

PROBLEMS OF IMPLEMENTING REFORM OF PUBLIC EXPENDITURE MANAGEMENT IN NIGERIA*

O.A. Adeyemo
NCEMA, Ibadan

1. Introduction

In market economies, public and private sectors mutually co-exist. The degree of sectoral mix varies along the continuum of economic systems and is influenced largely by a nation's political culture. Whatever the variety of the mix, there is need for complementary relationship between both sectors if they are to contribute meaningfully to the attainment of the goal of rapid economic development.

In developing countries like Nigeria, the public sector is usually predominant. The reason appears to lie in what the government perceives as its social responsibility or share of commitment in the growth and development process. Its largeness has also been stimulated by the urge to adopt shock adjustment to economic growth for quicker realization of national aspirations. Considering the ease with the public sector adjusted government expenditures to mop up the inflow of wealth and foreign exchange during the period of the oil boom, one benefit of a large public sector becomes evident, namely, the preoccupation with distribution of the fruits of economic growth to a progressively large percentage of the growing population. But on the other hand, looking closely at the difficulty in re-adjusting government expenditure and thus the entire economy to the post-boom depression, it is certain that the oil wealth could have been better managed. The largeness of the public sector in Nigeria has therefore carried with it its own problems.

Before the adoption of the Structural Adjustment Programme, the overwhelming size of the public sector tended to frustrate the independent development of the private sector by creating an environment that was conducive for it to survive as a parasite. The largeness amplified the magnitude of the sector's own inefficiencies, orientated the nation's taste to foreign products and industries to input-imports (which raised the vulnerability of the entire economy to developments in the external sector) and encouraged wasteful spending. Hence with a record of over two and a half decades of planned development via public sector programmes, not much could be shown in terms of real structural changes in the components of the gross domestic product or efficiency in resource management. It is on these shortcomings that the case for a major review of the Nigerian public sector has been rested.

To appropriately address this case, this paper takes a critical look at the public expenditure in Nigeria and its attendant problems of management, reviews policy reforms

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as they apply to these problems, examines constraints in the implementation of the reforms and considers prospects of successful implementation of these policy reforms.

2. Public Expenditure Management

The main items of public expenditure in Nigeria like in modern nations of the world, derive from the priorities of the nation. The bulk of the activities is directed to the attainment of the government's social responsibility to its citizens. Such responsibility traverses, among other activities, maintenance of law and order and provision of basic necessities of life such as food, pipe-borne water, road, education, electricity, medical and health facilities, internal security and defence. These form the very basis of the existence of the various arms of government, ministries and extra-ministerial departments charged with specific responsibilities in the management of the nation's affairs.

The various activities carried out by the ministries/departments in the discharge of State's social responsibility, give expression to public expenditure. The size of public expenditure therefore is a direct reflection of the size of the public sector. In Nigeria, the public sector is large by any measure. The heavy burden of economic growth is still being borne by this sector which generates a much larger proportion of the resources needed for economic growth and development. In fact, to date, the pace and pattern of growth of the Nigerian economy are initiated and sustained through public sector programmes. The private sector is still in relative infancy, as it were, and its survival depends largely on the size and pattern of public expenditure as well as the nature of incentives and policies put in place by the government.

Public expenditure basically consists of recurrent and capital components. With the growing concern for rapid economic development, government total expenditure rose tremendously between 1970 and 1985. In 1970, as a percentage of gross domestic product, it stood at about 16 per cent (Table 1). This share more than doubled in 1975 as a result of the effect of the quadrupling of crude oil prices in the international oil market in 1973/74. It reached its peak of about 55 per cent in 1980 barely two years after the world oil market survived a minor crisis. Ever since then it has been on the downward trend. In absolute terms, however, the growing trend has remained apparent.

Between 1970 and 1985, recurrent expenditure accounted for an average of 51.5 per cent of total expenditure while capital expenditure had an average share of 48.5 per cent (Table 2). The share of capital expenditure which has been more vulnerable to fluctuations in

Table 1
OIL REVENUE AND EXPENDITURE EFFECT

(1) Year	(2) Oil Earnings- induced level of Government Expenditure* (Nm)	(3) Government Expenditure as Percentage of Gross Domestic Product (%)	(4) (2) as a Percentage of Total Government Expenditure (%)	(5) Oil Revenue as a Percentage of Total Government Revenue (%)
1970	403.4	15.7	35.7	26.3
1971	333.5	12.2	30.5	43.6
1972	1,072.6	19.3	57.6	54.4
1973	955.4	15.9	53.7	59.9
1974	3,419.6	22.9	79.9	82.1
1975	7,370.5	38.5	89.2	77.5
1976	8,781.5	35.5	90.5	79.3
1977	10,743.1	36.5	91.9	75.2
1978	11,352.6	36.7	92.0	63.1
1979	12,174.7	33.0	92.3	81.4
1980	22,646.8	54.8	95.6	78.1
1981	20,157.7	48.9	94.9	71.5
1982	21,604.6	48.4	95.1	66.5
1983	16,640.9	33.3	93.6	69.0

Data Source: Central Bank of Nigeria, Economic and Financial Review (Several Issues).

* Derived from a time trend to Projected actual total expenditure growth between 1970 and 1983 using 1960 - 1969 data as a base.

Table 2
REVENUE AND EXPENDITURE OF THE FEDERAL GOVERNMENT OF NIGERIA (1970-1985)

(1) Year	(2) Revenue (N)	(3) Expendi- ture (N)	(4) Capital Expendi- ture (N)	(5) Recurrent Expendi- ture (N)	(6) Revenue Growth Rate (%)	(7) Total Expendi- ture Growth Rate (%)	(8) Capital Expendi- ture Growth Rate (%)	(9) Recurrent Expendi- ture Growth Rate (%)	(10) Capital Expendi- ture as % of Total Expendi- ture	(11) Recurrent Expendi- ture as % to Total Expendi- ture	(12) Overall Budget Deficit/ Surplus (N)
1970	633.3	838.8	200.5	638.3	—	—	—	—	23.90	76.10	-470.0
1971	1,168.3	639.0	146.1	492.9	84.5	-23.83	-27.13	-32.65	22.86	77.14	199.0
1972	1,405.1	977.3	295.9	681.4	20.3	62.94	102.53	38.24	30.28	69.72	96.3
1973	1,695.3	1,091.3	435.1	656.2	20.7	11.66	47.04	-3.70	39.87	60.13	296.7
1974	4,537.4	2,097.5	1,223.5	874.0	167.7	92.20	181.20	33.19	58.33	41.67	1,796.8
1975	5,514.7	4,902.1	3,207.1	1,695.0	21.5	133.71	162.13	93.94	65.42	34.58	-427.4
1976	6,765.9	6,691.3	4,018.8	2,672.5	22.7	36.50	25.31	57.67	60.06	39.94	-1,068.2
1977	8,039.0	7,637.9	5,019.9	2,348.0	18.8	10.11	24.91	-12.14	68.13	31.87	-901.5
1978	7,371.1	8,520.0	5,092.3	3,427.7	-8.31	15.64	1.44	45.98	59.77	40.23	-2,389.0
1979	10,912.4	7,406.7	4,219.6	3,187.1	48.0	-13.07	-17.13	-7.02	56.97	43.03	-1,461.7
1980	15,234.0	14,113.9	8,091.9	6,022.0	39.6	90.54	91.77	88.95	57.33	42.67	-1,975.2
1981	12,180.2	11,438.0	5,699.3	5,739.1	-20.1	-18.96	-29.57	-4.70	49.82	50.18	-3,928.6
1982	11,764.4	12,940.4	5,522.5	7,417.9	-3.4	13.14	3.10	29.25	42.68	57.32	-5,440.4
1983	10,508.7	9,949.7	4,033.7	5,916.0	-10.7	-23.11	-26.96	-20.25	40.54	59.46	-3,715.6
1984	11,193.8	11,686.7	5,411.0	6,275.7	6.5	17.46	34.14	6.08	46.30	53.70	-2,660.4
1985	15,041.8	15,369.1	8,153.8	7,215.3	34.4	31.51	50.69	4.97	53.05	46.95	-1,708.9

Sources: (1) Central Bank of Nigeria, Nigeria's Principal Economic and Financial Indicators, 1970 — 1985, and Annual Report and Statement of Accounts (Various Issues).

government revenue was about 60 per cent of total expenditure in the period of the oil boom (1974-1980) as a result of the huge capital investments undertaken in the period. Since 1981, however, the cost of maintaining such investments has become manifest in the relatively larger share of total expenditure going into recurrent expenditure.

3. Management of Public Expenditure in Nigeria

Public sector investment targets set in National Development Plans have tended to be the major influence on the growth of public expenditure in Nigeria. It will be recalled that the First National Development Plan (1962-1968) was worth barely N 1.2 billion. Planned investment programmes rose steadily to N 2.2 billion under the Second National Development Plan (1970-1974). This growth was gradual because the plans were based predominantly on the internal strength of the economy to generate resources for growth. However, this is not to suggest that there was no external finance component in these plans. This phase of gradualism suddenly gave way to a shock treatment of Nigeria's growth process. As a result of the whiplash effect of oil revenue on expected revenue flow to the government, the size of the Third National Development Plan (1975-80) rose by over 1,809 per cent to N 42 billion. The Fourth National Development Plan (1981-1985) which was premised on oil price of \$36 per barrel had an envisaged investment outlay of about N 82 billion. In all cases, the effects of such planned investment expenditure programmes have been reflected on the size of the annual budgets. The major factor that has thus been responsible for the tremendous growth in public expenditure has been the expected earnings from crude petroleum exports.

As a percentage of government revenue, oil revenue rose from 26.3 per cent in 1970 to about 82 per cent in 1974 (Table 1). This near total dependence has persisted all through the years to date. Having declined in subsequent years, reaching its trough of 63 per cent in 1978, oil revenue share once again rose in 1979 to 81 per cent. Since 1982 following the collapse of oil prices in the world market, the share of oil revenue in government revenue has been on a downward trend.

On a critical note that sudden movement from gradualism to shock treatment of growth suffered from lack of clear-cut and consistent pattern for management of financial resources in the Nigerian economy. Since the late seventies, expenditure rose and fell fortuitously with the momentum dictated by the major source of government revenue. Each time a decline in expected revenue occurred the fall in public expenditure had always been substantial. This fall, however had been felt more by the capital expen-

diture component which is more vulnerable to across-the-board cuts. This is so because the public sector grows imperceptibly with every spontaneous increase in the size of the expendable revenue to the government with the result that at any point in time, there is a minimum level of recurrent expenditure necessary to outfit the requirements of a functional public sector. Hence recurrent expenditure has been more difficult to manage whenever shortfalls occur in expected revenue.

In 1978, for instance, there was a minor glut in the international oil market; federally collected revenue declined by 8.3 per cent while the share of oil revenue in government revenue fell from 75.2 per cent in the previous year to 63.1 per cent. Stringent monetary, fiscal and foreign exchange control measures were quickly wedged in. Whereas capital expenditure was cut by about 17 per cent, recurrent expenditure fell by only about 7 per cent (Table 2). In 1981, after the slight recovery of 1980, another crisis hit the oil market. Federally collected revenue fell by 20.1 per cent, capital expenditure was cut by about 30 per cent and recurrent expenditure was adjusted downwards by only about 5 per cent. Since 1981, an increasing share of declining revenue has been set aside to meet the recurrent expenditure needs of Nigeria's public sector. Thus less and less revenue has been available for capital expenditure and thus long term growth of the economy. This situation in the early 1980s led to the huge fiscal deficits (Table 2) which substantially raised the level of the nation's external indebtedness.

The problems in managing public expenditure in Nigeria therefore derive from the size of the public sector and the ad hoc responses to the flow of revenue to the government. Because of the nature of government services, doubling of productivity in the public sector does not necessarily result in increased revenue. The size of government revenue is a function of the level of economic activities (in the oil sector) and hence growth of the economy. Besides, rising public expenditure in the economic sector does not necessarily lead to higher government revenue unless with prudent management of resources, i.e. with emphasis on effectiveness and efficiency of the public sector.

In any event, short term responses to major structural problems have the potency of making the path to economic growth and development an endless wasteland.

4. Redressing of Nigeria's Public Expenditure Management Problems

The shock adjustment problem (bush-fire/hit-and-run syndrome) which characterizes public expenditure management in Nigeria is a peculiar feature of most less developed

countries (LDCs). In most cases, it represents a phase in the development process. It however points to the need for policy reforms on the structure and growth of the country's public expenditure. Thus a good understanding of the nature of public expenditure problems is important if appropriate policies are to be designed to address them. Whether reforms should place less emphasis on effectiveness as against efficiency in the management of public expenditure is an issue for social priorities. All the same, the public sector in Nigeria is likely to find it impossible to satisfy social priorities when juxtaposed with efficiency consideration.

The success of policy reforms also requires the existence of appropriate institutional framework for resource management, high accountability for public expenditure and responsive administrative controls. Thus the spirit behind policy reforms must reflect the need to entrench the following key ingredients in the management of public expenditure:

1. A clear identification of plan and budgetary targets and phases in fund flow requirements of optimal project portfolio over a set horizon.
2. A critical evaluation of the behaviour of both permanent and transitory sources of revenue and predictable resource flow over a given horizon for the achievement of set target.
3. Assignment of realistic weights to the various targets in conformity with intersectoral linkage effects as well as socially acceptable preference ordering.
4. Assignment of weights to the extent of achievement of the relevant targets in prioritized sectors of the national economy.
5. Appropriate assessment of the optimal project portfolio for each planning and budgetary period taking into serious consideration the weighting of transitory revenue sources.
6. Minimization of reversibility of core policy measures and incentive structure necessary for the achievement of optimal project portfolio, provided factor (2) above is adequately satisfied.
7. Appropriate private — public sector mix with predictable policy incentives.
8. Overall socio-political acceptability of policy package within the context of strong political will.

In brief, policy reforms must be within the context of an overall long-term perspective view of the economy.

5. Policy Reform Measures in Nigeria

In Nigeria, policy reforms for better management of public expenditure are not new. Prior

to the Structural Adjustment Programme (SAP) introduced in 1986, these have been applied but more or less in an ad hoc fashion. The bent of the government has been mainly in favour of the effectiveness of its programmes in order to allow the fruits of economic growth reach a progressively larger percentage of the Nigerian population.

Policy reforms have taken the form of a combination of fiscal, monetary and foreign exchange control measures. In 1970, in order to allow for rapid reconstruction of the war-torn economy, these measures were liberalized. Government however had a tight restraint on the level of public expenditure and internal borrowing. The effectiveness of this restraint was not felt until 1971 when total expenditure fell by over 23 per cent (Table 2). Fiscal deficit which emerged in 1970 as a result of liberal measures recorded a surplus of about N 200 million in 1971 when most of the measures were tightened up. In 1972, the major policy reforms were reversed but were once again tightened in early 1973 when a 10 per cent exchange rate adjustment (devaluation) was effected. Recurrent expenditure fell by about 4 per cent and an overall budget surplus of N 296.7 million was recorded (Table 2).

In 1974 as a result of the effect of the tremendous growth in oil revenue, all expenditure reform measures were reversed. Liberal expenditure management measures were pursued until 1978 when a minor glut suddenly appeared in the international oil market. Crude oil prices nose dived and ripples were sent across the entire economy. Federally collected revenue declined by over 8 per cent while fiscal deficit rose by about 165 per cent (from N 901.5 million to N 2,389 million). The size of this deficit was over 7 per cent of the gross domestic product. Stringent expenditure control measures that were adopted led to a decline of about 13 per cent in total expenditure. There was about 17 per cent reduction in capital expenditure as against 7 per cent fall experienced in recurrent expenditure (Table 2). The 1978 expenditure reform measures were further strengthened in 1979.

The recovery experienced in the oil market in 1979 led to the reversal of nearly all reform measures in 1980 and 1981. But barely a year after (1982), when the oil market eventually collapsed, expenditure reform measures couched as Economic Stabilization Measures were put in place once again in April 1982. It then became clear that the oil market reverses were not temporary. Hence the country persevered with the measures until they were reinforced and effectively backed by the most far reaching reform on exchange policy under the Structural Adjustment Programme. One of the major effects of the April 1982 measures was the drastic reduction in the size of the fiscal and balance of payments deficits. Overall fiscal deficits by State and Federal Governments as a pro-

portion of the gross domestic product fell from 23.9 per cent in 1982 to about 5 per cent in 1985 (Table 3). The non-oil sector balance of trade deficit as a proportion of the gross domestic product was forced down from a height of about 24 per cent to 11.2 per cent in 1985 (Table 4). This latter index is critical in the sense that it shows that the management of public expenditure since 1971 has tended to reinforce the long term structural disequilibrium of the Nigerian economy. The expenditure reform measures of 1982 therefore succeeded largely in reducing deterioration in both internal and external imbalances in the economy between 1982 and 1985.

These reform measures, to a large extent, were implemented through administrative controls and the achievements recorded were at a considerable cost to the economy. The reduction of supply of raw materials and spare parts to the input-import dependent industrial sector led to wide-spread plant closures. Capacity utilization dropped substantially averaging 25 to 35 per cent in 1985. Critical shortage of essential commodities led to acceleration in the rate of inflation between 1982 and 1985. All the same, to consolidate the gains of the Economic Stabilization Measures and minimize the long run cost of adjustment of the imbalances, the Structural Adjustment Programme was introduced in 1986. This programme constitutes the core of the Economic Recovery Programme started in 1985.

The Structural Adjustment Programme (SAP) is a policy package designed specifically to address the long term structural disequilibrium in which the economy has been, and reform public sector expenditures. The main objectives of the programme are to:

- i. restructure and diversify the productive base of the Nigerian economy in order to reduce dependence on the oil sector and on imports;
- ii. achieve fiscal and balance-of-payments viability in the long run;
- iii. lay the basis for sustainable non-inflationary or minimal inflationary growth; and
- iv. reduce the dominance of unproductive investments in the public sector, improve the sector's efficiency and intensify the growth potentials of the private sector.

To achieve expenditure reforms in the public sector and overcome the sector's inefficiencies, the SAP seeks to encourage improved expenditure programming and rationalization of parastatals. Key sectors of the economy have, to a large extent, been deregulated to encourage private sector initiatives. The complex and unwieldy administrative controls which characterized the Economic Stabilization Measures have been watered down in favour of greater reliance on free market forces. Efforts are being made to commercialize and privatize appropriate public enterprises. The emphasis in the public sector is gradually shifting to effectiveness and efficiency in the economic sector.

Table 3

STATE AND FEDERAL GOVERNMENT BUDGET DEFICITS (1981-1985)

(1) Year	(2) Federal Government Budget Deficit (N)	(3) State Government Deficits (N)	(4) Overall Budget Deficits (N)	(5) Overall Deficits as % of GDP %
1981	3,708.5	4,882.6	8,591.1	18.31
1982	6,104.1	6,345.1	12,449.2	23.93
1983	3,364.5	6,838.3	10,202.8	18.78
1984	2,660.4	2,561.4	5,221.8	8.80
1985	1,708.9	1,518.2	3,227.1	4.93

Sources: Central Bank of Nigeria: Annual Report and Statement of Account, 1983 - 1985.

Table 4

NIGERIA'S IMPORTS, EXPORTS AND BALANCE OF TRADE (1970-1983)

(1) Year	(2) Imports (C.I.F) (N)	(3) Exports and Re-Exports (f.o.b) (N)	(4) Balance of Trade (Non-Oil Sector) (N)	(5) Trade Balance as % of GDP (%)
1970	756.4	885.7	-433.6	8.21
1971	1,078.9	1,293.4	-830.0	12.48
1972	987.6	1,412.2	-935.0	12.01
1973	1,224.8	2,277.4	-1,286.1	11.50
1974	1,737.3	5,794.8	-1,994.6	10.75
1975	3,717.4	4,988.4	-4,026.4	18.88
1976	5,132.6	6,622.4	-5,538.8	20.55
1977	7,159.7	7,881.7	-7,115.5	22.24
1978	8,132.0	6,380.5	-8,036.7	25.82
1979	6,169.2	10,397.7	-7,978.4	19.73
1980	8,217.1	13,687.4	-10,094.7	22.44
1981	12,599.1	11,033.8	-13,117.2	27.96
1982	10,100.2	9,196.4	-12,318.7	23.68
1983	6,555.7	7,751.8	-9,756.1	17.96
1984 ¹	7,178.3	9,088.0	-6,648.5	11.21
1985 ¹	7,932.9	11,214.8	-7,309.3	11.16
1986 ¹	5,469.7	8,513.0	-4,829.7	6.43

Sources: Central Bank of Nigeria, Economic and Financial Review t(Various Issues).

1. Provisional.

There are two main challenges facing the effectiveness of the SAP in Nigeria. First is the implementation of all the outstanding reform measures necessary for efficiency in the public sector while the second is perseverance with the policies after their operations have been fully internalized by June 1988.

In the implementation of policy reforms in Nigeria, there has been a long standing tradition of piecemeal execution of policy packages. This pattern of policy implementation has had the equivalent defect of poor policy linkage or inadequate policy complementarity. There is also the long standing tradition of policy reversibility. The rate at which policy reversals occurred before the SAP was so high that eventually policy meant for the reform of wasteful expenditure habit turned out to have achieved nothing because of the inability to persevere with such policies. This suggests that there has been the tendency to apply policy reform measures just to meet the exigencies of the moment. This was essentially the fate of the 1978 measures which were entirely reversed in 1980 as a result of the unexpected recovery of the oil market and change in government complexion.

However, whereas there is a rational case for piecemeal implementation of policy reforms, the absence of the will to allow for policy perseverance is inexcusable where the cost of such policies is fairly distributed and the issue at stake is long term structural transformation. Otherwise, inadequate implementation of policies is just as old as development planning in Nigeria.

6. Constraints in the Implementation of Policy Reforms in Nigeria

A thorough understanding of the nature, sources and structure of public expenditure programmes is fundamental in the designing of appropriate policy reforms for public expenditure. In the past, this has had its own share of the difficulty in the implementation of reform measures. There is also the sensitive issue of the over-riding influence of political pressure groups, avoidable slippages and, particularly in the 1979-1983 period, outright graft, corruption and diversion of public resources for private use. These are also critical to successful expenditure management reform. There are two clear dimensions to the constraints in the successful implementation of reforms, namely, internal and external constraints. Implementation of reforms have to start with the redressing of these internal shortcomings.

6.1 Internal Constraints

- i. *Absence of Clear-cut Approach to Economic Management:* It is expected that what is likely to necessitate overall policy reforms in an economy is the realization of the existence of inconsistencies in the approach to national economic management. Even though a set of countries may exhibit similar socio-political and economic features, each country remains a special case in its own right. Consequently, approaches to economic management must differ.

In Nigeria, before the 1980's, policy bent had been in favour of fiscal and monetary contraction and exchange controls with short-run crises management bias based on unsuccessful neoclassical price-fixing approach (e.g. import licensing) over the medium term. Today the policy thrust is orthodox/IMF stabilization prescription which has been amply tested over the past decades in the LDCs with uncertain long term results. The current 'experiment' at massive economic reform, is remarkably unprecedented, for which reason the package must be monitored and modified in line with known or observed characteristics of the Nigerian economy. This is particularly important as there is neither an acceptable inflation theory for the observed behaviour of prices in the economy nor clearly understood relationships for internal and external balances.

- ii. *Assumed Institutional Features:* Successful implementation of policy reforms must be based on the assumption of the existence of appropriate institutional features. In all LDCs, high accountability for public expenditure, patriotic attitudes, responsive administrative controls, etc., have always been taken for granted. The fact, however, remains true as ever that where such institutional conditions are inadequate, implementation of well-meaning reforms is likely to have a twist.
 - iii. *Politics and Economics of Policy Reforms:* It takes good understanding of the economy and its basic characteristics to design an appropriate policy package while a strong political will is required to implement such package. In Nigeria and indeed in most developing countries, policy reforms are so politicised that most administrations (both civil and military) get discredited for initiating or persevering with unpleasant policies meant for expenditure reform and long term adjustment for structural equilibrium. It is this lack of will and commitment that encouraged piecemeal implementation of reforms and high rate of policy reversal that occurred before the SAP in Nigeria. The boldness and single mindedness with which the SAP is being implemented is a remarkable manifestation of political will in this era of Nigeria's economic growth.
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- iv. *The Political Nature of the National Budget and Timing of its Preparation:* Usually, the annual budget is the key instrument for the implementation of expenditure reform policies. Unfortunately, however, the budget is not entirely an economic document. It is, in part, a document for resolving conflicting (socio-political and economic) interests. It is therefore questionable whether appropriate expenditure reforms can be achieved by means of the national budget.

Besides, the timing of the preparation of the national budget in Nigeria is not conducive to rigorous and efficient budgeting exercise. Budget preparations start far too late in the preceeding year with the result that the interstices for careful consideration of optimal programme and policy mix are inadequate to meaningful reform efforts. The budget process should start before mid-year.

- v. *Dearth of Competent Hands to Carry Out Reforms:* The implementation of reforms tends to overstretch the capacity of key government agencies especially the Ministries of Finance and National Planning — now merged to form Ministry of Finance and Economic Development. This is due to some specific features of the Nigerian administrative system. The number of highly competent public officers in government agencies is very small relative to the size of the public sector with the result that reforms are either haphazardly carried out or implemented piecemeal. The ultimate effect of such disproportionate relationship has thus been ineffectiveness of reforms and inability to integrate them into the administrative system.

Also, it is common practice for government to introduce reforms in expenditure management before training the needed skilled manpower to effect the appropriate changes in the supporting system. The timing of the introduction of reform measures and training of appropriate desk officers for the implementation may have to be synchronized. All the same, in a situation where there is a dearth of highly skilled civil servants, the expected benefits of new reforms may not materialize fully.

- vi. *Difficulty in Persuading Appropriate Spending Agencies to adopt more refined Techniques of Analysis:* Usually, in the design of policy package for expenditure reform, explicit recommendations for better management of resources are made. Most spending agencies, however, have not been very much forthcoming in the application of such recommendations. This has been most prevalent in the case of planning and budgeting procedures.
- vii. *Problem of Judging the Appropriateness of Sectoral Balance of Expenditure and Lack of Data:* To effectively carry out reforms, empirical analyses must be able to provide a basis for assessing the level of expenditure necessary for sectoral
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balance both in terms of expenditure and input-output relationships for the different sectors.

Obviously, however, it is rather difficult to make such assessment as results of analyses of productivity of programmes in public sector are likely to vary particularly since the activities range from production of marketable goods and services to pure public goods (such as defence and public administration). Such empirical analyses rarely provide a good basis for judging the relative productivity of different sectors and assessing the sectors in which expenditure reform is most needed.

Nonetheless, for whatever they are, empirical analyses of this nature in Nigeria are impeded by insufficient and untimely data. For instance data on actual components of government finances are not readily available. Besides, information on audited accounts of most state governments tend to have severe lags. Hence the prevalent use of estimates as opposed to actual figures in ex-post analysis of policy effects.

viii. *Problems involved in Reducing Capital Expenditure Due to Vested Interest:* The cost of social cohesion is often dictated by pressure groups. In order to satisfy such groups' interests, new projects, some with questionable economic rationale, may be started at the expense of maintaining existing infrastructures or timely completion of other.

ix. *Problem of Reducing Expenditure Selectively:* Prior to the implementation of the Structural Adjustment Programme, public sector employment of around 1.8 million accounted for only about six per cent of total employment, both in the formal and informal sectors of the economy. This, however, translates into about 55 per cent of modern or formal sector employment. Because of the extent of government participation in economic activities in the formal sector of the economy, there was an in-built impetus for growth in public sector employment and expenditure on salaries and wages.

Thus, within recurrent expenditure head, the wage bill had been relatively protected while expenditure on supplies, spare parts and routine maintenance was being gradually eroded. Since the introduction of the SAP, however, there has been massive retrenchment of labour both in public and private sectors of the economy and recurrent costs are now being linked with capital expenditure.

x. *Problem of Reducing Subsidies and Transfers in Public Enterprises:* Subsidies and transfers often constitute a significant share of government expenditure in Nigeria. In fact, one main objective of the government for establishing parastatals is to pro-

vide social services at the minimum affordable cost to the people. To achieve this, the prices of the output of these public enterprises are controlled. Incidentally, this has been a major factor weakening the finances of a number of parastatals, particularly those of utilities for which tariffs have not been adjusted on a regular basis to reflect increases in production costs vis-a-vis government's commitment to rapid development.

The situation is such that reduction of subsidies and transfers to parastatals must necessarily be accompanied by reduction in control over employment and output prices.

Government has thus been very wary about the social and political implications of reducing subsidies and transfers to public enterprises.

However, it is worth noting that since the SAP which involved rationalization of government direct participation in economic activities, it has become clear that most public enterprises would be allowed to charge higher prices to cover their production costs and reduce their dependence on government transfers.

- xi. *Inadequate Understanding between Ministry of Finance and other Spending Agencies:* Due to insufficient co-operation among government agencies, policy reforms introduced by the Ministry of Finance have mostly been seen as threat to the spending agencies. The basic problem here is «coordination», and coordination is a difficult word to operationalise as it subsumes will, understanding and good faith on the part of groups and individuals.

6.2 External Constraints

In the implementation of reforms, the understanding and support of the advanced industrial community is vital, considering the size of Nigeria's external indebtedness (a crude mirror image of the country's external resource requirement) and state of technological development. Substantial and predictable inflow of external resources is needed to infuse strength into the domestic economy and make the process of adjustment less painful. Unfortunately, however, the inflow is neither predictable nor sufficient.

Implementation of reforms is even the more compounded by inadequate debt relief arrangements, rapidly waning support and commitment of «donor» countries and the growing tendency toward orthodox/IMF structural adjustment prescriptions which have less than adequate inflationary checks thus worsening the balance of payments problem. In the latter case, it is common evidence that the impressive export incentive for primary

products arising from massive devaluation of the naira (as part of the policy reforms) is being accompanied by inflation (in the very short run) reflected in the prices of non-tradable and uncompetitive prices of domestic manufactures. Technically, as a result of the external resource constraints, Nigeria is thus pricing its little manufactures out of hitherto highly-protected international markets and unwittingly settling down to export of primary products whose prices have continued to fluctuate in recent time. The internal constraints to successful implementation of reforms are therefore compounded by open and disguised external constraints.

7. Prospects of Successful Implementation of Policy Reforms

The continued existence of the foregoing constraints to successful implementation of policy reforms particularly before the adoption of the SAP, admittedly, was an indication that previous policy reforms in Nigeria did not get to the root cause of public sector inefficiencies and the long term structural disequilibrium in which the economy has been. Both long term structural changes and short-term cyclical disturbances were the main concern that led to the enormous growth in the size of the public sector. Surprisingly enough, management of public expenditure programmes did not lead to desired structural changes in the economy. The manufacturing sector still accounts for less than 10 per cent of the gross domestic product. Vulnerability of the economy to external shocks still remains a post-boom spectre. Other manifestations of the existent structural weakness include high dependence on imports, heavy external indebtedness, large budget deficits, large non-oil sector balance of trade deficits, high inflationary pressure and growing unemployment. These are evidence to the effect that the actual concern of the public sector has turned out to be just management of short-term cyclical changes.

Assuming previous reform measures were packages and internal constraints malleable, then the external constraints to successful implementation of reforms have remain insurmountable. These constraints which are more scabrous have tended to protect the more restrictive of the two basic disequilibria with which the Nigerian economy has been faced. The failure of either of the constraints to yield to reforms leads to recursive effects which go on to intensify the bite of the economic problems being tended. It is on this failure that the developing country usually rests its case for excessive preoccupation with management of short-term cyclical effects.

The prospects of successful implementation of reforms therefore depend on the following key considerations:

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- The nature of the reform package
 - The possibility of overcoming both internal and external constraints.
 - The extent to which reform measures synchronize favourable response from internal constraints with relief arising from the external.
 - The nature of the overall effect on both internal and external disequilibria.

In the absence of adequate external resource support both policy and structural reforms are more likely to generate negative effects on growth.

Given the zeal with which the SAP is being implemented since 1986, there are bright prospects of successful implementation of reforms of public expenditure in the years ahead. The public sector has undergone the first round of serious trimming exercise. This involved rationalization of public expenditure programmes and government labour force. Re-organization exercises are being carried out. These have resulted in the autonomy of the Central Bank of Nigeria and the merging of Ministries of National Planning and Finance. Ministers are no longer simply heads of Ministries they are now accounting officers as well. The post of the permanent secretary (now Director-General), hitherto neither political nor technocratic is now fully political. It is hoped that the synchronization of the tenure of office of both Ministers and Director-Generals will lessen some internal constraints and allow for policy perseverance and better management of public expenditure.

All the same, I would like to point out that while the trimming of the public sector is a good thing, it does not necessarily presage efficiency in resource management. All it does allow is free rein to private sector initiatives necessary for diversification of sources of growth. Conversely therefore, a public sector can be large without necessarily sacrificing a large measure of efficiency in expenditure management. In which case, unlike what obtains in Nigeria, the shock effect of transitory revenue (like oil export earnings) on public sector expenditure (Table 1) has to be minimized to allow for steady growth path. Programming of expenditure must have to be encouraged. The key elements of the SAP must form the bedrock of the nation's economic management philosophy — policy perseverance must be the guiding principle if reform measures are to instil discipline in expenditure management and induce long term structural changes in the economy with genuine emphasis on home made goods.

I also perceive bright prospects of successful expenditure reforms with the SAP especially with the government's highly articulated concern for continuous training of public sector functionaries. The training has been entrusted to institutions such as the National Centre for Economic Management and Administration (NCEMA) (for Economic Manage-

ment), Centre for Management Development (CMD) (for Corporate Management), Administrative Staff College of Nigeria (ASCON) (for Public Administration), Policy Analysis Department, Agricultural Research, Management and Training Institute (ARMTI), etc. To considerably relax some aspects of the internal constraints on implementation of reforms, these institutions should be well equipped to provide the nation at any point in time with highly skilled and competent public officers for effective management of resources. The ultimate solution to the internal constraints on the implementation of policy reforms for better management of expenditure however lies on the extent to which the key policies of the SAP can be traditionalized and national attitudes re-oriented to the tapping of internal sources of growth and development.

Solution to the external constraints will depend largely on the awareness of the industrialized world to recognise the unity of the world economy; and resource availability to finance the adjustment programme will become realisable from such awareness. The advanced international community must have to match their commitment to world development with the political will to transfer real resources at realistic cost for the successful implementation of growth-oriented programmes like the SAP either in Nigeria or in any other LDC. Thus there is the need for considerable relief from the current debt problem which has tremendously weakened the capacity to fully implement the SAP reform package. Increased inflow of resources from multilateral agencies will also enhance successful implementation of reform programmes.

8. Conclusion

In this paper, I have addressed three issues, namely, problems in the management of Nigeria's public expenditure, constraints in the implementation of policy reforms to overcome the management problems and prospects of successful implementation of policy reforms, given the success of the Structural Adjustment Programme so far.

While I am convinced that the size of Nigeria's public sector is unmistakably large, it is not a sufficient condition for the existence of inefficiency in the management of expenditure in this vital sector of the economy. There is certainly, a glaring need to divest it of some of the burden supported on excessive concern for social responsibility. The public sector could preoccupy itself with welfare, but this has to be preceded by some very reasonable measure of self-sustaining growth accompanied with visible and irreversible structural changes in the components of the national product.

The issue of efficiency in management of expenditure is very critical; but this is best tackled through a consistent package of reforms. The success of such package depends on how well both internal and external constraints can be overcome and the extent of policy perseverance. Nigeria must learn to minimize reversibility of reform policies before they can be effective. Such policies need only objective appraisal and modification as and when necessary.

On their own part, however, policies for reforming management of expenditure for efficiency must be highly articulated. In other words, there should be effective policy linkage. Reform policies must necessarily be a package. It is in this sense that the Structural Adjustment Programme is a potent package for expenditure reform. All that is required for reaping benefits in terms of discipline in the management of public expenditure and permanent structural changes in the economy is policy perseverance, emphasis on the supply base in contrast to pure demand management, administrative competence, dedication to local sourcing and adequate external resource availability for successful implementation. The bright prospects of successful expenditure reform being perceived require only these minimum conditions.

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Abstract

This paper addresses three main issues in the public sector of the Nigerian economy, namely, problems in the management of public expenditure, constraints in the implementation of policy reforms to overcome the Management problems and prospects of successful implementation of policy reforms. It observes that while the management problems cannot be divorced from the largeness of the sector, size per se is not a sufficient condition for the existence of inefficiencies in this vital sector of the economy. The paper also finds that implementation problems had their roots in policy, structural and institutional inadequacies in both the public sector and the entire economy, particularly, before the implementation of the Structural Adjustment Programme (SAP).

On the issue of efficiency of the sector, it avers that this is best tackled by means of a consistent package of reform measures with which the nation must persevere as the on-going Structural Adjustment Programme holds tremendous prospects for efficient economic management in the not-too-distant future.

PROBLÈMES CONCERNANT LA RÉALISATION DES RÉFORMES DES DÉPENSES PUBLIQUES AU NIGERIA

RÉSUMÉ

Cet article analyse les trois principaux aspects du secteur public dans l'économie du Nigeria c'est à dire les difficultés de gérer les dépenses publiques, les contraintes concernant la réalisation des réformes nécessaires pour résoudre les problèmes de gestion et enfin les perspectives pour la meilleure réalisation des réformes souhaitées. On a pu constater que les problèmes de gestion doivent être analysés en tenant compte de l'ampleur du secteur public même si sa dimension n'est pas le seul facteur responsable des aspects négatifs de ce secteur vital de l'économie nationale. L'article a pu aussi démontrer que les problèmes de gestion sont liés à la faible efficacité des politiques, des structures et des institutions dans le secteur public et au niveau national, spécialement avant la mise en oeuvre du programme d'ajustement structurel (S.A.P.).

En ce qui concerne le degré d'efficacité du secteur, on peut conclure que la meilleure solution consiste à réaliser un ensemble cohérent de mesures que le pays doit poursuivre avec constance. Par exemple le programme d'ajustement structurel permettra dans un futur pas trop lointain d'améliorer considérablement la gestion économique du secteur public.