Nigerian government announces 1995 budget: no 'U-turn'

by Uwe Friesecke

On Jan. 14, Nigerian Head of State Gen. Sani Abacha announced the country's new budget for the year. The Nigerian government apparently felt forced to reverse some of the stringent control measures that it had adopted last year to stop the destructive effects of the International Monetary Fund-guided economic policy which the Babangida regime had initiated during the 1980s. This was promptly characterized by the London *Financial Times* as a "policy U-turn" in favor of the much-discredited liberal economic model of the IMF and the Paris Club of western banks. On the surface the new policy might appear as such, but a more thorough analysis reveals a different strategic dynamic, which is responsible for the new elements in Nigeria's 1995 budget.

According to reliable sources close to the government in Abuja, the pressure from western IMF and banking interests was just so much, that the government felt it had to compromise on some questions, like allowing a parallel free market for the currency, the naira, to be able to prevent a bigger disaster. Apparently the IMF worked through different private lobbying groups within Nigeria and threatened a renewal and tightening of economic sanctions, which the government feared would have thrown the country into chaos. But already the Nigerian government is faced with the fact that the IMF's understanding of compromise means only that the other side, i.e., Nigeria, fulfills the deal, while it, the IMF, is demanding more. Said the *Financial Times:* "Until General Abacha accepts the need for a market-driven exchange rate for the whole economy, skepticism will rightly continue about his administration's competence."

Guided deregulation

General Abacha announced a number of budget measures as "guided deregulation" and "liberalization." He appealed to the private sector, which apparently lobbied much for such liberalization, to lead the way of the needed economic mobilization. The most important liberalization measures affect the exchange rate and foreign investment policy.

"The exchange rate policy in 1995 is designed to maintain the current official rate and at the same time permit the Central Bank of Nigeria to intervene in the autonomous market. To this end, the autonomous market will now be permitted in Nigeria and inter-bank autonomous market shall be allowed to operate freely," Abacha said in his budget speech. Also, the Exchange Control Act of 1962 is being repealed to "allow the inflow of funds and foreign investments." In 1994, all foreign currency was concentrated into the accounts of the central bank at a fixed rate of 22 naira to the dollar. No parallel free market was allowed, but the private sector was offered a designated amount of foreign exchange. According to sources, Nigeria has been bled dry of foreign currency over the last months, affecting badly the manufacturing sector in particular. Now, private persons like industrialists can buy foreign currency on the open market at the so-called market rate, which for now stands at about 85 naira to the dollar, whereas the government, for its transactions like oil revenues or debt payments, will continue to stick to the rate of 22 naira.

The intent of this policy is to attract hard currency and foreign investment. To the same end also, the Nigerian Enterprises Promotion Decree of 1989 is repealed. That decree limited the amount of equity foreign multinationals could hold in joint ventures with Nigerian enterprises. The critical question here, to which government sources point, is how these policy changes will be implemented by the ministries in charge. They are quite aware of the obvious danger of removing all restrictions on inward and outward flow of currency: It could lead to massive capital flight and thus a further weakening of the capital base of the economy. Also, unlimited ownership of equity and unlimited rights to repatriate profits would detract from rather than add to the wealth of the country.

As a sign of good faith to the IMF, the new budget also closes down dedicated oil accounts, which the government used for special projects and which supposedly were the source of much corruption.

From Abacha's language, it is clear that these measures are designed to win approval from the IMF and to ease the pressure from foreign creditors: "Nigeria's total external debt stood at $29.43 billion at the end of October 1994. The country's external debt portfolio has remained a source of serious concern to our economic development efforts. However, Nigeria will continue in 1995 to devote about 30% of the total foreign exchange earnings to debt service. . . .

"The main focus of Nigeria's relationship with the World Bank group and the International Monetary Fund in 1995 will be to conclude negotiations on the Medium-Term Economic Program. The negotiations will be given added impetus in

1995. The finalized MTP should not only entitle Nigeria to concessional debt relief, including debt write-off, but also to highly concessional resources from multilateral and bilateral sources. With all these measures taken in this year's budget, including economic reforms, we believe we are more disposed toward receiving debt concessions, including debt write-offs as have been extended to some other developing countries."

Government action for development

While doubtful compromises vis-à-vis the liberal economic model are being made, a careful study of Abacha's speech also shows the government's intent to continue on the path of serious efforts to develop the Nigerian economy, which was begun with the 1994 budget. This is most obvious from two aspects of the 1995 budget, the emphasis on agriculture and the design of a special trust fund, financed from the extra earnings the government receives from last October's rise in fuel prices.

Building on the success of 1994, where the aggregate index of agricultural production increased by 1.6%, in contrast to a decline of 1.9% in 1993, Abacha "directed all state military administrators to give special emphasis to agriculture." A total of N 2.7 billion ($120 million) in the budget is earmarked for the development of agriculture and solid minerals. The government is committed to complete the facilities for local fertilizer production, and has abolished the customs duties on agricultural and water chemicals to make their import easier. "This is a call on the nation to go back to the land, the historic base of our natural wealth and group endowment," said Abacha. The purpose of this policy is to make Nigeria self-sufficient in food supply and to begin to earn foreign currency from other sources than only oil exports. Similarly, a new emphasis is given to exploiting Nigeria's vast mineral resources, for which a Ministry of Solid Minerals Development is being established.

The special fund from the higher price of petroleum products is estimated to receive about N 61 billion this year. A board of trustees to administer the fund will be inaugurated shortly. This money will be utilized for specific urgent programs including roads, railroads and water ways, education, health, food and water supply, security services, energy, and rural development.

Within the constraints of a tight budget, certain measures are designed to alleviate the pressure on the general population. Tariff reductions on essential goods like salt, sugar, and milk have been implemented. Duties on textbooks and educational material have been abolished. Finally, a Ministry of Women and Social Welfare will be established with the explicit task of setting up a department to take care of the welfare of disabled persons. Already those measures have come under attack by western press as increasing "wasteful spending."

On policy toward government-owned enterprises, the compromise line of the new budget becomes most obvious. "There are certain enterprises which require high managerial and technical expertise if they are to operate profitably. Government has therefore decided that it is in the best interest of the country that these enterprises are not sold off at least for now," Abacha said. But the government is offering these enterprises for a 10-year lease to "both local and foreign entrepreneurs." The list includes Nigeria's four oil refineries, two petrochemical plants, the steel mills, fertilizer factories, paper manufacturing plants, and the national airline. These are all strategic industries and the lease offer may well lead to the outright selloff to foreign interests.

The government's dilemma

Knowing the commitment of the majority of Abacha's government for putting an end to the economic disaster of previous governments, and taking into account other examples of western arm-twisting, it is clear that the IMF, World Bank, and creditor banks' blackmail of Nigeria over the last six months must have been extraordinary, and possibly included the threat to cut off food imports. They apparently exerted pressure through private circles inside Nigeria, probably including groups within the military, and confronted the government with massive unrest in the context of a general collapse of the economy.

The question now is whether an unavoidable compromise will lead to throwing the principles of sound economic development overboard entirely. This is exactly what the IMF demands through its fanatical free market commentators in the *Financial Times*. But there are strong warning voices close to the government in Nigeria, which are pointing to the endless series of IMF-Paris Club policy disasters of recent months, such as Russia, Tanzania, and, lately, the collapse of the Mexican "model."

The western media are trying to drive a wedge into the cabinet of General Abacha, by portraying the new budget as a sign that a pro-IMF group around Central Bank Governor Paul Ogwuma has won over the group of dirigists led by Professor Aluko and Works Minister Lateef Jakande. Reliable sources in Abuja deny this and insist that the budget, including its compromises vis-à-vis the IMF, reflects the view of the cabinet as a whole.

Nigeria's leaders, as were so many before them, are faced with an arrogant attitude of a dominant western banking group that is clinging hysterically to enforcing a neo-colonialist economic model, even though it is collapsing all around the world. If the current Nigerian leadership of General Abacha's government would seriously retreat from their 1994 commitments and go back to implementing an IMF structural adjustment policy, they would turn a tactical retreat into a rout, and produce exactly the political and social disaster that they were trying to avoid. But hopes are that military leaders do not retreat before an enemy (the IMF) when the enemy has just experienced its Waterloo (Mexico).