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REAL SECTOR POLICIES IN THE 2004 BUDGET

By

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Introduction

Economic development in any economic system revolves around the issues of the character, structure, pattern and the evolution of desirable inter-personal relations of production, allocation and the utilisation of available resources in the economy. Thus, in Nigeria's quest to optimally develop and efficiently manage such available resources, equitably allocate and effectively utilize them and subsequently put economic development firmly on course, national budgets are usually prepared as the short-term components of an underlying medium term plan for the management of the economy within the conception of the framework of the prevailing development problems.

Incidentally, the democratically elected civilian government in Nigeria inherited an economy characterised, among several problems by (FRN, 1998):

(I) declining capacity utilisation in the real sector;
(ii) poor performance of major infrastructural facilities worsening the performance of the real sector;
(iii) large budget deficit; and
(iv) rising levels of unemployment and inflation

Additionally, the Nigerian economy faced grave development problems of import dependence, weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities and low level of social services which all combined to hamper the performance of the real sector in Nigeria.

Determined to move the Nigerian economy and society to a more desired state, the civilian government released the Nigerian Economic Policy (NEP), 1999-2003 in which it feels better placed to articulate ways of using its subsequent annual budgets to realize the development goals stated in that policy document. Thus, the civilian government imbibes annual budgeting as a tool for effectively managing the Nigerian economy under varying themes within the framework of economic recovery since 2000. Within this framework, the thrust of annual budgets in Nigeria has been to lay a solid foundation for a private sector-led economic diversification and growth in which unemployment and poverty will be reduced relying more on the real sector of the economy.

Within the framework of economic recovery enroute the private sector led growth, Budget 2004, termed "Economic Reform Agenda for 2004 and

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beyond" is designed, to reinvigorate the economy and put it on the path of sustainable growth, development and poverty reduction. The critical issue for this paper is the extent to which the real sector policies in the 2004 budget are set to attaining the foregoing established objectives. Against this background, this paper is in 6 parts. Following this introduction is part II which examines the Nigerian real sector. Part III looks at the features which constitute some threats to the success of policies on the real sector while part IV makes a review of the real sector policies in the 2004 budget. Parts V and VI focus on the prospects of the real sector in 2004 and conclusion, respectively.

II. The Real Sector of the Nigerian Economy

The real sector of the economy is composed of such sub-sectors as agriculture, manufacturing, mining (solid minerals), crude oil and gas. Given this composition, it is no gainsaying that the real sector of the Nigerian economy constitutes the main driving force of the country, such that no sustainable development can be achieved without a well-developed and viable Real sector. It is generally accepted by policy makers, economic planners, researchers and professionals irrespective of their ideological disposition, that considering the contributions of the sector to the Gross Domestic Product (GDP), national income and employment, its appropriate and adequate development constitutes the most desirable means of improving the quality and the standard of living of the populace. It is, therefore, a veritable channel of attaining the lofty and desirable conceptions and goals of economic management for national transformation and development.

In recognition of the foregoing attributes of the real sector, it is seen in Nigeria as the potential leading sector with latent resources whose effective development could pull up the rest of the economy through backward and forward linkages. In this regard, government has usually made some efforts relying on its annual budgets to facilitate its growth. Arising from the affirmed centrality of the real sector as the pivot of economic growth and development, is that its effective management seems to be the main hope in Nigeria like it is in most developing countries that have large population, particularly for the absorption of excess labour resources.

Incidentally, the negative impacts of the on-going economic crisis on the Nigerian economy have created some challenges which prompted the country to adopt some adjustment and reform devices aimed, among other objectives, are the:

(i) restructuring and diversification of the productive base of the economy rooted in the real sector;
(ii) achievement of fiscal and balance of payments viability;
(iii) lessening of the dominance of unproductive investments, particularly in the real sector; and
(iv) evolution of a private sector-led economic development process.

Towards these ends has been the reversal of Nigeria's development approach from economic regulation to economic deregulation and liberalization relying on market forces to allocate resources. Within this new paradigm, particularly since the inception of the civilian administration in Nigeria, are such policies as:

(i) trade and payments liberalisation;

(ii) tariff reform and rationalisation for the promotion of industrial diversification;
(iii) deregulation and greater reliance on market forces, particularly in the down stream activities of the crude oil industry;
(iv) adoption of appropriate pricing policies for all commodities; and
(v) adoption of measures to stimulate production and broaden the supply base of the economy.

In spite of these laudable policies, most of the results there from remain socio-economically undesirable, particularly as such results fell below expectation due to:

(i) high operating costs arising from the private investments in infrastructural support services such as electricity and water supplies;
(ii) dearth of loanable funds for long term investment;
(iii) inadequate infrastructure for the movement, processing and preservation of agricultural products;
(iv) persistent dependence of the sector on imported inputs;
(v) the unbearable burden of increasing demands by all tiers of government with respect to taxes and levies, particularly with-holding tax;
(vi) difficulty of getting access to large farm lands and credits; and
(vii) capacity under utilization

A careful examination of Nigeria's annual budgets, especially since 2001 to date (2004) shows that the above challenges informed the philosophy and preparation of the affected budgets. It is therefore expected that the key broad and specific strategies of any budget to overcome the identified bottlenecks; directly and indirectly impact positively on the real sector would need to focus on:

(i) reformation to make the economy more purely market oriented, private sector-led and technology driven;
(ii) employment generation and increased productivity to reduce the high rate of unemployment;
(iii) maintenance of price and exchange rate stability to create a healthy balance of payments;
(iv) improvement in the performance of the hard-core infrastructural services;
(v) the establishment of appropriate lending rates for the attraction of private entrepreneurs;
(vi) creation of consistency in monetary and fiscal policies aimed at persistent reduction of the dependence of the real sector on imported inputs;
(vii) improvement in credit delivery and extension services to small and medium scale enterprises;
(viii) raising the level of operational security of business operations in the real sector and the entire economy at large.

III. Threats to the Features of Budgets

Whatever the degree of the laudability of budget policies particularly on the real sector, their effectiveness are usually threatened by some features which often prevent the attainment of established targets. Experience from previous budgets reveals that such features constitute the basis of the failure of past economic policies, particularly on the real sector of the economy. Some of such features in the Nigerian economic system include:

(i) Budget indiscipline

resulting in deviations from the established trajectory of operations;

(ii) undue politicization of the budget approved process culminating in unplanned deviations;

(iii) unanticipated and destructive delays in the release of approved budgetary votes to the recipients (ministries, parastatals and other government agencies);

(iv) ineffective-cum-poor spending budget programmes coordination among the tiers of government arising from undue politicization and poor implementation framework;

(v) conflicting fiscal and monetary policies within the same budgetary framework; and

(vi) lack of transparency and accountability due in most cases to budget distortions and corruption arising from the weak budgetary process.

Incidentally, some authors (Ugwu, 2002, Ndanusa, 2001; Ologun, 1994) have successfully traced these lapses in the Nigerian economic system to some structural deficiencies with serious implications for the development of the Nigerian real sector. Such structural deficiencies include:

(i) institutionalized policy inconsistency and policy conflicts, particularly as earlier noted among fiscal and monetary policies;

(ii) inappropriateness of macroeconomic planning framework;

(iii) distortions in public sector spending priorities;

(iv) faulty implementation strategies, especially policy duplications and mismanagement;

(v) undue politicization of the budgetary process e.g. the 2002 Budget;

(vi) destructive and absurd regime of multiple taxes; and

(vii) poor, inadequate and inappropriate fiscal incentives to the operators of the real sector as compared with other sectors e.g. financial sector.

Against the backdrop of the need to amend these structural deficiencies, the policy impacts of the 2004 budget may need to deviate from the old path to avoid budget failures. That is, the impacts of 2004 budget on the real sector hinges crucially on the extent to which the budgets specific provisions could meet the expectations of that sector in the process of its Economic Reform Agenda. The critical issue at this point is the extent to which the real sector policies in the 2004 budget has gone to avoid the above obstructive features.

IV. Real Sector Policies in the 2004 Budget: Some Features

The framework of the operations in the 2004 budget is couched under some assumptions, which are expected to directly or indirectly impact on the same parameters that will subsequently affect the economic activities in the real sector.

These assumptions are that:

(i) crude oil production is 2.24 mbd (inclusive of 150,000 barrels of condensate);

(ii) the sale of crude oil on the average of $23 pb;

(iii) joint venture cash call of $3.2 billion;

(iv) inflation rate is not more than 9%.

Given these assumptions, about 75% of the budget is to go to support some subsectors which include those in the real sector e.g. agriculture. In this regard, the allocation to agriculture focuses towards the support for research, extension and innovation in cultivation practices and agro-processing. Part of the policy here is on the presidential agricultural initiatives for cassava, rice, maize and other grains, vegetable oil, cotton, oil palm and other tree crops, livestock and aquaculture.

Additionally, continued support is designed for the purchases of grains and other commodities for strategic reserves to intervene to ensure, reasonable prices to farmers on the basis of the 2003 budget operations. There is the plan to put a revolving fund on course to support bulk fertilizer procurement in addition to the continuation of the 25% Federal Government support on fertilizer with a view to ensuring that fertilizer is getting to farmers that need it at reasonable price. Incidentally, the 2004 budget recognizes the good performances of the agricultural sub-sector in 2003; nonetheless, some commodities such as rice that can now be competitively produced are still earmarked for importation. The budget also recognizes the need to recover lost grounds in agricultural commodities and therefore proposes the adoption of appropriate policies and support to the farmer for increased production.

In the manufacturing sub-sector, the focus is on the Small and Medium EnterPrises (SMEs) through SMEDAN and NIPC in collaboration with international and national organizations in the provision of requisite business training and access to micro-credit for entrepreneurs. There is the proposition of a new $32 million SME project to be supported by the IFC and the World Bank at the implementation point with the development of a new micro credit institution (Action International). The CBN's involvement is proposed through the mobilisation of SMEs equity fund from commercial banks. All of these policies are aimed at the provision of job opportunities and economic growth via some institutional reforms under the budgets reform agenda.

On the solid minerals sub-sector the policy proposition is to encourage private sector entrepreneurs to invest in it, particularly after the completion of the mapping exercise to expose where the minerals are in exploitable quantities. In fact the policy focus is on Small Scale mining and the development of value added activities linked to solid mineral exploitation.

In the area of crude oil and gas, government proposes to continuously attach considerable importance, to investments in the sub-sector. However, such investments would be sourced from the capital market by the NNPC and NGC.

On a final note, the budget recognises the centrality of infrastructures to the effective development of the real sector, government has therefore proposed a doubling in the capital allocations to some of these sub-infrastructural sectors such as roads, water, electricity, health and education.

V. Prospects of the Real Sector under the Nigerian 2004 Budget

Admittedly, the Nigerian economy has made some moderate progress en-route some developments in the real sector in recent times. For example, the output of the agricultural sector improved in 2003 over 2002 to guide against food and materials insecurity. Besides, capacity utilization in the manufacturing sector slightly improved in 2003 over its level in 2002. In spite of these positive developments, the economy via the real sector is still beset by serious macroeconomic imbalances. Certainly, the framework of the 2004 budget is perfectly in consonance with the prevailing national economic philosophy of the evolution of private sector initiated development as the budget contains the specific provisions in the NEP, 1999-2003. This, therefore, makes for a broad policy consistency need for the development of the real sector. In this regard, the policy in broad terms and the real sector policies in particular seemed designed to attain:

(i) sustained economic growth for poverty reduction;

(ii) the objective of full employment via the expansion of SMEs in the manufacturing, mining and agricultural sub-sectors respectively;

(iii) competitive economy to reinforce economic efficiency in the real sector;

(iv) high standard of living enroute greater creation of job opportunities and increased productivity envisaged from the expansion of capacity utilization in agriculture, manufacturing and solid mineral sub-sectors

(v) Against the background of this design the real sector policies in 2004 budget seem to have addressed issues connected with:

(vi) the reduction in the levels of inflation, unemployment and capacity under-utilisation in the real sector;

(vii) intensification of agricultural production to achieve food and input security;

(viii) reactivation of infrastructural facilities through the rehabilitation of and the intensification of investment in national infrastructure.

In spite of this endeavour, there are some noticeable variables and parameters, which the real sector policies ought to add to really improve the chances of the success of real sector policies. These are discussed in what follows.

(a) Inflation and Exchange Rates

Theoretically, a country's exchange rate is expected to be determined even in a market-oriented economy by the dynamics of the economic system. Admittedly, to reinforce the processes of the determination of the exchange rate, Nigeria adopts the floating system, which has culminated in a serious erosion of the naira value. Given the dependence of the real sector on imports, the erosion of the naira value has culminated in uncompetitive production costs and prices of the products of the Nigeria real sector in a globalizing world. With a further erosion of the naira value in 2004, the attainment of the target of 9% rate of inflation is difficult. This development has its adverse implication for the sale of the products of the real sector at the international level. Thus, pending the time that the real sector will not be import dependent, the naira must appreciate to allow for a significant reduction in the cost of production and effective take-off of the proposed SMEs in Nigeria.

(b) Oil and Gas

Government has put on course the deregulation of the downstream activities in the crude oil industry aimed at the creation of a competitive environment to reinforce the processes of economic efficiency. The benefit of deregulation may not be easily derived in a system that relies on the importation of petroleum products under a largely eroded naira value. It is, therefore, imperative to activate the local production of these products by giving approval to firms that have indicated interest without any further delay. It is strongly assumed that with the production of petroleum products domestically, the deregulation policy would pave way for competition in the quality, price and package of the affected products. In this regards, it is envisaged that the prices of petroleum products would drastically fall to reinforce the processes of the management of the rate of inflation.

One of the underlying assumptions of the 2004 budget is that crude oil production will be at 2.24 mbd at a price of $23 pb. The current experience has shown that production on OPEC quota is about 3mbd at above $35 pb. Nigeria stands a chance of getting a windfall gain from this development, which must not be shared but reserved for either of two possibilities. These are the liquidation of indebtedness and or formation of capital for further national development.

(c) Expansion of Manufacturing through SMEs

Admittedly, the importance of the roles of the SMEs in getting the manufacturing sub-sector expanded to create job opportunities cannot be over dramatized. Nonetheless, adequate provision must be made for the supply and sustenance of credit facilities for the would-be SMEs operators. In this regard the N32 million proposed for the SMEs project for a new micro credit institution may not be adequate. Certainly, the CBN's involvement via the mobilisation of SMEs equity fund from commercial banks is proposed. A target must be set as done in 2001 requesting commercial banks to set aside 10% of their profit before tax for the financing and promotion of the SMEs. Given this, the CBN should prepare to warehouse the scheme for effective administration and monitoring.

(d) Agriculture

As earlier noted the main goal of the allocation to agriculture is to channel the capital budget towards research, extension and innovations in cultivation practices and agroprocessing to make for food and material security in the country. It is in this sense that the continuation with the 25% government support on fertilizer is appreciated. Also the continual with governments support for purchases of grains and other commodities for strategic reserves to ensure reasonable prices to farmers as done in 2003 is commendable. However, it is important to reconsider the idea of the importation of agriculture commodities such as rice that is currently taken as being possible under a competitive production basis in the country. Efforts must be geared towards recovering the lost grounds/markets in agricultural commodities, which the country used to export. This is possible with the reliance on the existence of high yielding West African varieties in the country.

Additionally, efforts must be made to make provision of credit to farmers for the procurement of key high yielding inputs via the strengthening of the Agricultural Credit Scheme. Besides, there is the need to further empower the NACROB, an institution created for this purpose to perform the role of a development bank in this sub-sector of the real sector. Agriculture in the processes of meeting the challenges of food and input supply security requires the institution of various tax concessions as incentives to boost production in the sub-sector.

(e) Rehabilitation of Infrastructure

The focus on infrastructural rehabilitation via the public-private sector partnership is understandably couched under the argument of the insufficiency of public resources to cope with the financial requirements. It is important to note that this interlinkage may be easy and attainable in the areas of housing, provision of water, health and educational facilities. It may be more complex in such areas as roads and electricity. It may be recalled that reasonable budget allocations were made to Power and Steel. Works and Housing and Transportation Ministries in 2001 and 2002 which reflects government's commitment in the rehabilitation of infrastructural facilities. Certainly, the private entrepreneur could be brought in; nonetheless the previous efforts must be sustained at least for now in the rehabilitation of roads and electricity that are crucial to allowing the real sector to attain established objectives.

VI Conclusion

The traumatized economy inherited by the civilian administration at its inception in 1999 calls for economic recovery which constitutes the framework of each of the federal budgets, relying on the private sector-led growth to transform the Nigerian economy structurally, since then. Within this frame of economic recovery, the paper notes that the 2004 budget, tagged "Economic Reform Agenda", is predicated on the reformation of some development parameters, most of which are crucial to the performance of the real sector of the economy. Certainly, the effectiveness of policies for the development of the real sector hinges on the effective implementation of the policies and programmes contained in the budget.

Against the background of the need to avoid budget policy failures, particularly in the real sector, government must guide against:

(i) institutionalized policy conflicts;

(ii) protracted delays in the release of votes to appropriate agencies in the real sector;

(iii) faulty implementation strategies, particularly mis-management of programmes;

(iv) undue politicization of the budgetary process, particularly as it affects the real sector;

(v) excessive erosion of the naira value to aggravate production cost and subsequently worsen the competitiveness of the products of the real sector in a globalizing world;

(vi) reforms that could worsen capacity utilisation in the real sector.

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