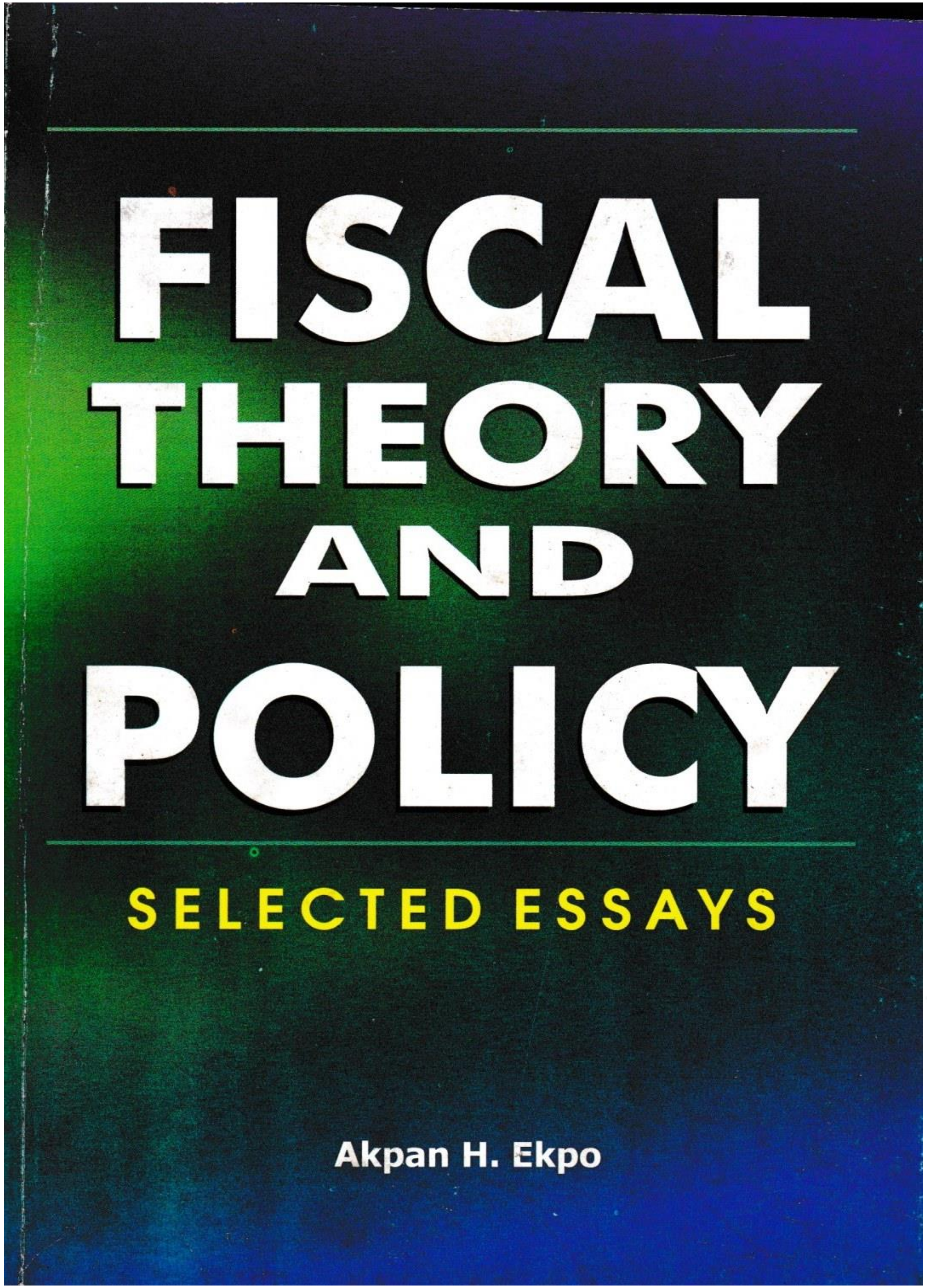

Chapter Nine

FINANCING INTERNATIONAL COOPERATION: THE CASE OF NIGERIA

ACRONYMS

AFDB	African Development Bank Group.
AGOA	African Growth Opportunity Act.
BWI	Bretton Woods Institutions.
CET	Common External Tariff
EBID	Ecowas Bank for Investment and Development.
ECOWAS	Economic Community of West African States.
EIA	Environmental Impact Assessment.
FDI	Foreign Direct Investment.
FTC	Freestanding Technical Assistance.
GATT	General Agreement on Trade and Tariff.
IPA	Investment Project Assistance.
NCF	Nigerian Conservation Foundation.
NDEA	National Drug Enforcement Agency.
NACA	National Action Committee on Aids.
NIPC	Nigerian Investment Promotion Council.
NEEDS	National Economic Empowerment and Development Strategy.
NEPAD	New Economic Partnership for Africa's Development.
SAP	Structural Adjustment Programme.
UNCTAD	United Nations Conference on Trade and Development.
WAMZ	West African Monetary Zone.
WTO	World Trade Organization.

FINANCING INTERNATIONAL COOPERATION: THE CASE OF NIGERIA

1. INTRODUCTION

Globalization has taken a new dimension since the late –20th century. Globalization refers to the process of reducing barriers between countries and encouraging closer economic, political and social interaction. According to (Berresford, 1997), globalization reflects a more comprehensive level of interaction than has occurred in the past, suggesting something different from the word 'international'. It implies a diminishing importance of national borders and the strengthening of identities that stretch beyond those rooted in a particular region or country.

Consequently, globalization is characterized by falling trade barriers, integrating financial and capital markets. This has resulted in increasing economic interdependence of countries through enhanced volumes and varieties of cross-border transactions in goods and services (including labour mobility), flows of international capital and widespread exchange of information.

The integration of financial markets across the globe is a very important aspect of the globalization process. If financial assets in different economies have different risks and return characteristics, individuals can insure themselves against risks to consumption by diversifying their assets portfolios internationally. Therefore, many countries with low or negative net capital flows with the rest of the world continue to have two-way gross capital flows (Obadan, 2004).

The fundamental areas of change in the international financial markets include the international financial system, advances in and fusion of information technology, the rise of

global business strategies, new political and economic structures as well as new political imperatives given as economic liberalization, privatization and the rise of the institutional investor.

The merits and demerits of globalization notwithstanding, Nigeria is part and parcel of the world economy. In the 1970s, due to the windfall from oil, Nigeria contributed to overseas development assistance through the 'oil facility' of the Oil Producing and Exporting Countries (OPEC). However, the situation changed when Nigeria's economic problems worsened in the 1980s and she is yet to fully recover despite various policies and programmes designed to stimulate growth and development (Ekpo, 2003).

Financial international cooperation in Nigeria is relevant given her status in Africa and the world. Nigeria has the largest population in Africa and has enormous human and material resources. Since independence she has used her size and resources to make a difference in matters affecting Sub-Saharan Africa (SSA) in general and the West African sub-region in particular. Furthermore, Nigeria belongs to several international organizations that need resources. How these organizations are financed have bearings on national level resource allocation. For example, Nigeria's effort at settling the Liberian crisis meant the diversion of resources from other arrears to financing the war in Liberia.

Nigeria is still a developing country hence she receives assistance from multilateral organizations, through bilateral relations and other donor agencies. There are other in-flows that come through foreign direct investment and counterpart funding arrangements.

In recent times, there are 'new' initiatives that require resources. The Millennium development Goals agreed by 147 Heads of State and Government in September 2000 at the United Nations Millennium Summit as well as the New Partnership for Africa's development (NEPAD) concretized by most African governments need financing; both represent international cooperation that require massive funding. The countries involved must provide domestic resources while creating the enabling environment for attracting external resources.

It must be stated that Nigeria is a federal state. States and local governments represent the other two tiers of government. In this paper, we are referring essentially to expenditures by the central government. The central government responsibilities are provided in the 'exclusive list' under the 1999 constitution. This list includes: defense, foreign policy, fiscal and monetary policy, education, currency, immigration, health, environment, power, agriculture, among others. There is also a concurrent list meant for states and local governments. Local government, for example, deal with local matters like the maintenance of local roads, rural health programmes, sanitation, etc.

Nigeria's fiscal federalism provides for the allocation of funds to states and local governments on the basis of a revenue sharing formula. The formula is based on factors such as equality of states, population, derivation, landmass, school enrolment, landmass, etc. There is a direct statutory allocation from the centre to local governments to enable the latter provide local services. Though these sub-national governments do generate internal revenue, they rely heavily on the centre for resources (Ekpo, 1994; 1999; 2003).

In Nigeria, international cooperation activities are found and managed in all ministries. The budgetary allocation processes being **ad hoc**. During the military era, there was no clear approach to financing international

cooperation. In 1999, the Ministry of Co-operation and Integration in Africa was established and part of its mandate was to harmonize the financing of international co-operations (within and outside Nigeria). Unfortunately, until recently (2004), the Ministry has no handle on the financing of international co-operations partly because other ministries are active in the process.

The budgetary processes have now been streamlined and ministries and other government agencies are now mandated to provide information on international obligations. It is difficult to ascertain Nigeria's priorities in international cooperation activities. The budgetary allocation cannot provide a ranking of preferences. We can only suggest that more resources are allocated to African issues (cooperation) since Africa remains the centre-piece of Nigeria's foreign policy.

The objective of this paper is to examine the financing of international cooperation in Nigeria and its implications on relevant issues of public finance. The paper is organized as follows. Section 2 discusses national-level initiatives that have a bearing on the financing of international co-operation. The section covers (a) revenue profile of government and foreign direct investment in Nigeria; (b) the financial implication of macroeconomic management. Section 3 examines the allocation of expenditures supporting international activities in the country. Section 4 analyses the trend and pattern of development assistance to Nigeria. Section 5 examines the national budgetary process and the inherent priorities. In section 6, we conclude the paper.

2.0 INTERNATIONAL CO-OPERATION: NATIONAL-LEVEL INITIATIVES

It is important to state that Nigeria's financial contribution to international cooperation is influenced by available domestic resources. To a very large extent, the Nigerian economy depends on resources from petroleum; petroleum, beginning in the 1990s, became the major foreign exchange earner. The economy is, therefore, oil dominated; fluctuations in the price of crude oil affect government programmes.

The Nigerian system prior to 1980 was characterized by government ownership of the 'commanding heights' of the economy. The economy was highly regulated – virtually all aspects of the economy deviated from marginal cost pricing. The economic depression of the late 1970s and early 1980s led to efforts at implementing a Bretton-Woods (BWI) type of structural adjustment. Essentially, this meant shifting to a deregulated, open and liberalized economy. The implementation of the 1986 structural adjustment programme (SAP) changed the perception of policy-makers on the need to build a market economy. Though the SAP was not implemented fully as evidenced by policy reversals, the attempt meant that government policy-makers due to openness and liberalization began to see the need to reduce government intervention in economic activities.

2.1 Trade Liberalization in Nigeria

In an attempt to open the economy, government encouraged non-oil exports in order to reduce dependence on oil. It adopted trade liberalization and participated actively in regional trade groups such as the Economic Community of West African States (ECOWAS) and the West African Monetary Zone (WAMZ). In one of the meetings of ECOWAS, it was recommended that concrete measures be put in place to ensure the implementation of the ECOWAS trade liberalization scheme and the alignment of the national customs tariffs as the basis for an ECOWAS Common

External Tariff (CET). The Committee of Governors of ECOWAS also ratified the protocol establishing the ECOWAS Bank for investment and development (EBID) and payment of the first tranche (35 per cent) of the call-up capital of EBID.

Trade liberalization in Nigeria was implemented as part of the Structural Adjustment Programme of 1986. In theory, trade liberalization may increase domestic efficiency. However, in practice, trade liberalization through openness may increase the volatility of the economy thus retarding investment and growth. Nigeria is a member of the various multilateral organizations that promote trade, namely, GATT/WTO, the Lome Convention and the United Nations Conference on Trade and Development (UNCTAD). Nigeria has banned the importation of certain items in order to encourage domestic production. These include, chicken, chicken parts, turkey and turkey parts, various types of fruit juices. In addition, certain food stuffs cannot be exported. The country seems to be implementing a 'guided trade-liberalization' policy.

International trade taxes as a percentage of total revenue stood at 11.6 per cent in 1999 and declined to 9.3 per cent in 2002. The country relies heavily on petroleum profit taxes and royalties. It is, therefore, difficult to ascertain the impact of trade liberalization on revenues. From table 1.0, below it is clear that, indirect taxes and taxes on income and profits generate more revenue that taxes on international trade.

In the African Development Bank Group (AFDB), Nigeria's role is noteworthy. In its annual meeting in May, 2002 in Addis Ababa, Ethiopia, the Bank reported that disbursements amounting to US $1 billion were made for the year; of the total disbursements, 6.63 per cent was from the Nigeria Trust Fund (Central Bank of Nigeria, 2002). These commitments must be supported by domestic revenue generating efforts.

The government has been struggling with budget deficits over the years. The budget deficit/GDP ratio is presented in Table 1.1 below. It is clear that persistent budgetary deficits financed by debt instruments have impacted negatively on the economy. The deficits have put pressure on prices and crowded out private investment particularly foreign direct investment.

The Federal Government has run budget deficits in the last sixteen years. The cumulative deficits up to December 31, 2002 amounted to x650 billion. These deficits have grown from about 1% of GDP in 1996 to 5% in 2002 and have been financed largely by growing local currency debts and money supply (Obadan, 2004, p.22). The situation leads to high inflation, high nominal interest rates and puts significant pressure on the domestic currency in the foreign exchange market. It also impacts negatively on business confidence, discourages savings and investment, results in low growth and increases poverty.

Table 1.0: Nigeria: Share of Taxes in Total Revenue (%)

	International Trade Taxes	Indirect Taxes	Taxes on Income After Profits
1997	11.6	17.0	10.0
1998	14.0	30.0	23.9
1999	9.3	16.6	15.6
2000	5.9	10.2	22.5
2001	8.4	13.7	24.2
2002	9.3	14.2	23.5

Source: World Bank (2004): African development Indicators, Washington, D.C.

Table 1.1: Nigeria: Fiscal Balance Indicators as % of GDI, 1985-2001

Year	Deficit or Surplus (%)	Foreign Financing (%) Budget Deficit
1985	-4.20	34.4
1986	-11.30	8.6
1987	-5.41	14.1
1988	-8.42	15.7
1989	-6.73	37.8
1990	-8.49	7.1
1991	-11.04	0.8
1992	-7.18	-30.0
1993	-15.36	15.7
1994	-7.68	11.9
1995	0.05	-2245.5
1996	1.31	-21.1
1997	-0.17	267.7
1998	-4.63	12.5
1999	-8.40	-
2000	-2.10	-
2001	-4.0	-
2002 -	5.0	

Source: (1) IMF International Finance Statistics, 2003.
(2) IMF – Government Finance Statistics.
(3) Central Bank of Nigeria. Annual Report and Statement of Accounts, Various issues.

Notes:

Negative figures occur where a budget deficit (surplus) is accompanied by negative (positive) external financing. Figures of more than 100% occur when the external financing exceed the size of the budget deficit.

In order to address the problem of budget deficits, government has put in place the following measures:

* set overall expenditure limits at national level while

persuading states and local governments to do same

* set expenditure ceilings for major expenditure heads (i.e Recurrent (non-debt), debt and capital expenditures)
* place expenditure limits for Ministries, Departments, and Agencies based on the priorities of the Nation as enunciated under the National Economic Empowerment and Development Strategy (NEEDS).
* Put procedures in place to ensure compliance with these limits.

In order to ensure that the above measures form part of economic policy, the fiscal responsibility bill is being debated in parliament with a view to becoming a law guiding fiscal prudence. This fiscal rule has been put in place due to on-going economic reforms and not necessarily from donor pressure.

2.2 FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

There have been bold efforts by the Federal Government in providing the enabling environment for attracting FDI. FDI brings investible financial resources and provides new technologies. It enhances the efficiency of existing technologies, facilitates access into export markets, builds domestic human capacity and provides skills and management techniques. Through technological transfers, local firms may benefit from demonstration effects by adopting technologies introduced by foreign companies.

Several incentives for FDI normally include tax and duty concessions, some equipment are exempted from import duties, tax holidays, accelerated depreciation and exemption of investment income from the company income tax. Firms that locate in the export processing zones in Nigeria have additional benefits such as no taxation, easy repatriation of profits, environmental protection etc. In addition, the Nigerian

Investment Promotion Council (NIPC) established by law is a one-stop shop for potential investors. In 2002, about N200 million was allocated to the NIPC; a substantial share of the allocation will be spent on promoting FDI. It should be noted that most of the FDI in Nigeria is oil dominated (Ekpo, 1998).

Despite the incentive packages, FDI has not played a significant role in the Nigerian economy. Nigeria's share of FDI in all developing countries stood at 2.4 per cent in 1990 and declined to 0.9 per cent in 1997. Between 1990 and 1997, Nigeria's share in all developing countries FDI averaged 1.5 per cent. It is necessary to have a more active investment climate by ensuring: (i) macroeconomic stability and policy consistency; (ii) transparent rules and regulations, (iii) political stability, (iv) adequate infrastructure; (v) security of life and property; and (vi) improved education; (vii) absence of corruption; (viii) appropriate legal framework for conducting businesses; and (ix) employment.

Table 2: Net Foreign Direct Investment Flow To Nigeria in Relation to All Developing Countries 1990 – 97 (US $ Billion

Year	Nigeria	All Developing Countries	Nigeria's Share (%)
1990	0.6	25.0	2.4
1991	0.7	34.4	2.0
1992	0.9	46.1	1.9
1993	1.3	67.0	1.9
1994	2.0	88.5	2.3
1995	1.1	105.4	1.0
1996	1.6	126.4	1.3
1997	1.5	163.4	0.9
1990-97	9.7	656.2	1.5

Source: (1) World Development Report, World Bank
(2) Global Development Finance, 1997 and 1999.

2.3 MACROECONOMIC MANAGEMENT: FINANCIAL IMPLICATIONS

Government must ensure macroeconomic stability to sustain non-inflationary growth and development. With increased globalization the task of macroeconomic management is even more challenging. Portfolio capital ("hot money") is now highly dynamic; it can be transferred across the world with such speed thus undermining the ability of countries to carry out independent monetary and financial policies. The case of Mexico in 1995 and other countries in East Asia in 1997 are examples of how large capital outflows can bring pressure on exchange rate, weaken the banking system thus further complicating macroeconomic management.

Macroeconomic stability remains one of the key objectives of the Nigerian government. In order to achieve this, government's deficit is pegged at not more than 2% of GDP; money supply (M2) is to grow at not more than 15% annually; inflation is targeted at not exceeding 10% annually and real growth of GDP at 5% while agriculture's growth is set at 7.5% annually. These targets are predicated on base budget oil price of US $22.50 per barrel (Federal Ministry of Finance, 2004).

It is important for countries to maintain adequate foreign exchange reserves, a flexible exchange rate and to put in place measures to arrest increased vulnerability. With globalization, countries need to set aside reserves equivalent to their short-term foreign denominated loans (Stiglitz 2002). These reserves serve as collateral for external borrowing by government, ensures credit worthiness and provides investors with some confidence in

the economy.

Nigeria's external reserves which stood at US $1658.8 million in 1994 could finance imports for three months reduced to US $1441 million in 1995 (months of import equivalent of 2). Thereafter, the reserves increased and by 2001, external reserves of US $10, 415.6 could finance 11.3 months of imports. This development can be contrasted with the experience of the 1980s when external reserves could barely finance two months of imports (CBN, 1985).

The pressure on external reserves can be seen from the increased external debt stock of the country. As at 2002, Nigeria's external debt stock remained at almost US $30 billion (Table 3 below). In fact, the external debt stock has shown marginal decline due to rescheduling of payments. The debt over-hang has affected the availability of resources for concrete development.

The external debt/Gross National income ratio provides glaring evidence of the problem. This ratio remained consistently high throughout the period 1985 to 2001. The external debt/GNI ratio which was 68.1 per cent in 1985 jumped to almost 138 per cent in 1987 and increased remarkably in 1994 (155 per cent). Between 1985 and 2001, the external debt/GNI averaged 81.4 per cent. Through out 1995 – 1999, grant element of external debt was zero. In recent times, government has established a debt management office with the view of ensuring that debt payments do not impact negatively on macroeconomic objectives particularly as it affects poverty reduction.

Table 3: Nigeria: External Reserves and External Debt Stock 1994 – 2002 (US $ Million)

Year	Reserves	Months of Imports Equivalent	External Debt Stock
1994	1658.8	3.0	24,428.0
1995	1441.0	2.1	32,584.8
1996	4074.7	7.6	28,000.0
1997	7581.2	9.6	27,087.8
1998	7,100.00	9.2	28,773.5
1999	5,450.00	7.6	28,066.9
2000	9,910.00	13.6	28,273.7
2001	10,415.6	11.3	28,347.0
2002	7,986.7	10.1	29,788.9

Source: Central Bank of Nigeria. Annual Report and Statement of Account, Various Issues.

Table 4: Nigeria: Selected Debt and Grant Indicators 1985-2001

Year	External Debt/GNI(%)	Concessional External Debt % Total External Debt	Average Grant Elements of External Debt(%)
1985	68.1	1.9	6.9
1986	118.2	1.8	7.3
1987	137.9	1.5	7.2
1988	132.6	1.5	13.1
1989	138.4	1.5	20.2
1990	130.7	1.6	23.0
1991	134.9	2.9	27.9
1992	97.5	3.3	40.2
1993	101.7	3.6	48.4
1994	155.3	3.9	15.0
1995	131.7	4.0	0.0
1996	95.0	4.3	0.0
1997	83.7	4.6	0.0
1998	103.3	5.2	0.0
1999	93.1	5.9	0.0
2000	85.4	4.6	78.7
2001	81.4	4.3	73.0
Average	114.6	-	-

Source: World Bank, Global Development Finance 2003, Washington, D.C.

2.4 BEHIND-THE-BORDER INTERNATIONAL COOPERATION

Economic policies and development in Nigeria have externality effects on her neighbours and vice versa. The behind-the-border problems may occur from increased cross-border migration of people who may have diseases such as HIV/AIDS. Globalization may also result in environmental problems. This can become very serious for poor countries which may not have the resources to control such problems. In addition, oil pollution of the environment has been a perennial hazard. The Government is always 'battling' with oil producing companies and the affected communities to find amicable solutions to environmental pollution.

The National Action Committee on Aids (NACA) has been very active in sensitizing residents in Nigeria on the adverse effects of HIV/AIDS. Funding for the HIV/AIDS programme comes from budgetary allocation to the Ministry of Health. The Committee also solicits for donor money. Recently, the Committee negotiated for a credit of US $90.3 million from the World Bank to be utilized in strengthening the HIV/AIDS interventions (Ministry of Health, 2004). Specifically, the fund will assist in capacity building/development across the border, expanding public sector responses as well as NGO sector responses.

Another important issue necessary for achieving the MGD is that of polio eradication. The National Programme on Immunization (NPI) is responsible for polio eradication in the country under the "Polio Eradication Initiative in Nigeria" The NPI has a national coordinator as well as state coordinators. The programme on polio eradication has been making progress in the country until recently when some problems emerged in the northern part of the country. Some of the northern leaders claimed that the polio vaccine caused infertility and was contaminated with the HIV virus. The World Health Organization intervened by bringing experts to reassure northern leaders that the vaccine was safe. The programme has recommenced in the northern states.

The programme is funded through allocation to the Ministry of Health as well as external donors such as the World Bank. At the state level, the programme is funded by respective State Ministries of Health. It has been difficult to obtain how much money is dedicated to polio eradication at the federal level; officials only insist that the funding is derived from the global allocation to the Ministry of Health. However, it is interesting to note that the polio programme is aggressively being addressed in Akwa Ibom state of Nigeria. In the state, there were two rounds of polio immunization in 2002 and N6.9 million was spent. In March, 2003, N7.4 million was spent and 1.3 million children from the age of 0-59months were administered the vaccine; 98.9 per cent coverage was achieved. In February 2004, N9.4 million was spent and 1.2 million children from the age of 0-59 months were immunized. The coverage was 95 per cent (Ministry of Health, Akwa Ibom State, 2004).

In 1993, 30 per cent of the children in the country were immunized; it rose to 84 per cent in 1997 and decline to 68 per cent in 2002. In 2001, 160 million doses were administered; it dropped to 74 million in 2002 and 143 million in 2003. The decline has been attributed to resistance from the northern states of the country (CBN, Annual Report, 2003; Polio Eradication Initiative, Abuja).

Nigerian policy-makers consider environmental protection as a key input in the country's development matrix. Before the Ministry of Environment was established, environmental issues came under the Federal

Environmental Protection Agency (FEPA). The agency has been instrumental in ensuring compliance by offenders. For example, on industrials compliance monitoring, 225 manufacturing industries were inspected in 1997 as compared with 175 and 94 in 1996 and 1995 respectively. The guidelines on Environmental Impact Assessment (EIA) have been embraced by developers from the oil/gas, manufacturing as well as agricultural sector. Nigeria ratified the United Nations (UN) Convention to combat desertification in July, 1997. Non-Governmental Organizations (NGOs) continue to consolidate their activities on environmental protection. For example, the Nigerian Conservation Foundation (NCF) embarked on a project which sought to enhance income earning capacity on inhabitants of Nigeria's southeastern coast through the use of wild growing Nipa palms.

In an attempt to meet one of the millennium development goals of ensuring environmental sustainability, there are several constraints. The citizens have to be sensitized to appreciate the need for environmental impact analysis on existing and new projects. There is limited government capacity for environmental management. The widespread poverty in the rural areas has resulted in the over-exploitation of natural resources, for example, the use of firewood for cooking given the high cost of kerosene. Given Nigeria's federalist structure, states have been directed to ensure proper environmental management due to changes in the world's climate. Hence, each state has either a ministry or an agency responsible for the environment.

Lower levels of government (states and local) receive statutory allocations from the federal government on the basis of a revenue sharing formula. Despite the continuous contention regarding the sharing formula, states and local governments receive about 25 per cent and 15 per cent respectively from the centre. In addition, States are required to allocate 10 per cent of its revenue to local governments; in practice, most state governments have defaulted (Ekpo, 1994). Most local governments do not have strong revenue base but rely on allocation from the centre. Local governments were created more for political reasons than for economic viability.

Specifically, there exist funds for environmental problems at the federal level from which states can access; the funds can be obtained by a state if the federal government through the Federal Ministry of Environment is convinced that such a state has a serious environmental problem. In the Niger Delta area where environmental degradation is most noticeable, the Niger Delta Development Commission (NDDC), an agency of the federal government, the World Bank and the Shell oil company have provided funds for development projects in the area. For example, Shell oil company through its community development efforts has implemented various projects such as building of schools, skills acquisition, road projects and provision of bore holes. It is difficult to provide amount spent on these projects because officials are unwilling to give out financial data basing their argument on the sensitivity of releasing such financial information.

Another global issue is that of combating international terrorism and money laundering. As a policy, the federal government is totally committed to the eradication of international terrorism. This has been demonstrated through the extra security provided at all airports and seaports in the country As shown in the Tables 5.0 and 5.1 below, recurrent government expenditure on internal security increased from 6.7 per cent in 2001 to 11.3 per cent in 2002. Its capital component which stood at 1.1 per cent in 2001 rose to 4.2 per

cent in 2002. This increase is attributable to efforts in combating terrorism as well as internal ethnic and religious cleavages.

Regarding money laundering government has prosecuted those involved in the act in an attempt to comply with the Financial Action Task force. The National Drug Enforcement Agency as part of its mandate prosecute after thorough investigation those suspected to be laundering money as a result of their involvement in drug trafficking.

The government embraces global peace knowing that it is both a necessary and a sufficient condition for growth and development. Nigeria was experienced a three year civil war (1967-70); the resources spent on the war would have been used for development. It is difficult to embark on development projects during times of war; examples can be found in Angola, Mozambique, Liberia and the Democratic Republic of the Congo.

Before the Iraqi war, government policy has been to diversify the export base of the economy by encouraging non-oil exports. The Nigerian Export Promotion Council has the mandate to ensure increased non-oil export for the economy. The performance of non-oil exports which was sluggish in the 1980s showed remarkable improvement from the 1990s. The recent rising oil prices have not changed the policy of diversifying exports.

The non-oil exports was US $287.2 million in 1996 jumped to US $357.2 million in 1997 due to a more liberalized market environment. This development was further reflected in the increased export tonnage and values of palm produce, rubber, fish and shrimps, cashew-nuts, cotton and yarn and gum-arabic (CBN, 1997).

The share of non-oil exports recorded a remarkable increase from 1.4 per cent in 2001 to 5.1 per cent in 2002, the highest in a decade. This was attributable to improved physical infrastructure, and enhanced world prices of Nigeria's schedule export commodities particularly cocoa and palm oil (CBN, 1997; 2002).

3.0 INTERNATIONAL COOPERATION: ALLOCATION OF EXPENDITURE SUPPORTING INTERNATIONAL ACTIVITIES IN NIGERIA

Nigeria's government expenditure/GDP ratio has been increasing over time. In 1985 total expenditure/GDP was about 16 per cent. It rose to 20.8 per cent in 1991 and 29.7 per cent in 1999 respectively. These expenditures are financed largely from petroleum revenues (Obadan, 2004, p. 166).

Tables 5.1 and 5.2 below provide a summary of the functional classification of expenditures by the central government. Though very aggregative, the tables give an indication of the spending trend of government. On the recurrent side, general administration, defense, social and community services show increasing trend during the period. The percentages for transfers seem high because internal and external debt obligations, pensions and gratuities, among others, are included.

It is interesting to note that on the capital expenditure by functions, economic services which include agriculture, roads and construction as well as transport and communication increased from 56.5 per cent in 1998 to 67 per cent in 2002. This is attributable to the massive investment in the general system mobile communications in recent years.

Government has over the years embarked on deficit financing with deficit/GDP ratio exceeding 15 per cent. However, the 2004 budget imposes fiscal discipline; fiscal deficit is curtailed at not more than 2.10 per cent of GDP implying that government should not spend what it does not have.

Table 5.1: Nigeria: Functional Analysis of The Central Government Recurrent Expenditure 1996 – 2002 (%)

Item	1996	1997	1998	1999	2000	2001	2002
General Admin.	18.4	15.7	13.4	20.5	14.6	12.9	21.0
Defence	8.1	7.2	13.4	12.7	9.4	8.1	12.3
Internal Security	8.4	5.6	6.7	9.2	5.4	6.7	11.3
Economic Services	3.5	3.2	6.5	20.8	6.2	9.2	9.5
Social and Community Services	12.0	11.2	12.0	17.1	18.3	13.7	27.2
Transfers	42.8	57.0	53.0	25.7	44.0	45.9	15.7
Total	100.01	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Nigeria: Annual Report and Statement of Accounts, Various Issues.

Note: Figures may not add up to 100.00 because certain items are excluded.

Table 5.2: Nigeria: Functional Analysis of The Central Government Capital Expenditures, 1990 – 2002(%)

Item	1996	1997	1998	1999	2000	2001	2002
General Admin.	14.0	19.6	19.3	24.8	11.4	6.4	11.4
Defence	5.6	3.3	3.3	3.5	2.2	3.7	6.9
Internal Security	-	-	-	-	-	1.1	4.2
Economic Services	40.1	54.4	56.5	69.8	46.6	59.2	67.0
Social and Community Services	5.5	22.0	6.5	3.0	11.7	12.2	10.0
Transfers	45.1	27.4	28.3	19.6	19.5	17.4	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Nigeria. Annual Report and Statement of Accounts, Various Issues.

Note: Figures may not add up to 100 due to the exclusion of certain items.

Table 6 below indicates expenditure of relevant ministries (with matters of international cooperation) for the year 2002. Ministry of Cooperation and integration in Africa has 0.1 per cent of current and capital expenditure over total expenditure. The Ministry of Foreign Affairs current and capital expenditures as a share of total expenditure in 2002 remained at 2.3 per cent and 0.6 per cent respectively. The external financial obligation in terms of current expenditure was x3,100.0 million in 2002 representing 0.5 per cent of total expenditure. Table 6 reveals that, except for defense, government expenditure on international cooperation is marginal. The increased defense expenditure is partly due to peace-keeping operations in Liberia and Sierra-Leone.

Table 6: Nigeria: Estimated Expenditure of Relevant Ministries 2002 (xm)

Ministry/Agency	Current Expenditure	% of Total	Capital Expenditure	% Total
National Planning Commission	939.9 (U$7.8)	0.16	1,857.0 (U$15.5m)	0.4
Defence	50408.0 (U$420.1m)	8.1	14,500.00 (U$120.8m)	2.9
Foreign Affairs	1,3304.2 (U$110.9m)	2.3	3,049.00 (U$25.5)	0.6
Commerce	1,544.3 (U$12.9m)	0.3	1,500.00 (U$12.5)	0.3
Cooperation and Integration in Africa	328.1 (U$2.7m)	0.1	556.9 (U$4.6m)	0.1
External Financial Obligations	3,100.00 (U$25.8)	0.5	-	-

Source: 2002 Appropriation Bill, National Assembly, Abuja.Figures in brackets are in US$ (m).

3.1 CONTRIBUTIONS BY RELEVANT MINISTRIES

Expenditures on international co-operation by relevant Ministries show that trade matters are located in the Ministry of Co-operation and Integration in Africa, Ministry of Commerce and the National Planning Commission. In 2001 and 2002, x15,000 million was approved for promoting intra-African trade and the boosting of Nigeria's exports.

In the Ministry of Commerce, x10,000.00 million was spent in 2002 on WTO (trade policy matters) while x234,000 million was spent on Nigeria's export processing zones. In the same Ministry x10,000.00 million was budgeted for Africa Growth Opportunity Act (AGOA).

Table 7 (C) indicates expenditures on diplomatic missions abroad. For the year 2002, a total of x3 billion was spent on twenty-one diplomatic missions. These expenditures involved capital development namely purchase of residential quarters, renovations and renovation of embassies abroad.

Table 7: Nigeria: Expenditures on International Co-operation
A.Ministry of Co-operation and Integration in Africa

Project Item	Cost (x Million) 2001	2002
1. In-depth of ECOWAS Trade Liberalization Scheme (TLC)	5,000	5,000
2. External Tariff with the External Tariff of UMOA countries.	5,000	5,000
3. ECOWAS security collaboration programmes	-	7,310
4. OAU's strategy on Regional Cooperation collective Defence security	15,000	5,000
5. Promoting Intra-African Trade and Boosting Nigerian Experts	15,000	10,000
6. Mobilization of Civil society on regional integration and Co-operation in Africa.	5,000	5,000
7. Conflict Prevention & Post conflict Peace building.	25,000	15,000
8. International Negotiation Programme Development and Launching in West Africa, SADC, North Africa, East and Central Africa.	10,000	2,000

B. Ministry of Commerce (x million)

Item	Cost (x million) 2001	2002
1. Enlarged National Focal but on multilateral Trade Matters (WTO).	-	10,000
2. Trade Policy Implementation (WTO)		10,000
3. AGOA 10,000		
4. Inter-Ministerial Process (outside Nigeria)		2,000
5. Kaduna International Trade & Investment		50,000
6. Nigeria Export Processing Zones		234,000

C. Ministry of Foreign Affairs

Foreign Missions

1.	Brussels		15,500.00
2.	Berlin: Construction of Chancery		64,500.00
3.	Brassilia		40,250.00
4.	Guinea Bissau		12,300.00
5.	Nairobi – Kenya		49,500.00
6.	Hungary (Purchase of Chancery)		53,00.00
7.	Iraq (Purchase of Chancery)		100,000.00
8.	Buenos Aires	200,000	112,075
9.	Douala (Cameroon		12,700
10.	Soa Tome		30,055
11.	Libya		14,000
12.	Seoul		69,000
13.	Riyadh (Office Equipment)		23,176
14.	Nouakchott		12300
15.	New York (Construction, Repairs & Renovation)		109,000
16.	Dakar (Renovation & Repairs of Staff Quarters		9300
17.	London – Repairs to Abuja House, Renovation of 10 govt. properties		126,450
18.	New Delhi		65,500
19.	Washington, D.C		100,000
20.	Jakarta		200,000
21.	Dakha (Purchase/Construction of 4 flats, legal documents, Pest & Flood control, Fencing & Drainage of Residency		15,700
22.	Anakara – Purchase of residence/Chancery		69,000
	Total on Foreign Missions	**200,000**	**1,337,957**
	Total	**1,612,909**	**3,049,055**

D. National Planning Commission

1.	Future Trade Relations between Nigeria and the European Union	2,000.00	4,721.00
2.	Cost-sharing for cooperation framework of UNDP	614,907	464,462
3.	Studies, Research and Documentation of UNDP Activities	1,000.00	
4.	National Indicative Plan for European Development Fund	1,000	4,573.00

E. Ministry of Health

1.	HIV/AIDS Prevention/Control Programmes	600,000.00	450,000.00
2.	WHO collaborating Centre	40,000.00	17,000.00
3.	Bamako Initiative Programme	100,000.00	28,800.00

Source: National Assembly, Abuja.

4.0 DEVELOPMENT ASSISTANCE TO NIGERIA

Globalization may impact negatively on developing countries. Phillips (1999, p.12) notes that "countries which benefit most from globalization are those which have met the basic needs of their people and in a sustained manner too". Consequently, Nigeria requires external assistance to enable her to prepare and exploit the benefits of globalization.

External assistance or foreign assistance is sometimes used broadly to connote any form of assistance given to a country to enable it meet the gap in its domestic resources. It, therefore, includes various forms of concessional and non-concessional transfers of resources among countries. For a resource transfer to be considered an aid, it must involve, to some extent, more favourable terms than those available commercially. Aid may take the form of capital transfers or technical assistance/cooperation.

External assistance to Nigeria in the past decade have been affected by several factors such as:

i) a worsening of the macroeconomic environment by political factors;

Table 8: Nigeria: Structure of Technical Assistance by Type of Assistance1991 – 99 (Percentage Distribution)

Type of Assistance	1991	1992	1993	1994	1996	1998	1999
ERA	-	0.2	-	-	-	0.0	0.3
Ford Aid (FA)	-	-	-	-	-	-	-
FTC	34.2	25.2	21.5	23.3	100.0	42.1	40.2
ITC	0	13.6	8.7	23.1	-	0.0	0.6
IPA	5.5	0.9	9.5	0.8	-	-	-
IPT	58.9	52.4	60.0	52.4	-	56.5	58.2
PBB	1.4	7.7	0.3	0.3	-	1.4	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNDP/Planning Commission Report 1998/99.

Notes:

GRA - Emergency and Relief Assistance
FA - Food Aid
FTC - Free-Standing Technical Cooperation (TC)
ITC- Investment Project TC
IPA- Investment Project Assistance
IPT- Investment Project Assistance (including a TC component)
PBB - Programme Budget Aid or Balance of Payment Support.

4.2 Sources of Technical Cooperation

Tables 9 and 10 show the distribution of external assistance by sources from 1991 to 1999. In the early 1990s, the World Bank group was the dominant external assistance agency in Nigeria, accounting for 58.7 per cent in 1991. The United Nations systems accounted for 20.8 per cent in 1991; its assistance jumped to 77.5 per cent in 1996 and declined sharply by 31.3 per cent and 12.9 per cent in 1998 and 1999 respectively. The decrease was due to declining funding of United Nations by member countries and the fact that the United Nation Agencies were the major sources of development assistance to Nigeria during the period of sanctions. Therefore, as more donors became active in Nigeria, the proportionate contributions of those who remained while the sanctions lasted declined.

Table 9: External Assistance by Donor, 1991-99 (%)

Sector/Sub sector	1991	1996	1997	1998	
1999					
1. Multilateral	74.0	77.5	74.4	92.6	81.3
1.1 United Nations					
System	20.8	77.5	74.4	31.3	12.9
FAO	-	0.5	0.8	0.6	0.3
IAEA	-	-	-	-	-
UNDCP	-	0.4	0.2	-	-
UNDP	-	49 6	51.5	16.0	2.5
UNFPA	-	-	-	-	-
ILO	-	-	-	-	-
UNESCO	-	-	-	0.1	0.2
UNHCR	-	-	-	0.7	0.2
UNICEF	-	23.7	18.7	13.9	5.6
WHO	-	3.3	3.2	0.0	4.1
1.2 Non-UNDS	79.2	-	-	61.4	68.4
European Union (EU)	-	-	-	4.9	10.3
World Bank Group (IBRD)	58.7	-	-	56.5	58.1
2. Bilateral	26.0	22.6	25.6	7.4	18.7
Australia	2.4	-	-	-	-
Canada	0.7	-	-	0.6	0.6
Denmark	0.2	-	-	0.6	0.2
France	-	3.4	1.6	0.4	0.2
Ireland	-	4.6	3.2	-	-
Italy	-	-	-	0.2	0.1
Japan	16.6	12.2	16.2	5.6	3.3
Netherlands	1.4	2.4	3.4	0.2	-
Spain	-	-	1.2	-	-
United Kingdom	3.0	-	-	-	-
USA	1.7	-	-	-	14.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Nigeria, NPC/UNDP Development Cooperation, 1998/99 Report.

Table 10: Nigeria: Contributions by Donor, 1970-97 (Percentage of disbursements by all creditors)

Donor	Nigeria	Nine Other Countries
African Dev. Bank	18.8	14.3
Canada	0.6	1.7
European Unio	0	0.4
Denmark	0	0.8
Finland	0	0.3
France	0	8.0
Germany	3.3	4.5
Italy	0	3.8
Japan	5.0	6.0
Netherlands	0.2	0.7
Norway	0.4	0.3
Sweden	0	0.7
Switzerland	0	0.1
United Kingdom	0.8	2.3
United States	6.1	5.5
World Bank	63.6	52.3

Notes

[a]The average for the nine other countries in the Aid and Reform in African Study: Cote d'Ivoire, democratic Republic of Congo, Ethiopia, Ghana, Kenya, Mali, Tanzania, Uganda, and Zambia.

Source: Devarajan, Shanta, Dollar, R. and Torgny Holmgren, Aid & Reform in Africa. World Bank, p. 655.

5.0 POLITICAL ECONOMY ASPECTS OF THE BUDGETARY PROCESS

Nigeria operates a federal structure hence budgets are prepared at the three tiers of government. Though our concern here is the federal budget, it is important to state that there is no proper co-ordination between the federal, state and local governments regarding budget preparation and implementation. The Nigerian government is required by law to submit to parliament the budget for approval.The budgetary process has undergone several changes over time. Ministries and agencies often respond to the call circular by the Ministry of Finance.

The delay is often between the President and Parliament. The budget is often prepared based on anticipated oil oil revenue. The government concluded the Poverty Reduction strategy Paper (PRSP) in 2002 under the leadership of the Economic Policy Coordinating Committee of the Vice President's Office.

One of the millennium development Goals is poverty reduction. Consequently, government seems committed to spending more on education, health and nutrition and water supply. "Budget 2004 .... is about people. It puts the priorities of the average Nigerian at the centre by focusing on job creation and employment generation" (Federal Ministry of Finance, 2004).

Table 11 below indicates budgetary allocation to selected priority areas for the period 1993 to 2004. Allocation to Health and nutrition showed a steady increase during the period. For education, allocation increased from 7.0 per cent in 2001 to 10.5 per cent in 2004. Education at all levels is a top budgetary priority.

Allocation to tertiary educational institutions – universities, polytechnics and colleges of education, - grew from x48.2 billion in 2003 to 55.4 billion in 2004 representing about 15 per cent growth in allocation for both recurrent and capital. The 2004 budget on education focuses on quality improvement, upgrading of facilities and completion of uncompleted projects (Federal Ministry of Finance, 2004).

The allocation to the health sector in 2004 budget also grew compared to allocations in previous years. Capital budget for health as a percentage of total national capital budget increased by 70 per cent from 4.35 per cent in 2002 to 7.6 per cent in 2004. Total allocation to health grew from 52 billion in 2003 to x60 billion in 2004 (Federal Ministry of Finance, 2004). The emphasis for 2004 will be on upgrading the health care delivery system focusing on control of HIV/ AIDS as well as malaria and other communicable diseases. Special attention is also given to national immunization campaign.

The 2004 budget recognizes that Nigerians need better access to clean drinking water as well as water for agricultural purposes as part of enhancing the standard of living of the people. A total of x37.5 billion is allocated to finance water supply projects across the country.

Agriculture remains the main occupation of the rural community. Poverty reduction must of necessity focus on revitalizing agriculture. For the 2004 budget, for example, agriculture is to grow by at least 7 per cent as in previous years. The programmes critical to sustainable food security will be implemented during the 2004 budget year. These include: (i) greater support for research and extension services; (ii) vigorous implementation of the presidential initiatives on rice, cassava, livestock, etc.; and (iii) enhanced drive to get fertilizer to farmers at reasonable price and on time.

Table 11: Nigeria: Government Budgetary Allocation Re:Poverty Reduction, 1993 – 2004 (% of Overall Budget)

Year	Education	Health & Nutrition	Water Supply
1993	7.3	1.5	0.12
1994	14.9	4.4	0.6
1995	13.0	5.2	0.0
1996	10.8	3.4	14.9
1997	11.5	5.0	-
1998	9.6	4.6	1.5
1999	11.1	4.6	-
2000	8.7	2.7	2.2
2001	7.0	3.9	7.2
2002	7.9	4.7	4.8
2003	-	-	-
2004	10.5	6.7	0.8

Source: Federal Ministry of Finance, Abuja.

The political economy of the budgetary process in Nigeria is driven by several factors.

i) The budget depends heavily on oil revenue; therefore, expenditures on international cooperation are constrained by overall budget constraints. It is in recent times (2004) that the budget call circular clearly provides for information on expenditures on international cooperation.

ii) Past budgets did not prioritize projects; there was no cost-benefit analysis. The process is now different. The 2004 budget is based on a set of fundamental reforms such as fighting corruption, improving transparency and accountability; public sector reforms particularly public expenditure and public revenue reforms; accelerated privatization and liberalization; governance and institutional reforms.

iii) The annual budget particularly its capital component is now part of the National Economic Empowerment and Development Strategy (NEEDS) especially in its implementation. The NEEDS programme is a type of medium term (2004-7) development plan for the country hence government has stated that the capital component of the annual budget must be derived from the NEEDS strategy. In other words, NEEDS is a kind of a 'rolling' plan ; projects outside of NEEDS will not be provided for in annual budget during the 2004-7 plan period.

iv) Many Nigerians are not part of the budgetary process; for example, the PRSP was completed without inputs from the wider society yet it is supposed to be a budget tackling poverty reduction.

6.0 CONCLUSION

We have examined financing international cooperation based on the Nigerian experience. Government depends heavily on oil in order to finance international cooperation. External assistance to Nigeria is marginal. The data on expenditures on international cooperation are not clearly obtained from official government documents. For example, it is difficult to ascertain governments expenditure on peace-keeping and intelligence. Expenditure data (functionally) on foreign affairs and international cooperation are not provided for and where data is available such is not disaggregated.

We showed that the financing of international cooperation/agreements is located in certain ministries namely National Planning Commission, Ministry of Commerce, Ministry of Cooperation and Integration in Africa, Ministry of Health and the Ministry of Foreign Affairs.

We noted that government financing of international cooperation is constrained by the availability of external reserves and how best it can manage its external debt. While available external reserves seem to accommodate an acceptable import equivalent – this seems to be overwhelming when the debt over hang is considered.

It is clear that though in theory Nigeria embraces trade liberalization particularly as part of its economic reform programme but in practice import restrictions do exist. Trade liberalization has not impacted positively on tariff revenues partly because the economy relies heavily on revenue from oil.

Government seems determined to combat HIV/AIDS and TB as shown by increased allocation to the health sector as well as a credit of US $90.3 million from the World Bank. There is also a programme on polio eradication which is part of the national programme on immunization.

There are efforts at combating international terrorism and money laundering; airport security has been tightened and the drug enforcement agency is prosecuting those connected with money laundering.

The budgetary process particularly as regards poverty reduction has not involved broad participation by the wider society. The 2004 budget has stressed poverty reduction as reflected in increased allocations to education, health and nutrition, water supply and agriculture. This suggests that government is responding to the Millennium Development Goals.

The policy options for the future should focus on:

a. optimum level of public expenditure; this will assist macroeconomic stability by reducing the deficit/GDP ratio
b. the oil revenue should be properly managed.
c. the budgetary processes of the lower levels of government need monitoring; excessive expenditure at the lower level could affect macroeconomic stability.
d. accountability, transparency and comprehensiveness in the conduct of government business.
e. diversifying the economy in order to reduce dependence on oil.
f. Financing of international cooperation and agreements should be located. and monitored from the Ministry of Cooperation and Integration in Africa.
g. Exploiting the benefits of AGOA, WTO and NEPAD.

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INDEXES