COURSE GUIDE

PSM 805
ECONOMIC DEVELOPMENT IN NIGERIA

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INTRODUCTION

The course, PSM 805: Economic Development in Nigeria is a two-credit unit course for M. Sc. students in the School of Management Sciences

The course has been systematically arranged for you in fifteen distinct but related units of study activities. This course guide informs you of what you need to know about the aims and objectives of the course, composition of the course material, arrangement of the study units, assignments, and examinations.

THE COURSE AIMS

This course is aimed at acquainting you with the meaning of economic development, theories of economic development, the principles of development and how these principles have affected the development of the Nigerian economy. Its focus is on analysis of the development process in the Nigerian economy, development prospects in Nigeria, and the way forward. To ensure the achievement of this aim, important background information has been provided and discussed, including:

- The Circular Flow of Economic Activity
- Monetary Policy Targets, Issues, Framework, and Policies
- The Government, Foreign Trade and Nigerian Economy
- History of Economic Growth in Nigeria
- Theories of Development
- Stages of Economic Development
- Development Planning in Nigeria
- Rolling Plans in Nigeria
- Indigenisation in Nigeria
- The Nigerian Fiscal Policies
- The Post-Structural Poverty Alleviation Strategies in Nigeria: The National Economic Empowerment and Development Strategy (NEEDS).

COURSE OBJECTIVES

Having gone through the activities of this course, you are expected to:

- Distinguish between economic development and economic growth
- Be familiar with the nature of government policies in Nigeria
- Know the relative importance of international trade in Nigeria
- Understand the History of Economic growth in Nigeria

- Understand the theories and stages of economic development
- Be familiar with development planning in Nigeria, including the rolling plans.
- Be familiar with indigenisation policies in Nigeria
- Discuss Nigeria's fiscal policies and her poverty alleviation policies.
- Effectively contribute to development programmes in Nigeria.

COURSE MATERIALS

The course material package is composed of:

- The Course Guide
- The Study Units
- Self-Assessment Exercises
- Tutor-Marked Assignments
- References

STUDY UNITS

The study units are as listed below:

Module 1

Unit 1	Market Participants and Circular Flow of Economic Activity
Unit 2	Goals, Instruments, Targets, and Problems Associated with Monetary Policies in Nigeria
Unit 3	Government, Foreign Trade, and the Economy
Unit 4	Economic Growth in Nigeria: A Historical Background
Unit 5	The Historical Theories of Development

Module 2

Unit 1	The Big-Push Theory of Economic Development and Harrod-Domar's Theory of Growth
Unit 2	Stages of Economic Development
Unit 3	Development Planning in Nigeria
Unit 4	The Post-Independence Development Planning in Nigeria
Unit 5	Rolling Plans in Nigeria

Module3

Unit 1	Indigenisation as a Development Policy in Nigeria
Unit 2	The Nigerian Fiscal Policies
Unit 3	Monetary Policy Framework in Nigeria
Unit 4	Operations of the Monetary Policy in Nigeria

Unit 5 The Post-Structural Adjustment Poverty Alleviation Strategies in Nigeria: The NEEDS.

ASSIGNMENT FILE

Each unit of the course has a self-Assessment Exercise. You will be expected to attempt the exercises as they will enable you know if you understood the content of the unit.

TUTOR-MARKED ASSIGNMENT

The Tutor-Marked Assignment (TMA) at the end of each unit is designed to test your understanding and application of the concepts learned. It is extremely important that you submit these assignments to your facilitators for assessments and comments. TMA scores are often assigned through e-TMAs, organized by the University. The total score obtainable is 30 per cent.

FINAL EXAMINATION AND GRADING

At the end of the course, you will be expected to participate in the final examinations as scheduled. The final examination constitutes seventy (70) per cent of the total grading score for the course.

SUMMARY

The course, PSM 805: Economic Development in Nigeria, is ideal for today's public and private-sector administrators. It will enable the you carry out research activities and effectively present arguments on the way forward for development of the Nigerian economy. Having successfully completed the activities as required by the course, you will be equipped with the global expectations of public administrators. You will find the course very useful in your daily political, economic, and social decisions. Enjoy the course.

MAIN COURSE

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MODULE 1

UNIT 1 MARKET PARTICIPANTS AND CIRCULAR FLOW OF ECONOMIC ACTIVITY

CONTENTS

1.0 INTRODUCTION

In this unit, we look at the circular flow of economic activity and how market participants influence the activities of a given economy. The unit is important for all public and private decision makers, as these decision makers cannot operate in isolation. The unit is a significant part of the preliminary discussions for issues involving economic development in an economy.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- demonstrate knowledge of the circular flow of economic activities
- identify the major characteristics of market participants on a macro level

- make effective administrative decisions based on the information you acquired from the unit.

3.0 MAIN CONTENT

3.1 Market Participants in the Flow of Economic Activities

3.1.1 Market Participants

Over 140 million consumers and tens of thousands of businesses and government agencies directly participate in the Nigerian economy. Thousands of foreigners also participate in the daily economic activities by selling and buying goods in Nigerian markets. These market participants come into the marketplace to satisfy specific economic goals. Consumers, for example, come into the market with the basic objective of buying the most desirable goods and services that their limited budgets permit. You cannot afford everything you want, so you must make choices about how to spend your limited available naira. Your goal is to maximise the satisfaction or utility you get from your disposable income.

Businesses also attempt to maximise earnings in the marketplace. Business earnings or profits are the difference between sales receipts and total costs. To maximise profits, business firms must use their resources efficiently in the production of goods needed by the consumers for maximising their satisfaction.

Government agencies or the public sector also have goals to maximise. The major purpose of government is usually to use available resources to serve public needs. The available resources are also limited, so that all arms of government— local, state, and federal – must use scarce resources carefully, with the major aim of maximising the general welfare of the society. Foreigners pursue these same goals, participating in our markets as consumers or producers.

Market participants often lose sight of their respective goals. For instance, consumers sometimes make impulsive purchases and later wish they had used their incomes more wisely. On the same token, a producer may decide to take a two-hour lunch, even at the expense of maximum profits. Elected officials sometimes put their personal interests ahead of the public’s interest. In all sectors of the economy, however, the basic goals of utility maximisation, profit maximisation, and welfare maximisation explain most of the market activities.
The human desire to maximise the returns on limited resources leads us to participate in the market, buying and selling various goods and

services. Our decision to participate in the exchange of goods and services is usually prompted by two motives:

- First, most of us are incapable of producing everything we desire to consume.
- Second, even if we could produce all our own goods and services, it would still make sense to specialise in producing only one product we are good in producing and trading it for other desired goods and services.

Our economic interactions with others are necessitated by two major constraints:

- First is our absolute inability as individuals to produce all the things we need or desire.
- Second is the limited amount of time, energy, and resources we possess for producing those things we could make ourselves.

3.2 The Circular Flow of Economic Activities

The circular flow of economic activities show how all the market participants interact in the production and distribution of goods and services in an economy. It illustrates the flow of economic activities among businesses, households, the government, and foreigners. *Figure 3.1* is an illustration of the circular flow. It summarises the kinds of interactions that occur among market participants.

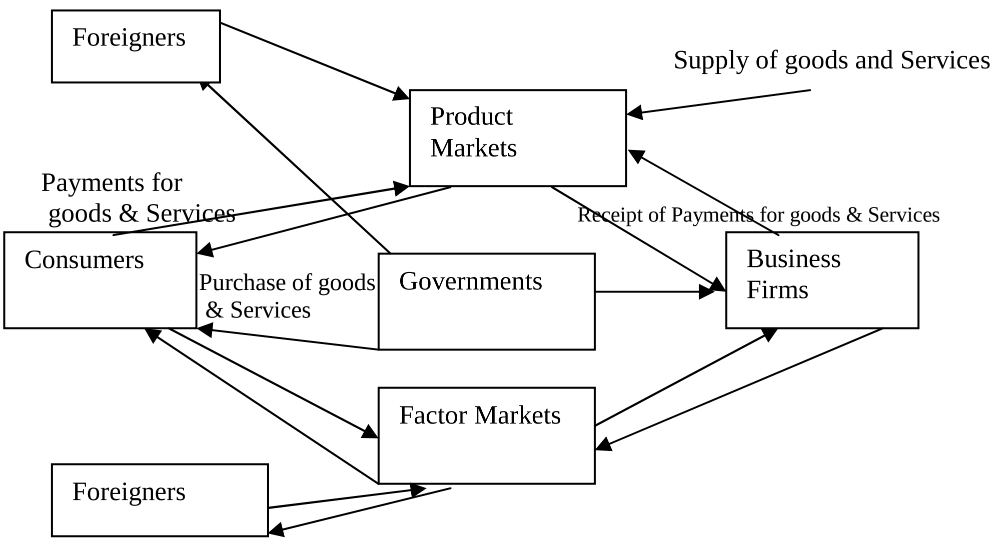

Figure 3.1: Circular flow of economic activities

Note that the arrow → indicates supply of factors to the factor markets by consumers, reading from the consumer's box to the factor market box. The arrow that points in the opposite direction (←) indicates receipt of factor payments by the consumers, as we assume that the consumers are owners of factor of production. The same notation goes for the arrows between the factor markets' box and business firms' box, as well as between foreigners' box and factor markets' box. These notes were needed for a cleaner diagrammatic presentation.

Generally, the directions of the flow of activities are shown by the arrows as in *Figure 3.1*. At the beginning is the household. The households or consumers supply factors of production to the business firms through the factor markets. The business firms, in turn, purchase the factors of production from the households through the factor markets. These business firms use the factors of production to produce goods and services. The goods and services are then supplied to the households or consumers through the product markets. The households, in turn, purchase the goods and services from the business firms through the product markets. Now the flow of goods and factors of production can be said to be complete.

The next flow is the flow of income from, or payments for goods, services, and factors of production. The households receive income from the sale of factors of production. These receipts are in the form of rent for land, wages for labour, and interests for capital. The households, in turn, pay for the goods and services. These payments are received by the business firms in the form of revenue from sale of goods and services, and profits being the earnings from entrepreneurship.

The flow also shows that federal, state, and local governments acquire resources from factor markets and provide services to both consumers and business firms. Foreigners also participate by supplying import items, purchasing export items, and buying and selling factors of production.

The simplest way to keep track of all the above stated market activities is to distinguish between two basic markets: the factor markets and the product markets.

3.2.1 The Factor Markets

The factor markets are the markets where factors of production are exchanged for money. These are the places where factors of production, such as land, labour, and capital, as well as entrepreneurship are bought and sold.

3.2.2 The Product Markets

The product markets are markets where finished goods and services are bought and sold. At the end of a hard day's work, consumers or households go to the market to purchase goods and services. In this context, consumers interact with business firms, purchasing goods and services these firms produced. Foreigners also participate in the product market by supplying goods and services (imports) to Nigerians and buying some of her products (exports).

The arrows connecting product markets to consumers in *Figure 3.1* emphasise the fact that consumers, by definition, do not supply products. To the extent that individuals produce goods and services, they do so within the government or business sector. An individual, who is a medical doctor, a dentist, a lecturer, or an economic consultant, functions in two sectors. When selling services in the market, this person is regarded as a "business", when away from the office the person is regarded as a "consumer." This distinction is essential in emphasising that "the consumer is a final recipient of goods and services produced."

SELF-ASSESSMENT EXERCISE

Briefly discuss the role of market participants in economic development.

4.0 CONCLUSION

This unit has informed us about the composition of market participants in an economy, including: (1) the consumers; (2) the businesses; (3) the foreigners; and (iv) the governments. These participants come into the marketplace to satisfy specific economic goals. Consumers attempt to maximise their satisfactions. The businesses aim at maximising their earnings or profits. Government attempts to maximise public welfare. We also learned that the circular flow of economic activity summarises the directions of the flow of economic activities. In this flow, factor markets and product markets were distinguished.

5.0 SUMMARY

You have been informed of the fact that multiple numbers of businesses and government agencies directly participate in the Nigerian economy. Thousands of foreigners also participate in the daily economic activities by selling and buying goods in Nigerian markets. The market participants come into the marketplace to satisfy specific economic needs. Consumers, for example, come into the marketplace with the aim of buying the most desirable goods and services that their limited budgets permit. Businesses attempt to maximise earnings in the marketplace. Business earnings or profits are the difference between sales receipts and total costs. To maximise profits, business firms must use their resources efficiently in the production of goods needed by the consumers for maximising their satisfaction.

Government agencies or the public sector also have goals to maximise. The major purpose of government is usually to use available resources to serve public needs. The available resources are also limited, so that all arms of government local, state, and federal –must use scarce resources carefully, with the major aim of maximising the general welfare of the society. Foreigners pursue these same goals, participating in our markets as consumers or producers.

We noted that the decision to participate in the exchange of goods and services is usually prompted by two motives:

- First, most of us are incapable of producing everything we desire to consume.
- Second, even if we could produce all our own goods and services, it would still make sense to specialise in producing only one product we are good in producing and trading it for other desired goods and services.

We also noted that the simplest way to keep track of all market activities in the circular flow of economic activities is to distinguish between two basic markets:

- the factor markets and
- the product markets.

6.0 TUTOR-MARKED ASSIGNMENT

Using the circular flow model, present the flow of economic activities associated with the sale of a piece of landed property to a business organisation.

7.0 REFERENCE/FURTHER READING

Begg, D., Fischer, S., & Dornbusch, R. (2000). *Economics.* (6th ed). England: McGraw-Hill.

UNIT 2 GOALS, INSTRUMENTS, TARGETS AND PROBLEMS ASSOCIATED WITH MONETARY POLICIES

CONTENTS

1.0 INTRODUCTION

Having looked at the circular flow of economic activities, you are now in the position to refer to them as we discuss the goals, instruments, targets and problems associated with monetary policies in macroeconomic analyses. As an administrator, knowledge of goals and targets of any economic policy will aid in your planning and control functions. This explains the reason for this unit.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- explain monetary policies, their goals, instruments and targets
- advice on administrative decisions bordering on monetary policies
- identify those monetary targets that can affect the business and political environment and account for them in administrative decisions.

3.0 MAIN CONTENT

3.1 Goals, Instruments, Targets and Problems with Monetary Policy

Monetary policy is one of the important tools through which policy makers can influence economic development in a given economy. It will be therefore, important to always look at its goals, instruments, targets, and problems associated with it. By so doing, you will be in a position to contribute fruitfully on issues concerning monetary policies. This explains the need for the current discussions.

3.2 Goals of Monetary Policy

The basic goals of monetary policies include the following:

1. **High employment:** This is a worthy goal for two basic reasons: First, the alternative, high unemployment, causes much human misery, with affected families suffering financial distress, loss of personal self-respect, and increase in crime. Secondly, when unemployment is high, the economy not only has idle workers but also idle resources.
   For important economic implications, the goal of high employment does not seek for an unemployment level of zero, but rather, a level above zero that is consistent with full employment at which the demand for labour equals the supply of labour. This level of unemployment is referred to as the natural rate of unemployment in economic terms.
2. **Economic growth:** This goal is closely related to the high employment goal because businesses are more likely to invest in capital equipment to increase productivity and economic growth when unemployment is low. Conversely, if unemployment is high and factories and other businesses are idle, it does not pay for a firm to invest in additional plants and equipments.
3. **Stability of financial markets:** One of the major functions of the monetary authorities is to promote a stable financial system. One way the Central Bank of Nigeria can promote stability in the financial system is by helping prevent financial panics, through its role as the lender of last resort.
   The stability of financial markets can also be promoted by interest rate stability, since fluctuations in interest rates create uncertainty for financial institutions. An increase in interest rates gives rise to capital losses on long-term bonds and mortgages, losses that cause the failure of financial institutions holding them.

4. **Stability in foreign exchange markets:** With increasing importance of the global market, the value of a country's currency relative to other currencies has become a major consideration for the monetary authorities.

A fall in the value of the naira relative to other currencies, for example, will stimulate inflation in Nigeria. Preventing large changes in the value of the naira makes it easier for firms and individuals purchasing or selling goods abroad to plan ahead.

3.3 Monetary Policy Instruments

Monetary policy instruments are those variables under the control of monetary authorities and are used in controlling the affairs of the money and financial markets. These instruments can be ***direct*** or ***indirect***.

The direct instruments include:

- Aggregate credit ceilings
- Deposit Ceilings
- Exchange rate controls
- Restriction on the placement of public deposits
- Special deposits
- Stabilisation securities.

The indirect instruments include:

- Open Market Operation (OMO)
- Cash reserve requirements
- Liquidity ratio
- Minimum rediscount rate
- Parity changes
- Selective credit policies

For the specific case of Nigeria, direct controls were used not only to control overall credit expansion but also to determine the proportion of bank loans going to the preferred sectors; merchant banks' asset portfolio; proportion of bank loans to indigenous borrowers; proportion of bank loans to small-scale indigenous enterprise; proportion of rural bank deposits granted as loans to rural borrowers; lid on interest rates, etc.

The three main monetary policy instruments used world wide are: Open Market Operations, changes in the reserve requirements and changes in the discount rate. In addition are the selective controls over specific markets, among which are the margin requirements and the ceiling on the interest rate commercial banks can pay on savings or time deposits.

The fractional reserve system is a convenient way to gain control over the money supply. By requiring banks to maintain a stated percentage of their deposits as reserves, it limits the ability of banks to lend out funds and thus their ability to create money. It follows that the prime target of monetary policy has been the level of bank reserves, and the strongest weapon to influence reserves is the required reserve ratio.

Open Market Operations refer to the buying and selling of government bonds or securities in order to influence indirectly the reserve position of banks. If the Central Bank buys bonds, the effect would be an increase in bank reserves, a possible increase in the money supply, and a possible fall in interest rates. These effects are potential stimulants to economic activity. Sales of government securities will produce the opposite effects. Open Market Operations is the most frequently used weapon or instrument of monetary policy.

The discount rate refers to the interest rate with which the Central Bank can lend money to commercial banks. By lowering or raising the discount rate, the Central Bank can encourage or discourage such borrowings. The Central Bank can also openly announce its intentions to be receptive or not to request for loans and advances.

3.4 The Use of Monetary Targets

Apart from the use of the monetary policy instruments such as the open market operation, changes in discount rate, and changes in reserve requirements, the monetary authorities often choose a set of variables to aim for in its efforts to stabilise price and increase employment. These variables are referred to as ***intermediate targets***, such as the monetary aggregates (M_1, M_2, or M_3) or interest rate, which have a direct effect on employment and price level, unlike the use of the regular monetary instruments which have indirect effects. Other sets of variables to aim for are the so-called operating targets, such as reserve aggregates (that is, reserves, non-borrowed reserves, monetary base) or interest rates (the treasury bill rate), which are more responsive to monetary policy tools or instruments. Note that non-borrowed reserves refer to total reserves minus borrowed reserves.

3.5 Problems of Monetary Policy

There are a number of limitations on the use of monetary policy for economic stability. These limitations include the following:

1. **The uneven incidence of monetary policy:** Monetary policies have some uneven impacts on different groups within a given economy. Most notable is the restrictive monetary policy that raises market interest rates, which in turn reduces the flow of funds into the home mortgage market.
   It is frequently argued that small businesses are particularly sensitive to altered credit conditions. Large-scale businesses tend to have ready access to several sources of funding and can borrow funds either from banks or by direct sale of security issues. Thus, under restrictive credit conditions, banks might feel it necessary to meet the needs of their large-scale business customers first and to limit the funds available to small-scale businesses.
2. **Compliance with the Treasury:** The conduct of monetary policy has also been seriously restricted through the Central Bank's efforts to serve the desires of the National Treasury.
3. **Timing:** There are many lags in the conduct of monetary policy. These lags can be broadly classified into two: ***inside lags*** and ***outside lags***. Inside lags refer to all the steps and time it takes to go form the first recognition that a problem exists to the point where the policy begins to affect the economy by its impact on aggregate demand and output.
   Outside lags, on the other hand, are concerned with the response of the economy to the changed monetary conditions resulting from the monetary policy. Monetary authorities may react to a situation by altering money market conditions, but it is other economic units in the economy – consumers, firms, government – that must alter their plans in the face of the changed conditions. This outside lag is of considerable importance, for until these economic units change their behaviour the economy will not be materially affected, and to that extent, monetary policy will not be effective.
4. **Financial intermediaries:** One of the monetary policy problems can be found in financial intermediaries, including saving and loan associations, insurance companies, pension funds, etc, which deal in "near money", the highly liquid deposits of the public. These financial intermediaries cannot create money like commercial banks but can affect the money supply indirectly through their actions, over which the monetary authorities have little or no control.

SELF-ASSESSMENT EXERCISE

What are the major benefits to an entrepreneur, of understanding the goals and targets of monetary policy?

4.0 CONCLUSION

Among the important issues discussed in this unit is that of the monetary policy goals. In a nutshell, the monetary policy goals include: (1) high employment; (2) economic growth; (3) financial market stability; and, (4) stability in the foreign exchange market. Also of importance in our discussions are the monetary policy instruments, which include those variables that are under the control of monetary authorities especially the Central Bank of Nigeria. We also learned that monetary authorities have some intermediate targets classified as a set of variables aimed at stabilising prices and increasing employment. The variables include, among others, the monetary targets (M1, M2, and M3) or interest rates that have direct effects on employment and price level.

There are some limitations on the use of monetary policy which need to be noted. The limitations were discussed extensively as uneven incidence of monetary policy; compliance with the Treasury which can restrict the monetary policy objectives; existence of time lags in the conduct of monetary policies and financial intermediation.

5.0 SUMMARY

This unit focuses on four basic monetary policy goals which include (1) high employment; (2) economic growth; (3) financial market stability and (4) stability in the foreign exchange market.

The unit exposes us to the monetary policy instruments. Monetary policy instruments are those variables under the control of monetary authorities and are used in controlling the affairs of the money and financial markets. These instruments can be ***direct*** or ***indirect***. The direct instruments are subsumed as: Aggregate Credit Ceilings; Deposit Ceilings; Exchange rate controls; Restriction on the Placement of Public Deposits; Special Deposits; and, Stabilisation Securities. The indirect instruments include: Open Market Operation (OMO); Cash Reserve Requirements; Liquidity Ratio; Minimum Rediscount Rate; Parity Changes; and, Selective Credit Policies.

In Nigeria, direct controls are used not only to control overall credit expansion but also to determine the proportion of bank loans going to the preferred sectors; merchant banks' asset portfolio; proportion of bank loans to indigenous borrowers; proportion of bank loans to small-scale indigenous enterprise; proportion of rural bank deposits granted as loans to rural borrowers; lid on interest rates, etc.

The three main monetary policy instruments used worldwide are: Open Market Operations, changes in the reserve requirements and changes in the discount rate. In addition are the selective controls over specific markets, among which are the margin requirements and the ceiling on the interest rate commercial banks can pay on savings or time deposits.

The major limitations on the use of monetary policy are (1) uneven incidence of monetary policy; (2) compliance with the Treasury which can restrict the monetary policy objectives; (3) existence of time lags in the conduct of monetary policies and (4) financial intermediation.

6.0 TUTOR-MARKED ASSIGNMENT

Briefly discuss how monetary policies can affect investment decisions.

7.0 REFERENCES/FURTHER READING

Campagna, A. S. (1974). *Macroeconomics Theory and Policy.* Boston: Hougthon Mifflin.

Dornbusch, R. & Fischer, S. (1981). *Macro-Economics.* (2nd ed.). United States: McGraw-Hill.

UNIT 3 GOVERNMENT, FOREIGN TRADE AND THE ECONOMY

CONTENTS

1.0 INTRODUCTION

This unit is one of the all important preliminary units necessary in the understanding of the major issues involving economic development. In this unit, we recognise the fact that any economic model that omits the public and foreign sector appears unrealistic; government plays some important roles in our economic lives. The foreign sector is highly significant in the development and growth of an economy. It is the aim of this unit to expand our formal simple model of income determination to include both government expenditures and net exports. The unit will generate some appreciation for the impact of the government or public sector as well as the foreign sector on the Nigerian economy.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- demonstrate expanded knowledge of national income determination
- explain the roles of the public and foreign sector in the development of an economy
- explain the balanced budget multiplier
- show your familiarity with the impact of marginal propensity to import on the income multiplier.

3.0 MAIN CONTENT

31 Government Expenditures and Foreign Trade in the Determination of National Income

3.1.1 Government Expenditures and Income Determination

Any time you discuss the public sector; all levels of government are included. You need to note that the aggregation problem can therefore, obscure some of the determinations of government expenditures, since various levels of government are guided by different sets of influences.

Government expenditures, G, is assumed to depend upon some or all of the following: population pressures, political ideology, social and cultural attitudes, tradition, natural catastrophes, and the like. This list would suggest that any attempt to explain government spending is likely to be complicated. It is not surprising therefore, that economists have not developed an aggregate theory to explain government expenditures. In economics, it is customary to treat government spending as being determined outside of internal economic system. Government expenditures is a type of variable called exogenous variable, not determined by or influencing other economic variables in the system. Government expenditures, G, is therefore generally taken as given and included in the income determination model without explanation.

From the foregoing discussion, you can notice that all government spending is autonomous, so that G can be written as G = Go. The income determination with government contributing to aggregate demand becomes:

$$Y = C + I + G \qquad (3.1)$$
$$C = Co + cY \qquad (3.2)$$
$$I = Io \qquad (3.3)$$
$$G = Go \qquad (3.4)$$

Using the equilibrium equation (3.1) we solve as follows:

$$Y = Co + cY + Io + Go$$
$$Y – cY = Co + Io + Go$$
$$(1 – c)Y = Co + Io + Go$$

$$Y^* = \frac{Co + Io + Go}{1 – c}$$

$$Y = 1/(1 – c)\,[Co + Io + Go] \qquad (3.5)$$

At given values the relevant variables, you can use equation (3.5) to solve for the equilibrium level of national income. For example, if:

$C = 20 + 0.8Y$
$I = 60$
$G = 20$, then

$$Y^* = 1/(1 - 0.8)\,[20 + 60 + 20]$$

$$= 5(100) = 500$$

It follows from the example that the introduction of government expenditures of N20 billion into the model as resulted in N500 billion income level.

Notice that the same multiplier applies to government spending as to autonomous consumption and investment. Thus,

$$\frac{\Delta Y}{\Delta G} = 1/(1 - c) \qquad (3.6)$$

A change in aggregate demand brings about a multiple change in the level of income. When government buys goods and services, it creates incomes that are again spent, and the multiplier mechanism comes into effect.

3.1.2 Introduction of Government Taxes

In this sub-section, we extend the simple income determination model to include taxes. As with government expenditures, the treatment of taxes concentrates on the impact of taxes on the economic system only from the view point of their effect on the level of income, the fiscal policy aspect of taxation.

The form of taxation most comparable to the assumption of autonomous government spending would be an autonomous amount of taxes to be referred to as per capita tax or poll tax. This form of taxation is independent of the level of income or the economic situation in general. This is simply a tax per person or household.

This assumption of autonomous taxes will result in the following model:

$$Y = C + I + G \qquad (3.7)$$
$$C = Co + c(Y - T) \qquad (3.8)$$
$$I = Io \qquad (3.9)$$

$G = Go$ (3.10)
$T = To$ (3.11)

Using the equilibrium condition in equation (3.7) and following the solution process, you will obtain the following expression for the equilibrium level of national income, Y*.

$$Y^* = 1/(1 - c) [Co + Io + Go - cT] \quad (3.12)$$

By inspection, you will observe from equation (3.12) that the introduction of taxes reduces the equilibrium level of income. Observe that the reduction of income caused by the tax is divided up between consumption (C) and saving (S). The consumption schedule and the aggregate demand schedule) falls by the reduction in C which you can determine as:

$$\Delta C = -c\Delta T \quad (3.13)$$

Since c is a fraction, the fall in consumption is less than the amount of the tax. The effect of taxes on the level of income can also be deduced by comparing the various multipliers.

You will observe from equation (3.12) that the tax multiplier is given by:

$$\Delta Y = -1/(1 - c) [c\Delta T] \quad (3.14)$$

Or,

$$\frac{\Delta Y}{\Delta T} = -c/(1 - c)$$

Observe that the numerator is a fraction (-c), which implies that the value of the tax multiplier is less than the value of the consumption, investment, and government expenditure multipliers.

In terms of our numerical example, the value of the consumption, investment, and government expenditure multipliers are 5 each while that of the tax multiplier is:

$$-c/(1 - c) = -0.8/0.2 = (-)4.$$

It follows that the tax multiplier is exactly 1 less than the others, or 4 instead of 5.

3.1.3 The Balanced Budget Multiplier

Government expenditures multiplier has been found more powerful than the tax multiplier. This observation provides an interesting case for discussions in fiscal policy effects. If government expenditures are made equal to tax revenues so that the budget is balanced, we will be interested in the effect upon the level of national income. Many observers would assume that government has no effect on the economic system, that the government expenditure effect is neutral. We need to note that, even with a balanced budget, government effect is not neutral, but its actions are expansionary. Under the balanced budget condition, the level of income will increase by the amount of increase in government expenditure that equals the tae revenue. This is so because balanced budget brings about a "unit" multiplier. This observation can be proven by the following derivations:

The effect of government expenditure on national income is given by the expenditures multiplier,

$$\Delta Y = \frac{\Delta G}{1 - c}$$

and the effect of the tax multiplier on the national income is given by

$$\Delta Y = \frac{-c\Delta T}{1 - c}$$

The net effect of the government budget would be derived by combining the government expenditure and tax multiplier above in the following form:

$$\Delta Y = \frac{\Delta G}{1 - c} - \frac{c\Delta T}{1 - c} \qquad (3.15)$$

Since $\Delta G = \Delta T$ when the budget is balanced, you can substitute ΔG for ΔT in equation (3.15) and combine terms:

$$\Delta Y = \frac{\Delta G - c\Delta G}{1 - c} = \frac{\Delta G(1 - c)}{(1 - c)} = \Delta G \qquad (3.16)$$

Or, $\Delta Y = \Delta G$, and,

$$\frac{\Delta Y}{\Delta G} = 1$$

3.2 Foreign Trade in the Determination of National Income

Until this section, we have treated the national economy as if it were a closed economy, having no interaction with the global economy. Since all economies trade, you need to gain some insight into how such trade affects the economic system. The extent to which an economy is affected by foreign trade depends on how much it depends on the production of others.

In this section, you will explore the effects of trade with other economies on the economic model we have been developing in our previous sections. The two variables that are important in the discussion of foreign trade are basically ***exports*** (X) and ***imports*** (M).

Exports are components of aggregate demand, but the source of the demand for the economy's production comes from residents of other countries. Imports represent the goods and services purchased from other economies by domestic residents. Imports are regarded in economics as leakages from the income stream, for incomes earned from the production of these goods accrue to foreigners, and the revenues from sale of these goods do not return to domestic producers but flow abroad.

In our general equilibrium model, we are interested in the aggregate demand for domestically produced goods and the amount of output actually received by domestic residents. We therefore subtract the amount of imports from the amount of exports to obtain our net export. Thus, the equilibrium condition on the inclusion of foreign trade becomes:

$$Y = C + I + G + (X - M) \qquad (3.17)$$

$C = Co + c(Y - T + R)$
$I = Io$
$G = Go$
$T = To$
$R = Ro$
$X = Xo$
$M = Mo + mY$
Mo = autonomous import
m = the marginal propensity to import.

Substituting the relevant variables into equation (3.17) gives the equilibrium level of income as:

$$Y^* = 1/(1 - c + m)\,[Co - cT + cR + I + G + X - Mo] \qquad (3.18)$$

By inspection, you can also write the condition for equilibrium level of income as:

$$I + G + X = S + T + M \qquad (3.19)$$

Equation (3.19) shows that the total leakages, $S + T + M$, must be offset by the spending of the components of aggregate demand, $I + G + X$.

You can observe that the marginal propensity to import, m, (or the marginal propensity to consume foreign goods) reduces the income multiplier, since the denominator of the fraction is increased:

Thus,

$$1/(1 – c) > 1/(1 – c + m)$$

For example, if m = 0.05 and MPC, c = 0.8, the numerical values of the multipliers become:

$$1/(1 - .8) > 1/(1 – 0.8 + 0.05) \text{ or } 5 > 4.$$

It follows that any change in aggregate demand that would have previously expanded the level of income by the multiplier of 5 would now, with imports in the model, increase income by lesser amount. Imports can have widespread repercussions in the economy beyond the immediate loss to the income stream. This is the first impression of the effect of foreign trade on the domestic economy.

SELF-ASSESSMENT EXERCISE

Outline the differences between the simple income determination model and the expanded general equilibrium model.

4.0 CONCLUSION

This unit has expanded the simple income determination model to include government and the foreign sector. It points out that government expenditures and tax revenues are autonomous in the general income determination model. Imports are regarded as leakages to national income, and the marginal propensity to import reduces the income multiplier.

5.0 SUMMARY

Government expenditures are assumed to depend upon the following: population pressures, political ideology, social and cultural attitudes, tradition, natural catastrophes, and the like. This suggests that any attempt to explain government spending is likely to be complicated. It is not surprising therefore, that economists have not developed an aggregate theory to explain government expenditures. In economics, it is customary to treat government spending as being determined outside of internal economic system. Government expenditures is a type of variable called exogenous variable, not determined by or influencing other economic variables in the system. Government expenditures, G, is therefore generally taken as given and included in the income determination model without explanation. These points indicate that all government spending is autonomous, so that government expenditures, G, can be written as G = Go.

Government expenditures multiplier has been found more powerful than the tax multiplier. If government expenditures are made equal to tax revenues so that the budget is balanced, the level of income will increase by the amount of increase in government expenditure that equals the tax revenue. This is so because balanced budget brings about a "unit" multiplier.

The two variables that are important in the discussion of foreign trade are basically exports (X) and imports (M). **Exports** are components of aggregate demand, but the source of the demand for the economy's production comes from residents of other countries. Imports represent the goods and services purchased from other economies by domestic residents. **Imports** are regarded in economics as leakages from the income stream, for incomes earned from the production of these goods accrue to foreigners, and the revenues from sale of these goods do not return to domestic producers but flow abroad.

In our general equilibrium model, we are interested in the aggregate demand for domestically produced goods and the amount of output actually received by domestic residents. We therefore subtract the amount of imports from the amount of exports to obtain our net export.

It follows that imports serve as leakages from the equilibrium level of national income.

6.0 TUTOR-MARKED ASSIGNMENT

Given the following information on a given economy:

$C = 200 + 0.8(Y – T)$
$I = 60$
$G = 20$
$T = 20$
$R = 0$
$X = 0$
$M = 40 + 0.05Y$
You are required to compute the equilibrium level of national income.

7.0 REFERENCES/FURTHER READING

Campagna, A. S. (1974). *Macroeconomics Theory and Policy.* Boston: Hougthon Mifflin.

Dornbusch, R & Fischer, S. (1981). *Macro-Economics.* (2nd ed.). United States: McGraw-Hill, Inc.

UNIT 4 ECONOMIC GROWTH IN NIGERIA: A HISTORICAL BACKGROUND

CONTENTS

1.0 INTRODUCTION

The history of economic growth in Nigeria has been generally disappointing. The country tottered on an average growth rate of less than 3% per annum for most of the three decades following the discovery and exploitation of oil. This era was characterised by waste, an over-bloated public sector, high public expenditure pattern, distorted budgeting system and a weak private sector. Coming at a time when some of the world's fastest growing economies were posting average growth rate of over 10% per annum, a 3% real GDP growth and a population growth rate of about 2.8% is discouraging and therefore call for efforts to be stepped up to improve the performance of the economy. Improvement of the economy will depend greatly on growth of the productive or real sector.

Economists define the real sector as the sector characterised by economic activities involving real or physical production; namely, agriculture, manufacturing, mining, oil and gas. The real sector is the main driving force of the developmental process in any economy, since it accounts for a substantial proportion of a nation's Gross Domestic Product (GDP), and by implication the bedrock of any progress recorded by the economy of a country. In the last two decades in Nigeria, the real sector accounted for more than 60% of the nation's GDP.

This singular evidence not only underscores the importance of the real sector in the economic growth and development process, but also indicates that the realistic prospects for the promotion of economic growth and development are located in the real sector of the economy.

In order to stimulate economic growth, it must be emphasised therefore, that apart from increasing the contribution of the real sector to a country's GDP like Nigeria, there is the need to address the great spatial and sectoral unevenness in terms of the share of GDP and growth performance. For example, it is often suggested that measures should be directed at increasing the contribution of the manufacturing sector given its linkage effect and value addition.

In this unit, we examine the past performance and determinants of economic growth in Nigeria, with a view to acquiring some basic backgrounds on development of the Nigerian economy. The discussions will draw from the basic theory of economic growth.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the development process in Nigeria
- intelligently discuss the history of economic growth in Nigeria
- identify the basic factors that affect economic growth in Nigeria.

3.0 MAIN CONTENT

3.1 Economic Growth in Nigeria: Performance and Determinants

Essien (2001) suggests that economic growth simply refers to the percentage or proportionate increase in real income during a given period, normally a year. The size of the income and the method of sharing it are of great interest in modern macroeconomics. Modern economic growth involves fundamental structural changes in the way both production and societies are organised.

The history of economic growth shows that nations have different growth paths. Thus, while in the late eighteenth century economic transformation began in England and spread gradually to other parts of Europe and North America, it did not get to Asia until the 1950s, Japan precisely. The different growth path gave rise to income gaps between nations which is in no way permanent.

Economic growth does not take place in a vacuum. There are basic factors that motivate growth. They include basic resources, land, labour capital, education, training and health; and productivity. The availability of these engines does not in themselves guarantee growth. For instance, investment is the key to expanding capital, and savings, domestic and foreign, are needed to finance investment. Thus, improving a country's investment performance in both human and physical assets is important for growth.

Unlike other developing regions, empirical evidences in Africa show that the average output per capita in constant prices was lower at the end of 1990s than 30 years before, and in some countries, it has fallen by more than 50 percent.

It is noteworthy to that meeting growth challenges depend on investment performance. Productivity gains are also crucial. The question of efficiency of resource use or productivity performance is one theme that has generated tremendous interest among economic scholar for decades. A common thread running through this disclosure is a strong affirmation of the central place of productivity enhancement in the perpetuation of growth.

3.2 Basic Factors Affecting Growth: Nigeria's Economic Growth Dynamics

Several factors have been recognised in literature as growth engines. They include basic resources (land, labour and capital), productivity of factors of production (skills and knowledge or innovation), institutional and macroeconomic environment, types of economic organisation, governance and transparency. In this section we will attempt to locate and situate some of these factors making reference to the table of selected macroeconomic aggregates (Table 4.1) to explain Nigeria's growth dynamics.

***Table 4.1*: Selected macroeconomic aggregates, 2002 to 2005 (Growth Rates %)**

Description/Year	**2002**	**2003**	**2004**	**2005**
Nominal GDP	13.06	27.17	15.11	27.70
Real GDP	4.63	9.57	6.58	6.51
Oil and Gas	-5.61	23.70	3.37	0.50
Non-Oil	7.96	4.44	7.50	8.59
Components of Value-Added:				
Compensation of Employees	8.54	-24.93	-0.19	9.86
Consumption of fixed Capital	3.24	-19.06	7.40	-7.44
Operating Surplus	3.96	19.77	7.57	6.31
Basic Value-Added				

at Factor Costs	4.12	23.22	10.96	27.70
Indirect Taxes	-8.69	44.76	14.92	9.63
Subsidies	3.18	48.75	68.04	14.60
Producer Value-Added at Market Price	4.31	22.61	18.95	27.36
Intermediate Consumption	19.07	16.83	26.46	31.86
Gross Output Value	7.32	21.27	20.54	27.25

Source: National Bureau of Statistics, Statistical Abstract, 2006

Table 4.1 shows some interesting observations. Firstly, there appears to be no regular trends in growth of macroeconomic aggregates. By implication, it could be difficult to effectively make forecasts of future economic behaviours in the Nigerian economy. Secondly, real growth in national output as measured by gross domestic product (GDP) was not encouraging for the reference period of 2002 to 2005. This appears to indicate problems in demand management policies of Nigeria. Thirdly, there appears to be a direct relationship between employee compensation and growth in output value in Nigeria. The rest of the discussions concentrate on the basic growth factors in Nigeria, including: productivity, investment, political, and the economic system.

3.2.1 Productivity

Continuous enhancement of productivity has been very central to observed brilliant performance of the Asian Tigers and Japan in recent years. In Nigeria, however, productivity has been on a declining trend in almost all sectors of the economy. This is as a result of observed limited human and physical capital. For instance, adult literacy rate has remained constant at 57.0 since the mid-1990s. Asia and the Middle East had adult literacy rates of 64 and 58 percent, respectively (1997). In respect of adult literacy rate, it was observed that Nigeria is in the bottom quartile for sub-Saharan African countries combined. Whatever gains that had been made in terms of the financing of education in the past decades had not provided the needed accumulation of human capital for growth as a result of the “brain drain” syndrome, which became prevalent from the early 1980s owing mainly to political instability. With unemployment and declining opportunities for better education, such drain of human capital is likely to persist with dire consequence for economic growth. Life expectancy at birth, which is put at 54 years is lower than the average of 63 years in Asia; 65 for the Western hemisphere, 60 for the Middle East and Europe, and 74 for the advanced economies.

3.2.2 Investment

Investments have not contributed significantly to growth of the Nigerian economy. Available statistics have shown that investment in Nigeria, in particular gross domestic investment (GDI) averaged an annual growth rate of 0.7 percent between 1990 and 1997. As a percentage of GDP it declined from 21 percent in 1980 to 18 percent in 1998, while gross domestic savings that was 31 percent of GDP in 1980 declined to 24 percent of GDP in 1998. Private investment on the other hand has averaged only 16 percent of GDP since 1994 and was only 21 percent in 1999, the highest since the early 1990s. Investment in Nigeria has also been largely unproductive, particularly government investment. Public expenditure without much consideration for efficiency of the spending has result in the expenditure not achieving its objectives at a minimum cost. The low capacity utilisation of installed plant and equipment currently put at 35 percent from a peak of 73.3percent in 1981, raise questions about the justification for new investments.

3.2.3 Political and Economic System

From independence in 19960 to date, Nigeria has made several attempts at different political systems. While the first Republic was modeled after the British parliamentary system, the second and third Republic followed the US federal system. However, military regime has featured prominently in Nigeria political arena since 1960 and lasted for 29 years. Overall, the economic transformation of Nigeria could be put to three phases: oil boom, 1973-1983; economic crisis, 1981-1985; adjustment and post adjustment, 1986 to date. Suffice it to say that during these phases Nigeria enjoyed some periods of economic growth but without development owing to the observed pervasive inequalities, lack of will to shift in competitive advantage based on natural endowment to knowledge-based competitiveness, and poverty.

Admittedly, strong institutions are needed to exert pressure on the domestic economy and increase productivity. In Nigeria, several public institutions had been set up since independence to jump-start the economy. The creation of public monopolies, with an industrial sector dominated by highly subsidised and inefficient public enterprises has been a constraining factor to growth. The wave of privatisation, which has swept across most high-growth Sub-Saharan African countries has remained lip service in Nigeria till today. Issues such as political instability, human and property rights, and governance, have combined to impinge on Nigeria’s growth. Nevertheless, Nigerians hope that the recent transformation policy of President Goodluck Jonathan will create some avenues for sustained development in the Nigerian economy.

SELF-ASSESSMENT EXERCISE

Briefly discuss two major reasons for low productivity in the Nigerian public sector.

4.0 CONCLUSION

This unit has informed us of the historical developments determining the growth of the Nigerian economy. It defines economic growth and asserts that modern economic growth involves fundamental structural changes in the way both production and societies are organised. By implication, for the Nigerian economy to move towards sustainable development, some structural changes must have to be put in place.

5.0 SUMMARY

Our basic observation in this unit is that the history of economic growth in Nigeria has been generally disappointing. The country began with an average growth rate of less than 3% per annum for most of the three decades following the discovery and exploitation of oil. The non-oil sector lacks economic support and has been generally neglected by growth policies. We learned that economic growth does not take place in a vacuum. There are basic factors that motivate growth, including basic resources, land, labour capital, education, training and health and productivity. The availability of these engines of growth does not in themselves guarantee growth. For instance, investment is the key to expanding capital, and savings, domestic and foreign, are needed to finance investment. Thus, improving a country's investment performance in both human and physical assets is important for growth.

We also observed that meeting growth challenges depend on investment performance and that productivity gains are crucial in the growth process. The question of efficiency of resource use or productivity performance is one theme that has generated tremendous interest among economic scholar for decades. A common thread running through this disclosure is a strong affirmation of the central place of productivity enhancement in the perpetuation of growth.

Several factors have been recognised in literature as growth engines. They include basic resources (land, labour and capital), productivity of factors of production (skills and knowledge or innovation), institutional and macroeconomic environment, types of economic organisation, governance and transparency. It is therefore, suggestive for fiscal and monetary policies in Nigeria to address the issues on how these factors can effectively contribute to economic development and growth in Nigeria.

6.0 TUTOR-MARKED ASSIGNMENT

Enumerate the basic factors working against sustainable growth in Nigeria. What are your suggestions for improvement in Nigeria?

7.0 REFERENCE/FURTHER READING

Essien, A. E. (2001). "Nigeria's Economic Growth: Performance and Determinants," *CBN Economic and Financial Review*, vol. 40, no. 3, September.

UNIT 5 THE HISTORICAL THEORIES OF DEVELOPMENT

CONTENTS

1.0 INTRODUCTION

According to Grabowski and Shield (1996) historical theories are theories that explain current events or condition. The theory explains or predicts how these events or conditions evolve. Oyejide (2001) ascertained that many historical theories of economic development simply postulate the existence of different phases or stages of a development process and hypothesise about the forces that cause a change in the phase or stage of development. In this unit, we attempt to explain some of the causes of changes in the stages of development. The aim is to equip you with some basic backgrounds in the analysis of stages of economic development so that no one can be taken unawares when a change in the development process occurs.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain what economic development is all about
- state the theories of economic development
- demonstrate the ability to contribute towards development goals in the Nigerian economy.

3.0 MAIN CONTENT

3.1 Definitions and Theories of Economic Development

The preliminary step in the understanding of any economic concept is the understanding of what the concept is all about, as well as understanding the theories behind it. This section exemplifies these by highlighting the definitions of economic development and pointing out the associated theories.

3.2 Definitions of Economic Development

Misra and Puri (2003) define economic development to mean growth plus progressive changes in certain critical variables that determine the well-being of the people. They assert that there are qualitative dimensions in the development process which may be missing in the growth of a given economy expressed in terms of an increase in the national product or the product per capita. According to Mahbub (1971), the problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment, and inequalities.

Misra and Puri (2003) note one major approach to the concept of economic development, referred to as the traditional approach. The *traditional approach* defines development strictly in economic terms. According to the traditional approach, economic development implies a sustained annual increase in Gross National Product (GNP) at rates varying from 5 to 7 percent or more, together with such alteration in the structure of production and employment that decreases the shares of agriculture in production and employment and increases those of manufacturing and services sectors. Policy measures suggested in this case are those which induce industrialisation at the expense of agricultural development. Such objectives as poverty elimination, reduction of economic inequalities, and generation of employment are mentioned in passing reference only, and in most cases, it is assumed that rapid gains in overall growth in GNP or per capita domestic product would trickle down to people in one form or the other.

In his own contribution, Seers (1969) argues that the questions to be addressed about the meaning of development in the right perspective should be: "What has been happening to inequality? What has been happening to unemployment? What has been happening to poverty?" He suggests that if inequality, unemployment, and poverty have declined from high levels, then beyond doubt, this has been a period of development for the country in question. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result ‘‘development’’ even if the per capita income doubled.

Economic development is, therefore, a process with noble ideals. Backward countries, without exception, are endeavoring to make economic development a successful objective.

It is worth noting the difference between economic development and economic growth, as these two important economic concepts have often been misplaced and confused in their meanings. Distinguishing between economic growth and development, recent literature notes that economic growth refers to increases in a country’s real output of goods and services or product per capita over time. Output is generally measured, in this case, by gross or net national product. The term economic development, on the other hand, is more comprehensive. It implies progressive changes in the socio-economic structure of a country. Economic development involves a steady decline in agriculture’s share in Gross National Product (GNP) and a corresponding increase in the share of industries, trade, banking, construction, and services. This transformation in economic structure has been noted as being accompanied by a shift in the occupational structure of the labour force and improvement in its skill and productivity. Put differently, whereas economic growth merely refers to a rise in output, economic development implies changes in technological and institutional organisation of production, as well as in the distributive pattern of income.

3.3 Theories of Economic Development and Growth

There are two famous theories of economic development and one important growth model to be discussed:

1. Schumpeter’s Theory
2. The Big Push Theory
3. The Harrod-Domar Growth Model

In the following discussions, we summarise the first theory as presented by Misra and Puri (2003) and Onwe (1993). The rest of the theories will be presented in subsequent units.

3.3.1 The Schumpeter’s Theory of Economic Development

In developing his theory, Schumpeter distinguishes between two types of influences on an economy: first are the influences of changes in the availability of factors of production, which he refers to as *growth* component; second are the influences of technological and social changes, which he characterised as *development* component. Schumpeter refers to economic growth as “changes in population and in the sum total of savings plus accumulation corrected for the variation in the purchasing power of the monetary unit”. According to him, changes in these two variables are both continuous and slow. He notes that development is a distinct phenomenon and entirely foreign to what may be observed in the tendency toward equilibrium. It is a phenomenon that cannot be explained economically.

According to Schumpeter, growth component represents the contribution of changes in the utilisation of the factors of production. The supply of land being fixed, growth component represents only the contribution of variations in the size of population and of increases in the produced means of production, which Schumpeter distinguishes from capital. Population growth is considered as an external factor in the Schumpeter’s treatment of economic change. Schumpeter believes that the rate at which population changes is determined by factors outside the system.

Similar to population growth, increases in producer goods is said to belong to the growth component of economic change. Schumpeter asserts that an increase in the supply of producer goods ordinarily depends on the positive savings flow. The rate of savings in any economy, in turn, rarely rises abruptly. Increases in savings rate are slow and gradual and often require infinitesimal steps. Schumpeter believes that savings are rarely independent factor of change.

Schumpeter looked at profit as an outcome of the development process. It gets completely eliminated in the circular flow of economic life, since the value of the output is exactly same as the value of productive factors employed to produce it.

Another factor that influences the development component of economic change is the change in social climate. With respect to the social factors, Schumpeter’s approach is similar to that of the Marxist theory. According to him, because of the fundamental dependence of the economic aspect of things on everything else, it is not possible to explain economic change by previous economic conditions alone. Schumpeter assumes that the economic state of people does not emerge simply from the preceding economic conditions, but only from the preceding total situation.

Other important factors influencing economic growth and development in Schumpeter's context include: technological change, entrepreneurship, capital, and credit. These are discussed as follows:

Technological Change

Schumpeter visualised two broad types of technological changes: continuous technological change in which technologies develop from the prevailing technologies, and discontinuous technologies. According to Schumpeter, continuous technological changes give rise to economic growth, while discontinuous technological changes give rise to economic development.

Entrepreneurship

Schumpeter believes that the entrepreneur is neither a financier nor a technician; he or she is merely an innovator who carries out discontinuous technological changes resulting in economic development. He also assumes that the activities of entrepreneurs are greatly influenced by the social climate. In a depressing social climate, the possibility of widespread innovative activities will be limited. In addition, any attempt to restrict independence and to violate capitalist rationality will discourage entrepreneurial activities.

Capital

Schumpeter defines capital as that sum of means of payments which is available at any moment for transference to entrepreneurs. He notes however, that not all means of payment should be regarded as capital and that if means of payment are not used for diverting means of production from their existing uses to the new ones, they do not serve any development purpose and as such, would not be considered as capital. According to Schumpeter, capital is a concept of development to which nothing in the circular flow of economic activities corresponds.

Credit

Schumpeter assigns a unique role to credit in economic development. Entrepreneurs need credit in order to carry out innovations that give rise to economic development. Every kind of extension of credit for purposes of innovation is by definition the granting of credit to the entrepreneur, and forms an element of development. The need of credit arises from the requirements of development.

SELF-ASSESSMENT EXERCISE

With appropriate practical example, explain what economic development is all about.

4.0 CONCLUSION

This unit has brought into focus the definitions of economic development. It informs us of the basic difference between the two often confused terms in economics, economic development and economic growth. Economic growth refers to increases in a country's real output of goods and services or product per capita over time. The term economic development, on the other hand, is more comprehensive. It implies progressive changes in the socio-economic structure of a country. It involves a steady decline in agriculture's share in Gross National Product (GNP) and a corresponding increase in the share of industries, trade, banking, construction, and services.

5.0 SUMMARY

Our discussions reveal that historical theories are theories that explain current events or conditions. The theories explain or predict how these events or conditions evolve. We noted that many historical theories of economic development simply postulate the existence of different phases or stages of a development process and make hypothesis on the forces that cause a change in the phase or stage of development. There is one major approach to the concept of economic development, referred to as the traditional approach. The traditional approach defines development strictly in economic terms. According to the traditional approach, economic development implies a sustained annual increase in Gross National Product (GNP) at rates varying from 5 to 7 percent or more, together with such alteration in the structure of production and employment that decreases the shares of agriculture in production and employment and increases those of manufacturing and services sectors.

One basic distinguishing feature of economic development is clear. Whereas economic growth merely refers to a rise in output, economic development implies changes in technological and institutional organisation of production, as well as in the distributive pattern of income.

The unit ended by noting four famous theories of economic development: *Schumpeter's Theory; the Big Push Theory; the Harrod-Domar Growth Model;* and, *the Robert Solow's Neo-Classical Theory of Growth.*

6.0 TUTOR-MARKED ASSIGNMENT

Discuss in detail the two types of influences in an economy, according to Schumpeter.

7.0 REFERENCES/FURTHER READING

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MODULE 2

UNIT 1 THE BIG PUSH THEORY OF ECONOMIC DEVELOPMENT AND HARROD-DOMAR'S THEORY OF GROWTH

CONTENTS

1.0 INTRODUCTION

The theory of the big push asserts that underdeveloped countries require large amounts of investments to come out of the problem of backwardness and launch policies for economic development. The logic behind this theory is that a programme of "bit-by-bit" investment will not have much impact on the process of growth and will only lead to a dissipation of resources. Policies designed to encourage the development of the Nigerian economy will need to be guided by the big-push theory as well as Harrod-Domar's growth theory.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the theories of economic development and economic growth
- explain the need for the big push in Nigeria
- contribute effectively in issues concerning development policies in Nigeria.

3.0 MAIN CONTENT

3.1 Theory of the Big Push

This big push theory originated from Rosentein-Rodan. According to Rodan, the need for big push in underdeveloped countries arises from at least three indivisibilities, including (Misra and Puri, 2003):

1. Indivisibility in the production function;
2. Indivisibility of demand; and
3. Indivisibility in the supply of savings.

3.2 Indivisibility in the Production Function

Rodan notes that indivisibilities of inputs, processes, or outputs give rise to increasing returns or economies of scale, and may require a high optimum size of a firm.

3.3 Indivisibility (or Complementarities) of Demand

Indivisibility of demand requires that a country sets up simultaneously a large number of industries producing variety of goods, so that workers in these industries would become consumers of one another's goods. This encourages expansion of markets for industrial goods. In this way, outputs of the various industries will not go unsold.

3.4 Indivisibility in the Supply of Savings

Rodan argues that substantial investment in a number of industries requires a high enough level of savings. Because underdeveloped countries are plagued by low income levels, it is necessary that in the first stage of development, when income rises due to investment increases, mechanisms must be put in place to raise the marginal rate of savings in the second stage in comparison to the average savings rate.

The logic behind Rodan's theory of the big push is that it brings into focus the need for a massive effort on the part of the underdeveloped countries to industrialise if they are serious about economic development. The theory warns that piece-meal efforts of developing one or two industries would be of no avail.

3.5 Criticisms of the Big Push Theory

The big push theory has been criticised by economists on a number of grounds, some of which are summarised below:

3.5.1 Inadequacy of Resources

The most important criticism of the big push theory is that it fails to recognise the all important fact that the amount of resources in underdeveloped countries is very limited. The argument is that the theory presupposes not only an ample supply of capital but also of other scarce factors of production in the underdeveloped countries. A big push as suggested by the theory would likely amount to starting more projects than the country's resources can cope with.

3.5.2 Difficulties in Implementation

As observed by Myint (1969: 120), the governments of underdeveloped countries are likely to encounter serious difficulties in executing various projects according to a planned time-table, and in keeping the different implementing agencies continually informed about progress in carrying out the plans. These difficulties are likely to create serious obstacles in the implementation of programmes of large-scale industrialisation as suggested by the big push theory.

3.5.3 Neglect of the Agricultural Sector

Critiques argue that the big push theory suggests a programme of comprehensive industrialisation without mention of agriculture. It is difficult to think of economic development in the primarily agricultural and labour surplus economies by neglecting agriculture. The neglect of agriculture would constitute a serious bottleneck to the programmes of industrialisation both in the short and in the long run. It becomes difficult to meet the food requirements of the people engaged in the new industries, and in the long run, the size of the market would fail to expand significantly.

3.5.4 Generation of Inflationary Pressures

It has been argued that since agriculture is neglected by the theory of the big push, food shortages are likely to substantially push up food prices. This and other arguments suggest that programmes of the big push theory are associated with the risk of inflationary pressures.

3.5.5 Too Much Emphasis on Indivisibilities

The emphasis on indivisibilities pays limited respect to the broader aspects of social reform which are vital if a stationary economy is to begin to develop on the basis of its own resources and incentives.

3.5.6 Neglect of the Importance of Techniques

The theory of the big push was noted to have neglected the importance of techniques in it's over enthusiasm for capital formation. Development depends increasingly on techniques and less on direct capital formation in the productive processes.

3.5.7 Difficulties in a Mixed Economy

It has been noted that most underdeveloped countries have a mixed economy system which provides for the co-existence of both private and public sectors. If these sectors are complementary in nature, no difficulties are likely to arise; but if they are competitive, there are likely to be serious difficulties in actual implementation of the big push strategy of development.

3.5.8 Not Supported by History

The big push theory seems to suggest that whenever a large scale influence is exerted on the process of capital formation, a stationary economy begins to develop. It was observed that this is not in conformity with historical events.

3.6 The Harrod-Domar's Theory of Economic Growth

Harrod-Domar's theory argues that a country's investment level at a given period is determined at the equilibrium level of national income by the marginal propensity to save, so that economic growth becomes a function of the marginal propensity to save and the capital/output ratio (Domar, 1948). In algebraic terms, with Y representing national income, K capital expenditures, I investment expenditures, S savings, and d changes, the rate of income growth, G is defined by:

$G = dY/Yt$,

And the savings ratio, s, (a proxy for the marginal propensity to save), can be defined by (Onwe, 1993):

$$S = St/Yt$$
$$= It/Yt$$ (since, ceteris paribus, It = St at equilibrium).

By assertion, dKt + I = It, and the incremental capital/output ratio, k, can be defined by:

$$K = \frac{dKt + I}{dY} = It/dY$$, by the assertion above.

Logically therefore,

$$G = dY/Yt = \frac{It/Yt}{It/dY} = s/k$$

In the model above, it follows that the rate of growth in national income is the ratio between the marginal propensity to save, s, and the incremental capital/output ratio, k. By the Harrod-Domar theory, economic growth can be attained by either expanding the savings ratio (or the marginal propensity to save) or lowering the capital/output ratio.

Harrod's initial concern was noted to be on the time path of equilibrium level of national income. Harrod believes that savings depend on income, but investment is determined by an accelerator, which in economic boom, would lead to an expansion of income above the equilibrium path, to run the economy up against output ceilings, or in economic depression, to contraction, which would halt growth by keeping actual growth below the potential growth.

The basic principles of the Harrod-Domar's model are as follows:

- First, any change in the rate of investment flow per year, I(t), will produce a dual effect: it will affect the aggregate demand as well as the productive capacity of the economy.

- Second, the demand effect of a change in I(t) operate through the multiplier process, so that an increase in I(t) will raise the rate of income flow per year, Y(t), by a multiple of the increment in I(t).

- Finally, the capacity effect of investment is measured by the change in the rate of potential output the economy is capable of producing.

Onwe (1993) notes however, that the Harrod-Domar theory of growth has some theoretical weaknesses. For one thing, the theory relies largely on a capital theory of value, in contrast to the well-known Ricardo-Max labour theory of value. Labour is introduced into the system only at a constant capital/labour ratio. Such a ratio is realistically possible only if labour accidentally grows at the same rate as capital or if labour is redundant at all rates of capital expansion, so that the needed quantity of labour can be obtained at very low wages. Secondly, the Harrod-Domar model ignores the possibility of technological changes.

Finally, the Harrod-Domar model fails on empirical grounds. It has been noted that growth in realistic situations, proceeds faster than can be accounted for by the rate of inputs of capital with a constant capital/output ratio.

SELF-ASSESSMENT EXERCISE

With some simple practical examples, briefly discuss the difference between economic development and economic growth.

4.0 CONCLUSION

This unit has dealt with some background issues in development and growth theories. The unit is of the opinion that in order to make useful contributions to issues bordering on economic development in Nigeria, you need to be armed with the basic principles of economic development and growth at the preliminary stages. Of major focus in the discussion were the big push theory of development and Harrod-Domar's theory of growth. Some shortfalls of these theories were isolated for further scrutiny.

5.0 SUMMARY

This unit has revealed that the need for the big push in underdeveloped countries arises from at least three indivisibilities, including: (1) indivisibility in the production function; (2) indivisibility of demand; and, (3) indivisibility in the supply of savings.

The big push theory however, suffers from some criticisms among which are: failure to recognise inadequacies of resources in developing countries, difficulties in implementation of the theory's recommendations, neglect of the agricultural sector, neglect of the importance of techniques, neglect of difficulties in a mixed economy, and non support of historical developments.

We were also informed that the Harrod-Domar's theory of growth is of the opinion that a country's investment level at a given period is determined at the equilibrium level of national income by the marginal propensity to save, so that economic growth becomes a function of the marginal propensity to save and the capital/output ratio. The lesson learned was basically that there is no growth in an economy that falls short of savings and high capital/output ratio.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the major criticisms of the theories of economic development and growth.

7.0 REFERENCES/FURTHER READING

Domar, E. D. (1948). “Capital Expansion, Rate of Growth and Employment,” *Econometrica*, April.

Myint, H. (1969). *The Economics of the Developing Countries.* London: Hutchinson University Press.

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UNIT 2 STAGES OF ECONOMIC DEVELOPMENT

CONTENTS

1.0 INTRODUCTION

While growth theories see growth as an on-going process, stage theories, derived from economic history, suggest that economic development follows a fairly uniform pattern, going through a series of stages, with different writers emphasising transition along different lines of development. The famous among these are those of Marx, who postulated change of economic institutions: feudalism, capitalism, and socialism. In this unit, we examine the postulated stages of economic development as well as economic growth. The knowledge of these stages forms part of the essential preconditions in understanding the development pattern and history of economic development in Nigeria.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- provide an analysis of the process of economic development and growth in Nigeria
- give some relevant information on stages of economic development and growth
- examine development policies in Nigeria.

3.0 MAIN CONTENT

3.1 The Stage Theories of Economic Development and Growth

This section looks at the postulated stages of economic development and growth. The discussions will draw on suggestions of Marx and similar writers on the issue.

3.2 Stage Theories of Economic Development

Kindleberger (1975) outlines the designated stages of economic development according to the writers as shown in table 2.1 below:

Table 2.1: **Designated stages of economic development**

Author	**Designated Stages**
LIST	Savagery→Pastorial life→Agriculture→ Agriculture and Manufactures→Agriculture, Manufacture, and Trade.
HILBRAND	Barter→Money→Credit.
BUCKER	Household Economy→Town Economy→National Economy(Production for inventory and wholesale distribution.
ASHLEY	Household System→Guild→Domestic System→Factory.
GRAS	Village→Town→Nation→World.
W.W. ROSTOW	Traditional Society→Preconditions→Take-off→Drive to Maturity→High Mass Consumption

According to Rostow (1975)

The *traditional society* rests in a static equilibrium until it is disturbed. Production techniques are fixed, diminishing returns prevail, population is stabilised. The traditional society is made up of mainly an agricultural economy that uses more or less unchanging production methods. The traditional society saves and invests little more than is required to meet depreciation.

The *precondition stage* involves slow changes, especially in attitudes and organisation. The idea of economic improvement takes effect, and the frozen traditional rigidity breaks up to allow for occupational, geographic, and social mobility. Transportation becomes cheaper and the commercial markets for agricultural products, domestic handicrafts, and consumption-goods imports widen. The desire for increased social power and prestige, national pride, political ambition and the like becomes the order of the day. Education broadens and changes to suit the needs of modern economic activity, and new entrepreneurs come forward willing to mobilise savings and to take risks in pursuit of profit, notably in commerce. New production methods are adopted in the agricultural and industrial sectors of the economy. The pace is however, slow in this stage.

In the *take-off stage*, resistances and blocks to development are overcome, particularly in one or more leading economic sectors where technical change is strongly felt. The rate of investment jumps from say 5 per cent to more than 10 per cent of national income.

The beginning of the take off stage can be traced to a particular sharp stimulus. The stimulus may take the form of a political revolution which directly affects the balance of social power and effective values, the character of economic institutions, the distribution of income, the pattern of investment outlays, and the proportion of potential innovations actually applied.

In the *drive to maturity stage*, there is the spread of technical change, and improved efficiency from the leading sectors to all parts of the economy, with growth habits becoming ingrained in the economy. Rates of economic growth outstrip population increase to raise per capita income. Overall per capita income increases as the economy matures. There will be increasing changes in the structure of the economy. The initial key industries, which sparked up the take-off stage, decelerate as diminishing returns set in and the original band of pioneering entrepreneurs give way to less single minded industrial leaders in those sectors. The proportion of the population in rural pursuits declines. The economy finds its place in the international economy.

The *stage of high mass consumption* is the stage at which durable consumer goods, life in the suburbs, college education for about 50 per cent of the population come within reach.

3.3 The Gowpertz Learning Curve

Rostow (1975) assumes that all economic development and growth follows the Gowpetz learning curve in which growth and development starts off slowly, picks up gradually, and then proceeds very rapidly before slowing down at some later stage to become asymptotic at some limit.

The Gowpetz curve is illustrated in fig. 2.1 below

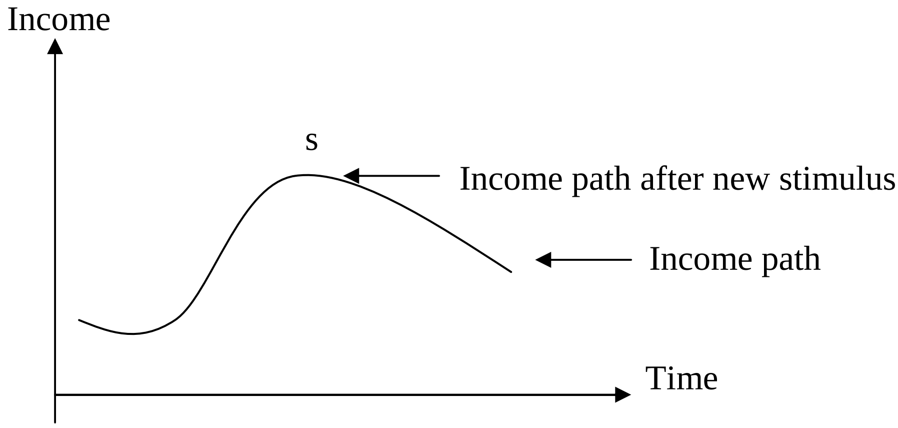

Figure 2.1: The Gowpetz Curve illustrating Rostow's stages of development

The difficulty at any point in the process of economic development is being able to predict how far any one stage will go, and whether after an initial slow down at such a point, s, in fig.2.1, another spurt is not possible.

3.4 Economic Development under Conditions of Unlimited Supplies of Labour

According to Lewis (1954), the key to the process of economic development and expansion is the use which is made of the capitalist surplus. In so far as this surplus is reinvested in creating new capital, the capitalist sector expands, taking more people into capitalist employment out of the subsistence sector. The surplus becomes larger still, capital formation becomes larger, and the process continues until the surplus labour disappears.

Lewis was of the view that an economy is divided into subsistence and capitalist sectors. According to Lewis, the capitalist sector is that part of the economy which uses reproducible capital and pays capital for the use thereof. The subsistence sector includes everything else. Though the subsistence sector has been identified empirically with traditional agriculture, Lewis observes that surplus labour may be found equally in petty trade, domestic services, and other service occupations.

SELF-ASSESSMENT EXERCISE

Can thereby economic growth without development? Explain.

4.0 CONCLUSION

This unit examines the major stages of economic development as designated by development specialists. By implication, the development stages appear to have mapped out the important stages economies must go through to attain a sustainable growth path.

5.0 SUMMARY

The unit exposes you to the different stages of economic development as designated by early writers on the subject, including: Lewis, Hilbrand, Bucker, Ashley, and Gras. The most recent among these writers emerged as Professor W. W. Rostow, whose stages of economic development include traditional society, precondition, take-off, drive to maturity, and high mass consumption. Each of these stages were carefully presented in the unit, with a view to acquainting you with the process of economic development. The Rostow's stages of development were illustrated using the Gompetz learning curve.

The unit ended up with Lewis' (1954) discussion on economic development under conditions of unlimited supplies of labour. We observed that Lewis was of the view that an economy is divided into subsistence and capitalist sectors. The capitalist sector is that part of the economy which uses reproducible capital and pays capital for the use thereof. The subsistence sector includes everything else. Though the subsistence sector has been identified empirically with traditional agriculture, Lewis observes that surplus labour may be found equally in petty trade, domestic services, and other service occupations.

6.0 TUTOR-MARKED ASSIGNMENT

Enumerate and discuss the stages of economic development. What stage in your own opinion is applicable to the current economic conditions of Nigeria?

7.0 REFERENCES/FURTHER READING

Kindleberger, C. P. (1975). *Economic Development* (2nd ed.). New York: McGraw-Hill.

Lewis, W. A. (1954). "Economic Development with Unlimited Supplies of Labour." *Manchester School*, May.

Rostow, W. W. (1975). "The Take-Off into Self-Sustained Growth." In: Mountjoy, A. B., *Developing the Underdeveloped Countries*. London: MacMillan Press Ltd.

UNIT 3 DEVELOPMENT PLANNING IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Development planning can be referred to as an economic planning of a country which aims at influencing, directing, and in some cases, controlling changes in principal economic variables such as investment, savings, consumption expenditures, exports, and imports, over a period of time. The major objective of development planning is to achieve a pre-determined set of objectives. Development planning involves the preparation and implementation of directional blueprint for a given economy. It follows that a development plan is a government document containing:

1. A review of government policies
2. The current national economic conditions
3. A macroeconomic projection of the economy
4. Proposed public expenditures
5. A specific set of quantitative economic targets to be reached in a given period of time

In this unit, you will be exposed to the different types of economic planning, types of development plans, and the past periodic development plans of Nigeria.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concept of development planning
- distinguish between different types of development plans
- discuss the past national development plans of Nigeria.

3.0 MAIN CONTENT

3.1 Nigerian National Development Plans

3.2 Definition of Development Planning

Anyanwu et al (1997) define development planning as a conscious effort of government to influence, direct and control changes in principal economic variables operative in a given economy over a period of time in order to achieve a pre-determined set of economic objectives. Development planning occupies a very important place in a country's economic activities. It involves the allocation of scarce resources**,** motivated by the desire to avert the penalty of ignorance arising from the recognition of inability of market forces to direct resources to areas of optimal utilisation. Development planning is a means of mobilising scarce resources that have alternative uses for the overall optimum benefits of the country.

3.3 Types of Development Planning

Development plans are often classified into four broad categories, : short-range plans, medium-range plans, long-range plans, and rolling plans. In this section, we look briefly at each of these classifications.

3.3.1 Short-Range Plans

A short-range plan is a yearly or two-year plan concretely expressed in terms of planned activities for existing enterprises and for the construction of new projects. The major objective of short-range plans is to maintain internal and external balance of the national economy, as well as to raise to a higher level, both production and expenditure than in the previous years. Short-range plans are usually presented in conjunction with the estimates of the annual budget. Such plans are often looked at as extensions of the national budget.

We can mention a few advantages of short-range plans.

First, they allow for greater precision to the task of long range and medium range planning. Secondly, they can direct the development of the economy in a more operational way. Thirdly, they ensure the mobilisation of all national resources. In addition, due to their short-term nature, short-range plans can command real interests in keeping the plans alive.

Short-range plans however, have limited influence in economic development. They cannot be used to bring about basic structural changes needed for economic development.

3.3.2 Medium-Range Plans

Medium-range plans are for periods between three and seven years duration. They present a set of centrally coordinated and internally consistent policies which are capable of achieving a set of specified targets. The time period of the plan is considered sufficient for construction and operation of large enterprises, electric plants, irrigation projects, road projects, and the like. It is feasible to determine the prospective direction and economic effects of technological progress within the duration of the medium-range plan. Medium-range plans are in both the public and private sectors of the economy.

3.3.3 Perspective Plans

Perspective plans are documents expressing coherent series of objectives and methods of achieving them in a distant future. These plans are stated in the form of general guidelines and approved by the competent authority. The plans provide futuristic and predictive frameworks that seek to chart the course of an economy's development process over a long period of time. Under these plans, broad programmes and policy decisions are made which provide a basis for developing the organisational relationship and administrative policies, as well as establishing a framework for budgetary programmes and policies.

Projects that cannot be fitted into short-range or medium-range plans are brought into perspective plans. Such issues as population growth, direction of the economy, and major structural changes are reflected in medium- and long-range plans.

3.3.4 Rolling Plans

Rolling plans are part of perspective plans. Their major objective is to ensure continuity in the implementation of perspective plan projects. A project that cannot be completed for the duration of a given plan can be rolled into another period. Rolling plans assume the form of a multiyear budgeting system which can correct inadequacies in one-year budgets by capturing the requirement of most capital projects requiring more than one year to complete.

3.4 Pre-Independence Development Planning in Nigeria

Development planning in Nigeria appears to have a strong relationship with changes in the country's political structure, as well as with consequential changes in the planning machinery. The pre-independent planning in Nigeria was purely based on colonial British-based economic planning principles. At this period, the country's outputs were mainly agricultural products, including cotton, groundnut, rubber, palm oil, tin, and coal. These were exported to Britain and Nigeria was a booming market for British products.

3.4.1 The Ten-Year Plan of Development and Welfare (1945-1955)

The ''Ten-Year Plan of Development and Welfare for Nigeria'' was the first attempt at development planning in Nigeria. This was introduced according to instructions of the colonial office in London in 1945, and contained in the Government's Sessional Paper, No. 24 of 1945. The plan was prepared and coordinated under the direction of a small central development board consisting exclusively of colonial government officials. Considerable efforts were made to obtain inter-departmental and central provincial consultation and coordination. The plan was therefore, coordinated and integrated at the local level. The conception, formulation, and implementation of the plan were done entirely by colonial civil servants. In 1951, the plan was revised to cover the period, 1951 to 1956. Unfortunately, the then new constitutional development of 1954 brought this plan to a premature end.

The plan was largely criticised, as it concentrated mainly on social and physical infrastructures such as construction of rail and motor-roads, seaports, and other infrastructures aimed at facilitating the then unbalanced trade between Britain and the colony. The observed problems of the plan were as follows:

1. It had no properly defined objective that was relevant and meaningful to the needs of the Nigerian citizens. Emphasis was rather on the maintenance of law and order.
2. There was an absence of articulate press to monitor opinion and development in different parts of the country.
3. It was difficult to reconcile the execution of the plan in the three groups that constituted the country at the time, where different

systems of administration with varying objectives were in vogue. The plan suffered from a lack of consistency and coherence.

4. Paucity of requisite data for planning and acute post-war shortage high level administrative manpower for plan implementation constituted the major bottleneck for the planning exercise and implementation.

Nevertheless, the ten-year plan together with its revised edition made possible the expansion of public health; education services; public facilities such as roads, ports, and water supply. The involvement of private sector in the plan implementation aided the expansion of productive capacity of the economy.

3.4.2 The Second Pre-Independence National Development Plan (1955 – 1960)

With the colonial introduction of the Richardson Constitution in 1954, Nigeria was divided into four regions: North, East, West, and the Cameroons. The second development plan was introduced as a consequence of the then visit of the World Bank officials to Nigeria in 1954 and their advice on the way forward. Each region was to prepare its own development plan. There was no effort to coordinate, integrate or align the regional plans with the ‘‘federal plan’’. The plan emphasis were confined to the building of economic and social services in the country. One major problem was that new and unrelated projects were readily substituted for original programmes without proper analysis and coordination with other projects, under the guise of ‘‘flexibility’’ as no rigid targets were fixed for the plan period. To sum up, the plan fell short of the standards of true perspective planning. No observation was made on conscious attempts to accelerate economic growth by laying down national goals and objectives. Despite these shortcomings however, it was observed that the economy witnessed some positive growth rates during the plan period. Table 3.1 below outlines the performance of the Nigerian economy during the pre-independence plan periods (1950 – 1960).

Table 3.1: **Selected economic indicators, 1950 – 1960 (at 1957 Prices)**

Expenditure Category (B.Pound Million)	1950 (B.PoundMillion)	1955 (B.Pound Million)	1960 (B.Pound Million)	Increase Amount (B.Pound Million)	1950 -1960	
					%	% P.A
GDP	699.3	891.9	1023.7	329.7	47.1	4.1
Govt. expenditure on goods and						22.1

services	24.0	45.5	77.0	53.0	220.8	
Gross fixed Investment	48.4	102.6	158.0	109.6	226.4	22.6
Consumption expenditure	609.4	805.5	870.0	260.6	42.76	4.28
Govt. expenditure as % of GDP	3.4	4.9	7.7	4.3	126.5	12.7
Gross fixed Investment as % of GDP	6.9	11.1	15.4	8.5	123.2	12.3
Consumption expenditure as % of DGP	87.1	87.4	85.0	-2.1	-2.4	(-0.2)

Source: First NDP, 1962 – 68, P. 13

SELF-ASSESSMENT EXERCISE

Discuss briefly, the problems associated with the pre-independence development plans in Nigeria.

4.0 CONCLUSION

You have been informed about what national development planning is and the basic strategies for employed during the colonial era in Nigeria. Other important aspects of the discussions which you should further note are the types of national plans.

5.0 SUMMARY

Development planning has been defined as a conscious effort by government to influence, direct and control changes in a country's principal economic variables. Development planning is a major economic activity in an economy. Four types of development plans were brought into focus; they are: (1) short-range plans; (2) medium-range plans; (3) perspective plans; and, (4) rolling plans. The development planning in Nigeria during the colonial era consisted of the ''Ten-Year Plan of Development and Welfare (1945-1955).'' This plan laid the foundation for the pre-independent economy of Nigeria. The Ten-Year Plan of Development and Welfare was followed by a second pre-independence plan (1955-1960). A major problem observed with this plan was that new and unrelated projects were substituted for the original projects without proper analysis and coordination of other projects. The accompanying statistics in our discussions indicate that the Nigerian economy was progressive during the second development plan of 1955 to 1960.

6.0 TUTOR-MARKED ASSIGNMENT

Enumerate the basic advantages of development planning.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H., & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

UNIT 4 THE POST-INDEPENDENCE DEVELOPMENT PLANNING IN NIGERIA

CONTENTS

1.0 INTRODUCTION

This unit is devoted to development planning activities in Nigeria after its independence in 1960. There are four distinctive post-independence development plans in Nigeria: the First National Development Plan; the Second National Development Plan; the Third National Development Plan; and, the Fourth National Development Plan. We will endeavour to critically analyse these development plans in the context of economic growth in Nigeria.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- identify the past national development plans since independence
- analyse the performance of public capital expenditure projects under the development plans
- explain the relative importance of development planning in Nigeria.

3.0 MAIN CONTENT

3.1 The Post-Independence Development Planning Activities in Nigeria

The post-independence development planning in Nigeria will be discussed at four levels: the First to the Fourth National Development Plans.

3.2 The First National Development Plan (1962-1968)

The federal government had, since independence in 1960, recognised the need for an ideal way of setting out its development objectives and also to initiate strategies for tackling the country's economic problems. The federal government began by setting up the National Economic Council (NEC) in 1958. This was to ensure the realisation of development objectives. Members of this council were drawn from the various regions of the country and charged with the responsibility of achieving and maintaining the highest possible rate of increase in the standard of living and the creation of necessary condition to this end, including public support and awareness of both the existing potential and the sacrifices that will be required. The National Economic Council decided on a national development plan for the country in early 1959. The First National Development Plan was introduced in 1962.

The basic objective of planning in Nigeria has been noted as not merely to accelerate economic growth but also to give the country an increasing measure of control over her destiny. As shown in table 4.1 below, the 1962 - 1968 plan had a proposed capital expenditure of £676.800 million. Out of this amount, £143.817 million (about 21 per cent) was budgeted for transportation, £101.74 million, about 15 per cent, for electricity, £91.76 million, about 14 per cent, for primary production, and £69.763 million, about 10 per cent, for education. Other sectors were allocated relatively lower shares.

According to Yesufu (1996), implementation of the 1962 to 1968 plan revealed a case of serious problem of inability to meet targets. Public sector capital expenditure fell short of 20.7 per cent of the target at the end of the plan period. This problem was more pronounced in sectors that had more direct bearing on welfare of the citizens. In the areas of information, judiciary, and general administration, for example, expenditures exceeded the budget, while in education, communication, primary production, and health, expenditures fell short of 34.6per cent, 63.3 per cent, 42.8 per cent, and 56.3 per cent respectively. Water supply also fell short of 63.1 per cent at the federal level.

Some of the factors noted as being responsible for the observed failures of the 1962 to 1968 plan in meeting targets and/or objectives were first, the dependence of the plan on the foreign allies for 50 per cent of the capital expenditures. Nigeria depended on retain for advisers, consultants, management, capital, and the like. Closely related to this was an observed continuous wrangling between the regional governments on the one hand and the regional governments and federal government on the other, which was noted as one of the major causes of the 1966 coup.

Other factors were the fact that:

1. The different ministries hardly acknowledged the coordinating role of the Ministry of Economic Development.
2. In the conception and implementation of the plan, the then local authorities were not sufficiently brought into the process in spite of their importance as development agencies in various parts of the country.
3. There was limited opportunity for public debate and participation in the process of development planning.

Nevertheless, considering these limitations in terms of resources, planning experience and administrative capacity, the plan was seen as measurably successful, since a number of important projects such as the Kainji Dam, the Niger Bridge, the first oil refinery, and a number of roads and industries were completed under the plan period. It is also important to note that the first National Development Plan was a lesson to be learned in the conception, organisation, and implementation of development planning in Nigeria. Table 4.1 summarises the performance of the First National Development Plan.

Table 4.1: **Public Capital Expenditure Performance under the First National Development Plan**

S/N	**Sector**	**Estimate £mil**	**Actual £mil**	**% Change**	**% of Estimates to Total**
1	Primary Production	91.760	52.53	-42.3	14
2	Trade and Industry	90.269	47.537	-47.3	13
3	Electricity	101.740	80.686	-20.7	15
4	Transport	143.817	121.101	-15.8	21
5	Communications	30.000	11.042	-63.2	4
6	Water	24.258	24.747	20.0	3.6
7	Health	17.076	7.460	-56.3	2.5
8	Education	69.763	54.654	-34.6	10

9	Town and Country planning	41.746	10.630	-53.0	6.0
10	Cooperative and Social Welfare	8.662	3.722	-57.0	1.0
11	Information	3.662	4.680	27.7	0.5
12	Judiciary	0.964	1.247	29.4	0.1
13	General Administration	48.098	103.527	115.3	7.0
14	Financial Obligations	3.900	12.883	230.3	0.5
	Total	676.800	536.499	-20.7	100

Source: Anyanwu et al (1997) *Structure of the Nigerian Economy*, p. 401.

3.3 The Second National Development Plan (1970 - 1974)

The Second National Development Plan provided the country an opportunity to come up with an ambitious economic programme that reflected the self-reliant aspirations of the military administration then in power. With the aim of giving a sense of purpose, direction and urgency, the plan adopted some new ideological stands in formulating economic policies essential for structural changes in the process of economic growth in Nigeria. The plan adopted the philosophy of ‘‘inward looking’’ aimed at social mobilisation of development resources. The federal government was portrayed as a leading sector whose role was to occupy the commanding heights of the economy in the quest for purposeful national development and provide the leadership and honest administration necessary for the attainment of a national sense of purpose. The private indigenous businesses were inevitable subordinate sub-sectors, while participation of the foreign sector was recognised but only as a necessary adjunct to indigenous efforts.

The plan had the following principal long-term objectives aimed at establishing Nigeria as:

1. A united, strong and self-reliant nation
2. A great dynamic economy
3. A just and egalitarian society
4. A land of bright and full opportunity for all citizens
5. A free and democratic society

Though the objectives were not regarded as yardsticks for unambiguously measuring the success of the plan, the planners stressed the need for both governments and the people to seek to give concrete meaning to the objectives and ensure their full realisation at all times. The need for promotion of balanced development between one part of the country and another, and especially, between the urban and rural areas was also stressed.

The original estimate for the plan was N2 billion. This was later revised to N3.3 billion, with actual expenditure of N2.2 billion amounting to over a 10 percent increase in the original estimate. Almost every government was able to implement over 50 per cent of the enlarged N3.3 billion capital expenditure programme. As you can observe from table 4.1, the economy recorded substantial overall growth during the plan period. The gross domestic product, GDP, grew by 18.4 per cent for 1971-1972 period, 7.3 per cent for the 1972 – 73 period, 9.5 per cent for 1973 – 74 period, and 9.7 per cent for the 1974 – 1975 period. The observed decline in the GDP growth from 18.4 per cent during 1971 – 1972 period to 7.3 per cent for the 1972 – 73 period was attributed to a drastic fall in agricultural production as a result of drought of the period. The observed impressive growth rates were attributed to the post-civil war reconstruction programmes of the federal government and the emergence of the oil boom of the 1970s (Yesufu, 1996). It follows that the 1970 – 1974 plan period witnessed some structural changes in the economy, as revealed with the emergence of crude oil as a major contributor to the Nigerian gross national product (GNP), as well as the growing dominance of building and construction as component of capital formation. Table 4.2 also indicates that the contributions of agriculture and the manufacturing sectors fell below expectation. This was attributed to such factors as difficulty in getting the necessary feasibility studies completed on time, scarcity of willing and competent technical partners, and infrastructural constraints.

***Table 4.2*: Distribution of GDP by sector, 1970/71 – 1974/75 (at constant 1974 – 1975 prices)**
(Per cent)

S/N	Sector	1970- 1971	1971 - 1972	1972 - 1973	1973 - 1974	1974- 1975	Average
1	Agriculture	36.0	32.0	27.9	24.0	23.4	28.7
2	Mining & Quarrying	33.1	39.3	43.4	45.1	45.4	41.3
3	Manufacturing & Craft	5.9	4.1	4.8	4.8	4.7	4.9
4	Electricity & Water	0.3	0.3	0.4	0.4	0.4	0.36
5	Building & Construction	3.5	4.1	4.7	5.4	5.7	4.7
6	Distribution	9.1	8.1	7.4	6.9	6.7	7.6
7	Transport & Communication	1.8	1.9	2.1	2.1	2.3	2.04
8	General Government	6.3	5.5	4.6	5.8	6.3	5.7
9	Education	2.7	2.6	2.5	2.3	2.6	2.5
10	Health	0.8	0.6	0.8	0.8	0.9	0.78

11	Other Services	1.4	1.4	1.4	1.5	1.5	1.44
	Total	**100**	**100**	**100**	**100**	**100**	

Source: *Third National Development Plan*, 1975 – 1980, p. 22.

With reference to the welfare of the citizens, there was some encouraging rise in primary school enrolment by about 29 per cent. Primary school enrolment rose from 3.5 million pupils in 1970 to 4.5 million pupils in 1973. This represented an average growth in enrolment rate of about 9 per cent. (Yesufu, 1996).

With reference to fiscal policy, the economy witnessed reasonable economic and price stability during the plan period. It was observed that inflation fell from 12.6 per cent in 1971/72 to 9 per cent in 1973/74. This was attributed to the following factors:

1. A post-Adebo wage freeze
2. Import liberalisation
3. Price control
4. Rent control
5. Direct importation of essential commodities by the then Nigeria National Supply Company (NNSC).

The period was an era of government-regulated economy. In terms of monetary policy, the credit guidelines of the Central Bank of Nigeria (CBN) led to the achievement of the following economic goals:

1. Maintenance of confidence in the Nigerian economy
2. Support for increasing levels of agricultural and industrial output
3. Supplementing government's revenues through economic activities and provision of deficit finance

The emergence of the Nigerian Enterprise Promotion Decree (NEPD) in 1972 was to indigenise most sectors of the economy by making it possible for Nigerians to assume greater control of indigenous enterprises within the country. It was also noted that the establishment of the Nigerian Enterprise Promotion Board (NEPD), within the same period, as well as the establishment of Capital Issues Commission and the Bank of Commerce and Industry, led to achievement of reasonable success in the implementation of the Nigerian Enterprise Promotion Decree.

In a nutshell, the Second National Development Plan was a success in the history of economic planning in Nigeria. The plan was both radical and revolutionary and opened the nation to the first tides of industrial revolution and the then attendant growth of modern capitalism (Usoro, 1983).

3.4 The Third National Development Plan (1975 - 1980)

The Third National Development Plan was basically a continuation of the process and policies initiated by the Second National Development Plan. The changes made in order to come up with the Third National Development Plan were based on the experiences gained from the second plan. The plan emphasis was on the achievement of rapid increase in the nation's productive capacity. Efforts were centred on directing the private sector, using appropriate policies, towards the attainment of national objectives.

The Third National Development Plan ushered in the era of scientific planning in Nigeria. It was the first time a development plan in Nigeria was prepared by a professional planning body, the then central planning office, in conjunction with the National Economic Advisory Council (NEAC) made up of members drawn from the private sector. To ensure efficiency in the plan implementation, the Planning Studies Programme of the University of Ibadan, in alliance with the Economic Development Institute of the World Bank, organised intensive course for civil servants. Apart from the objectives of the second National Development Plan, the specific short-term objectives of the Third National Development Plan included:

1. Increase in per capita income
2. Income equality
3. Reduction in the level of unemployment
4. Increase in supply of high level manpower.
5. Diversification of the economy
6. Balanced development
7. Indigenisation of economic activities

The first four of the above stated objectives of the Third National Development Plan reveal goals that are measurable and quantifiable. The estimated capital expenditure under the Third National Development Plan was about N30 billion, being more than thirteen times the actual expenditure of the Second National Development Plan.

A review of the Third National Development Plan came into effect due to some events of considerable national importance. These events included, among others: change of government in July 1975; the creation of new states, and, the decline in oil production and the price of oil during the 1975/76 fiscal year. Following the change of government in 1975 was a reappraisal of the nation's priorities so as to make them reflect the philosophy of the then new military administration. Emphasis was then placed on water supply, health, agriculture, and co-operatives. By their very nature, these had a direct bearing on the welfare of the populace, as against prestigious projects of doubtful social relevance.

It was noted that the creation of seven new states in February 1976 and the decision to move the Federal Capital from Lagos to Abuja rendered the original plan grossly inadequate. To function effectively, the newly created states needed infrastructural facilities in the form of administrative and residential buildings, increased water and electrical supplies, and the like. This implied increased capital expenditure to accommodate the essential requirement of the new states and their capitals.

Such contradicting factors as the dependence on oil revenues, the decline in oil production and posted price of oil, led to revision of the plan in October 1975, with a revised normal capital expenditure of N43.314 billion, an increase of 43 per cent of the original budget. This revision brought about a lot of improvements in the plan's performance. The recorded GDP growth rate was higher than the plan target of 8.5 per cent, as shown by table 3.3.1 below. Though the contribution of the mining sector to GDP was 11 percent lower than the forecast, the sector remained the dominant sector.

With reference to the effect on the standard of living, total expenditure on agriculture, with its allied sub-sectors including irrigation, livestock, forestry and fishery was only N2.1 billion or 7.1 per cent of total capital expenditure, while health accounted for only 2 per cent of the total expenditure. Housing accounted for 4.1 per cent. The GDP aggregate growth rate fell below the projected growth rate, while agriculture stagnated (see table 4.4).

Table 4.3: **GDP growth, 1975/76 – 1979/80 at current prices (N'mil)**

S/N	Sector	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980
1	Agriculture & Allied	5,730.0	6,426.4	7,473.8	7,854.2	8,425.0
2	Mining & Quarrying	4,668.4	6767.3	7,905.0	6,874.3	10,903.9
3	Manufacturing	1,170.4	1,464.3	1,555.0	2,212.9	2,746.5
4	Utilities	57.9	72.1	98.7	121.7	133.3
5	Building, Housing & Construction	2,685.9	3,616.5	6,771.7	6,282.7	7,585.2
6	Wholesale & Retail Trade	4,329.2	5,501.8	6,771.7	6282.7	7,585.2
7	Transport & Communication	673.6	852.2	1,038.2	1,277.7	1,617.0
8	Producers of Government Services	1,352.9	1,492.3	226.8	1,968.0	2,236.3
9	Other services	658.6	733.4	859.6	980.1	1,219.7
	Total	21,326.9	26,956.3	31,992.0	31,120.0	40,436.3

	Annual Growth Rate	14.9%	26.4%	18.7%	-2.7%	29.9%

Source: *Fourth National Development Plan* 1981 – 85, vol. 1.

***Table 4.4*: GDP 1975/80 (At 1977 – 78 factor cost) (N'Million)**

S/N	Sector	1975- 1976	1976- 1977	1977- 1978	1978- 1979	1979- 1980
1	Agriculture & Allied	7465.9	7,206.9	7,473.8	7,271.8	7,430.1
2	Mining & Quarrying	6,275.1	7,694.7	7,905.0	7,446.9	8,836.5
3	Manufacturing	1,532.0	1,554.5	1,555.0	1,923.8	2,076.4
4	Utilities	77.8	79.9	98.7	105.8	100.8
5	Building, Housing & Construction	2,979.6	3,625.8	4,072.2	4,684.2	5,582.5
6	Wholesale & Retail Trade	5,718.9	633.6	6,771.7	6,896.9	7,039.0
7	Transport & Communication	963.0	1,007.1	1,039.2	1,033.0	1,129.2
8	Producers of Government Services	1,612.6	1,673.0	2,216.8	2,044.3	1,895.8
9	Other services	739.2	770.7	859.6	941.0	1,106.2
	Total	**27,364.7**	**29746.2**	**32,992.0**	**32,347.7**	**35,196.4**
	Annual Growth Rate	**-1.3%**	**8.7%**	**7.5%**	**1.1%**	**8.8%**

Source*: Fourth National Development Plan*.

3.5 The Fourth National Development Plan (1981-1985)

The stated objectives of the Fourth National Development Plan were basically to promote economic growth and development, price stability, and social equity. Appropriate fiscal and monetary policies were to be combined with the aim of attaining rapid economic growth and structural changes. Increases in the price level were to be maintained at less than 10 percent rate.

The plan's estimated capital expenditure was N70.5 billion. N40 billion (56.74 per cent) was to be borne by the federal government; N28 billion (39.72 per cent) by the State Governments; and, N2.5 billion (3.5 percent) by the Federal Capital Development Authority.

The plan accorded priority top agriculture followed by education, manpower development, infrastructures, housing, and health. In assessing the performance of the plan, it was observed that it was poorly implemented and therefore, failed to meet its stated objectives. The factors that militated against the plan implementation were enumerated as follows:

1. Large scale corruption, abuse of office, nepotism and political chicanery
2. High level inflation which made a mess of the cost projections

3. Non-evolution of coherent policies designed to give the plan the direction it required. There were instead some erratic and ad hoc policies and programmes designed to meet one political or ethnic demand or the other
4. Late feedback and progress reports
5. Lack of effective data base in formulation of the plan
6. Too optimistic and simplistic data projections, which frustrated the revenue targets, coupled with external shocks in the world oil market
7. Over-invoicing, over-valuation of contracts, as well as general indiscipline

Table 4.5 summarises the performance of the Fourth National Development Plan.

***Table 4.5*: Planned and actual GDP growth rates by economic sectors under the Fourth National Development Plan (1981 – 1985) (At 1984 constant prices)**

		Annual Growth Rate	
S/N	**Sector**	**Planned**	**Actual**
1	Agriculture, Livestock, Forestry, Fisheries	4.00	4.40
2	Mining & Quarrying	2.00	-0.10
3	Manufacturing	15.00	-3.80
4	Utilities (Electricity & Water)	15.00	-0.3
5	Construction & Building	5.00	-1.50
6	Transportation	12.00	-1.50
7	Communication	15.00	-3.10
8	Wholesale & Retail Trade	10.00	-0.6
9	Housing (Dwelling)	8.00	1.10
10	Producers of Government Service	12.00	0.25
11	Other Services	10.00	n.a
	GDP at Factor Cost	7.20	1.25

Source: Federal Office of Statistics, National Accounts of Nigeria, 1981 - 1991.

SELF-ASSESSMENT EXERCISE

Enumerate four important economic significance of a national development plan.

4.0 CONCLUSION

This unit was devoted specifically to the post-independence development plans in Nigeria. The broad aim of the plans was not merely to accelerate economic growth but also to give the country an increasing measure of control over her destiny. We noted that though the plans had laudable objectives, their implementations were not encouraging.

5.0 SUMMARY

We summarise our observations on the four post-independence development plans in Nigeria. Though the plans had notable implementation problems, they were aimed at achieving the major economic goals including: equity in income distribution, price stability, full employment, and sustainable growth path. Beginning with the First National Development Plan, we observed that some of the factors responsible for the observed failures in meeting targets and/or objectives included first, the dependence of the plan on the foreign allies for 50 per cent of the capital expenditures. Closely related to this was observed continuous wrangling between the regional governments on the one hand and the regional governments and federal government on the other, which was noted as one of the major causes of the 1966 coup.

Nevertheless, considering these limitations in terms of resources, planning experience and administrative capacity, the plan was seen as measurably successful, since a number of important projects such as the Kainji Dam, the Niger Bridge, the first oil refinery, and a number of roads and industries were completed under the plan period. It is also important to note that the first National Development Plan was a lesson to be learned in the conception, organisation, and implementation of development planning in Nigeria.

The Second National Development Plan provided the country an opportunity to come up with an ambitious economic programme that reflected the self-reliant aspirations of the military administration then in power. With the aim of giving a sense of purpose, direction and urgency, the plan adopted some new ideological stand in formulating economic policies essential for structural changes in the process of economic growth in Nigeria. The plan adopted the philosophy of ‘‘inward looking’’ aimed at social mobilisation of development resources.

The Third National Development Plan ushered in the era of scientific planning in Nigeria. It was the first time a development plan in Nigeria was prepared by a professional planning body, the then central planning office, in conjunction with the National Economic Advisory Council (NEAC) made up of members drawn from the private sector.

The stated objectives of the Fourth National Development Plan were basically to promote economic growth and development, price stability, and social equity. Appropriate fiscal and monetary policies were to be combined with the aim of attaining rapid economic growth and structural changes. Increases in the price level were to be maintained at less than 10 per cent rate.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss three major problems of Development Planning in Nigeria

7.0 REFERENCES/FURTHER READING

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UNIT 5 THE ROLLING PLANS IN NIGERIA

CONTENTS

1.0 INTRODUCTION

It can be observed that development plans in Nigeria, as discussed in the previous units, appear to have been medium term in nature. In 1986, the policy makers realised that adopting a five-year development planning model was unrealistic within the Nigerian context. This gave rise to the adoption of a three-tier planning system by the federal government. This was aimed at better management of the Nigerian economy. The three-tier planning system involved:

1. A 15 to 20-year perspective plan that provided a clear vision of where the economy should be at the end of the period, and addressed the key policies and actions that will be required to translate the vision into reality.
2. A three-year national rolling plan
3. One-year annual budgets

2.0 OBJECTIVES

At the end of this unit you should be able to:

- identify the principles behind rolling plans in Nigeria
- state the objectives of the rolling plans
- give an account of the problems of implementation of rolling plans in Nigeria
- identify the problems of development plan implementation in Nigeria

3.0 MAIN CONTENT

3.1 National Rolling Plans in Nigeria

There were basically four National Rolling Plans in Nigeria. We shall examine them.

3.2 The First National Rolling Plan (1990-1992)

The First National Rolling Plan was launched in January 1990. It was to replace the Five-Year Development Plan. It was also a tool for implementing the then Perspective Plans. The aim of the First Rolling Plan was to consolidate the achievements of the Structural Adjustment Programme of the mid-1980s, as well as addressing the problems facing the economy. In explicit terms, the stated objectives of the first three-year Rolling Plan were as follows:

1. Attainment of higher levels of self-sufficiency in food and raw materials production;
2. Laying a solid foundation for self-reliant industrial development as key to self-sustaining dynamic and non-inflationary growth, as well as promoting industrial peace and harmony;
3. Creating ample employment opportunities as a means of solving unemployment problem;
4. Enhancing the level of socio-political awareness of the people and further strengthening the base for a market-oriented economy and mitigating the adverse impact of the economic downturn and the adjustment process on the most affected groups.

To achieve these objectives, the plan emphasised the following priority programmes**:**

1. Integrated rural development, including the then Agricultural Development Programmes (ADPs) located at the states, the programme of the River Basin Development Authorities (RBDAs), and rural access roads;
2. Provision of basic infrastructures including roads, mass transportation facilities, power supply, and portable water supply;
3. Completion of on-going basic industries and the strengthening of existing ones
4. Development of small-scale industries;
5. Strengthening the on-going programmes of the National Directorate of Employment (NDE), maintenance of industrial peace and harmony, intensification of co-operative awareness, promotion of productivity consciousness;

6. Improvement of the efficiency of the administrative framework for the coordination of public sector intervention in the economy;
7. Laying the foundation for gradual reduction of population growth rate.

The major thrusts of the Rolling Plan were agricultural development, provision of infrastructural facilities, and development of programmes that were beneficial to the Nigerian citizens.

According to tables 5.1 and 5.2 below, the projected public sector capital expenditure was N46.81 billion, and projected gross capital formation was N144.2 billion.

***Table 5.1*: Sectoral distribution of public capital expenditures, First National Rolling Plan (1990 – 1992) (Nbillion)**

Public Sector	**Nbillion**
Economic Sector	19.674
Social Sector	9.343
Regional and Environmental Development	10.009
Administration	7.555
Total	**46.581**

Source: Federal Republic of Nigeria (FRN), (1990)

***Table 5.2*: Projected gross capital formation (1990-1992)**

Sector	**Nbillion**	**% Share**
Public Sector		
1. Federal Government (including joint Venture Activities)	94.2	46.6
2. States	20.4	14.1
3. Local Governments	6.9	4.8
Private Sector	50.0	34.7
Total	**144.2**	**100**

Source: Federal Republic of Nigeria (FRN), (1990)

The projected expenditures in the first National Rolling Plan reveal some inefficiency in the then economic administration of the Nigerian government. The plan relied entirely on deficit financing. As at the time the Rolling Plan was formulated, it was noted that there was no perspective plan in the real sense. The said perspective plan only existed in the mind of government and not in any detailed document. Yet the Rolling Plan was supposed to be an integral part of a perspective plan. Recall that Perspective plans are documents expressing coherent series of objectives and methods of achieving them in a distant future. These plans are stated in the form of general guidelines and approved by the competent authority, and provide futuristic and predictive frameworks that seek to chart the course of an economy's development process over a long period of time.

There were notable problems in the implementation of the programmes contained in the first National Rolling Plan. These problems included the following:

1. Resource constraints as a result of rising recurrent expenditures
2. Cost overruns that made nonsense of budget provisions and prevented many projects from taking off
3. Extra-budgetary expenditures which exerted a *crowding out effect* on plan programmes
4. High incidence of non-plan programmes
5. Problems in providing counterpart funds and meeting down payment requirements for projects under external financing.

3.3 The Second National Rolling Plan (1991-1993)

The Second National Rolling Plan was a roll-over of the First National Rolling Plan, in accordance with the principle of rolling plans. The macro objectives of the Second National Rolling Plan remained much the same as those of the First National Rolling Plan, including:

1. Consolidation of the gains of Structural Adjustment Programme (SAP) and pursuance of policies and programmes designed to sustain the adjustment process and strengthening the base for a market-oriented economy;
2. Continued effort in mitigating the adverse impact of the economic down turn and the adjustment process on the most affected groups;
3. Consolidating achievements in the areas of food and industrial raw materials production;
4. Laying solid foundation for a self-reliant industrial development as key to self-sustaining, dynamic and non-inflationary growth;
5. Creating opportunities for gainful employment of school leavers;
6. Enhancing the level of socio-political awareness of the people.

The priority programmes of the rolling plan included:

1. Completion of on-going projects in the areas of health, urban and rural water supply, education and environmental protection;
2. Improvement in basic infrastructures including roads, mass transportation, and power supply;
3. Enhancement of the Agricultural Development Programmes, River Basin Development Authorities, and the like in an effort to promote integrated rural development;

4. Completion of on-going basic industries and the strengthening of existing ones;
5. Development of small-scale industries;
6. Strengthening of the on-going programmes of the National Directorate of Employment (NDP).

We can therefore observe that emphasis was placed on the sub-goals of growth in output and employment and infrastructure development, using the strategies of balanced budgeting, limited external borrowing, privatisation, deregulation, and reforms. According to table 5.3 below, the total projected investment (or gross capital formation) was N168.1 billion of which N109.8 billion was for the public sector and N58.3 billion for the private sector.

***Table 5.3*: Projected gross capital formation in the Second National Rolling Plan**

Sector	Nbillion	%
Public Sector	**109.8**	**65.3**
Federal Government (including Joint Venture Activities)	82.9	49.3
State Governments	18.2	10.8
Local Government	8.7	5.2
Private Sector	**58.3**	**34.7**
Total	**168.1**	**100.0**

Source: Federal Republic of Nigeria, 1991

Like the first National Rolling plan, the Second National Rolling plan had the following observable problems: depreciated naira value, rising inflationary trend, sluggish performance of the productive sectors, especially the manufacturing sector, and problems of external debt.

3.4 The Third National Rolling Plan (1993-1995)

With reference to the problems encountered in the second National Rolling Plan, the policy objectives of the Third National Rolling Plan were formulated as follows:

1. Provision of policy environment conducive to real economic growth and growth in private investment through reductions in fiscal deficits and monetary restraints;
2. Reduction in the level of inflation and the gap between the official exchange rate and that of the parallel market;
3. Rationalisation of the Public Investment Programmes with emphasis on the completion of on-going programmes in the

agricultural and manufacturing sectors, and maintenance of the existing economic and social infrastructures;
4. Creation of more employment opportunities to arrest the unemployment problem that had constituted a threat to peace and order in the society;
5. Effective coordination of the framework for planning, fiscal and monetary policies.

The breakdown of the projected gross capital formation in the third National Rolling plan is as presented in table 5.4. According to the table, the projected public sector gross capital formation shows that the federal government, including its parastatals, was supposed to have accounted for N247.2 billion. The total state governments programmes were allocated N26.3 billion, while those of local governments were estimated at N20.4 billion. Thus, the projected total gross capital formation for the third National Rolling Plan was N433.2 billion.

***Table 5.4*: Projected gross capital formation (1993-1995)**

Sector	**N billion**	**% Share**
Public Sector	**330.8**	**76.4**
* Federal Government (including Joint Venture Activities and Special Funds)	247.2	57.1
* Federal Government (Treasury)	75.7	17.5
* Joint Venture Cash Calls	90.6	20.9
* Special Funds (for ecological and development of Mineral Producing Areas)	12.8	3.0
* Parastatals	68.1	15.7
* Governments External Loans	36.9	8.5
* State Governments	26.3	6.1
* Local Governments	20.4	4.7
Private Sector	**102.4**	**23.6**
Total	**433.2**	**100.0**

Source: Federal Republic of Nigeria, 1993

Some socio-economic problems were observed during the Third Rolling Plan. These problems included: high and unstable interest rates, unsustainable fiscal imbalances, fast depreciating value of the naira, high rates of inflation, high unemployment rates, and similar problems.

3.5 The Fourth National Rolling Plan (1994-1996)

It was against the background of the problems encountered during the Third Rolling Plan that the policy thrust of the Fourth National Rolling Plan was articulated to majorly address the problems of low-level performance and declining trend in the growth of the productive sectors of the economy, especially an observed persistent low level of capacity utilisation in industries.

In table 5.5, we summarise the breakdown of planned investment for the fourth rolling plan period. The planned public sector investment was 82.9 percent, while that of the private sector was 17.1 percent. The projected gross capital formation was N437.5 billion, made up of N362.6 billion for the public sector, and N74.9 billion for the private sector.

***Table 5.5*: Distribution of projected gross capital formation (1994-1996)**

Sector	**N billion**	**% Share**
Public Sector	**362.6**	**82.9**
* Federal Government (including Joint Venture Activities and Special Funds)	282.6	64.6
* Federal Government (Treasury)	98.8	22.6
* Joint Venture Cash Calls	90.4	20.7
* Special Funds (Ecological and development of Mineral Producing Areas)	25.0	5.7
* Parastatals	28.1	6.4
* Governments External Loans	40.3	9.2
* State Governments	45.0	10.3
* Local Governments	36.0	8.0
Private Sector	**74.9**	**17.1**
Total	**437.5**	**100.0**

Source: Federal Republic of Nigeria, 1994

3.6 The National Rolling Plan (1997-1999)

The major policy thrust of the 1997-1999 rolling plan was the encouragement of fiscal discipline and monetary restraint adopted in the fourth rolling plan. This was to sustain macroeconomic stability. The plan also addressed the problems of inflation, ailing government industries, low capacity utilisation, and unemployment. Emphasis was placed on projects expected to improve productive capacity of the Nigerian economy, rural and social development, and poverty alleviation. In a nutshell, the objectives of the plan included the following:

1. Ensuring macroeconomic stability through curtailment of unnecessary fiscal deficit and restrictive monetary policy;
2. Achievement of sustainable economic growth of about 5.5 per cent per annum on the average. This involved substantial growth

in the agriculture and manufacturing sectors, including large net inflow of direct foreign investment;
3. Reduction in the level of unemployment.

The strategies for the realisation of these objectives were as follows:

1. Rehabilitation of existing economic and social infrastructures, especially the urban and rural roads and highways, power supply, portable water, communications, healthcare delivery, and educational facilities at all levels;
2. Agricultural development programmes, including sustenance of the Fadama development programmes;
3. Establishment of employment-oriented agricultural programmes to stem the rising tide of unemployment;
4. Completion of on-going irrigation projects of the River Basin Authorities and maintenance of existing dams;
5. Enhanced involvement of the private sector towards the resuscitation of ailing Government industries;
6. Completion of Ajoakuta Steel, the Itakpe Ore-Warri rail line, and rehabilitation of Delta Steel, Aladja;
7. Completion of Teaching Hospital projects at Ahmadu Bello University, Zaria, University of Nigeria, Nsukka, and Ado Bayero University, Kano, and rehabilitation of facilities at the University of Ibadan Teaching Hospital, and existing Federal Medical Centres;
8. Resuscitation of the oil refineries and completion of Petrochemical Phase II, Eleme and Oso Condensate Phase II;
9. Resuscitation of the Nigerian Railway Corporation;
10. Enhancement of aviation safety;
11. Development of solid minerals, including coal, bitumen, kaolin, gold, among others;
12. Encouragement of private sector participation in the areas of power supply and telecommunications.

3.7 Problems of Development Plan Implementation in Nigeria

The following summarises some of the problems that militated against successful implementation of development plans in Nigeria.

1. Corruption
2. Lack of feasibility studies and/or project analysis and effective coordination of development efforts
3. Lack of suitable economic and political environment

4. Lack of consultation and involvement of the local communities and the private sector in planning efforts and plan implementations.
5. Shortage of specialised skills
6. Dearth of reliable data
7. Technical changes and unforeseen economic fortunes
8. Lack of properly defined economic and social goals, as well as over-ambitious estimates
9. Balance of payments problems and the nature of international economic environment.
10. Bureaucracy in the Government administrative machinery

SELF-ASSESSMENT EXERCISE

Enumerate the economic significance of rolling plans in Nigeria.

4.0 CONCLUSION

This unit has expanded our knowledge on development plans in Nigeria. We learned that Nigeria had four main rolling plans, each of which was developed given the problems associated with previous plans. The rolling plans were like extension and upgrades of the post-independence development plans. Development plans in Nigeria encountered various implementation problems including, corruption, bad economic and political environment, lack of project analysis, and lack of data.

5.0 SUMMARY

There were four rolling plans in Nigeria, following four National Development Plans. The First Rolling plan was that of 1990 to 1992. Its aim was to consolidate the achievements of the Structural Adjustment Programme of the mid-1980s, as well as addressing the problems facing the economy. Observed problems of the First Rolling Plan including resource constraint, cost overruns, extra budgetary expenditures, and non-plan programmes, lead to the Second Rolling Plan. This was designed to correct some problems of the First Rolling Plan. Unfortunately, this second plan failed in both implementation and achievement of its objectives. The failure was attributed to the following major problems: depreciated naira; and, inflationary pressures. Other Rolling Plans were those of the 1993 to 1994, and 1994 to 1996. Problems similar to those of the previous Rolling Plans did not allow effective implementation of the plans.

The unit also summarised the problems against successful implementation of development plans in Nigeria including: lack of feasibility studies; lack of suitable economic and political environment;

corruption; shortage of specialised skills; lack of reliable data, among others.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the major problems of plan implementation in Nigeria and strategies for addressing them.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

MODULE 3

UNIT 1 INDIGENISATION AS A DEVELOPMENT POLICY IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Indigenisation has been viewed by economists as an evolutionary process by which the citizens of a country are enabled and are seen to acquire ownership and control of the economy of their country. Indigenisation therefore, involves reduction in the foreign ownership of a country's productive resources. Indigenisation policy in Nigeria was thus aimed at retaining for Nigerian citizens the ownership, control and management of the Nigerian economy. It was a policy meant to promote local participation in all industrial, commercial and financial activities in the country. In this unit, we examine the economic significance of indigenisation in Nigeria, with emphasis on the reasons, aims and objectives of the indigenisation policy.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- state the aim and objectives of indigenisation in Nigeria
- explain the provisions of the Nigerian indigenisation policy
- explain recent developments on the Nigerian indigenisation policies.
- make implementable policy recommendations.

3.0 MAIN CONTENT

3.1 The Nigerian Indigenisation Policy

We examine the reasons for the indigenisation policy in Nigeria, its objectives, its advantages its disadvantages, and the recent developments.

3.2 Reasons for the Indigenisation Policy in Nigeria

The major reasons for the indigenisation policy in Nigeria appear to be basically economic in nature. Specifically, the reasons advanced were as follows:

1. Foreign domination of ownership and management of firms in the country;
2. Costly sectoral investment preferences and dividend policies of the foreign firms, which was found inimical to development of the Nigerian economy;
3. Irresponsiveness of the foreign firms to many years of moral suasion by successive governments of Nigeria for employment of qualified Nigerians, for the moderation of their pricing and wage policies, for managerial and technical training, and the development of their Nigerian employees.

3.3 Objectives of the Nigerian Indigenisation Policy

The following were the stated objectives of the indigenisation policy in Nigeria, among others:

1. The transfer of ownership of foreign-owned enterprises and control to Nigerians;
2. To foster widespread ownership of enterprises among Nigerian citizens;
3. To foster the development of the Nigerian capital market;
4. To create opportunities for Nigerian indigenous businesspeople;

5. To raise the level of intermediate capital goods production in the domestic economy;
6. To encourage foreign businesspeople and investors to move from the unsophisticated areas of the economy to the area where larger investment in terms of managerial skills and capital were needed.

3.4 Provisions of the Nigerian Indigenisation Policy

The above stated reasons and objectives led to the promulgation of the Nigerian Enterprises Promotion Decree (now Act) in 1972. In 1977, the 1972 Enterprise Promotion Act, together with the amendments were repeated and replaced by the Nigerian Enterprises Promotion Act, 1977. This was as a result of the recommendation of the then Industrial Enterprises Panel.

The 1977 Act included provisions for implementation of the second phase of the scheme, as well as creation of three schedules of enterprises. Schedule I of the 1977 Act contained 40 enterprises; schedule II, 57 enterprises; and, schedule III, 39 enterprises. In 1981 however, the Federal Government revised the enterprises as contained in the three levels. The 1981 revised schedules were noted as follows:

Schedule I: This contained a number of enterprises exclusively reserved (100 per cent) for Nigerian citizens and associations. No foreigner was thus allowed to establish or continue operate such enterprises. Some of the enterprises included were: Advertising and public relations businesses; all aspects of pool betting businesses and lotteries; assembly of radios, radiograms, record changers, television sets, tape recorders, and other electrical domestic appliances; blending and bottling of alcoholic drinks; blocks and ordinary tile manufacture for building and construction works; bread and cake making; candle manufacture; film distribution; hair dressing; passenger bus services of any kind; newspaper publishing and printing; tire retreading; and, travel agencies.

Schedule II: This schedule involved 57 enterprises which must have a minimum Nigerian equity participation of 60 per cent subject to approval by the Nigerian Enterprises Promotion Board (NEPD) and the former Capital Issues Commission (later referred to as the Nigerian Securities and Exchange Commission, NSEC). Some of the enterprises under this schedule were: Banking; basic iron and steel manufacture; beer brewing; boat building; bottling of soft drinks; business services, such as management consulting services; fashion designing; clearing and forwarding agencies; coastal and inland waterways shipping; departmental stores and supermarkets, having annual turnover of not less than N2m; distribution and servicing of motor vehicles, tractors and spare parts thereof or similar objects; establishments specialising in the repair of watches, clocks, and similar repairs; jewellery for the general public; garment manufacture; local air transport; and, manufacture of tires and tubes for bicycles.

Schedule III: Schedule III involved 45 enterprises under the 1981 revised schedule. This schedule required at least 40 percent equity participation of Nigerians. Some of the enterprises under this schedule included: distilling, rectifying and blending of spirits such as ethyl alcohol, brandy, whisky, and gin; fertiliser production; manufacture of basic industrial chemicals; tobacco manufacture; manufacture of drugs and chemicals; manufacture of poultry, China clay products and earthen-wares; manufacture of glass products; manufacture of structural metal products, components of bridges, metal doors and screens; manufacture of radios, television, and communication equipment and apparatus; and, manufacture of aircrafts, motor vehicles, and motorcycles.

The Nigerian Enterprises Promotion Board (NEPD) was established by Decree No. 4 of February 1972 to implement the provisions stated above. This board was to be assisted by Nigerian Enterprises Promotion Committees in the States. The functions of the Nigerian Enterprises Promotion Board were the following:

1. To advance and develop the promotion of enterprises in which citizens of Nigeria shall participate fully and play a dominant role;
2. To advice the Commissioner or Minister on clearly defined guidelines for the promotion of Nigerian enterprises;
3. To determine any matter relating to business enterprises in Nigeria in respect of commerce and industry;
4. To perform such other functions as the commissioner or minister may determine, or as may be conferred on it by the Nigerian Enterprises Promotion Act or any other enactment.

3.5 The Economic Implications of Indigenisation

We examine the economic implications of the indigenisation policy in Nigeria in terms of its advantages and disadvantages in development of the Nigerian economy.

3.5.1 The Advantages

The following were some notable advantages of indigenisation in Nigeria:

1. The objectives of transferring ownership and control of enterprises to Nigerians were largely achieved thus, encouraging productive entrepreneurship in the Nigerian economy.
2. The objective of fostering the development of the Nigerian capital market was achieved to some extent, as many industries and firms were noted to have quoted their shares on the Nigerian Stock Exchange.
3. Indigenisation awakened the need for transfer of technology in the form of technical, managerial and entrepreneurial capability of the Nigerian citizenry. It also stimulated investment consciousness among Nigerians.

Related advantages included economic self-reliance; economic survival under conditions determined by Nigerians rather than foreigners; ability of the country to satisfy its needs; provision of employment and managerial opportunities for the citizenry; improvements in the quality of indigenous manpower; competitive awareness; increase in the propensity to substitute local for foreign raw materials in manufacturing; and, equity in the distribution of income.

3.5.2 The Disadvantages

The notable disadvantages of indigenisation were:

1. Indigenisation is often interpreted as creeping nationalism.
2. Reduction in foreign ownership may negatively affect foreign private investment and lower national output.
3. The resulting exodus of skilled foreign manpower reduces total available skilled manpower in the economy.
4. It can impede technological transfer.
5. Indigenous control of enterprises increases corruption in Nigeria.
6. It counters the objectives of globalisation and can lead to failure in the achievement of the millennium development goals.

3.6 Amendments to the Indigenisation Policy in Nigeria

Recent developments in the world economy, such as globalisation of economic activities, made it necessary for the Nigerian government to reconsider its indigenisation policy. To encourage foreign capital inflow, the federal government in January, 1989 amended the Nigerian Enterprises Promotion Decree, 1977. This was contained in a new industrial policy released in January, 1989. With this amendment, only one list of scheduled enterprises was exclusively reserved for Nigerians for the purpose of 100 percent equity ownership. All other businesses not contained in the list of scheduled businesses were opened for foreign participation, except in the areas of banking, insurance, Petroleum prospecting and Mining, where the existing arrangements subsisted. Foreigners were free to participate even in the scheduled businesses provided that such participation involved equity capital not below N20 million, and, prior approval is obtained from the then Industrial Development Coordination Committee (IDCC).

The aim of the amendment was also to encourage large-scale production in the scheduled businesses involved, not only for the local market but for export. The new ownership structure however, applied to new investments only.

The Nigerian Enterprises Promotion Decree of 1989 was repealed in 1995 and replaced by the Nigerian Investment Promotion Commission Decree 16 of 1995. This action was intended to attract foreign investment inflow as well as enhance capacity utilisation in the productive sector of the economy. The 1995 Decree threw open foreign participation in Nigerian enterprises.

SELF-ASSESSMENT EXERCISE

Give a brief explanation of the growth implications of indigenisation in Nigeria.

4.0 CONCLUSION

This unit has been devoted to one of the major historical economic policies in Nigeria, namely the indigenisation policy. Though the major aim was to encourage indigenous participation in economic activities, it appears no positive improvements were made in terms of output and enterprise development. Such failures were attributed basically to corruption. In view of the observed failures and the quest for foreign capital inflow, the federal government found it worthwhile to revisit its indigenisation in favour of openness and foreign private investments in Nigeria.

5.0 SUMMARY

This unit points out that indigenisation policy in Nigeria arose because of:

1. Foreign domination of ownership and management of firms in the Country;
2. Costly sectoral investment preferences and dividend policies of the foreign firms, which was found inimical to development of the Nigerian economy; and,

3. Irresponsiveness of the foreign firms to many years of moral suasion by successive governments of Nigeria for employment of qualified Nigerians, for the moderation of their pricing and wage policies, for managerial and technical training, and the development of their Nigerian employees.

The aim of the indigenisation policy was to allow citizens participate fully in the economic activities of the country, with the following objectives in place:

1. The transfer of ownership of foreign-owned enterprises and control to Nigerians.
2. To foster widespread ownership of enterprises among Nigerian citizens.
3. To foster the development of the Nigerian capital market.
4. To create opportunities for Nigerian indigenous businesspeople.
5. To raise the level of intermediate capital goods production in the domestic economy.
6. To encourage foreign businesspeople and investors to move from the unsophisticated areas of the economy to the area where larger investment in terms of managerial skills and capital were needed.

We observe that the extent to which the aim and objectives of indigenisation were met were not clear. There were no major improvements in the economy after the indigenisation policy as a result, the federal government found it reasonable to amend the policy, so that foreigners can contribute positively to investment and capital inflow to the economy.

6.0 TUTOR-MARKED ASSIGNMENT

From the discussions in this unit, can you observe some inconsistencies in government policies? If so, discuss.

7.0 REFERENCE/FURTHER READING

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

UNIT 2 THE NIGERIAN FISCAL POLICIES

CONTENTS

1.0 INTRODUCTION

One of the major policy options for economic development is the fiscal policy. This policy is usually aimed at control of economic activities of a given economy. For example, during periods of depression and low activities in an economy, the fiscal policy is used to boost both investment and employment opportunities. This unit begins with the introduction of the Nigerian fiscal systems, then its fiscal policies and its public finance policies. The discussions will bring into focus some trends in an effort to encourage the development of the Nigerian economy.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- explain what fiscal policies are all about
- identify the objectives of fiscal policies in Nigeria
- discuss the composition and trend of government revenues in Nigeria
- analyse the performance of public expenditures in Nigeria
- explain the fiscal policy measures in Nigeria.

3.0 MAIN CONTENT

3.1 The Nigerian Fiscal System and Policies

We examine briefly the Nigerian fiscal system in relation to policies, public expenditures and revenues.

3.2 The Concepts of Fiscal Policy and Public Finance

We begin with some clarifications on what a *fiscal system* is all about. By a fiscal system, we mean the kind of arrangement or institutional framework for making budgetary decisions of raising revenue, increasing expenditure, and engaging in debt management. The fiscal system of an economy may be either centralised or decentralised, depending on whether the political structure is federalist or unitary. Nigeria is a federation so that its fiscal system is decentralised, and there exists a division of fiscal powers and responsibilities among the federal, state, and local governments. In a unitary government such as Britain, fiscal powers are concentrated with the central government. Table 2.1 presents the allocation of responsibilities in Nigeria as of 1989. The responsible levels of government included the federal, state, and local governments. In table 2.2 we examine the major taxes in Nigeria as of 1997, including the jurisdiction and right to revenue.

***Table 2.1*: Allocation of responsibilities by government in Nigeria (1989)**

S/N	Responsible Level of Government	Expenditure Category
	Federal Only	Defense Foreign Affairs International Trade (Export Marketing) Currency, Banking, Borrowing, and Exchange control Use of Water resources, Shipping Federal Trunk Roads Elections Aviation, Railways Postal Services Police and other Security Services Regulation of labour Inter-State Commerce Telecommunications Customs, Immigration Mines and Minerals Nuclear Energy Citizenship and naturalisation rights Social Security, Insurance National Statistical System Minimum education guidelines Business Registration, Price Control
2	Federal-State	Health, Social Welfare, Education

	(Shared)	Culture, Antiquities, Archives, Manuments Stamp Duties, Statistics Commerce, Industry Electricity (Generation, Transmission, Distribution) Research Surveys
3	State Only	Residual powers (Any subject not assigned to Federal or Local government levels by the constitution
4	Local Government	Economic Planning and Development Health Services Land Use, Control and Regulation of Advertisements, Pets, Small Businesses Markets, Public Conveniences, Social Welfare, Sewage and Refuse Births, Deaths, Marriages Primary, Adult and Vocational Education Development of Agriculture and Natural Resources

Source: *1989 Constitution of the Federal Republic of Nigeria*

***Table 2.2*: Nigeria's major taxes, jurisdiction and right to revenue**

S/N	**Type of Tax**	**Jurisdiction**		**Right to Revenue**
		Law	Administration And Collection	Federal Account
1	Import Duties	Federal	Federal	Federation Account
2	Excise Duties	Federal	Federal	Federation Account
3	Export Duties (no longer imposed)	Federal	Federal	Federation Account
4	Mining Rents and Royalties	Federal	Federal	Federation Account
5	Petroleum Profit Tax	Federal	Federal	Federation Account
6	Company Income Tax	Federal	Federal	Federation Account
7	Capital Gains Tax	Federal	Federal/State	States
8	Personal Income Tax	Federal	States	States
9	Personal Income Tax: Armed forces, External Affairs officers, Non-Residents, Residents of the FCT, and Nigerian Police force	Federal	Federal	Federal
10	Licenses Fees on TV and Wireless Radios	Federal	Local	Local

11	Value-added Tax (VAT)	Federal	Federal/States	All Governments
12	Capital Transfer Tax (CTT)	Federal	States	States
13	Sales Tax	Federal	States	States
14	Pools Betting and other Betting Taxes	States	States	States
15	Motor Vehicle and Drivers Licenses	States	States	States
16	Entertainment Tax	States	States	States
17	Land Registration and Survey Fees	States	States	States
18	Property Taxes and Rating	States	Local	Local
19	Market and Trading License and Fees	States	Local	Local

Source: Anyanwu et al (1997)

Fiscal policy refers to that part of government policy that concerns revenue generation through taxation and other means and decisions on the level and pattern of expenditure for the purpose of controlling economic activities or attaining some desirable macro-economic goals. Fiscal policies can be used for allocation, stabilisation of economic activities and income distribution. As a matter of fact, the primary goal of a fiscal policy is to balance the use of public and private sector resources and, by so doing, to avoid inflation, unemployment, balance-of-payments deficits, and income inequity.

Public finance refers to that branch of economics that is concerned with the revenue, expenditure and debt operations of the government and their economic impacts. Public finance theories are used in assessing and identifying the effects of financial policies of the government. The theories are used in the analysis of the effects of taxation and government expenditures on economic activities. They are used in examining the effectiveness of policy measures directed at national objectives. They are adopted in looking at government financial problems and policies at different levels and in the study of inter-governmental financial relations.

3.3 Objectives of the Nigerian Fiscal Policies

The Nigeria's fiscal policy objectives emanated from the policy objectives of its development and rolling plans of the 1970s, 1980s, and 1990s. The fiscal policy objectives have been reflections of those of the 1970 – 1997 period represented as follows:

1. Generation of significant government revenues;
2. Diversification of revenue sources away from crude oil-based revenues;
3. Reduction of the tax burden on individual and corporate bodies;
4. Maintenance of economic equilibrium through reduction in inflationary pressures, acceleration of economic growth, reduction in unemployment rate, and reduction in balance-of-payments deficits;
5. Effective protection of domestic industries;
6. Promotion of self-reliant development process;
7. Progressive reduction and elimination of government budget deficits;
8. Cost recovering activities by social services and public enterprises;
9. Integration of the informal sector into the country's economic mainstream;
10. Improving efficiency in government fiscal operations and promoting transparency and accountability in the management of public finances;
11. Fighting low productivity in agriculture and low capacity utilisation in manufacturing industry;
12. Reduction of internal and external debt burdens;
13. Correction of the distorted patterns of domestic consumption and production;
14. Minimisation of wealth, income and consumption inequalities and
15. Achievement of balance-of-payments equilibrium and exchange rate stability.

The broad policy objectives of the 1997 fiscal management of the Nigerian economy were, among others:

1. Price stability and balance-of –payments equilibrium;
2. Full employment and
3. Exchange rate stability.

In economic thinking, you will observe that a simultaneous pursuit of some of the policy objectives may have resulted in conflicts or trade-offs. This could have been more so in the case of accelerated economic growth and higher employment on the one hand, and reduction of inflationary pressures on the other hand. You may recall the Phillip curve that proposed an inverse relationship between inflation and unemployment.

3.4 Fiscal Policy Measures in Nigeria

The major fiscal policy instruments in Nigeria have been changes in tax rates and government expenditures. Major sources of tax revenues for governments have been listed as personal income; company income; petroleum profits; capital gains; import duties; export duties; excise duties; mining rents; royalties; and, NNPC earnings. These taxes are imposed not only to generate government revenue but also to provide incentives and/or disincentives to certain specific socio-economic activities. Tariff rates are also imposed not only to regulate the external sector of the economy but also to encourage domestic production and protect domestic industry.

Government expenditures, both recurrent and capital, constitute and instrument for resource allocation while generating employment opportunities and influencing the general price level, as well as determining the extent of fiscal deficits and surpluses.

SELF-ASSESSMENT EXERCISE

Discuss your understanding of what a fiscal system is all about.

4.0 CONCLUSION

This unit has given a considerable attention to fiscal policies in Nigeria. We were able to bring to focus what a fiscal system is all about, its operations in Nigeria, and the aims and objectives of the fiscal policies in Nigeria. The idea was to familiarise you with the fiscal system in Nigeria and the fiscal policy measures in Nigeria.

5.0 SUMMARY

The unit began with some clarifications on the term, *fiscal system*. We learned that, by a fiscal system, we mean the kind of arrangement or institutional framework for making budgetary decisions of raising revenue, increasing expenditure, and engaging in debt management. The fiscal system of an economy may be either centralised or decentralised, depending on whether the political structure is federalist or unitary.

Other important issues discussed were those of fiscal policy and public finance. *Fiscal policy* refers to that part of government policy that concerns revenue generation through taxation and other means and decisions on the level and pattern of expenditure for the purpose of controlling economic activities or attaining some desirable macro-economic goals. *Public finance* refers to that branch of economics that is concerned with the revenue, expenditure and debt operations of the government and their economic impacts.

The unit emphasised the share of responsibilities in terms of expenditure categories among the different tiers of Nigerian government. It appears the majority of such responsibilities are on the federal government.

The broad policy objectives of the 1997 fiscal management of the Nigerian economy were, among others: price stability and balance-of-payments equilibrium; full employment and exchange rate stability.

The major fiscal policy instruments in Nigeria are changes in tax rates and government expenditures. And the major sources of tax revenues for governments remain personal income; company income; petroleum profits; capital gains; import duties; export duties; excise duties; mining rents; royalties; and, NNPC earnings.

6.0 TUTOR-MARKED ASSIGNMENT

Briefly discuss the objectives of fiscal policies in Nigeria, and explain how simultaneous implementation of some of the fiscal policies may result in conflicts.

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

Ndekwu, E. (1991). "An Analytical Review of the Nigerian Tax System and Administration." A paper presented at the National Workshop on Review of the Nigerian Tax System and Administration, Lagos, May 15 – 17.

UNIT 3 THE MONETARY POLICY FRAMEWORK IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Macro-economic policies in Nigeria comprise monetary, fiscal, exchange rate, and incomes policy. Macro-economic policy refers to government actions aimed at achieving some desired economic objectives through the manipulation of a set of instrumental variables, that is, those variables that can be manipulated by government to achieve its economic objectives. In this unit, we critically examine the Nigerian monetary policy instruments and the way they have been manipulated in an effort to achieve monetary policy objectives.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- state the meaning of monetary policy
- explain the framework of monetary policy in Nigeria
- identify monetary policy tools in Nigeria.

3.0 MAIN CONTENT

3.1 The Monetary System and Monetary Policy in Nigeria

As in the fiscal system, we can look at the *monetary system* as an institutional framework for controlling the amount of money in circulation within an economy. Monetary policy involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in a given economic system. The policy is aimed at achieving some specified macro-economic policy objectives (Anyanwu, 1993). In this section, we examine the monetary policy framework and monetary policy in Nigeria.

3.2 The Monetary Policy Framework in Nigeria

Anyanwu et al (1997) had classified the monetary policy framework in Nigeria into five basic elements: the legal basis of monetary policy, objectives of the policy, coordination with other policies, policy formulation process, and policy implementation.

3.2.1 The Legal Basis of Monetary Policy in Nigeria

The Central Bank of Nigeria (CBN) is vested with the authority to formulate and implement monetary policies. This authority is as outlined in the Central Bank Act of 1958, the CBN Decree No. 24 of 1991, and the Banks and other Financial Institutions Decree (BOFID) No. 25 of 1991. These laws mandated the Central Bank of Nigeria to promote monetary stability and a sound financial system in Nigeria, under the overall guidance of the Federal Government. The CBN is required to make proposals to the President through the Ministry of Finance, who is vested with the power to accept or amend such proposals. The CBN is obliged to implement the policy as approved by the President through the Ministry of Finance. The legal process is as summarised in *Figure 3.1* below.

Federal Government
(President/Head of State)

Federal Ministry of Finance

Central Bank of Nigeria

Monetary Policy

Instruments

Direct

-Credit Ceilings
-Deposit Ceilings
-Directed Credit
-Exchange Controls
-Stabilisation Securities
-Special Deposits
-Deposit Placement Restrictions

Indirect

-OMO
-Cash Reserve Rate
-Liquidity Ratio
-Min Discount Rate
-Parity Changes
-Selective Credit Policies

Targets

Proximate Targets
- Interest rate
-Money Supply(M1,M2)
-Domestic Credit
-Base Money

Ultimate Targets/Goals
-Sustained Growth
-Price Stability
-Full Employment
-Sustainable BOPs
-Exchange Rate Stability

***Figure 3.1*:** Framework for monetary policy in Nigeria
Source: Anyanwu et al (1997)

3.2.2 Objectives of Monetary Policy in Nigeria

The objectives of monetary policy in Nigeria include the following: moderating inflationary pressures, promotion of economic growth, reducing pressures on the external sector, stabilising the naira exchange rate, and inducing increased savings, investment, and employment. Due to observed conflicts in the attainment of these objectives, the federal government sets priorities among them. It follows that the stated ultimate targets of monetary policy in Nigeria have been:

1. Sustained increase in output/economic growth
2. Price Stability
3. Full Employment

4. Sustained Balance of Payments
5. Exchange Rate Stability

The terms of liquidity (including terms of credit and some measures of the quantity of liquidity) are classified as proximate target variables in Nigeria. These variables include:

1. Interest Rates
2. Money Supply
3. Narrow Money (M1 – currency plus demand deposits)
4. Broad Money (M2 – M1 plus quasi-money, time and savings deposits)
5. Domestic Credit
6. High-powered Money or Monetary Base/Reserve Money

3.2.3 Coordination of Monetary Policy with other Policies

In any economic environment, monetary, fiscal, income, and exchange rate policies need to be coordinated so as to contain an in built consistency that enables the achievement of desired economic objectives. The Central Bank of Nigeria (CBN) makes assumptions and projections with respect to the rate of growth of Gross Domestic Product (GDP), inflation rate, unemployment rate, unemployment rate, the balance of payments, and other economic variables. However, the CBN, as the initiator of monetary policy must consult the National Planning Commission on forecasts of GDP growth and inflation rates; the Federal Ministry of Finance on government's fiscal operations; the NNPC on expectations in the oil sector, especially on the net external position, and other relevant government agencies. It is usually at the inter-ministerial meetings attended by these government agencies that conflicting proposals are resolved.

3.2.4 Monetary Policy Formulation

The CBN relies on the technique of financial programming in the formulation of monetary policies. The starting point CBN makes projections on the money supply, the rate of growth of GDP, inflation rates, and balance-of-payments position. Bearing in mind the optimum money supply, the economy's absorptive capacity for domestic credit is derived so as to allow growth targets to be determined for the key policy variables of money supply and aggregate domestic credit. The permissible aggregate domestic credit is then allocated between the public and private sectors. And the size allocated to the public sector is determined by the size of the fiscal deficit to be financed by the banking system. The residual is allocated to the private sector.

3.2.5 Monetary Policy Instruments

The monetary policy instruments are those variables under the control of monetary authorities with some effects on the proximate targets, such as interest rates, money supply, base money, and domestic credit. The monetary instruments or tools can be either direct or indirect. The direct tools include, among others:

1. Aggregate Credit Ceilings
2. Deposit Ceilings
3. Exchange Controls
4. Restrictions on the Placement of Public Deposits
5. Special Deposits
6. Stabilisation Securities

The indirect tools include:

1. Open Market Operations (OMO)
2. Cash Reserve Requirements
3. Liquidity Ratio
4. Minimum Rediscount Rate
5. Parity Changes
6. Selective Credit Policies

The direct monetary control tools were used between 1980 and 1986 not only to control overall credit expansion but also to determine the following:

1. Proportion of bank loans going to the preferred sectors;
2. Merchant banks' asset portfolio;
3. Proportion of bank loans to indigenous borrowers;
4. Proportion of bank loans to small-scale indigenous enterprises;
5. Proportion of rural bank deposits granted as loans to rural borrowers;
6. Categories of banks exempted from credit ceilings and
7. Cash deposits for imports.

3.2.6 Monetary Policy Implementation

Having approved the CBN's monetary policy proposals by the President, the proposals are then outlined in the form of a monetary policy circular for implementation by banks and other financial institutions. To monitor the activities of the financial operators, the CBN conducts periodic and special examination of books of all licensed banks which are also expected to submit regular returns on their operations to the CBN. The results of the examinations, as well as the returns enable the CBN to evaluate the extent of compliance with the circular, the overall policy effects on the economy, and the need for policy revisions. In the unit that follows, we examine the practical aspects of monetary policies in Nigeria.

SELF-ASSESSMENT EXERCISE

Discuss the two major classifications of monetary policy instruments as applied by the Central Bank of Nigeria.

4.0 CONCLUSION

This unit examined the Nigerian Monetary Policy Framework, with emphasis on the monetary instruments and monetary targets. The legal basis for the operations of the monetary system in Nigeria, as well as the objectives of monetary policy in Nigeria, was also examined. It is also important to note that the Central Bank of Nigeria appears to have no autonomy in monetary policies in Nigeria. It can only propose policies and have them approved by designated government agencies, such as the Ministry of Finance.

5.0 SUMMARY

We can look at the *monetary system* as an institutional framework for controlling the amount of money in circulation within an economy. *Monetary policy* involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in a given economic system. Economists classify the monetary policy framework in Nigeria into five basic elements: the legal basis of monetary policy, objectives of the policy, coordination with other policies, policy formulation process, and policy implementation. Each of these classifications has been discussed extensively in this unit. The monetary policy instruments are classified as either direct or indirect. The direct tools include, among others: Aggregate Credit Ceilings; Deposit Ceilings; Exchange Controls; Restrictions on the Placement of Public Deposits; Special Deposits; and,
Stabilisation Securities

The indirect tools include: Open Market Operations (OMO); Cash Reserve Requirements; Liquidity Ratio; Minimum Rediscount Rate; Parity Changes; and, Selective Credit Policies.

6.0 TUTOR-MARKED ASSIGNMENT

Briefly explain the major activities carried out by the Central Bank of Nigeria in an effort to implement its monetary policies. What are the monetary policy variables that mostly affect the operations of the financial system in Nigeria?

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C. (1993). *Monetary Economics: Theory, Policy and Institutions.* Onitsha: Hybrid Publishers Ltd.

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

UNIT 4 OPERATIONS OF THE MONETARY POLICY IN NIGERIA

CONTENTS

1.0 INTRODUCTION

Monetary policy is an important control tool in Nigerian economic activities. It is important to critically examine this control tool as it is applicable in Nigeria. As noted in the previous unit, it is a specific function of the Central Bank of Nigeria to ensure that monetary policies are effectively proposed, approved, and implemented. Until June 1986, the period of institution of the Structural Adjustment Programmes (SAP), the monetary control techniques in Nigeria were vague. The main objectives of monetary policy in Nigeria in the 1970s and mid-1980s were the maintenance of relative price stability and healthy balance-of-payments position. The major tools then were administered interest rates, special deposits, administered exchange rates, prescription of cash reserve requirements, selective credit controls, credit ceilings, and the like. In line with the general philosophy of the Structural Adjustment Programme in July 1986, monetary policy in Nigeria was aimed at introducing the emergence of a market-oriented financial system of effective mobilisation of financial savings and efficient resource allocation. The objectives of monetary policy remain the stimulation of output and employment and the promotion of domestic and external stability. In this unit, specific attention will be devoted to the monetary policy measures, in the form of credit control, as well as evaluation of such measures.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- analyse monetary policies in Nigeria
- ascertain the effectiveness of such policies
- evaluate and make contributions to monetary policy issues in Nigeria.

3.0 MAIN CONTENT

3.1 The Effective Monetary Policy Measures in Nigeria

Using the principle of phased approach in the use of indirect monetary control, Nigerian policy makers instituted a series of indirect measures to control the ability of banks in the extension of new credit. These measures were applied alongside credit ceilings. In this section, we discuss extensively such measures, with the view to evaluating their effectiveness.

3.2 The Credit Control Measures in Nigeria

The indirect measures used in controlling bank lending abilities in Nigeria included the following:

1. Deregulation of interest rates in August 1987 (with an upper limit of 21 percent imposed on lending rates, a floor of 13.5 percent for savings, and a spread of 4 per cent points between savings and lending rates).
2. Due to a concern on the adverse effects of high interest rates on growth of productive investments, interest rates were deregulated one more time in 1992, though this was reversed in 1993.
3. The naira counterpart of all external payments that were outstanding in banks was recalled in 1986 and 1987.
4. Commercial banks' cash reserve requirements were increased in 1989, 1990 and 1992.
5. In January 1988, the liquidity ratio of merchant banks was varied from 30 per cent of demand deposits and call money to 20 per cent of total deposits. This was later raised to 30 percent in 1990.
6. In May – June 1989, public sector accounts were transferred from banks to the Central Banks of Nigeria. The commercial banks were prohibited from accepting foreign guarantees and foreign currency deposits as collaterals for domestic loans denominated in Naira.

7. Between October 1990 and March 1993, bank excess liquidity was periodically mopped up through the issuance of stabilisation securities.
8. In 1991, the basis for calculating cash reserve requirement was extended beyond demand deposits to include time and savings deposits. Effective first week of September 1992 the Central Bank of Nigeria, on selective basis, lifted credit ceiling on individual banks which observed its guidelines in respect of statutory minimum paid up capital, capital adequacy ratio, cash reserve, liquidity ratio requirements, prudential guidelines, sectoral credit allocation, and sound management.

The open market operations (OMO) were formally introduced by the Central Bank of Nigeria on the 30th of June, 1993. Open market operations were introduced as a major tool of monetary policy in Nigeria. Open market operations involve the buying and selling of government securities including, treasury bills, treasury certificates and government development stocks, by the Central Bank of Nigeria. Through this policy, the Central Bank of Nigeria directly makes changes in bank cash reserves and directly affects lending rates thereby leading to changes in the terms and availability of credit and ultimately the supply of money. The aim of open market is to achieve a substantial tightening of money supply, given continued upward spiral in the inflation rate, the growing pressure on the naira exchange rate, and the underlying growth of domestic liquidity.

3.3 Analysis of Monetary Policies in Nigeria

In this section, we evaluate the post-independence monetary policy activities of the Central Bank of Nigeria. Specific emphasis is on monetary and credit developments; monetary targets and achievements; and, interest rates movement.

3.3.1 Monetary and Credit Developments

In table 4.1, we present the trend of monetary and other aggregates from independence in 1960 to the period of availability of data. We can observe that narrow money supply, as defined by M1 rose from N241 million to about N185,968 million in 1995. You can observe similar trend between 1996 and beyond the year 2000. Within the same period, broad money supply rose from, as defined by M2, rose from N296 million in 1960 to N295,212 million in 1995. The number of commercial banks (NCB) increased from 9 in 1960 to 65 in 1995. The number of merchant banks (NMB) also rose from 1in 1960 to 51 in 1995.

***Table 4.1*: Monetary and other aggregates (1960 to 2005) (Nm)**

Year	**COB**	**DD**	**M1**	**QM**	**NCB**
1960	159	82	241	55	9
1965	201	116	317	141	17
1970	342	266	608	337	17
1975	1,031	1,013	2,044	1,572	17
1980	3,186	6,041	9,745	5,163	20
1985	4,910	8,358	13,268	10,551	28
1990	14,941	22,293	37234	27,669	58
1991	23,108	26,256	49,365	36,788	65
1992	36,766	38,641	75,407	53,119	65
1993	56,261	60,130	116,391	76,068	66
1994	90,492	81,513	172,005	95,755	65
1995	106,758	79,200	185,968	109,244	65
1996	126,040	111,343	370,334	142,869	64
1997	144,825	137,955	429,931	161,108	64
1998	172,378	161,860	525,638	207,062	54
1999	208,561	206,623	699,734	306,655	54
2000	310,496	563,721	637,731	398,348	90
2001	338,761	478,037	816,708	499,162	90
2002	386,942	559,311	946,253	653,241	90
2003	412,155	813,404	1,225,559	759,633	89
2004	458,587	872,071	1,330,658	932,930	89
2005	563,232	973,773	1,537,005	1,089,450	25

Notes: COB = Currency Outside Banks
DD = Demand Deposits
M1 = Narrow Money supply
QM = Quasi-Money
NCB = Number of Commercial Banks

Sources: (1) National Bureau of Statistics, Statistical Abstract, 2006
(2) *CBN Statistical Bulletin*, 2006.

According to table 4.1, except for some minor declines in 1986, the period, 1970 to 1994 recorded very rapid growth in domestic liquidity. The narrow money supply (M1) fell by about 4.5 per cent in 1986, but between 1987 and 1989 it rose at an annual rate of approximately 27.5 per cent. By 1992, M1 rose by 66.4 per cent. The movement in broad money (M2) followed the same pattern as that of M1, the major component of money supply. It is also important to note that inflationary pressures in Nigeria worsened; the inflation rate stood at 5.4 per cent in 1986, rising to 10.2 per cent in 1987, 40.9 percent in 1989, 44.6 percent in 1992, and by 1993 it rose to 57.2 per cent. Similarly, aggregate and sectoral credit to the domestic economy increased rapidly during the same period, 1970 to 1994, especially between 1988 and 1993, rising from 12.5 percent (or N36.82 billion) in 1986 to 75.9 per cent (or

N188.49 billion) in 1993. These monetary and credit positions in the economy have been summarised in table 4.2 below.

***Table 4.2*: Monetary and credit developments in Nigeria (1970 to 1995) (Nbillions)**

Year	Money Supply (M1)	Money Supply (M2)	Aggregate Credit	Credit to Government	Credit to Private Sector
1970	0.62	0.95	1.14	0.66	0.48
1975	2.04	3.62	0.49	-1.28	1.34
1980	9.23	14.40	10.78	3.59	7.19
1985	13.27	23.82	32.68	18.98	13.70
1987	13.11	24.59	36.82	19.46	17.37
1987	14.91	30.00	46.93	21.45	25.48
1988	21.15	42.78	57.33	27.55	29.77
1989	25.70	46.22	49.26	18.32	30.94
1990	37.23	64.90	57.68	21.04	36.63
1991	49.37	86;15	83.82	38.50	45.33
1992	75.41	128.52	141.74	80.72	61.02
1993	116.39	192.46	188.49	116.46	72.02
1994	172.01	267.76	312.27	198.75	113.52
1995	185.97	295.21	383.82	229.24	154.58

Source: Adapted from Anyanwu et al (1997) *The Structure of the Nigerian Economy (1960 – 1997)*, page 280.

3.3.2 Monetary Targets and Achievements

The historical trends indicate that the gap between monetary targets and achievements in Nigeria over the decades had not been encouraging. The data presented in table 4.3 show, for example, that there is no single year between 1987 and 1994 that money supply targets in Nigeria were not exceeded by very high percentage points. For example, the table indicates that the difference between policy target and actual or achievements was 34.6 per cent. Similarly, credit to the domestic economy was far in excess of stipulated targets. In particular, there was a rapid increase in credit to the government; this grew by 82.5 per cent, 109.6 per cent, and 121.6 per cent in 1991, 1992, and 1993 respectively. Worst still, while commercial banks were unable to meet sectoral credit allocations to high priority economic sectors, they far exceeded targets for the non-priority or other sectors.

***Table 4.3*: Monetary targets and achievements in Nigeria (1986 to 1995) (%)**

Year/Item	Target	Actual/ Achievements
1986:		
Money Supply (M1)	7.8	4.5
Domestic Credit	8.7	12.5
Credit to Government	5.9	2.1
Credit to Private Sector	12.8	27.0
Commercial Bank Loans and Advances by Purpose:	78	69.2
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 44.0)	(11.8 and 41.6)
(b) Other Sectors	22.0	30.8
1987:		
Money Supply (M1)	11.8	17.3
Domestic Credit	4.4	27.4
Credit to Government	1.5	10.3
Credit to Private Sector	8.4	14.1
Commercial Bank Loans and Advances by Purpose:	50.0	41.9
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(12.9 and 29.1)
(b) Other Sectors	50.0	58.1
1988:		
Money Supply (M1)	15.0	42.3
Domestic Credit	8.1	22.2
Credit to Government	2.5	28.5
Credit to Private Sector	13.3	16.9
Commercial Bank Loans and Advances by Purpose:	50.0	45.4
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(15.3 and 30.1)
(b) Other Sectors	50.0	54.6
1989:		
Money Supply (M1)	14.6	21.2
Domestic Credit	9.5	14.1
Credit to Government	8.3	33.1
Credit to Private Sector	10.7	3.7
Commercial Bank Loans and Advances by Purpose:	50.0	46.0
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(15.3 and 30.7)
(b) Other Sectors	50.0	54.0
1990:		
Money Supply (M1)	13.0	44.7
Domestic Credit	13.6	17.3
Credit to Government	10.9	18.3
Credit to Private Sector	15.8	18.4
Commercial Bank Loans and Advances by Purpose:	50.0	46.2
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(15.9 and 30.3)
(b) Other Sectors	50.0	53.8
1991:		
Money Supply (M1)	14.6	32.8
Domestic Credit	10.6	46.3
Credit to Government	0.0	82.5
Credit to Private Sector	16.4	23.7
Commercial Bank Loans and Advances by Purpose:	50.0	48.6
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(15.7 and 36.9)
(b) Other Sectors	50.0	51.4
1992:		
Money Supply (M1)	24.3	66.4
Domestic Credit	13.2	73.0
Credit to Government	7.7	109.6
Credit to Private Sector	17.7	34.7
Commercial Bank Loans and Advances by Purpose:	50.0	47.4

(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(14.9 and 32.5)
(b) Other Sectors	50.0	52.6
1993:		
Money Supply (M1)	20.0	54.6
Domestic Credit	17.5	75.9
Credit to Government	14.6	121.6
Credit to Private Sector	20.0	16.6
Commercial Bank Loans and Advances by Purpose:	50.0	53.0
(a) High priority Sectors (Agric and Manufacturing)	(15.0 and 35.0)	(14.4 and36.8)
(b) Other Sectors	50.0	46.8
1994:		
Money Supply (M1)	21.4	47.8
Domestic Credit	9.4	29.2
Credit to Government	0.0	27.7
Credit to Private Sector	20.0	32.2
Commercial Bank Loans and Advances by Purpose:	70.0	63.3
(a) High priority Sectors (Agric and Manufacturing)	(18.0 and 42.0)	(11.9 and 37.9)
(b) Other Sectors	50.0	36.7
1995:		
Money Supply (M1)	9.4	8.1
Domestic Credit	11.3	36.2
Credit to Government	5.6	18.4
Credit to Private Sector	21.9	69.6
Commercial Bank Loans and Advances by Purpose:	75.0	-
(a) High priority Sectors (Agric and Manufacturing)	(18.0 and 42.0)	-
(b) Other Sectors	25.0	-

Source: Adopted from Anyanwu et al (1997), *Structure of the Nigerian Economy (1960-1997)*, p. 281.

3.3.3 Interest Rates Movement

As you can observe from table 4.4 below, deregulation of interest rates in 1987 showed rises in interest rates, sustained up to 1990 with the levels of interest rates turning positive in 1987, 1990, and 1991. Regulation of interest rates was restored in 1991 but was reversed early in 1992 as the ceilings on lending rates in particular failed to achieve the purpose they were intended for. Interest rates rose significantly between 1992 and 1993. For more detailed information, please study table 4.5 which summarises the trend of interest rate variations in Nigeria between 1970 and 1995.

***Table 4.4*: Annual trend in deposit and lending rates in Nigeria (1986 to 1994)**
(Per cent)

Year	Nominal Deposit Rate	Real Deposit Rate	Nominal Lending Rate	Real Lending Rate
1986	10	4.6	9.96	4.56
1987	15.8	5.6	13.96	3.76
1988	14.3	-24	16.62	-21.68
1989	21.2	-19.7	20.44	-20.46
1990	23	15.5	26	18.5
1991	20.1	7.1	20.2	7.2

1992	20.5	-24.1	29.8	-14.8
1993	28	-29.2	36.1	-21.1
1994	14.2	-42.8	20-2	-36.8

Source: Adopted from Anyanwu et al (1997), *Structure of the Nigerian Economy (1960 – 1997),* p. 283

***Table 4.5*: Interest rate variations in Nigeria (1970 to 1995) (Per cent)**

Year	**Min. Rediscount Rates**	**Treasury Bill Rate**	**Deposit Rates**	**Lending Rates**
1970	4.50	4.00	3.50	7.00
1971	4.50	4.00	4.00	7.00
1972	4.50	4.00	4.00	7.00
1973	4.50	4.00	4.00	7.00
1974	4.50	4.00	4.00	7.00
1975	4.50	3.50	4.00	6.00
1976	3.50	2.50	3.25	6.00
1977	4.00	3.00	3.25	6.00
1978	5.00	4.00	4.25	7.00
1979	5.00	4.00	5.50	7.50
1980	6.00	5.00	6.50	7.50
1981	6.00	5.00	6.50	7.75
1982	8.00	7.00	8.00	10.25
1983	8.00	7.00	8.00	10.00
1984	10.00	8.50	10.00	12.50
1985	10.00	8.50	10.00	9.25
1986	10.00	8.50	10.00	10.50
1987	12.75	11.75	15.80	17.50
1988	12.75	11.75	14.30	16.50
1989	18.50	17.50	21.20	26.80
1990	18.50	17.50	23.00	25.50
1991	14.50	15.00	20.10	20.01
1992	17.50	21.00	20.50	29.80
1993	26.00	28.00	28.00	36.10
1994	13.50	12.50	14.20	20.20
1995	13.50	12.50	14.30	20.20

Source: Adopted from Anyanwu et al (1997), *Structure of the Nigerian Economy (1960 – 1997),* p. 284

SELF-ASSESSMENT EXERCISE

Briefly discuss the degree of achievements in the Nigerian monetary targets over the years.

4.0 CONCLUSION

This unit has critically examined the monetary policy issues in Nigeria, with specific emphasis on the 1970s and mid-1990s, being the periods of oil boom and structural adjustment programmes. Until June 1986, the period of institution of the Structural Adjustment Programmes (SAP), we noted that the monetary control techniques in Nigeria were vogue. And that the main objectives of monetary policy in Nigeria in the 1970s and mid-1980s were the maintenance of relative price stability and healthy balance-of-payments position. The major tools then were administered interest rates, special deposits, administered exchange rates, prescription of cash reserve requirements, selective credit controls, credit ceilings, and the like.

5.0 SUMMARY

Using the principle of phased approach in the use of indirect monetary control, Nigerian policy makers instituted a series of indirect measures to control the ability of banks in the extension of new credit. These measures were applied alongside credit ceilings. This unit extensively discussed such measures, with the view to evaluating their effectiveness.

The indirect measures used in controlling bank lending abilities in Nigeria ranged from deregulation of interest rates in August 1987 (with an upper limit of 21 per cent imposed on lending rates, a floor of 13.5 per cent for savings, and a spread of 4 percent points between savings and lending rates) to extension of the basis for calculating cash reserve requirement. We also evaluated the post-independence monetary policy activities of the Central Bank of Nigeria. Specific emphasis was on monetary and credit developments; monetary targets and achievements; and, interest rates movement.

6.0 TUTOR-MARKED ASSIGNMENT

Enumerate and discuss the credit control measures in Nigeria between 1987 and 1993. Were these measures effective in meeting the monetary policy objectives?

7.0 REFERENCES/FURTHER READING

Anyanwu, J. C., Oyefusi, A., Oaikhenan, H. & Dimowo, F. A. (1997). *The Structure of the Nigerian Economy (1960 – 1997).* Onitsha: Joanee Educational Publishers Ltd.

UNIT 5 THE POST STRUCTURAL ADJUSTMENT (POST-SAP) POVERTY ALLEVIATION STRATEGIES IN NIGERIA: THE NEEDS

CONTENTS

1.0 INTRODUCTION

Nigeria, since the oil boom of the 1970s, has been battling with poverty alleviation issues. In the same vein, it has not been easy arriving at effective strategies for poverty alleviation. By the year 2004, it became obvious that past poverty eradication strategies have not been able to yield positive results, hence the introduction of the National Economic Empowerment and Development Strategy (NEEDS).

NEEDS was regarded as Nigeria's home-grown poverty reduction strategy programme (PRSP). It built on earlier two-year effort to produce an interim poverty reduction strategy, and the then wide consultative and participatory processes associated with it. NEEDS was founded on a clear vision, sound values, and enduring principles. It was a medium-term strategy (2003 – 2007), but which derived from Nigeria's long-term goals of poverty reduction, wealth creation, employment generation, and value re-orientation. NEEDS was a nationally coordinated framework of action in close collaboration with the State and Local Governments (with the State Economic Empowerment and Development Strategy, SEEDS, and Local governments Economic Empowerment and Development Strategy, LEEDS).

In this unit, you will be educated on the vision, values and principles of NEEDS, its goals, and the macroeconomic framework. The aim is to rub minds on past development efforts of the Federal Republic of Nigeria.

2.0 OBJECTIVES

At the end of this unit you should be able to:

- state the vision, values, principles, goals, and macroeconomic framework of the NEEDS
- explain the framework for the implementation of NEEDS
- provide strategies for reforming government and institutions
- design strategies for growing the private sector in Nigeria.

3.0 MAIN CONTENT

3.1 The National Economic Empowerment and Development Strategy (NEEDS)

We now present our discussions on issues relevant to the vision, goals, and framework of the NEEDS. Figs.5.1 and 5.2 summarise these.

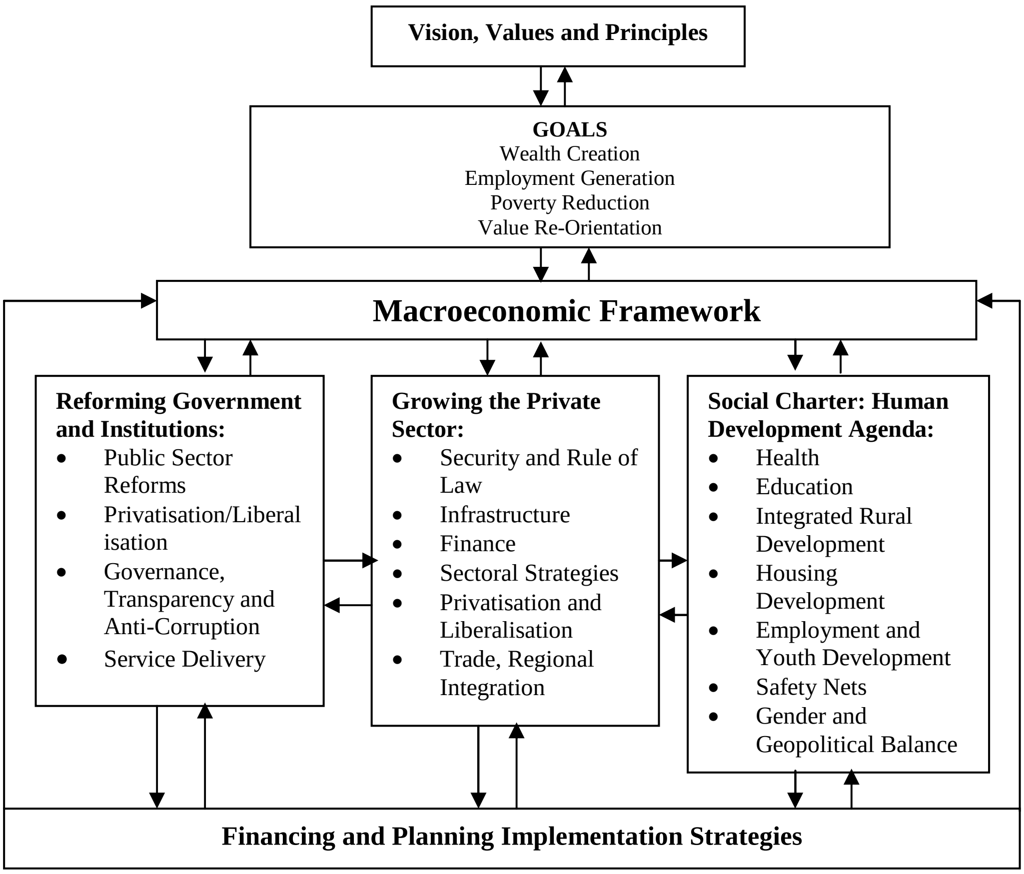

Figure 5.1: The NEEDS at a glance
Source: National Planning Commission, March 2004

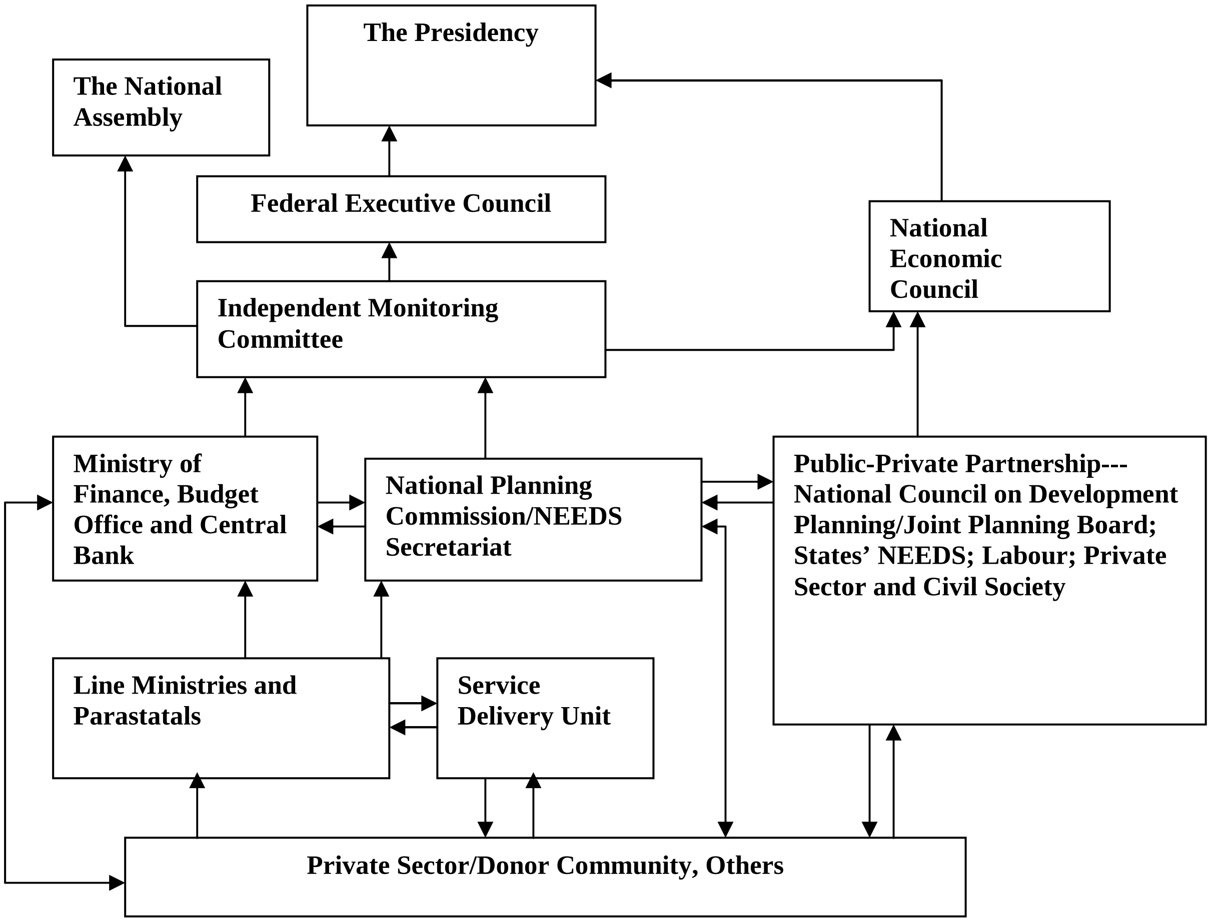

Figure 5.2: Institutional framework for the implementation of the NEEDS

Source: National Planning Commission, March 2004

3.2 Vision, Values and Principles of the NEEDS

It has been observed that NEEDS was not just a plan. It defined a process of development anchored on a clear vision, sound values, and enduring principles. In this section, we examine the vision, mission, values, and fundamental principles.

3.2.1 The Vision and Mission of NEEDS

The vision for the economic development of Nigeria in general and, particularly NEEDS, derives from her economic history, endowments, experience, and aspirations. The vision underscores the necessity to build a modern Nigeria that maximises the potentials of the citizenry in an effort to become the strongest and largest African economy, and a force to be reckoned with in the world before the mid 21st Century.

The mission of the then President Obasanjo's government was to use the instrumentality of the National Economic Empowerment Strategy (NEEDS) as a nationally coordinated framework of action in close collaboration with the local, state governments, and other stakeholders to consolidate the achievements of the period, 1999 to 2003 and build a solid foundation for the attainment of Nigeria's long-term vision. It was believed that, over the medium-term, the NEEDS will lay the foundation and make significant progress in the areas of wealth creation, full employment, and poverty alleviation.

3.2.2 The Core Values of the NEEDS

The NEEDS is a policy anchored on the imperative to restore the fundamental values of Nigeria that had weakened over the years. According to the vision 2010 report, Nigeria is a multi-ethnic society with a value system that derives from the diversity of its people, religion and cultures. In principle, the elements of this value system include respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence and moral courage.

The fundamental values upon which NEEDS rests were as follows: In specific terms, the strategy was aimed at laying a solid foundation for a national self rediscovery and strong values based upon:

1. Enterprise, competition and efficiency at all levels;
2. Equity and care for the weak and vulnerable;
3. Moral rectitude, respect for traditional values, and extolling of the Nigerian culture;
4. A value system for public service that makes efficient and effective service delivery to the citizens; and,
5. Discipline at all levels of leadership.

It was noted that NEEDS as a development strategy recognises that these values cannot take root and be sustained unless conscious efforts are made to mobilise the people around them. Without paradigm shifts, fundamental changes in mindset, and acceptance that it cannot be business as usual, the change which NEEDS attempted to bring about would be difficult to attain and sustain.

3.2.3 The Fundamental Principles of NEEDS

Under the *Fundamental Objectives and Directive Principles of State Policy*, the 1999 Constitution of the Federal Republic of Nigeria clearly stipulates that public policy must be directed to balance the objectives of efficiency, effectiveness, and equity in order to ensure a broad-based poverty-reducing growth and development strategy, the dividends of which will be distributed fairly among all classes of the citizenry. It was upon these principles that NEEDS was based. NEEDS was a strategy aimed at achieving the directive principles of State policy. As pointed out earlier, its focus was wealth creation, employment generation, poverty reduction, elimination of corruption, and general value re-orientation. Three other principles governing the NEEDS were:

1. An incentive structure that rewards and celebrates private enterprise, entrepreneurial spirit, and excellence;
2. New forms of partnership among all stakeholders in the economy to promote prosperity among all arms of government, public-private civil society, and the international community; and,
3. A public service that delivers prompt and quality service to the people.

3.3 The Macroeconomic Framework of the NEEDS

Economists believe that the overall goal of any consistent macroeconomic framework is to ensure predictability and sustainability of a given macro- economic environment, and high but broadly shared pro-poor growth. Nigeria has consistently been facing problems inhibiting economic growth such as, macroeconomic policy inconsistency, instability and policy reversals, conflicts of macroeconomic policy goals, public sector dominance in production and consumption, pervasive rent seeking, and corruption facilitated by government being the hub of economic activities. Other problems include inadequacy in infrastructural development, high volatility of major macroeconomic aggregates, and weak institutional capacity, among others. It was the primary aim of NEEDS to redress these problems. In this section, we examine critically the macroeconomic framework of NEEDS in terms of the real sector, fiscal operations and policy, balance of payments, and monetary and exchange rate policies.

3.3.1 NEEDS and the Real Sector

A major characteristic of sectoral growth trend has been the instability of growth variables. It follows that in order to put Nigeria back on the path of sustainable growth we would require a systematic and consistent framework. NEEDS therefore represents a bold step in plugging sources of leakages and achieving macroeconomic stability, as well as supporting an efficient use of scarce resources in growing the national economy. The major policy thrusts in the achievement of this laudable goal of NEEDS have been enumerated as follows:

1. Sustenance of high, but broad-based non-oil GDP growth rate, consistent with desired poverty reduction and employment generation rates;
2. Diversification of the production structure away from oil/mineral resources;
3. Ensuring international competitiveness of the productive sector; and,
4. Systemic reduction of the role of government in direct production of goods, and strengthen its facilitating and regulatory functions.

The key policy instruments were:

1. Privatisation, de-regulation and trade liberalisation;
2. Coordinated national sectoral development strategies for agriculture, small-and medium-scale enterprises (SMEs), and services (particularly tourism);
3. Infrastructural development such as the development of electricity, transport, and water;
4. Addressing problems of real sector financing and mobilising long-term savings and investment;
5. Effective regulatory regimes; and,
6. Targeted programmes for promotion of the private sector growth and development.

It was observed that, owing to the re-ordering of priorities, the growth in a number of sectors may not have been as spectacular as growth in the primary sector, and the overall projections of the framework for the growth of aggregate output for the four years of NEEDS were estimated at 5 percent for 2004, 6 percent for 2005, 6 percent for 2006, and 7 percent for 2007. It was expected that the non-oil sector, the major target of the diversification effort of government would have been boosted and growth in the sector was expected to have improved from 6.8 percent in 2003 to over 9 percent in 2007. Within the same period, Nigerians expected some steady declines in public consumption expenditure. In addition, agriculture as a matter of priority area was to receive government incentives for investments.

The degree of attainment of the projected improvements in real GDP, the non-oil sector and government expenditures is summarised in table 3.2.1 below.

***Table 5.1*: Selected macroeconomic indicators (2003 to 2007)**

Domestic Output/Year	**2003**	**2004**	**2005**	**2006**	**2007**
Real GDP Growth (%)	8.6 (9.57)	5.0 (6.58)	6.0 (6.51)	6.0 (6.03)	7.0 (6.41)
Oil Sector	15.0 (23.70)	0.0 (3.37)	0.0 (0.50)	0.0	0.0
Non-Oil Sector	5.83	7.27	8.54	8.34	9.52
Oil Production (mbd)	2.21	2.21	2.21	2.21	2.21
Gross National Savings (% of GDP)	12.42	14.14	17.24	23.90	28.96
Inflation Rate (%)	11	10	9.5	9.5	9.0
Federal Government Finance (% of GDP):					
Overall Fiscal Balance	-3.25	-1.89	-3.16	-3.18	-3.17
Primary Balance	-1.35	0.07	-1.68	-1.45	-1.41
Retained Revenue	9.71	9.72	7.82	7.61	7.34
Total Expenditure	25.1	23.54	23.37	22.90	22.33
Money and Credit Growth Rate (%):					
Net Domestic Credit	28.29	24.51	24.62	22.53	21.82
Net Credit to Government	44.37	29.92	29.92	23.54	21.48
Credit to Private Sector	30	30	30	30	30
Narrow Money (M1)	10.28	10.77	8.34	16.71	19.76
Broad Money (M2)	15	15	15.5	15.5	16
External Sector:					
Overall Balance (% of GDP)	-7.69	-10.76	-9.17	-4.43	-1.33
Current Account Balance (% of GDP)	2.69	-2.89	-2.27	-0.45	0.32
External Reserves (US$ million)	7,186.70	7,686.70	8,686.70	9,686.70	10,686.70

Sources: (1) National Planning Commission, 2004 Estimates
(2) *CBN Statistical Bulletin.* Actual figures in brackets ( ).

3.3.2 Fiscal Operations and Policy

In the Keynesian world, the most important demand management tool is the fiscal policy. It goes beyond mere changes in tax revenues and government expenditures. In this section, we examine the fiscal policy system in Nigeria with a view to exposing you to fiscal policy issues in the country. We will concentrate mainly on the policy directions and targets.

Some of the *key fiscal policy thrusts* of the Nigerian economy include:

1. Predictability of the macroeconomic environment and efficiency of resource use predicated on a Medium Term Expenditure Framework (MTEF) to ensure predictable and sustainable public finance situations at all levels of government;
2. Pursuit of policies consistent with raising domestic savings and increasing private investments; and,
3. Public debt sustainability.

In terms of the *fiscal policy strategies and instruments*, we have:

1. Reformed budget process with early involvement of the stakeholders;
2. Tax reforms aimed at raising adequate revenues and diversifying the revenue base;
3. Strengthening of the budget office;
4. Medium-term Expenditure Framework;
5. Intergovernmental fiscal coordination based on a Fiscal Responsibility Act or a similar initiative;
6. Reformed and strengthened procurement process;
7. Fiscal rule – Oil price based fiscal rule and establishment of a stabilisation fund for excess revenue from crude oil sales with specific conditions and
8. Public Expenditure Rule with a deficit of no more than 3 per cent of the Gross Domestic Product (GDP).

With proposed public sector reforms under the NEEDS, overall recurrent expenditure as a proportion of total expenditure was expected to continue to fall. As at 2004, recurrent expenditure gulps about 70 per cent of total revenues at the Federal, State, and local government levels. This picture appears inconsistent with the requirements for sustainable development. Economic development requires appropriate capital expenditure mix. A planned improvement in government efficiency was expected to gradually reduce recurrent expenditure.

The framework for budgeting was to adopt a mandatory budget calendar which ensures early involvement of the Legislature and finalisation of the budget least three months before the beginning of a new budget year. The budget process was to be reformed to eliminate arbitrariness. Essentially, budgets were to be in line with the policies and priorities of NEEDS, subject to more detailing of programmes and projects by line ministries/parastatals.

The reforms under the NEEDS were also aimed at strengthening the machinery for tax collection, tracking all government revenues paid into different bank accounts, as well as recovering debts, misappropriated and looted funds, and payments for work not executed. States and Local governments were expected to improve on their internal revenue generation efforts, rather than depend on statutory allocation from the federation account or borrowing from the capital market. The areas addressed under the NEEDS in the short and medium term include:

1. Structure of the tax system;
2. Revenue generation consideration;
3. Efficiency of collection;
4. Responding to comparative/international standards;
5. Promoting investment; and,
6. Coordination of tax administration.

From the foregoing, we can appreciate the reforms in the fiscal operations of the federal government under the NEEDS. If effectively implemented, these reforms were to place Nigeria in a smooth transition to economic progress. It appears the quest for budget of transformation is a step in the right direction.

3.3.3 Balance of Payments Proposals under the NEEDS

Historically, the Nigerian external sector account has been referred to as an oil account, given the position of oil exports in the economy's external trade. Consequently, poor structural diversification, swings in OPEC quota, and large changes in the international price of oil continues to dictate the direction and pace of shifts in the Nigerian balance of payments. So much has been said about the difficulty associated with the Nigeria's dependence on oil as the only export commodity.

On the same token, import volume has been high and diversified. Import items range from capital goods and machinery to unprocessed food and other primary items. This high propensity to import food items and the associated hazards they pose has been a source of concern to the government and economists at large. This situation calls for some rethinking on macroeconomic policies in Nigeria. It calls for an aggressive export diversification and expansion, as well as gradual import liberalisation as wining strategy for moving forward. Accordingly, NEEDS proposed the following *policy direction/targets*:

1. Export promotion and diversification of exports away from oil;
2. Gradual liberalisation of imports;
3. Market-determined nominal exchange rate regime and avoidance of overvaluation of the real exchange rate;
4. Seek debt reduction to make Nigeria's debt service sustainable.

3.3.4 Monetary and Exchange Rate Policies under the NEEDS

An observed wide disparity between monetary targets and outcomes in Nigeria has made monetary policy intervention by the Central Bank of Nigeria basically reactionary and short term, leading to missed targets and ineffectiveness in performance. In effect, the following policy direction and targets were in place in the NEEDS reforms:

1. Strive to meet the second West African Monetary Zone's (WAMZ) convergence criteria;
2. Low (real) lending interest rate regime;
3. Competitive but stable exchange rate regime;
4. Restructure composition of credit to private sector to boost production;
5. More credit to the private sector, especially long-term credit for real sector development;
6. Effective regulatory and supervisory mechanisms to ensure orderly development of the financial system; and,
7. Retail Dutch Auction System (DAS) in determination of the nominal exchange rate regime and adoption of a wholesale Dutch Auction in the medium to long term.

The conduct of monetary, credit and exchange rate policies continued to be guided by the Central Bank's Monetary, Credit, Foreign Trade and Exchange Policy Guidelines which are issued for two years periods. The overall goal of monetary policy remained price and exchange rate stability.

SELF-ASSESSMENT EXERCISE

What are the key real sector instruments of the National Economic Empowerment and Development Strategy in Nigeria?

4.0 CONCLUSION

Economic development in Nigeria had attracted several policy prescriptions by different military and political regimes. Of major debate was that of the National Economic Empowerment Development Strategy (NEEDS). This unit has attempted to look at the basic principles behind the introduction of NEEDS, its policy instruments, and the areas of economic emphasis. We hope that the issues contained in our discussions will enable learners contribute fruitfully to the development of the Nigerian economy.

5.0 SUMMARY

This unit focuses on the National Economic Empowerment and Development Strategy (NEEDS) as a suggested alternative strategy for development of the Nigerian economy. The emphases were on the vision, values, principles, goals, and macroeconomic framework of the NEEDS; the framework for the implementation of NEEDS; strategies for reforming government and institutions; and, strategies for growing the Private Sector in Nigeria. The vision for the economic development of Nigeria in general and, particularly NEEDS, derives from her economic history, endowments, experience, and aspirations. The vision underscores the necessity to build a modern Nigeria that maximises the potentials of the citizenry in an effort to become the strongest and largest African economy, and a force to be reckoned with in the world before the mid 21st century.

Vision 2010 report asserts that Nigeria is a multi-ethnic society with a value system that derives from the diversity of its people, religion and cultures. In principle, the elements of this value system include respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence and moral courage. The proposed implementation of NEEDS draws on these values. NEEDS was a strategy aimed at achieving the directive principles of State policy. Its focus was wealth creation, employment generation, poverty reduction, elimination of corruption, and general value re-orientation. The macroeconomic framework of NEEDS was discussed in terms of the real sector, fiscal operations and policy, balance of payments, and monetary and exchange rate policies.

6.0 TUTOR-MARKED ASSIGNMENT

With reference to the development of the Nigerian economy, enumerate and discuss the primary areas addressed by the introduction of the National Economic Empowerment and Development Strategy.

7.0 REFERENCES/FURTHER READING

National Planning Commission (2004). *Nigeria: National Economic Empowerment and Development Strategy (NEEDS).* Abuja: Federal Secretariat.