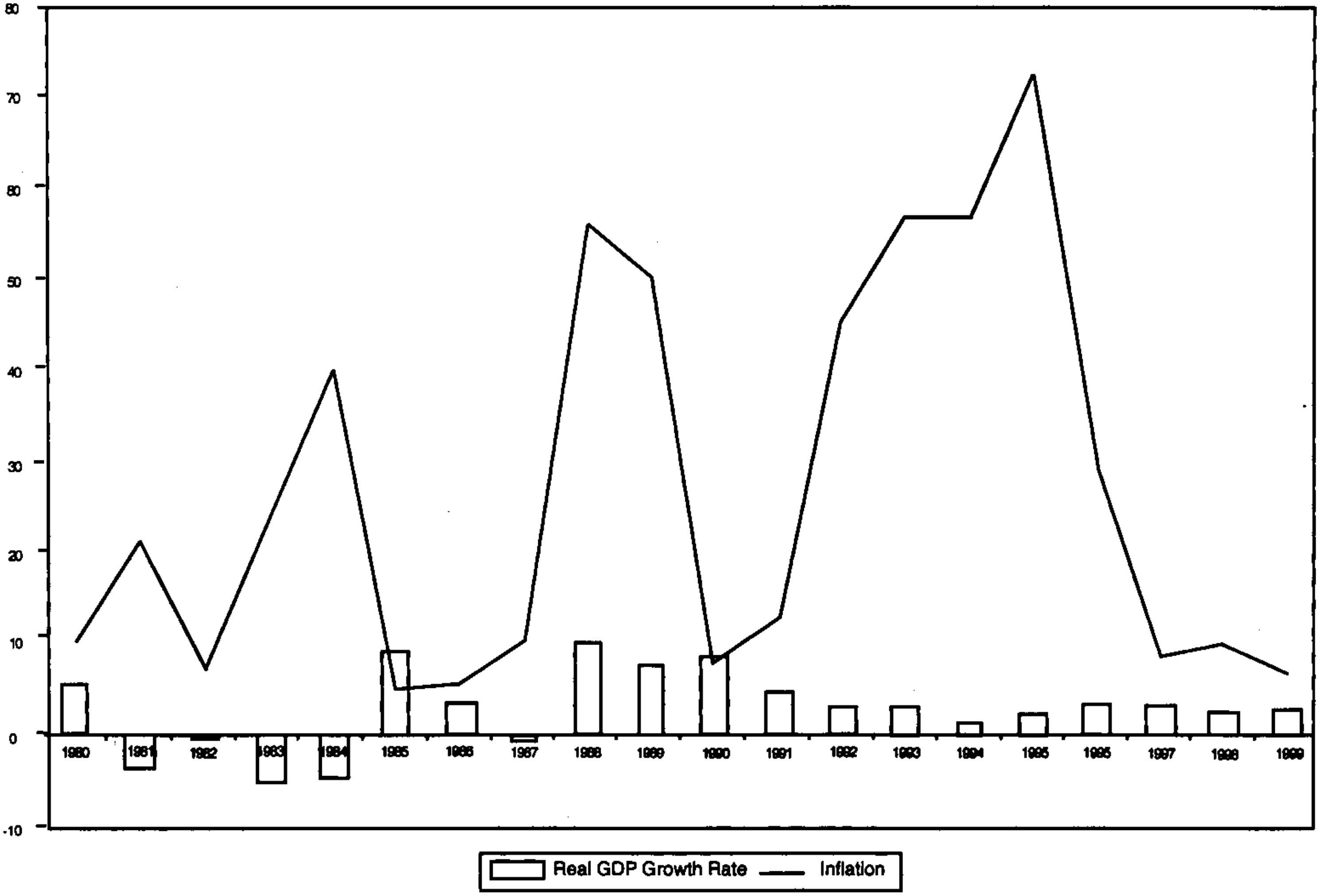
Fourthly, compounding the fiscal recklessness, external debt has remained large. Over the last several years, the government serviced only part of its external debt. Interest not paid and interest accruing on unpaid debt service translated into new debt. Thus despite the imposition in 1994 of an embargo on contracting new debt, the low level of disbursement from existing commitments and on-going debt conversions and buybacks, outstanding external debt stock has not declined. As at end 1999, external debt stock was estimated at US$28.0 billion or ₦2575.0 billion while domestic debt was ₦794.8 billion. In other words, the country's total public indebtedness was ₦3,369.8 billion. Assuming an estimated population of 110 million, this implies a per capita public debt of about ₦30,000.00 was owned by every Nigerian-men, women, babies, disabled, employed and unemployed. Given such a debt burden, it is very difficult to achieve much success in poverty reduction unless there is considerable debt forgiveness.

D. THE REAL SECTOR

Positive growth rates are generally associated with reduction in poverty provided that the population growth rate does not exceed GDP growth rate. In 1981-84, and 1987 GDP growth rates were negative due largely to the vagaries of the international oil market. From Figure 3, it is observed that some chequered growth were made in 1985, 1988 1989 and 1990, but with little sustainable development. Globally growth in GDP averaged 3.8 percent in low-income, 4.0 percent in middle-income, and 3.1 percent in high-income economies in 1997. Nigeria's average growth rate between 1980-99 was 2.7 percent, well below the average for low-income countries. From the empirical literature, when growth is unimpressive, incidence of poverty rises, which explains why poverty had been increasing in Nigeria.

Agricultural sector output contribution to GDP averaged 38.9 per cent between 1980-99 in Nigeria. Value-added of the sector averaged 28 per cent for low-income, 11 per cent for middle income, and 2 per cent for high-income economies in 1997. The global trend indicates a shift of production from agriculture, the more developed a country becomes. In Nigeria, although agriculture has managed to escape the general

Figure 3: Real GDP Growth Rate and Inflation in Nigeria 1980 - 99



slowdown in the economy, the reduction in agricultural labour force rather than get absorbed in the manufacturing sector, migrate to urban centers without employment, thereby, aggravating the poverty issue. The sector continues to be plagued by such problems as inadequate supply and use of farm inputs, low rate of adoption of modern technology, poor disease and pest controls, environmental hazards (including land constraints) and poor harvest implements.

A corollary to these problems are the high trade barriers imposed by industrial countries on agriculture and processed food imports, along with agricultural subsidies. These two factors have contributed to the decline in Nigeria's share of world trade in such products as cocoa, coffee and rubber. Furthermore, Nigeria, lacks the technological and financial resources to develop product standards effectively, meet industrial countries' import requirements and bring disputes when standards are used to discriminate against exports.

Rapid industrial development has become the main focus of economic development as industrialization tends to propel economic growth and quicken the achievement of structural transformation and diversification of productive base. It enables a country to utilize its factor endowments and to depend less on the external sector for its growth and sustenance. With his realization, Nigeria adopted various policy measures and development plans to promote industrial growth, including the indigenization decree, and the 3 – year National Rolling Plan. The programmes emphasized diversification of the production base, export orientation and increased domestic sourcing of inputs. The direct involvement of government in productive activities was to be reduced through the privatization and commercialization programmes. In our view, industrial policy in Nigeria has been largely misdirected. The country has pursued mechanization at the expense of labor-intensive production system, which would have created employment opportunities, encouraged growth and reduced poverty.

Given the general deterioration in infrastructure, political uncertainties, and high level of insecurity of lives and properties, average capacity utilization has been decreasing, culminating in capital wastage and decumulation of assets. From an average of 64.0 per cent between 1980 – 83, capacity utilization deteriorated to 40.6

per cent between 1988 – 91 and further to an average of 33.4 per cent between 1996 – 99 (Table 1). The dismal performance had been attributed to increased risk of investing in Nigeria, low rates of return on capital, labor and total productivity, weak raw material base, poor technological base, low industrial research and policy induced shocks.

Inflation gyrated from 10 per cent in 1980 to a high of 77 per cent in 1995. It was brought down to 10 percent in 1997, and single digit from 1998 (Figure 3). Maintaining the inflation rate at a low rate ensures that the exchange rate remains stable and economic fundamentals are such that would promote growth and development, to reduce poverty.

Social Indicators

Table 4: Selected Social Indicators of Nigeria

Sub-Sectors	1995	1996	1997	1998	1999
Education					
Adult Literacy Rate	57.0	57.0	57.0	57.0	57.0
No. of pupils per primary school	483	456	492	506	518
No. of pupils per secondary school	724	882	942	960	985
No. of pupils per tertiary institution	2,343	2,396	2,451	2,475	2,847
Percentage of Annual Budget Allocation	13.0	10.8	11.5	9.6	11.1
Human Development Index	0.4	0.4	0.4	0.4	0.4
Health					
Population per physician (No.)	3,707	4,706	4,839	4,977	4,479
Population per nursing staff (No.)	605	1,023	1,014	1,044	906
Population per hospital bed (No.)	1,477	1,555	1,632	1,738	1,564
Life expectancy (years)	52	53	52	52	52
Environment					
Total forest area protected (sq. km million)	9.1	9.1	9.1	9.1	9.1
Protected forest area as % of total area	10.0	10.0	10.0	10.0	10.0
Deforestation per year (%)					
Reforestation per year ('million ha./yr.)	13.4	1.1	1.1	1.1	1.1

Source: CBN Annual Report and Statement of Account, 1999

Compared to her major trading partners, the performance of social services sector of the Nigerian economy had been less than satisfactory for the period in which data was available 1995 – 99 (Table 4 & 5). An efficient social services sector is considered to be essential for an even, integrated and sustainable development of the economy. It is also important for enhancing the standard of living of the people and reducing the incidence of poverty. Afterall, the raison d'etre of growth and development is the creation of an enabling environment for people to enjoy long, healthy and creative lives.

In recognition of the significance of social sector development, the international community decided on a target date of year 2000, when all countries should accomplish specific targets in education, health, water and housing (UNDP 2000) . Unfortunately, Nigeria has lagged behind in all the areas. For instance, life expectancy as a general indicator of a country's health status, is often cited as overall measure of populations' welfare and quality of life. It averaged 59 years for low-income, 69 years for middle income and 77 years for high-income economies in 1997. For Nigeria it was 52 years, well below the average for low-income countries.

The Human Development Index (HDI) is used as a composite indicator of purchasing power, physical health and educational attainment. It is expressed as a value between 0 and 1. Countries with HDI below 0.5 are considered to have a low level of human development, those with values between 0.5 and 0.8 have a medium level and those above 0.8, a high level. Nigeria with a HDI of 0.4 from 1995 – 99 is low on the human development ladder. The reasons for this are clearly evident and include among others low per capita income, low access to healthcare, and low adult literacy rate. The relatively constant figure, is indicative of stagnation in the economy.

The percentage share of budgetary allocation can be interpreted as reflecting a country's effort in education. In Nigeria, from 1995-99 it fluctuated between 9.6 and 13.0 per cent resulting in irregular payments of teachers' salaries, limited reading materials and dilapidated school buildings and general decay in the educational system. Furthermore, service delivery of key institutions designed to mitigate the living standards of the vulnerable group were hampered by deterioration of basis facilities, poor funding, unprecedented high incidence of industrial strikes especially, in the education and health sub-sectors as well as civil strife and disturbances, particularly, in the Delta area. Electricity generation has remained in precarious state with supply and distribution always unstable and unreliable.

Table 5. Selected Social Indicators for the US and UK

Sub-Sectors	US 1980	US 1990-97	UK 1980	UK 1990-97
Education				
Adult Literacy Rate				
No. of pupils per primary school				
No. of pupils per secondary school				
No. of pupils per tertiary institution				
Percentage of Annual Budget Allocation				
Human Development Index		0.9		
Health				
Physician per 1000 people	1.8	2.5	1.6	1.5
Hospital bed per 1000 people	5.9	4.1	9.3	4.7
Life expectancy (years)	74	76	74	77
Environment				
Total forest area protected (sq. km million)		2.1		
Protected forest area as % of total area				
Deforestation per year (%)		-0.3		
Reforestation per year ('million ha./yr.)				

Source: World Development Indicators, 1999

V. CONCLUSIONS AND POLICY IMPLICATIONS

With an estimated population of 110 million in 1999, land area of 900,000 square kilometer, adult literacy rate of 57 per cent and life expectancy of 52 years, enhancing economic growth is a sine qua non for reducing poverty and encouraging social development.

Our analysis of economic growth from the sectoral perspective lead us to the following conclusions:

- The level of saving is low in the country. It is even lower than the average for low-income economies. Even the low savings are not translated into investments as there are substantial gaps between the two ratios. The implication is the existence of leakages in the financial sector. It was also observed that interest rates were negative in real terms up till 1996, which discouraged savings mobilization, and impinged on the ability of the rates to send adequate signals on returns to financial assets to market participants. Banking sector credit to the public sector also crowded out investments to the private sector, and undermined growth. The financial sector distress further inhibited the efficient transfer of funds from surplus units within the economy to deficit units.

- Despite reforms and improved global economic conditions, Nigeria has not put in place policies necessary to raise living standards by improving export shares in traditional markets and encouraging rapid diversification. The economy is still highly dependent on the petroleum industry, while imports are predominantly capital goods and raw materials and the size of external debts are burgeoning. Foreign direct investment that could have complemented low domestic investment are not forthcoming because of the relatively high risks and costs of investing in the country.

- In the fiscal sector, budgets had not orientated expenditure towards productive infrastructure, social services and other activities that are pro-poor. Instead projects of doubtful viability were executed as overall deficit/GDP ratio averaged more than 7 per cent between 1988 and 1995, and was financed by the banking sector, thus crowding out private investment. Total debt had also been growing compounding the fiscal recklessness.

- In the real sector, between 1980 – 99, overall economic growth slowed because of the absence of a viable and stable macroeconomic framework, poor infrastructure, and inadequate enabling environment for private sector expansion. The slowdown had been widespread, affecting every segment except agricultural, which improved marginally. Manufacturing the hallmark of industrialization had declined substantially.

In terms of policy recommendations, in all the sectors, the government can make substantial strikes by providing good governance, eliminating rent-creating distortions and enforcing strict rules of fiscal discipline. With effective governance, Nigeria must adopt genuine action plans with explicit targets, adequate budgets and effective organizations that would guarantee transparency, security of lives and property, maintenance of law and order to tackle poverty and succeed. The government must rearrange priorities in public expenditure to promote efficiency, increase productivity, and provide an effective safety net to the poor.

In the monetary sector, the government can also reduce investors' risk by improving the quality of the investment environment. Banks that do not adhere to laid down regulations and procedures must be sanctioned to avoid distress in the sector and reduce currency outside banks. This would boost the efficiency of the sector and also reduce activities in the informal segment of the market.

The country would have to strengthen her trade-related policies to improve efficiency by removing the public sector from direct involvement in the production of marketable goods and services, and enhancing productivity in the non-oil sector. A systematic attack on poverty will be difficult with the current levels of debt stock.

Specifically we are advocating that conditions under the HIPC initiative should be rigorously pursued to achieve macro-economic stability, correct distortions and realign the economy such that the country would be poised to quality for debt forgiveness.

Industrial policy should be redirected towards labour-intensive methods of production rather than mechanization as the economy has abundant supply of skilled and semi-skilled, workers. There must be a deliberate effort to pursue economic growth that promotes human development in all its dimensions, as well as optimum utilization of resources. A society that is marred by internal strife, conflicts and coups d'etat, cannot put in place a sustainable process for growth and development to reduce poverty.

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