IMPACT OF IMF LOANS ON THE ECONOMIC DEVELOPMENT OF NIGERIA

BY

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Being a research project submitted to the Department of Business Administration, Faculty of Administration, Ahmadu Bello University, Zaria in partial fulfillment of the requirements for the award of Master of Business Administration (MBA) Degree

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CERTIFICATION

This project titled "*Impact of IMF Loans on the Economic Development of Nigeria*" by BELLO, Iliyasu Abdulrauf, meets the regulations governing the award of Master of Business Administration of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

This project is the result of series of my investigations into the impact of IMF loans on economic development of Nigeria.

To the best of my knowledge, it has not been submitted elsewhere for the award of any degree or certificate. Materials used have been properly acknowledged in the bibliography.

BELLO, Iliyasu Abdulrauf

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Signature & Date 28/10/2020

DEDICATION

This noble work is dedicated to my father, Mallam Abdulrauf Bello Babamba, a humble, upright, and diligent man with integrated personality.

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Work of this nature is always the product of many hands. Thus, I would like to use this opportunity to recognize the effort made by individuals toward making this work a huge success.

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ABSTRACT

This project is an appraisal of the Impact of International Monetary Fund Loans on the Economic Development of Nigeria. Many collapsed economies especially of the developing countries usually run to IMF for revival. The result of this study has shown that countries that do turn to IMF for revival are simply committing economic suicide, as it is evident that they are worse off after the implementation of IMF prescribed panacea.

The stringent conditionalities attached to IMF loans have left the country in economic distress as the finding has shown that Nigeria economy was better than what it was before 1986 when IMF loans were obtained to finance the Structural Adjustment Programme. The key sectors of the economy such as education, industry, agriculture and health have suffered serious set back during and after the implementation of IMF financed Structural Adjustment Programme. Evident has shown that the structure of the Nigerian economy needs no adjustment, which is why the adjustment programme brought no improvement to the economy.

The interest and exchange rates have not been stable since the introduction of IMF sponsored SAP. This has led to persistent increase in the cost of living as a result of inflation, unemployment, capacity

under utilization, etc. The fund's areas of inadequacy were extensively discussed. The fund's organization, policies and procedures have revealed shortcomings in relation to the needs of the world economy and the specific concerns of the developing countries. Such areas of inadequacies include; lack of medium-term facility, the size of the fund-quotes, the recent handling of conditionality, exchange rate volatility, etc. Suggestion has been offered to overcome these inadequacies.

The Nigerian debt crisis is one of the legacies of IMF loans. Ways out of this crisis have been suggested. These include Nigeria making effort to authenticate its external debt so as to avoid being swindled by international financiers, putting in place a comprehensive debt policy to provide the necessary framework for the country debt management strategy. Debts whose sources and usage are questionable should be ignored through concerted effort with other third world countries and finally government should avoid raising loans from the international Capital Market and other creditors such as IMF which charge high interest rates with stringent conditionalities and whose money carry short maturity.

TABLE OF CONTENTS

		PAGE
TITLE PAGE		i
CERTIFICATION		ii
DECLARATION		iii
DEDICATION		iv
ACKNOWLEDGMENT		v
ABSTRACT		vii
TABLE OF CONTENTS		ix
LIST OF TABLES		xiv
LIST OF APPENDICES		xv
CHAPTER ONE:	INTRODUCTION	
1.1	General Overview	1
1.2	Statement of the Problem	3
1.3	Objectives of the Study	4
1.4	Significance of the Study	4
1.5	Scope of the Study	5
1.6	Delimitation and Limitations of the Study	6
1.7	Definition and Explanation of Key Terms	7
1.8	Summary of Chapter One	11
1.9	Preview of Other Chapters	12

CHAPTER TWO: REVIEW OF RELATED LITERATURE AND CONCEPTUAL FRAMEWORK

2.1 Overview of Chapter Two 14

2.2 Literature Review 15

2.2.1 IMF Structural Adjustment Package 15

2.2.2 Devaluation 16

2.2.3 Deregulation of Petroleum Industries and Elimination of Subsidies 19

2.2.4 Trade Liberalization 21

2.2.5 Privatization 22

2.2.6 IMF Areas of Inadequacy 27

2.3 Conceptual Framework 33

2.3.1 Meaning of Loans 33

2.3.2 Types of Loans 34

2.3.3 Requirements for Economic Development 37

2.4 Summary of Chapter Two 40

Selected References to Chapter Two 42

CHAPTER THREE: HISTORY AND ORGANIZATION OF IMF

3.1 Introduction 43

3.2 Formation of IMF 44

3.3 Objectives of IMF 46

3.3.1 First Amendment to Articles of Agreement 48

3.3.2 Second Amendment to Articles of Agreement 50

3.4 Organizational Structure and Operational Guidelines of IMF 51

3.4.1 Quota of Members 53

3.4.2 Operational Guidelines 54

3.4.3 How Countries Use IMF Resources 55

3.5 IMF and the Developing Nations 63

3.6 Recent Developments in IMF 66

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction 68

4.2 General Research Methods 68

4.2.1 Comparative Research 69

4.2.2 Survey Research Method 69

4.2.3 Experimental Research Method 70

4.2.4 Historical Research Method 70

4.2.5 Ex Post Facto Research Method 71

4.2.6 Case Study Method 72

4.2.7 Participant Observation 73

4.2.8 Content Analysis 73

4.2.9 Documentary Research Method 74

4.3 Instrument and Procedure for Data Collection 74

4.3.1 Questionnaire 75

4.3.2 Personal Interview 76

4.3.3 Observation 77

4.3.4 Panel Technique 78

4.4 Research Methods Selected for the Study 78

4.4.1 Descriptive Research Method 79

4.5 Method of Data Collection 80

4.5.1 Population 82

4.5.2 Sample 83

4.6 Validity and Weakness of the Method Used 83

CHAPTER FIVE: DATA PRESENTATION AND ANALYSIS

5.1 Introduction 85

5.2 Analysis and Interpretation of IMF Structural Adjustment Policies in Nigeria 86

5.3 IMF Loans and their Impacts on Nigeria Economic Development 91

5.4 The Incidence of Exchange and Interest Rates 99

5.5 Problems Encountered by Nigerians from Receiving/Rejecting IMF Loans 105

5.6 Nigerian Debts and Development 110

5.7 Initiatives for Solving the Debt Crisis 115

5.8 Summary of Chapter Five 119

CHAPTER SIX: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

6.1 Summary 121

6.2 Conclusions 122

6.3 Recommendations 125

Bibliography 128

Appendices 130

LIST OF TABLES

PAGE

1. Table 1 IMF/World Bank Loans to the social sector in Nigeria (1965 – 1993) in $ million 94
2. Table 2 Nigeria – change in the financial system 96
3. Table 3 Nigeria exchange rate and total outstanding external debt 1970 – 1989 100
4. Table 4 Balance of payment 1979 – 1989 (₦ m) 101
5. Table 5 Nigeria exchange rate (N/US $)-1993 103
6. Table 6 Average interest rate in 1993 104
7. Table 7 Economic performance from MAN 107
8. Table 8 Survey of Increasing Wave of Crimes & Social Vices 108
9. Table 9 Real per capita consumption 109
10. Table 10 Comparative figures of Nigeria's Indebtedness between the IMF/World Bank and the CBN as at 1995 111
11. Table 11 Nigeria's external debt service payment by the creditor ($ m) 112
12. Table 12 Nigeria selected external debt ratio (1990 – 1994) 114

LIST OF APPENDICES

		PAGE
1.	Appendix I: Nigeria Total External Debt Service Payment on long-term loans and IMF credits and net transfers on long-term loans 1984-1994 ($ million)	130
2.	Appendix II: Micro-economic indicators of the social sector in Nigeria and South Africa as at 1994	131
3.	Appendix III: Nigeria's oil production 1978-1988 (million barrels per day)	132
4.	Appendix IV: Average price/barrel of Brent oil 1980-1988 (US $)	133
5.	Appendix V: Nigeria's oil export earnings 1975-1988 (US $billion)	134

CHAPTER ONE

INTRODUCTION

1.1 GENERAL OVERVIEW

The international Monetary Fund (IMF) was conceived and nurtured at Bretton Woods Conference (USA) in 1944 by representatives of forty-four (44) countries. These countries include among others, United States of America, Japan, Canada, Britain and few Latin American countries. The conference was called to discuss the international trade and payment problems that were causing monetary upheaval and inducing many countries to adopt protective and restrictive trade practices. The conference was also called to reconstruct and restructure many European economies, which have been ravaged by the Second World War.

Reconstruction and restructuring a war-ravaged economy is extremely an expensive task. The countries involved obviously could not foot the bill of such huge expenditure without foreign assistance. The united states of America was ready to protect these European economies from communist temptation thus, quickly devised what came to be known as the Marshal plan, which essentially brought in resources to finance the reconstruction and restructuring programmes of

the war ravaged Western European countries. The United States of America also considered it necessary to establish a strong and lasting trading relationship and to strengthen the relation and interest of all the Western European countries.

Therefore, to facilitate and promote such international trade, it was considered very important to set up an international organization with adequate resources and control to facilitate the payment and provide short-term balance of payment facilities for countries suffering from balance of payment deficit caused by temporary and non-structural economic dislocations. This conception gave birth to international monetary fund as an institution suitable for this purpose.

When the IMF was established in 1944 (World Bank Report 1996), most of the developing countries were under colonial rule and their economies were simply under imperial control with nothing but simple agricultural products and raw materials which were regarded as products of imperial countries. The IMF was therefore essentially set up to address short-term balance of payment deficit of western industrial countries. The articles establishing IMF stipulated that as

developing countries are becoming independence they could join the IMF since they might also experience short-term balance of payment crises for which they could seek and perhaps get assistance.

1.2 STATEMENT OF THE PROBLEM

It is evident from the foregoing introduction that Nigeria as an independent developing country is a member of IMF. Nigeria has contributed to the fund and has also benefited from it. Despite Nigeria's contribution and purported benefits from the fund, one wonders why Nigeria still remains one of the leading poorest countries in the world and the economy; one of the leading crises ridden economy in the world.

It is on the basis of this that it has become necessary to look into the IMF and the impact it has made on the Nigerian economy. Nigerian governments have from time to time been in search of policies and programmes that would take her to the threshold of a viable economy. So many options have been considered, adopted and implemented. Instead of achieving success, the situation has been worsened. The situation has degenerated so much so that every Nigerian is

looking at yesterday as being better than today and even unknown tomorrow.

1.3 OBJECTIVES OF THE STUDY

It is obvious that Nigeria economic problems have consistently defied solutions. This research work will focus attention on the IMF with particular reference to its impact on the Nigerian economy. This study is conducted with the aim of ascertaining the effectiveness of various financial policies of IMF in assisting developing countries especially Nigeria to revamp her ailing economy. The research is essentially undertaken to cross-examine the impact IMF loans have made on the economy of Nigeria. Such impacts would be highlighted be it positive or negative. It is also hoped that by the end of this study, the result will be of immense benefit to the developing economies and the world at large.

1.4 SIGNIFICANCE OF THE STUDY

There is no better time to examine the impact of IMF loans on Nigerian economy than now. This is because, today a good many Nigerians are prepared to go to the street to demonstrate against any move by the federal government to

obtain another IMF loan as step towards revamping the country's ailing economy.

The study will make an appraisal of the international monetary fund on the Nigerian economy. Thus, it is hoped that this work will be of immense benefit in revamping the ailing economy of Nigeria. The study will also be of use to those other countries wanting to borrow from the fund or seeking other economic measures to revive their ailing economies.

1.5 SCOPE OF THE STUDY

In granting loans to the needy nations, there are many conditions attached to the loans by the creditors. Particular attention would be given to such stringent conditionalities like trade liberalization, currency devaluation, privatization of publicly owned enterprises, deregulation of the exchange rate, removal of petroleum subsidy, etc.

This study will be limited to how these economic parameters affect some important key sectors of the economy such as agriculture, banking, production, petroleum industry, education and other social and economic activities.

1.6 DELIMITATION AND LIMITATIONS OF THE STUDY

In carrying out work of this nature, it is not uncommon to encounter some problems. Apparently, researches carried out in developing countries like Nigeria are usually inhibited by inadequate data. Apparently, one of the limiting factors that are central to this work is inadequate current data.

It is important to mention that in several occasions the researcher called on IMF and World Bank officials in Abuja for data collection. It is sad to note that officers of these institutions were always indifferent and indisposed to cooperate. This there unfriendly posture has in no small measure jeopardized the research work.

Lack of sufficient funds and excessive official responsibilities, which leave very little time for the researcher to attend to this work, are some of the other limiting factors. However it is important to mention that despite all the constraints mentioned in the foregoing paragraphs, justice has been done to this work which makes it a useful tool in the resuscitation of the Nigerian economy and a good product of reference to other researchers.

1.7 DEFINITION AND EXPLANATION OF KEY TERMS

The following terms are frequently used in this work. It is therefore necessary to offer definition for them with short explanation.

Balance of payment - it is defined as the statistical record of all economic transactions that take place during a specific period of time between the country resident and the rest of the world.

Bretton Woods Agreement of 1944 - articles of agreement adopted by the international monetary conference of 44 nations which met at Bretton Woods, New Hampshire, USA. The international monetary fund and the international bank for reconstruction and development were created. The fund's major responsibility is to maintain orderly currency practices in international trade, while the bank's function is to facilitate extension of long-term investment for productivity purposes.

Capital flight - illegal transfer of a country's foreign exchange earnings into foreign personal account.

Debt service ratio - ratio of debt to export of goods and services used to assess the ability to use export to service external debt.

Development - this is a multifaceted concept. It measures changes in the standard of living of people over time.

Economic development - this is one aspect of development. It provides answers to such questions as: What has happen to poverty? What has happen to unemployment? And what has happen to the gap between the have and the have not.

Extended fund facility - this is a fund that supports medium term programmes through extended arrangement that generally run for three years (or four years in exceptional cases) and are aimed at overcoming balance of payment difficulties stemming

from macro-economic and structural problems.

General agreement to borrow - this was designed to enable the participants to strengthened the fund by lending to its and specified amount of their currencies.

Gross domestic product (GDP) - a measure of the total flow of goods and services produced by the economy over a particular time period, usually one-year.

Growth - is a rapid and sustained rise in real output per head and attendant shifts in the technological, economic and demographic characteristic of a society.

International Monetary Fund (IMF) - established to restore orderliness in the exchange practices following World War II. It was formed and became operational on 1st march 1947. Member nations can borrow foreign currencies from the fund under specified conditions. Membership of the fund is a prerequisite for

membership of the international bank for reconstruction and development.

Loan - a business transaction between two legal entities whereby one party (the lender) agrees to rent fund to the second party (the borrower). The fund may be rented with or without a fee. This fee is called interest or discount.

Long-term debts - are liabilities that become due, more than one year after the signing of the agreement? Usually these are formal legal agreements demanding periodic payments of interest until the maturity date at which the principal amount is repaid.

Monetary policy - that part of economic policy which regulates the level of money or liquidity in order to achieve some desired policy objective such as control of inflation, an improvement in the balance of payment position, high level of employment and growth in the economy.

Monetary reserve - a member's monetary reserves are its net official holding of gold of convertible

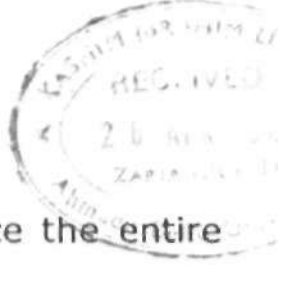
currencies of other members and the currencies of such non-member as the fund may specified.

Structural adjustment facility (SAF) - facility established by IMF to provide financial assistance on concessional terms to low income earning countries with balance of payments problems.

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Structural adjustment programme (SAP) - an economic measure aimed at revamping the economy. It is based on a policy of privatization and commercialization of public utilities, removal of subsidies, liberalization and self-reliance.

Special drawing rights (SDR) - this is an international reserve asset which is the official unit of account of the IMF which has also increasingly served as a substitute for gold in international payments. The special drawing account was set up in 1969.



1.8 SUMMARY OF CHAPTER ONE

The purpose of this chapter has been to introduce the entire research work. The chapter indicated that as a result of the various operations of the international monetary fund towards addressing the economic problems of member nations, there

exist some economic problems that have defied IMF solutions. This gave rise to the objective of the study.

The significance and scope of the study were also highlighted. The key factors limiting the success of the study were equally discussed. Similarly, some key terms such as development, economic development, balance of payments, long-tern loans, monetary policy gross domestic products structural adjustment programme were identified and defined as they have been used in the project.

1.9 PREVIEW OF OTHER CHAPTERS

This project is made up of six- (6) chapters altogether. As we have seen chapter one, titled, "introduction," identifies the research problem and drew up the scope and limitations of the project. Chapter two, titled, "review of related literature and conceptual framework," is designed to present highlights of the conceptual framework within which the study of the role of international monetary fund in developing economy is useful.

Similarly, the chapter three, titled, "History and operations of IMF," traces the history and operational functions of the international monetary fund. Chapter four, titled,

"Research methodology," examines the method of research used and the techniques for data presentation and analysis.

Chapter five, titled, "data presentation and analysis," focuses on the presentation and analysis of data obtained from documents and field interviews. In this chapter, the impacts of IMF loans on Nigeria economic developmental criteria are examined and analyzed. Similarly, the issue of Nigeria's external debt burden is also discussed.

Chapter six, titled, "summary, conclusions and recommendations," lists out summary observations and drew up conclusions. In addition, some useful suggestions are made.

CHAPTER TWO

REVIEW OF RELATED LITERATURE AND CONCEPTUAL FRAMEWORK

2.1 OVERVIEW OF CHAPTER TWO

The essence of this chapter is to enable the researcher to assume the states of a specialist by way of reviewing all essential related literature on the subject matter. The IMF conditionality is central to this review effort. To what extent have these conditionalities affected the Nigerian economy and the areas of inadequacy of the fund would be looked at.

Recent developments in the international monetary system have provided evidence that the present international monetary arrangements are grossly inadequate to meet the problems of developing countries such as Nigeria and indeed to meet the objective of international monetary stability for which these arrangements were first put in place. Major changes have taken place in terms of the size and structure of the world economy and at a pace, which has outstripped the ability of the international monetary institutions to cope with the emerging needs of the international economy.

2.2 LITERATURE REVIEW

2.2.1 IMF STRUCTURAL ADJUSTMENT PACKAGE

A structural adjustment programme refers to a number of conditionalities imposed by the IMF on debtor countries for the salvation of their troubled economies. These conditionalities essentially emphasize on certain key aggregate economic variables, including domestic credit, the public sector deficits, international reserves and external debts. They also emphasize on crucial elements of the pricing system including the exchange rate, interest rate as well as the supply response of the economy, more specifically, international monetary fund structural adjustment package include:

(a) Devaluation of the exchange rate;

(b) Deregulation of petroleum product prices and the elimination of subsidies;

(c) Trade liberalization, that is, promotion of free international trade through the elimination of import licensing, export licensing and foreign exchange controls;

(d) Privatization of government owned parastatals and publicly owned enterprises;

(e) Strict external debt control and management; and

(f) Reduction in the aggregate public expenditure particularly, the size of the budget deficit and the introduction of greater budgetary discipline.

Scholars and policy makers in developing and even developed countries have criticized the IMF structural adjustment approach. Some of these critiques would be discussed as they question the very basis on which the fund rests its structural adjustment recommendations. This would be considered with due regards to the Nigerian economy.

2.2.2 DEVALUATION

At the heart of the IMF/World bank strategy of structural adjustment in every crisis-ridden developing country is currency devaluation. The fund and the bank dominate the world economy since they are the leading western countries accord priority to the protection of their interests, which in contemporary times are partly defined in terms of the maintenance of stability in the international economic system. This goes some way towards explaining the almost automatic resort to devaluation in IMF/World bank sponsored policies. But there is always arbitrariness to it because neither theory nor practice has been able to provide a useful guide to the

amount of devaluation, which will return any given economy to the path of equilibrium. Little wonder then that there is always a divergence of views between the fund and African governments as to the appropriate exchange rates and levels, how to reach them and their likely effects (Nyirabu, 1986).

The Nigerian State has been trying to cope with the implications of the drastic devaluation of the national currency – the naira since 1986. It is unbelievable when one is told that 70 kobo was once exchanged for one US dollar. One wonders therefore, the interest government intends to protect by accepting devaluation of the national currency. Abdullahi (1987) was broadly correct when he argues that the devaluation was substantially associated with a desire by the government to be seen to be adequately accommodating the interests of the country's creditors.

Abdullahi (1987) further asserts that:

> *The creditor banks and multilateral financial institutions claim that a devaluation of the naira is the signal to them that the country was willing and able to carry out appropriate economic reforms at home, this is no more than a subterfuge. The true position seems to be that only devaluation in their calculation can guarantee balance of payments surpluses with which to service existing debts. Though, it is not officially admitted it can be said with some justification that the government has evolved the new exchange rate policy largely in order to appease its external creditors.*

Obviously, the incessant devaluation of the naira since 1986 is not done in the interest of the Nigerian people. In the first instance, devaluation is only desirable if it will stimulate domestic production by making imports prohibitive. This hardly happen in developing countries where industrial sector is largely import-oriented. Import bills increased by the level of devaluation thereby worsening the position of the manufacturing industries, which are largely dependent on imported machinery, spare parts and raw materials. In addition, domestic price level will rise with the rate of devaluation, thus accelerating the current inflationary situation in the country. The huge Nigerian external debts are not unconnected with the devaluation of the naira.

It is important to highlight the benefits, which its most ardent proponents in Nigerian government circle and within the IMF and the World Bank claim it would bring to the economy. According to Victor Odozie (1986), these benefits include:

(a) The achievement of a realistic rate of exchange for the naira through the forces of supply and demand;

(b) Greater utilization of industrial capacity and the expansion of domestic productions and consequently a reduction in the level of unemployment;

(c) An increase in non-oil exports;

(d) Inflow of capital and foreign investment;

(e) The minimization if not total elimination of smuggling of currency and goods; and

(f) The generation of a considerable amount of naira revenues as well as the turning of the terms of trade in favour of agriculture and exports.

The question is has the domestic devaluation of the naira in the period since 1986 brought about any of these benefits? The evidence does not seem to suggest so.

2.2.3 DEREGULATION OF PETROLEUM INDUSTRY AND ELIMINATION OF SUBSIDIES

In Nigeria in April 1988, an increase in the price of petrol precipitated a month of protests. What began as a peaceful students demonstration in the city of Jos escalated into riots/unrest and a nationwide strike by the workers (Analyst 3:1, Newswatch May 2 1988, West Africa 25 April and 2 May 1988). Why did a minor price increase cause such uproar and

conflagration? According to a spokesman for General Babangida, the urban elite caused the disturbances not the peaceful rural majority (West Africa, 2 May 1988).

Although, the April 1988 price increase was marginal, it was believed to be the first step in a gradual removal of the oil subsidy. Apparently, this removal of subsidy on petrol has been a continuous process. In 1999, the government of General Abdulsalami increased the petrol-pump price from ₦11 per litre to ₦20. Aluko (1999) in trying to justify the increase said that:

> *By appropriating pricing the advocates want the government to hands off having anything to do with the determination of the prices of petroleum products, But rather than leave such determination to market forces like the importers, the NNPC and the private and external businessmen.*

It is evident that the people of Nigeria are ever ready to take to the street in protest against any further removal of subsidy on petroleum products. This is manifested in the nationwide condemnation received by the present regime when it made it known to the people of Nigeria last November (1999) of its desire to further remove subsidy on petroleum products.

KASHIM IBRAHIM

The position taken by Nigerians was necessitated by the untold hardship the previous removal has brought to them. Government should be made to realize that any sudden price hike on petroleum products, dislocate production costs in other sectors of the economy thereby causing unnecessary labor unrest, wage demand and societal disharmony. Aluko further suggested that petroleum price should be increased periodically at the rate that will minimally noticeable by the consumers. In which case, if the target price is ₦20 or ₦25 per litre for PMS, the target should be attained within 4 – 5 years, instead of by a sudden jump from ₦3.5 to ₦11 and from ₦11 to ₦20 in 1994 and 1999 respectively.

2.2.4 TRADE LIBERALIZATION

The concept of trade liberalization has to do with the promotion of free international trade through the elimination of import licensing, export licensing and foreign exchange controls. The fund imposes this condition on its customers on the basis that free trade will facilitate free flow of goods and capital across national boundaries and enhance foreign investment. It is further assumed that the free trade will encourage the transfer of technology, raise productivity and

above all enhance domestic competition and thus eliminate redundancy and inefficient allocation of resources.

Trade liberalization has its own implications on the economy. Babatunde (1999) was of the opinion that with free trade in place the competitiveness of the local industries will be impaired both in the domestic scene and at the export markets, with severe consequences for capacity utilization. Kwanashie (1985) argued that trade liberalization will have the effect of entrenching foreign multinational firms in our country with the global capitalist system for more systematic exploitation.

Trade liberalization enhances the export of some product especially agricultural products. It is also bound to destroy some domestic industries. For instance, Nigeria heavily relied on manufactured and semi-manufactured products, which will be susceptible to foreign invasion, if complete free trade policy is put in place.

2.2.5 PRIVATIZATION

In arguing for privatization, the supporters of the programme in Nigeria have sought either to question the initial wisdom of

the state intervention or to argue that regardless of the initial motives for intervention a review of state owned enterprises has been necessitated by their unacceptable poor level of performance.

It has similarly been argued that private enterprises are inherently more efficient. Hence, even if state owned enterprises were made to improve it would still pay greater dividends if they were privatized. In fact, in many cases, State investment was really due to the weaknesses of the private capital and that since the private sector is now much stronger; obstacles to further progress in its path should be lifted. Similarly, many areas reserved exclusively for the state as strategic or commanding are no longer so and should therefore be opened to the private sector; enterprises established to make contributions to federation account, but which suffered perennial losses have lost the right to remain in government hands.

As far as privatization is concerned, the fund always insists that state owned enterprises even if they were established to fulfill social functions should at worst cover their costs. Ebitu Ukiwe (Chief of General Staff) in the General

Babangida administration argued that privatization has been made necessary by the abysmally low return on physical capital invested on parastatals.

The managing director of the Nigerian industrial and development bank (NIDB) also argued that operationally most of the public enterprises in Nigeria are grossly inefficient and are much behind in meeting the purpose for which they were established. Financially, they are most unprofitable. They have maintained a consistently record of increasing losses, year after year and have depended on government subsidy for survival. Why is NEPA not in a position to meet cost, whereas its counter parts in Britain (the British electricity generating board) and some third world countries, which are equally public enterprises have been very profitable? (Abdulkadir, 1987). Another argument also accepts the inherent superiority of the market mechanism and perceives state intervention as simply one of the ground breaking and pioneering. Once this is done, the private sector should be allowed should be allowed to take over and operate these areas more productively and more efficiently, while the state moves into other new frontiers (Falae, 1988).

Most of the arguments that have been advanced to support privatization tend to focus on the financial losses of state-owned enterprises and the basic ideological contention that production of goods and services is mainly the proper province of the private sector, which is inherently more able to operate it effectively. But these arguments, be it as it may provide a very feeble justification for privatization. More generally, based on the argument presented earlier, the incidence of financial losses cannot by itself provide a wholesale justification for privatization. Moreover, from the list of firms being privatized, it can be seen that many of them are not the archetype loss-making public enterprises, but have actually been making profits and contributing, by way of trades and dividends to government funds.

Thus, the most significant impetus for privatization was the pressure of international financial institutions and Nigeria's trading partners in the industrialized world on the government, following the on set of the country's economic crisis, to adopt a programme of privatization as part of a structural adjustment package. This context of internal economic crises and external pressure has in turn reinforced the hand of domestic capitalists whose expansion has been facilitated by

the oil boom of the 1970s. The oil boom expanded the scope for private accumulation in manufacturing, commerce and distribution, road haulage and transportation, real estate, construction, speculation and other spheres of business. Already, the people and government of Benue state are at loggerheads with Dangote Group over the decision of Bureau of Public Enterprise to sell the 40% shares of Federal government in Benue Cement Company to Dangote Group of Companies in the ongoing privatization exercise.

In this budget breakdown, Usman (1999) said "government was determined to continue with its privatization efforts in order to make competitive private enterprises, the moving force in the nation's economy and also to rid the public owned enterprises of its inefficiency and ineffectiveness. Under the new dispensation, a strategic partner with the right technical; and financial capabilities would hold up to 40% equity share and manage the enterprise, similarly, government would retain up to 40% equity while the Nigerian investors would acquire up to 20% equity in the enterprise".

The Logical consequence of this is mass retrenchment of workers from the sector. For instance, in Ghana, 50,000

employees were dismissed from the state enterprise in the first year of the stabilization period, i.e. 1966-69 in compliance with IMF demands. The leader of Nigerian Labor Congress, Mr. Adams Oshiomhole, argued that:

> *Unless the government informed the general public of the benefits of the exercise through seminars and workshop, the exercise would end in futility, as only a handful of the rich will hi-jack the enterprises to the detriment of the greater majority.*

2.2.6 IMF AREAS OF INADEQUACY

When the fund was set up, there were outside the Latin American countries, barely half a dozen developing countries amongst its membership. Today, over 120 countries out of the total fund membership of 146 are developing countries and the articles of the fund, which, as mentioned earlier, reflected the concern to avoid inter-war currency experience, have relevance more to the problem of developing countries. It is against this background that I have decided to discuss in this chapter the specific areas where the fund's organization, policies and procedures have revealed shortcomings in relation to the needs of the would economy and the specific concerns of the developing countries e.g. Nigeria.

(a) The size of the fund-quotas

The first and indeed the basic inadequacy relate to the size of the fund. Over the years, there has been a disparate rate of growth in the size of the fund in relation to world trade, which, in a broad fashion, determines the need for international liquidity, short-term balance-of-payments adjustment as distinct from the long-term need for transfer of resources to developing countries. According to Narasimham (1984), "aggregate quotas in the fund represented about 16 per cent of world trade in 1945. By 1960, the ratio had declined to 11.5 per cent. By 1981 it had been further whittled down to under four percent, despite seven reviews of the quota levels over the period".

The story with regard to the enhancement of quotas is an unhappy one. The fund was conceived pre-eminently as an international co-operative agency with quotas representing not only the contribution of members to the institution but also the measure of the extent to which they could draw on its resources up to a point virtually unconditionally (the reserve trance) and beyond that conditionally. Despite the strong and widely accepted case for raising the level of quotas sufficiently high to

reflect the expansion of world trade and payments and the expected use of resources this has not happened. The rhetoric has always been eloquent about the primacy of quotas among the funds resources; the reality has been otherwise.

(b) Conditionality – rationale and content

Conditionality, of course, is the unique distinctive feature of the fund's assistance. This characteristic is justified by the revolving nature of its funding and to the purpose of fund accommodation in providing finance for adjustment. Finance and adjustment obviously have to go hand in hand. Finance without adjustment would be self defeating, even as adjustment without financial underpinning would not be feasible. As a lending institution, it is entirely right that the fund should satisfy itself that its resources are put to effective use.

Obviously, therefore, one cannot argue against the principle of conditionality. But one would like to see the fund applying its own precepts, as laid down in the guidelines for conditionality. This should take into account the social and economic conditions in member countries in formulating the conditionality in respect of its

lending in individual cases, without detriment to the principle of uniform treatment of members. This is all the more so when the factors that have recently brought about the need for developing countries to approach the fund have in an overwhelming number of cases been exogenous to them, reflecting their greater vulnerability to the serious distortions in the international economy.

(c) Need for a medium-term facility

Another aspect of the inadequacies of the lending policies of the fund relates to the virtual absence of a truly medium term facility. The extended fund facility provides for repayment over a medium term but the finance itself is generally available up to a maximum of three years whereas the requirements of the finance for structural adjustment often go beyond three years as we have seen in Nigeria. The fear that such an elongated period of provision of finance would make the fund a development agency has little logical foundation. Apart from the fundability of funds argument, the recognition that the fund has a role to play in structural adjustment with its emphasis on investment and on the supply side is an appropriate response to the realities of the current

situation. There is no reason why growth should be sacrificed at the altar of adjustment.

On the contrary, if structural adjustment is to be successful it must be integrated into a growth-oriented investment programme. There is thus no need to be defensive about the provision of medium term finance, which would help to make the efforts at structural adjustment viable and successful without detriment to the revolving character of fund resources. Revolving is not necessarily, synonymous with short-term. It only emphasizes the requirement on the part of the country to repay in full and on time.

The global recession has aggravate the difficulties and lengthened the process of adjustment. The fund's policies should have shown greater flexibility in recognition of this problem. It is this degree of understanding that the developing countries seek, especially as pushing for a faster adjustment that the 'optimal' rate only forces a deflationary adjustment. A deflationary adjustment can only aggravate the

deleterious impact on them of the global recession. It is bad for them and indeed for the world economy.

(d) Exchange rate volatility

Another major weakness of the present arrangement is the continuing volatility in exchange rates, which understandably has affected the Nigerian economy more. The uncertainty surrounding import payments and export receipts makes the task of economic management more difficult for Nigeria, the link which Naira often have with major currencies leads to exchange rate variations for Nigeria often unrelated to her particular circumstances. Nor is Nigeria able to take adequate offsetting action through operating on forward markets the way developed countries can. A decade's experience with floating rate has shown its inadequacies and that it is not the right solution to the problem.

(e) The inadequacy of special drawing rights (SDR) allocations:

As regard the creation of unconditional liquidity, the record has been dismal. The inadequacy of quota increases has already been referred to. The institution of SDR represented a major victory for those who believed

that creation of international liquidity had to be on the basis of agreed international decisions and should allow for a measure of judgment and discretion. It represented a triumph of reason over circumstance. Yet, despite the rhetoric surrounding the creation of SDR that it should be the principal reserve asset and the centerpiece of the international monetary system the reality is otherwise:

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The share of SDR in non-gold reserves has fallen sharply in the last few years. Though there was a global need for addition to international liquidity through SDR creation, in the second 'basic period'. The abatement of inflation in the major countries, the continuing crises for developing countries like Nigeria and the halting nature of world economic recovery suggest that a large allocation of SDR now is both necessary and desirable.

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2.3 CONCEPTUAL FRAMEWORK

2.3.1 MEANING OF LOANS

It has become imperative to give brief definition of loan and the types of loans available to individual and organizations. This was necessitated by the fact that loan is central to this

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study. It is also important to mention that the types of loans that would be discussed on this subheading, is the general loans normally granted by commercial banks and other financial institutions. The IMF various loan facilities that are available to member countries would form a subject of discussion in the next chapter.

Loan can be defined as a business transaction between two legal entities whereby one party (the lender) agrees to rent fund to the second party (the borrower). The fund may be rented with or without a fee. This fee is called interest or discount. Loans may be demand or time loans, depending on the agreement as to maturity. Loans may also be short-term or long-term.

2.3.2 TYPES OF LOANS

Traditionally, loans are classified on the basis of who does the borrowing and what the borrowers intend to do with the money they obtained. The major classes of loans are short-term, long-term, term loans, mortgage loans, investment or security loans etc.

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(a) Short-term lending

Lending for seasonal or short-term working capital purposes presents few serious policy questions beyond the need for careful credit analysis. The principal emphasis is placed on the borrower's liquidity or excess of current assets over current liabilities. In connection with their short-term lending for business purposes, commercial banks often established lines of credit for customers who borrow frequently and who are faithful in fulfilling the terms of their obligations.

(b) Long-term working capital loans

Many business enterprises have need of working capital over periods longer than a season. Although, the amount of credit needed may fluctuate over seasonal periods, its employment in some amount tends to be prolonged or virtually continuous. Any business, which must carry a relatively large and varied inventory through out the year, or a business, which sells in volume on credit, is likely to be user of long-term working capital loans.

(c) Term Loans

Term loans are usually defined for statistical purposes as loans with an original maturity of more than one year. They are extended by commercial banks to finance the acquisition of capital assets such as machinery and equipment b manufacturers, subsidiary companies or income yielding properties such as oil and gas leases.

(d) Mortgage loans

Mortgage loans are granted to finance acquisition or substantial improvement of real property. Liens on real estate are often pledged to secure obligations incurred for other purposes, but in such cases the real purposes rather than the form of collateral should determine the term of repayment and dictate any other protective features that may be called for.

(e) Investment or security loans

The investment loans granted by commercial banks can be classified into three categories:

(i) Call and time loans to brokers and dealers who operate in the security market.

(ii) Direct loan to individuals who want to buy securities "on margin."

(iii) Loans to investment banking houses for the flotation of new bond and stock issues.

In undertaking to float issues of securities for corporations and government bodies, investment banking houses generally agree to pay the issues for all the securities at a stipulated price immediately expecting to reimburse themselves by selling the investment to the investors.

2.3.3 REQUIREMENTS FOR ECONOMIC DEVELOPMENT

The seven-year period from 1982 to 1989 according to McRae was one of the fastest expansionary phases in the history of the contemporary world economy. This same period was also one of the leanest for Nigeria a period when the country experienced a sharp and unprecedented fall in living standards (McRae, 1989). Nigeria shared the overall Nigerian experience of social and economic decline where the optimistic sentiments expressed by government officials notwithstanding; structural adjustment had led to a steep fall in the standard of living of the majority of the people.

The following Measures are some of the basic requirements that must be put in place if Nigeria is to achieve the desired economic development:

(i) Utilization of industrial capacity and the expansion of domestic production and consequently a reduction in the level of unemployment;

(ii) Inflow of capital and foreign investments;

(iii) Stable rate of exchange for the naira;

(iv) Development and increase in non-oil exports and

(v) Elimination of smuggling of currency, goods and money laundering.

All these are essential requirements for economic development. The prime objective of any worthwhile economic policy package is to achieve an increase in welfare through the maximization of employment possibilities and earn income. The policy of structural adjustment adopted in Nigeria towards the end of the 1980s has however resulted in more employment during the period of its operations. The failure of the IMF backed SAP in Nigeria as in most of the developing countries has been attributed to excessive reliance on monetary policy measures. Whereas what is required is an integrated stabilization and restructuring programme and a

consistent and broad set of criteria which will include monetary targets but shifts the emphasis from a purely monetary conditionality to a developmental conditionality (Killick, et al; 1984).

Stability of exchange rate of the national currency is an important ingredient in achieving economic development. Kwanashie (1984), says that as a basic requirement we accept the view that what is important from an investment and investors perspective is not necessarily the level of exchange rate but its relative stability over a reasonable length of time.

What seems to be currently a regime of floating exchange rates should be replaced with a controlled flexible rate that is a rate which can fluctuate between a bound of 15% of a given rate that will be subject to review on a quarterly basis. According to Hanson (1974):

> *According to IMF terms of agreements, in exchange, any member could make rate of up to 10% change merely by notifying the fund of the fact. If a change in excess of 10% but not greater than 20% is desired an application for permission had to be made to the fund which had to give its decision within seventy-two hours. If it is desired to change the parity of a currency by more than 20% no limit is placed on the time allowed for the IMF to consider the application.*

Nigeria ought to invoke this provision of the IMF agreements in the management of its foreign exchange

market. This is necessary if the developmental objectives of the country in terms of industrialization, agricultural expansion, increased employment levels, etc., are to be attained.

2.4 SUMMARY OF CHAPTER TWO

In this chapter, we have seen that a structural adjustment programme refers to a number of conditionalities imposed by the IMF on debtor countries for the salvation of their troubled economies. These conditionalities essentially emphasize on certain key aggregate economic variables, including domestic credit, the public sector deficits, international reserves and external debts. They also emphasized such elements as the exchange rate, interest rate, supply response of the economy, privatization, liberalization and devaluation of currency.

At the heart of the IMF/World bank strategy of structural adjustment in every crisis-ridden developing country is currency devaluation. Devaluation is expected to result in an increase in non-oil exports and Inflow of capital and foreign investment. However, for any country to enjoy these benefits, its economy must first of all be liberalized. Trade liberalization

enhances the export of some product especially agricultural products.

We also observed that when the fund was set up, there were outside the Latin American countries, barely half a dozen developing countries amongst its membership. Today, over 120 countries out of the total fund membership of 146 are developing countries and the articles of the fund, which, as mentioned earlier, reflected the concern to avoid inter-war currency experience, have relevance more to the problem of developing countries.

Over the years, there has been a disparate rate of growth in the size of the fund in relation to world trade, which, in a broad fashion, determines the need for international liquidity, short-term balance-of-payments adjustment as distinct from the long-term need for transfer of resources to developing countries.

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CHAPTER THREE

HISTORY AND ORGANIZATION OF INTERNATIONAL MONETARY FUND (IMF)

3.1 INTRODUCTION

This chapter is specifically designed to enable the researcher dwell extensively on the history and organization of the international monetary fund. Thus the focus will be on the formation, objectives, organization and performance of the international monetary fund. The performance of the fund in this regard will involve assessing the financial activities of the funds in developing countries.

Essentially, the discussions which led to the establishment of IMF were based on two main proposals; one of them was the American white plan and the other a British government paper prepared by Lord Keynes (Gbihi, 1987). John Keynes head the British delegation to the conference drafted a plan proposing that all imbalances in the balance of payment should be converted into a new international account top be known as "Bancor" and balanced put in a central clearing union. The Bancor accounts of the surplus countries would thus finance balance of payment deficits of other countries.

The United States of America outrightly rejected the British proposal, as they are not likely to face the balance of payment problem. The white plan proposed by American delegation acknowledged the need to grant deficit countries loans to improve their balance of payments and to prevent them from setting up trade barriers and to provide the new credit granting with instruments to force the debtor countries into balance of payments discipline.

3.2 FORMATION OF INTERNATIONAL MONETARY FUND (IMF)

The proposals for the formation of IMF and the World Bank were drafted in 1941 negotiated in 1943 and adopted at an international conference in 1944. Essentially, the conference was called by the United Nations, which was held at Bretton Woods, United States of America to address three issues that have been causing international disorder. These are: the need for stable exchange rate, the need to improve trade by ensuring an adequate supply of reserves and the need to provide development capital for poorer nations.

It was also at the conference that three bodies were proposed. These bodies were:

(i) The international monetary fund (IMF).

(ii) The international bank for reconstruction and development (IBRD/World Bank).

(iii) The international trade organization (ITO).

Thus, it was on the 22nd of July 1944 that the international monetary fund was born and its articles of agreement, which was equally adopted at the conference, became its principal legal document. The fund became operational on 1st march 1947. Member nations can borrow foreign currencies from the fund under specified conditions. Membership of the fund is a prerequisite to membership of the World Bank. The fund major responsibility is to maintain orderly currency practices in international trade while the bank's functions are to facilitate extension of long-term investment for productive purposes.

It is important to mention that representatives of twenty-two countries of the thirty member countries endorsed the fund articles of agreement then. By 1969, one hundred and eleven countries were members. At present virtually every country in the world except the communist block (with the exception of Romania and Yugoslavia).

It is also important to note that the formation of the IMF agreement took no account of the specific problems of the developing countries. India's proposal that the agreement should include measures that will assist in the full utilization of the resources of the economically underdeveloped countries was rejected on the ground that the IMF was an organization created purely for monetary matters (Horsefield, 1969).

In addition, the quota structure today largely reflects the political balance of the power of the 1940s. Bretton Woods merely bestowed the respectability of an ostensibly neutral formula on peeking order previously agreed among the industrialized nations. Each after the ninth and latest quota revision, the USA's share of the total quota is 17.84% despite the fact that this country has lost much of its economic powers to France, Japan, etc.

3.3 OBJECTIVES OF INTERNATIONAL MONETARY FUND

Article one (1) of the fund's articles of agreement (as amended) expresses the objectives of the fund as follows:

(i) To promote international monetary cooperation through a permanent institution which provides the

machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balance growth of international trade, contribute to the promotion and maintenance of high level of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, maintain orderly exchange arrangements among members and avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper growth of world trade.

(v) To give confidence to members by making the general resources of the fund temporarily available to them under adequate safeguards, thus, providing them with the opportunity to correct maladjustment in their balance of payments without resorting to measures destructive to national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

3.3.1 FIRST AMENDMENT TO ARTICLES OF AGREEMENT

The fund's articles of agreement had its first amendment as a result of introduction of special drawing rights (SDR). This was a deliberate step towards the creation of a reserve asset that is not tied to the fortune of a single currency. The first SDR allocations were made in 1970. The fund allocates SDR to its members in proportion to their quota at the time of allocation. This means that a member whose quota was 0.5% of the total quota of participants in the SDR scheme would receive 0.5% of each allocation. The fund has allocated a total of 21.4 billion SDR in six allocations and holdings of SDR by member countries amounted to 5% of total non-gold reserves at the end of 1982. As at December 1986, all the one hundred and fifty (150) member countries of the fund were participants in the special drawing rights and therefore eligible to receive allocations.

The SDR has now become the fund's unit of account and commercial transactions and private financial obligations are

increasingly being denominated in SDR. The daily value of the SDR is calculated by reference to a basket of five currencies. The currencies included in the basket and their assigned weights, based upon their relative importance in international trade and payments are the US dollar (42%), deutsche mark (19%), French franc, Japanese yen and British pound sterling (13%) each. Member countries of the fund make use of SDR in the following ways:

(i) Members with a balance of payments may use SDR to acquire foreign exchange while another member may provide currency in exchange for SDR.

(ii) To obtain currency in transaction by agreement with other members at the equal value rate determined by the fund without any requirement balance of payments needs.

(iii) In swap arrangements in which a member may transfer SDR to another member in exchange for an equivalent amount of currency or another monetary asset, other than gold with an agreement to reverse the exchange at a specified future data and at an exchange rate agreed between the participants.

(iv) In forward deals, in which members can buy or sell SDR for delivery at a future data against currency or another monetary asset other than gold at an exchange rate agreed by members.

(v) To make loans of SDR at interest rates and maturity agreed between parties, repayment of loans and payment of interest may be made with SDR.

(vi) To settle financial obligations.

(vii) As a security for the performance of financial obligations in either of these two ways:

(a) Members may pledge SDR which can be earmarked for the duration of the pledge by being recorded in a special register kept by the fund;

(b) Members can agree that SDR would be transferred as security for the performance of an obligation and that the SDR would be returned to the transferor when its obligation under the agreement has been fulfilled.

3.3.2 SECOND AMENDMENT OF ARTICLES OF AGREEMENT

The second amendment to the fund's articles is set out in the new article IV of the second amendment of the articles. It requires each member to:

(i) Endeavor to direct its economic and financial policies towards the objective of fostering orderly economic growth with reasonable price stability with due regard to its circumstances.

(ii) Seek to promote stability of fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions.

(iii) Avoid manipulating exchange rate or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

3.4 ORGANIZATIONAL STRUCTURE AND OPERATIONAL GUIDELINES OF INTERNATIONAL MONETARY FUND

The organizational structure of international monetary fund resembles that of a limited liability company where you have the board of directors, executive directors, a managing director and the management staff. The fund is a legal entity and in accordance with article XII of the fund's articles of agreement, the fund shall have a board of governors, executive directors, a managing director and management staff. These are the main organs of the fund:

(a) Board of governors – the board of governors of the fund is the highest authority. A governor and an alternate governor represent each of the member countries. There is no special requirement to the qualification or status of governor by the fund agreement, most member countries appoint their minister of finance or governors of their central banks as governor or alternate governors. The board of governors meets once in a year and has delegated many of its powers to the executive directors.

(b) Executive directors – the executive directors of the fund are responsible for the conduct of the general operations and business of the fund on a daily basis and may exercise all powers delegated to them pursuant to the fund agreement. The executive directors or the alternates shall be continuously available at the principal office of the fund and to devote all attention to the business of the fund that its interest requires.

(c) Managing director – the fund agreement provides that the managing director is the chief operating officer of the fund. Subject to the directive of the executive directors, he shall conduct the ordinary business of the fund. He is responsible for the organization, appointment and

dismissal of the staff of the fund. The managing director is the liaison officer that connects the executive directors, the staff, individuals members and international organizations. Thus in effect, he is the principal representative of the fund. Michael Candessus is the immediate past managing director and chairman of the executive board of the fund. He officially bowed out at the helm of the apex financial institution on 13th February 2000.

(d) Staff – the staff of the fund are selected from all over the world. They are men and women of highly skillful and competent personnel with a view to securing the highest standard of efficiency and technical competence. The staff of the fund does not take instructions from any government or authority external to the fund. They also enjoy certain facilities such as pay free of tax, not to be presented to court for duties they perform in their official capacities and the likes.

3.4.1 QUOTA OF MEMBERS

Each member country pays to the fund a subscription equal to its quota of which 25% must be paid in gold or other reserve

assets, the remaining 75% being paid in the member country's own currency. Members' quota in the fund, which at the end of 1985 amounted by the following, factors:

(i) Members' total subscription to the fund;

(ii) Members' drawing rights on the fund under both regular and special facilities;

(iii) Member's voting power; and

(iv) Members' share of any allocation of SDR.

Every country has 250 basic votes plus one vote for each 100,000 SDR held. Reviews of quotas are normally held every five years and the last review involving 47.5% quota increase was agreed in the first quarter of 1983.

3.4.2 OPERATIONAL GUIDELINES

The fund has a set of operational guidelines for members. A country making use of the fund's resources is generally required to carryout an economic policy programme aimed at achieving a viable balance of payment position over an appropriate period of time. This requirement is known as conditionality and it reflects the principle that balance of payments financing and adjustment must go hand in hand.

The IMF conditionality in the fund's guidelines as revised in 1979 include:

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(i) Emphasis on the need to encourage members to adopt corrective measures at an early stage of their balance of payment difficulties;

(ii) Recognition that many cases require periods of adjustment longer than those normally associated with stand by arrangements;

(iii) Adoption of a flexible approach for the treatment of external borrowing in adjusted programme; and

(iv) Stress on the necessity to pay due regard to the domestic social and political objectives, economic priorities and the circumstance of their payment problems.

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3.4.3 HOW COUNTRIES USE IMF RESOURCES

One of the purposes of the fund is to give confidence to members by making the fund's resources temporarily available to them under adequate safeguards. Thus providing them with opportunity to correct maladjustment within balance of payments without resorting to measures destructive to

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national or international prosperity as expressed in article I (v) of the articles of agreement.

Members may draw on the financial resources of the fund in the general account to meet their balance of payments needs. They may use the gold tranche and the regular credit tranches under tranche policies. In addition, there are three permanent facilities for specific purposes – the facility for compensatory financing of export fluctuations (established in 1963), the buffer stock financing facility (established in 1969) and the extended fund facility (established in 1974).

Moreover, in response to the difficult payment situation that has arisen because of the increased price of petroleum, the fund has established a temporary oil facility, which has been in operation since 1974 to assist members in financing the increased deficits. The fund has obtained resources for the oil facility through borrowing from the principal oil-exporting countries and others in strong external positions.

The three permanent facilities mentioned above would now be considered in detail.

(i) Tranche policies – when a member draws on the fund, it purchases the currencies of other countries with its

own currency. Thus a drawing results in an increase in the fund's holdings of the member's currency and a decrease in the holdings of the currencies that are purchased. Starting from a position where fund holdings of a member's currency are equivalent to 75% of the member's quota (as usual when the member has subscribed 75% of its quota in its own currency and 25% in gold), the member is said to have utilized the gold tranche if fund holdings of the member's currency rise to 100% of quota as a result of purchases. Each succeeding tranche is a credit tranche and is equal to 25% of quota, normally under tranche policies, a member may draw four credit tranches – that is, it may draw until fund holdings of the member's currency are at 200% of quota. For any drawings, a member is required to represent to the fund that the desired purchase of the currency of another member (or members) is needed for making payments in that currency (or circumstances) that are consistent with the provisions of the articles of agreement. Since July 1969 when the articles of agreement were amended gold tranche drawing by a

member has been legally automatic because the fund cannot challenge the representation of a member requesting a gold tranche purchase. All requests for the use of the fund's resources other than use of the gold tranche are examined by the fund to determine whether the proposed use would be consistent with the provisions of the articles and with the fund policies. Under the policies, on the use of the fund's resources in the credit trances, such use must be in support of the member's economic measures designed to overcome its balance of payments difficulties. Members discuss their programme with the fund staff prior to its submission to the fund, describing their fiscal, monetary, exchange rate, trade and payment policies fort at least the following year. The criteria used by the fund in determining whether assistance should be given are more liberal when the request is in the first credit tranche (fund holdings of its member's current rising above 100% but not above 125% of the member's quota) than when it is in the higher credit tranche (i.e., when the fund's holdings

resulting from the drawing would increase to a level between 125 and 200% quota).

(ii) Compensatory financing – the compensatory financing facility is designed to extend the fund's balance of payment support to member countries – particularly primary producing countries – suffering from fluctuations in receipts from exports. Members having a balance of payment needs may draw on the fund under this facility in compensation for export shortfalls. This is so, provided that the fund is satisfied that the shortfall is a short-term one largely attributable to circumstances beyond the control of the member and that the member will cooperate with the fund in an effort to find appropriate solutions for any balance of payment problems. Except in the case of export shortfalls resulting from disasters or major emergencies drawings under this facility as recently revised cannot exceed more than 50% of member's quota in any 12 months period and in total not more than 75% of quota. Request for drawings beyond 50% of quota are not met only if the fund is satisfied that the member has been cooperating in regard to

finding appropriate solutions to its balance of payment difficulties. Drawings on the compensatory financing facility are fully additional to those permitted under the regular tranche policies.

(iii) Buffer stock financing – the purpose of buffer stock financing is to assist in financing contributions to buffer stock arrangements when members which have needs for balance of payments reasons participate in such arrangements under commodity agreements. But, meet appropriate criteria such as the principles of intergovernmental relations laid down by the United Nations in regard to international agreements. Drawings for buffer stock financing ma be made up to the equivalent of 50% of quota without any limit on the amount drawn in any 12 months period. The member is also expected to cooperate with the fund in an effort to find appropriate solutions to any balance of payment difficulties. Drawings under the buffer stock financing facility are also additional to those that members might normally draw under the fund's regular tranche policies. However, a member drawing under the facility at a time when it still has gold

tranche drawing rights at its disposal would loose such rights pro tanto.

(iv) Extended facility – under the extended facility, the fund may provide assistance to members to meet their balance of payments deficit for longer periods and in amounts larger in relation to quotas than has been the practice under the normal credit tranche policies. The first country to benefit from this facility was Kenya (IMF survey, September 29, 1975). A member of the fund may apply for assistance under the facility if it has been suffering serious payments imbalance relating to structural maladjustment in production, trade and prices and is prepared to implement a comprehensive set of corrective policies covering a period of two or three years. Alternatively, an appropriate situation for use of the facility might occur when an economy suffers from slow growth and an inherent weak balance of payments position that prevents an active development policy. Such countries need longer-term assistance to carry out an economic programme, including strengthening of monetary and fiscal instruments and appropriate trade

and exchange policies. A request for an extended arrangement is met only if the fund is satisfied that the solution of the member's balance of payments problem will require a longer period than is provided for use of resources of the fund that are available under existing tranche policies. In addition, the member is expected to present a programme setting forth the objectives and policies for the whole period of the extended arrangement as well as a detailed statement of the policies and measures for the first 12 months. However, with the understanding that for each subsequent 12 month period the member will present to the fund a detailed statement of the progress made and of the policies and measures that will be followed to further the realization of the objectives of the programme. Purchases are set up in installments subject to suitable performance clauses related to implementation of policies for achieving the objectives of the programme. Drawings under extended arrangement may take place over periods of up to three years. Purchases outstanding under the extended facility may not exceed 140 percent of the

member's quota nor raise fund holdings of the member's currency above 265 percent of the member's quota (excluding holdings relating to compensatory financing, buffer stock financing and the financing of the impact of the increased cost of imports of petroleum and petroleum products under the oil facility). It is important to mention that most developing countries are beneficiaries of this facility.

3.5 IMF AND THE DEVELOPING NATIONS

The developing world is defined as the politically non-aligned, economically developing and less industrialized nations of the world with per capita income of less than $600 at 1989 prices (Keith, 1992). The developing nations can be classified into two categories. These are low income and middle income nations.

(i) Low income countries – these include countries with income less or equal to $580 per capita at 1989 prices. They include most of the sub-Sahara Africa, India and China.

(ii) Middle income countries – this group comprises countries of more than $580 per capita income but

less $600 per capita income. Countries in this category include Latin America, Argentina, Mexico, Venezuela and many African countries, Nigeria inclusive.

Over the years, the debt management crisis faced by most third world nations has been a serious concern to the international monetary fund. Since 1973, more than 30 developing countries have had to undertake negotiations with creditors to reschedule their debts. Although, in the beginning only small amounts were up for rescheduling, as the debt crisis of the third world worsened, the figures involved underwent a dramatic growth. Thus, whereas debt relief agreements covered an annual average of $2 billion of debts between a1974 – 1981 in 1982, $10 billion were negotiated (Olukoshi, 1988). By mid 1983, debt in excess of $35 billion were under negotiation including short-term credits which as Hope and Klein (1986) have noted would normally have been rolled over for countries not in economic difficulty.

Between 1982 and 1985, an estimated $140 billion in short-term and medium-term loans were rescheduled for some 30 developing countries. There are also increasing incidents of

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what has come to be known in financial circles as creeping default in which third world debtor countries, unable to service their debts, simply ignore loan maturity dates without actually declaring an unwillingness to pay. It is reckoned that as at the end of 1987, third world states owed over $1 trillion in external debt and virtually all developing countries were faced with external debt management problems.

The roles IMF have played in the resuscitation of the ailing economies of the third world states have been very insignificant. The stringent conditions normally attached to the loans advanced to these countries have only succeeded in worsening the economic situation. It is however, evident that public foreign debt has been used mainly to create or maintain fiscal deficits. More often than not, such deficits are caused not by greater public investment but by higher public current consumption or in some cases, grandiose and unprofitable investments. Thus, one could safely say that any third world nation chasing IMF loan to enable her put some programmes in place to check the economic woe is simply committing economic suicide as this may turn around to worsen the situation.

3.6 RECENT DEVELOPMENTS IN THE IMF

Some few developments have emerged in the operations and performance of the fund. For instance, the collapse of the per value system in the 1970s indicated a shift in emphasis on the fund's regulatory role to purely financing functions. In recent times, the fund has accepted the role of financial intermediary, borrowing from its members to lend to others in response to the world debt crisis management. Thus, making lending a primary activity. In this regard, the fund has helped and assisted debtor countries to arrange suitable financial packages that world take them out of the current world financial problems.

In 1980, the interim committee decided to reduce the number of currencies used in the valuation of SDR from 16 to 5. The 5 currencies and their weights in the new SDR currency basket which took effect from January 1981 were as follows: US dollar 42%, deutsche mark 19%, French franc, pound sterling and Japanese yen 13% each. The composition and weights of the currencies in the basket were to be adjusted at five-year intervals beginning from January 1 1986. The debt crisis of the 1980s and the consequent increase in requests for fund support on a large scale has been

responsible for the inadequacy of the fund resources, compelling the major creditor nations to examine new ways of increasing their resources.

A proposal by the US treasury Secretary in 1982 suggested the establishment of an additional permanent borrowing arrangement which will be available to the IMF on a contingency basis for use in extraordinary circumstances. The fund was thus authorized recently to enter into borrowing arrangements with the general agreement to borrow (GAB) which was established in 1962 by the fund in cooperation with ten of its major industrial members.

The structural adjustment facility was established by the fund in March 1986 to provide financial assistance on concessional terms to low income countries with balance of payment problems. Structural adjustment facility loans are provided at an interest rate of 0.5% annually and have a repayment period of 5 to 10 years. In 1986, a total amount of SDR 1.8 million was disbursed to 9 countries out of 60 that applied.

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CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Research conclusions are reached on the basis of data used. A major responsibility of the researcher is to set up successful steps capable of providing data that will necessarily provide solution to the research question. The more clearly and thoroughly a problem and its ramifications are identified, the more adequate the study can be planned and conducted to a successful completion.

In this chapter, the researcher is going to discuss as briefly as possible the general research methods and procedure for data collection in the analysis of impact of the IMF loans in the economic development of Nigeria.

4.2 GENERAL RESEARCH METHODS

Several research methods can be identified. The method used differs from one research to another depending on the aim and nature of the research problem. The following principal methods are briefly described.

4.2.1 COMPARATIVE RESEARCH METHOD

The comparative research method attempts to establish the similarities and differences that exist between two entities in order to postulate valid generalizations and principles. In conducting such research, the researcher has to establish the research problem, explicitly identify and describe the research objects to be compared, gather and analyze data about the research objects, compare observed phenomena, examine differences and draw conclusions and establish principles.

4.2.2 SURVEY RESEARCH METHOD

The research method involves gathering data about a target population from a sample and generalizing the findings obtained from an analysis of the sample to the entire population. In surveys that have to be done in the field, data are derived from questionnaire, interview and participant – observation. The method has the advantage of saving time and money as well as ensuring efficiency. Surveys may be used for descriptive, explanatory and exploratory purposes. Survey method is the most widely used in the social sciences.

4.2.3 EXPERIMENTAL RESEARCH METHOD

In research, we either study situations as they are or contrive the situation in order to elicit some responses that are germane to the problem being explored. In other words, we use experiments.

Experimentation, as a form of research, explores whether relationships exist among some identifiable variables and what the nature of these relationships is. A contrived situation may occur where certain variables existing in the situation seem to be either controlled or possibly eliminated. This creates an artificial situation in which the experiment is performed the way the researcher wants it. In experimentation, therefore, the key word is control.

4.2.4 HISTORICAL RESEARCH METHOD

Historical research is concerned with how past events actually occurred rather than how events should have occurred. Historical research enables us to understand the past, build on what is known and be able to predict the future.

Historical research also helps to solve current problems by examining what has happened in the past. For instance, if

a person is interested at development of a company, we look at the problem it has faced in the past and the current situation in order to suggest future directions and strategies the company might adopt.

4.2.5 EX POST FACTO RESEARCH METHOD

Ex post facto (after the fact) research is a research that is undertaken after the events have taken place and the data are already in existence. Ex post facto research therefore is a systematic empirical study in which the researcher does not in any way control or manipulates independent variables because the situation for study already exists or has already taken place. The researcher cannot manipulate the independent variables because they are not manipulatable. But the researcher can indeed create or contrive a situation that will generate the requisite data for analysis especially in experimentation.

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Ex post facto research appears to be similar to survey research. Some authors classify it as a type of survey research because like some surveys, ex post factor research is more inclined to data gathering than to variable manipulation.

4.2.6 CASE STUDY METHOD

The case study method focuses on a single research object and attempt is made to gather data about it so that relationship among variables associated with the observed phenomenon can be identified. This method has the advantage of giving the opportunity for thorough and detailed examination and analyses of a research object so that the findings can be applied directly to the object being studied.

The following steps are general procedures frequently adopted in case studies:

(i) Establish the research problem;

(ii) State the research questions or formulate hypotheses (more often than not case studies are based on research questions than on hypotheses);

(iii) Define relevant terms and variables;

(iv) Gather information about the research object using a variety of instruments and analyze them;

(v) Carefully observe the object of the study and if necessary identify casual factors associated with the observed phenomena; and

(vi) If sufficient data are collected, the investigator should be able to answer the research questions or test the research hypotheses.

4.2.7 PARTICIPANT OBSERVATION

When a researcher subjects an object or subjects to close, usually visual, surveillance in order to obtain information (that is recorded data) which is related to hypotheses or theoretical statements, the process is known as observation. It is widely accepted method of collecting research data. It involves observing the behavior of subjects and recording what is observed.

When the researcher engages in the activity being observed, participant observation occurs. Controlled observation occurs if a researcher takes advantage position and unobtrusively observes subjects in a direct manner.

4.2.8 CONTENT ANALYSIS

This method is designed to facilitate the objective analysis of the appearance of words, phrases, concepts, themes, characters, or even sentences and paragraphs contained in printed or audio-visual materials. Berelson Bernard describes

the method as a research technique for an objective, systematic and quantitative description of manifest content of communication. It can be used to describe the messages in communications on themes, such as love, morality, power, racism, treatment of individuals or groups, etc.

4.2.9 DOCUMENTARY RESEARCH METHOD

In studies involving the use of content analyses, historical research and commentary research methods, the primary sources of data are documentary and non-documentary sources of communication. Documentary sources include books, journals, maps, archival documents, manuscripts, government documents, newspapers, magazines, private business documents, speeches, etc.

Non-documentary sources include audiocassettes, videocassettes, microfilm, photographs, phonodiscs, motion pictures, slides, oral information and physical remains such as artifacts.

4.3 INSTRUMENT AND PROCEDURE FOR DATA COLLECTION

Data is collected with the aid of research instruments. These instruments are devices used in gathering, measuring or

recording data. In this subheading, the researcher shall be discussing some of the principal instruments used for collecting data. Later in the chapter, the researcher shall identify and discuss the method of data collection employed in this study. The instruments include inter alias questionnaire, interviews, observation and panel technique.

4.3.1 QUESTIONNAIRE

A questionnaire consists of a set of questions designed to gather information or data for analysis, the results of which are used to answer the research question or used for the test of relevant hypothesis. The questionnaire is an instrument for gathering data beyond the easy physical reach of the researcher.

In most research situations, it may be practically impossible for the researcher to reach all his respondents no matter how much he tries. Mail questionnaires come in handy to help the researcher reach his numerous respondents and gather their responses. The questionnaires are often returned to the researcher through the post office.

Advantages of mails questionnaire are:

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(i) It is cheaper than other methods of survey research (with ₦10 stamp, the questionnaire can reach any part of Nigeria);

(ii) It is useful where the sample is widely dispersed; and

(iii) The respondents are always allowed to hide their identity, thus enabling the respondents to respond freely.

Disadvantages of mail questionnaire include:

(i) Low response always associate with this method of instrument because of illiteracy and subject matter;

(ii) Limited amount of information can e got through this means; and

(iii) The researcher cannot clarify some seemingly vague responses.

4.3.2 PERSONAL INTERVIEW

This is a survey method if research involving a person seeking the information called the interviewer and another giving the information called the respondent. The interviewer armed with an interview schedule meets the respondent asks questions of the respondents and completes the interview schedule himself.

Advantages of personal interview are:

(i) The interviewer has control over the type of response he receives;

(ii) The interview ensures that detailed response is given to any questions asked; and

(iii) The interviewer can control the quantity and quality of responses.

Disadvantages of personal interview include:

(i) It is expensive and time consuming;

(ii) Lack of cooperation of and trust from potential respondents can reduce response rate;

(iii) The interviewer's personal idiosyncrasy is brought to bear throughout the duration of the interview. Consequently, the possibility of personal bias of the interviewer cannot be ruled out.

4.3.3 OBSERVATION

When a researcher subjects an object or subject to close usually visual surveillance in order to obtains information, which is related to hypotheses or theoretical statements, the process is known as observation. It is a widely accepted method of collecting research data. When the researcher

engages in the activity being observed, participant observation occurs. Controlled observation occurs if a researcher takes advantage position and unobtrusively observes subjects in a direct manner.

Limitations of observation are:

(i) It takes time and energy and

(ii) It may be boring

4.3.4 PANEL TECHNIQUE

In panel technique, the respondents are interviewed many times on the same subject matter. Each interview is followed by an analysis of the interview response. The object is to study changes in behavior and attitude over time. In practice, any of the other survey methods already discussed may be used in panel technique

4.4 RESEARCH METHODS SELECTED FOR THE STUDY

The objective of this work is to examine the impact of IMF loans on economic development of Nigeria. The research is aimed at finding solutions to the research problems stated in chapter one. To this end, attempts shall be made towards identifying the research methods relevant to this study and

highlight on the research framework under which the research problem can be solved.

A research method is defined as the process of arriving at dependable solution to a problem through planned and systematic collection, analyzes and interpretation of data. Basically, the motive behind carrying out a research is centred on the need for discovery of the relationship that exists among the phenomena of the world in which we live. Research is also devoted to finding the conditions under which a certain phenomenon occurs and the condition under which it does not occur in what might appear to be similar circumstances.

On this ground, three approaches are considered when carrying out a research. These are survey or descriptive research method, experimental and historical researches methods. For the purpose of this study, descriptive research method is adopted.

4.4.1 DESCRIPTIVE RESEARCH METHOD

This method attempts to describe a given phenomenon and specifies the events being researched. That is to say, it is concerned with data collection for purposes of describing and

interpreting existing conditions in order to give the meaning and explanations of the phenomena in question.

Descriptive research method is employed to select a sample of the population for the purpose of analysis. Also, interview, analysis of records are the tools used in gathering information in this method. The method is essentially analytical and descriptive and surveys to assess the conditionalities of IMF as it affects the various sectors of the Nigerian economy.

4.5 METHOD OF DATA COLLECTION EMPLOYED

The instruments used in data collection in any research study will go a long way in determining how the research question will be answered. It is therefore important to employ a method of data collection that is compatible with the research study. In this regard, two methods were adopted in collecting data for this research. The researcher has carefully grouped these into primary and secondary methods.

The primary method of data collection consists of relevant literature on the subject. Under study, extensive and intensive readings were conducted into existing records and

documents, which are related to international monetary fund. These records and documents include inter alias:

(i) The journal of international monetary fund

(ii) The IMF publication (monthly/annually)

(iii) The central bank of Nigeria economic and financial review

(iv) The federal office of statistics (financial and statistical review)

(v) Federal ministry of finance (economic and financial report)

(vi) The manufacturers' association of Nigeria (production output breakdown)

(vii) Local and international newspapers and magazines.

The information obtained from these materials contributed over 70 percent of the data employed in this study. Thus, the work will be substantially theoretical involving extensive extracts and analysis of relevant principles drawn from existing literature.

The secondary method employed in data collection is mainly interviewed. The techniques involve collecting information from others through face to face contact. In this

research therefore, interviews were conducted with some monetary and international economists. Some financial experts were equally involved for chatting. Structural type of interview has been used in this study. It is important to mention that all sources contacted shall be adequately referenced.

4.5.1 POPULATION

A population in this context refers to all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher. Subjects or elements are individual items that make up the population they may be observed or physically counted.

The population in this study involves all the various sectors of Nigerian economy and the citizenry. The impact IMF loans have on the performance of various sectors of the Nigerian economy is the major subject of study. Several problems have been identified with Nigeria as a result of IMF loans. These include among others inflation, deregulation, removal of petroleum subsidy, unstable exchange rate for the national currency, etc.

4.5.2 SAMPLE

A sample is precisely a part of the population. The procedure for drawing samples from a population is known as sampling. The idea of sample is based on the fact that it is not always possible to administer all the data due to one reason or the other such as time, finance, etc.

In this research, the sample for study which has been drawn from the population include such sectors of the economy as manufacturing, banking, agriculture, education, petroleum and other social and economic activities.

4.6 VALIDITY AND RELIABILITY OF THE METHOD USED

Validity is defined as the degree to which a measuring instrument measures what it is designed to measure. Every measuring instrument is designed for a specific measurement. If it is correctly designed, it measures what it is supposed to measure. If it is faulty then it measures something, which may not be what it is supposed to measure.

Reliability on the other hand, refers to the consistency between independent measurements of the same phenomenon. Reliability is the stability, dependability and

predictability of measuring instrument. It is the accuracy or precision of a measuring instrument.

The descriptive method adopted for this study and the various instruments employed for collecting data have been found to be valid, adequate and reliable for a study of this nature.

CHAPTER FIVE

DATA PRESENTATION AND ANALYSIS

5.1 INTRODUCTION

The Nigerian economy for most of the 1980s was like the great majority of African economies in a state of crisis. This crisis cannot in the tradition of neo-classical economic theory simply be attributed to disequilibria in the demand and supply of goods and services resulting from gaps in the available savings and investment funds and earnings from exports and imports. Rather, it is the outcome of a constellation of destabilizing forces that have operated on one another so as to keep the African economies in a state of external and internal imbalances.

Faced with a deepening economic crisis, which was rapidly assuming social and political dimensions, most African governments have had to approach the international monetary fund and the World Bank for support. Nigeria has been no exception even though, unlike most African countries, it did not begin to experience a crisis until 1982 when following the collapse of the world oil market and the drastic revenue fall which implied, the economy started to face serious problems.

In this chapter therefore the researcher shall be discussing IMF loans and its impacts on Nigeria economic development. The major problems encountered by Nigerians from receiving or rejecting IMF loans. How Nigerian's debts have impaired its development shall also be looked at and the various initiatives for solving the debt crisis shall equally be discussed among others.

5.2 ANALYSIS AND INTERPRETATION OF IMF STRUCTURAL ADJUSTMENT POLICIES IN NIGERIA

Nigeria's structural adjustment programme at inception was considered very comprehensive, even by the World Bank standards. The programme contained four main elements viz.:

(a) The trade reform and exchange rates stabilization policies intended to revitalize the non-oil sector and the restoration of the balance of payment;

(b) The curtailment of public sector expenditure through downsizing the public sector;

(c) The elimination of import licenses system, the abolition of commodity marketing boards and the removal of price control mechanisms; and

(d) The deregulation of the banking system, privatization or sell off of government owned businesses.

The World Bank was impressed by the thrust of the outlines of the structural adjustment programmes in Nigeria. During the review of the programme in 1994, the bank observed that:

> *The overall design of the adjustment was comprehensive stressing the key reforms required to correct serious distortions or problems in the exchange rate, fiscal performance and money policy, trade policies, price regulations and parastatals performance.*

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To finance the structural adjustment programme in Nigeria, the World Bank approved and disbursed the first loan of $452 million in 1986 and another loan of ₦500 million in 1989 (Rufai, 1997). Besides these two direct loans, the bank also approved a number of smaller loans for other sub-sectors of the Nigerian economy, which related to or had direct relevance to the overall SAP policy implementation.

As far as IMF was concerned, Nigeria, like most other African countries needed the infusion of additional external capital in order to overcome what was described as the debt hump. That is, to say the main objective of the SAP loans was to provide Nigeria with additional foreign capital to shore up

the short-term balance of payment disequilibrium, which was said to have led to the economic crisis in the country.

Upon launching of SAP, the import licensing system was abolished. In its place, a new system foreign exchange allocation through competitive bidding by commercial banks from the central bank was introduced. In this dispensation, the value of the national currency, the naira was left to the dictates of the market forces. In other words, the value of the naira was to be determined by the forces of demand and supply, during periodic initially weekly bidding sessions. This effectively led to the gradual but systematic devaluation of the naira.

The commodity marketing boards were also abolished while the banking sector was deregulated. Similarly, user fees were introduced in hospitals, public schools and even on highways. A systematic programme of privatization and commercialization was also vigorously pursued leaving most public owned businesses either privatized or commercialized. The debt-equity which was introduced to reduce total debt burden also provided foreign enterprises with opportunities for expanding their investments in Nigeria (Adebayo, 1990).

There were some areas of controversy between the fund and the Babangida administration. Firstly, the fund insisted that fertilizer subsidies must be removed completely. Secondly, prices of domestic petroleum fuels should be regularly reviewed upwards to eliminate all forms of subsidies. Thirdly, government should remove ceilings for both interest and exchange rates. The fund also insisted that government must disengage completely from the running of public sector businesses. Wages and salary increase should also be frozen.

However, attempts by government to meet these IMF conditionalities by raising the prices of refined petroleum oil from 70 kobo per litre to ₦3.25 per litre in 1987 was accompanied by strikes and urban violence. As a result of this, the Babangida administration had to introduce minor adjustments of SAP policies in the 1988 budget. Also in 1989, extra budgetary concessions were made raising the minimum wage, unfreezing wages in the civil service and removing the ban on civil service recruitment.

The IMF again resisted this. Consequently, the second loan of ₦500 million dues for 1988 could not be disbursed until late 1989. By and large, it was this game of cat and mouse,

which characterized SAP policies in Nigeria and its implementation in the period 1986 to 1993 until the obnoxious government of Babangida, was terminated.

The prime objective of any economic policy package is to achieve an increase in welfare through the maximization of employment possibilities and earned income. Structural adjustment in Nigeria has however resulted in more unemployment between 1986 – 1993. It has succeeded in increasing nominal income by the monetization of the country's petrol-dollar earnings through grossly undervalued naira exchange rates.

The IMF and World Bank adjustment programme as designed concentrates on short-term problems like the disequilibrium in the balance of payments. It is of course in the interest of Nigeria's creditors and the financial institutions under their control that deficits are eliminated from budgets and the currency devalued so as to have a surplus in the balance of payments. The long-term goal of restructuring the economy from its primary activities base and mono-product export into a modernizing industrial and service system should never be lost sight of. The short-term adjustment measures

and the more legitimate long-term requirements of the economy need to be reconciled.

The priority of any legitimate adjustment policy must be a profound and fundamental restructuring of the Nigerian economy in favor of food production, industrialization, and the development of a local technological capability as well as the social and physical infrastructures necessary to facilitate the attainment of the objectives of development. If a policy is likely to frustrate these objectives, then, such policy ought not to be adopted as an adjustment policy instrument.

5.3 IMF LOANS AND ITS IMPACT ON NIGERIAN ECONOMIC DEVELOPMENT

In discussing this subheading, first and foremost it is important to highlight the programme that necessitated the IMF loans and what the programme was meant to achieve. This programme was the structural adjustment programme (SAP). As officially spelt out by the government (Odozie, 1986). The objectives of SAP include inter alias:

(a) The restructuring and diversification of the Nigerian economy in order to reduce the country's dependence on the oil sector and imports;

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(b) The achievement of fiscal and balance of payment viability for the country in the short to medium-term;

(c) The establishment of the basis for a sustainable non-inflationary or minimal inflationary growth; and

(d) The reduction of the dominance of unproductive investments in the public sector, the improvement of that sector's efficiency, as well as the enhancement of the growth potential of the private sector.

These broad objectives are to be achieved through:

(a) The strengthening of demand management policies;

(b) The adoption of measures to stimulate domestic production and broaden the supply base of the economy;

(c) The adoption of a realistic exchange rate policy through the establishment of a second-tier foreign exchange market (SFEM) later renamed the foreign exchange market (FEM);

(d) The rationalization and restructuring of the country's tariff regime in order to aid the promotion of industrial diversification;

(e) The progressive liberalization of trade and payments;

(f) The reduction of complex administrative controls and fostering of reliance on market forces;

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(g) The adoption of appropriate pricing for public enterprises; and

(h) The rationalization and commercialization/privatization of public sector enterprises.

As already pointed out, the adjustment of the exchange rate of the naira is the pivot of the programme. The IMF and the World Bank had prior to the introduction of the programme, argued that the naira was grossly overvalued by about 60 percent in 1983. And therefore, there should be a 25 to 30 percent initial devaluation to be followed by a quarterly review until the element of over valuation was eliminated.

The execution of this programme between 1986 - 1993, which was financed by IMF loans, has left much impact on the development of Nigeria. The areas most touched by this programme include industries, exchange rate, currency devaluation, employment, banking and financial sector, oil subsidy.

The table below shows the IMF/World bank loans to the social sector in Nigeria (1965 - 1993 in $ million).

Table 1 IMF/World Bank Loans to Nigeria (1965 – 1993)

Project	Year	IBRD Loan	Total	% of Total
Education I	1965	20.0	NA	NA
Education II	1972	17.5	NA	NA
Education III	1973	37.8	NA	NA
Sokoto health	1985	34.0	53	64.15
Technical Education	1988	23.3	27.9	83.51
University sector	1989	126	135	93.33
Imo population	1989	27.6	36	76.66
Essential drugs	1990	50	80	62.5
Industrial training	1990	80	120	66.66
National population	1990	50	75	66.66
Ogun/Oyo health	1990	70	106	66.03
Imo health	1993	8.0	10.2	78.43
Lagos drainage	1993	63	85.8	73.42
Total		**607.2**	**728.9**	

Source: The World Bank: Nigeria and the World Bank (1995), The World Bank annual reports (various issues).

The impact of IMF/SAP financing scheme on the banking ands financial sector was dramatic. Writing in 1994, before he became the chairman of economic intelligent committee, Professor Sam Aluko revealed that the number of financial institutions in Nigeria rose from 140 in 1985 (a year before

SAP) to 4,225 in 1992 and 4,552 in 1993. This shows an increase of 300 percent between 1985 and 1992.

Besides this outward appearance of SAP successes, there were deeper problems. When the World Bank reviewed the performance of SAP in Africa in 1994, it concluded that the outcomes in other areas of the Nigerian economy as in other African countries were not encouraging. In the first place, stabilization has proven to be elusive in Nigeria. Secondly, the exchange rate of the naira relative to the stronger currencies of the industrialized countries continued to deteriorate throughout the SAP period. Thirdly, interest rates rose very sharply and have remained very high despite the growth and expansion of the financial sectors. Fourthly, both unemployment and inflation also grew up dramatically reducing further the effective demand capacity of ordinary Nigerians, thus undermining the impetus for increased industrial capacity utilization and economic growth.

Aluko in its book on Nigeria titled, "Nigeria and the world bank," published in 1995, the bank went further to show that the real per capita consumption in Nigeria has deteriorated from ₦1,250 in 1974 to only ₦1,150 in 1995 (1987 prices).

Table 2 Nigeria – change in the financial system 1985 - 93

INSTITUTION	1985	1992	1993
Commercial banks	28	66	66
Commercial banks (branches)	1297	2275	2280
Merchant banks	12	54	55
Merchant banks (branches)	26	116	120
Central bank (branches)	19	27	27
Mortgage banks	1	146	148
Mortgage banks (branches)	5	156	177
Community banks	Nil	401	490
Bureau de change	Nil	132	138
Finance houses	Nil	618	644
Stock brokerage firms	19	140	155
People's bank (branches)	Nil	226	252

Source: Sam A. (1994), Democracy and the economy, keynote address at the annual conference of NPSA February 28 held at OAU Ile Ife Nigeria.

Until 1986, Nigeria a leading member of the organization for petroleum exporting countries (OPEC), was counted among the middle income earners. But in 1995, ten years after implementing the IMF sponsored programme, Nigeria effectively joined the league of the leading twenty poorest countries in the world, with an average per capita income of less than $300.

The failure of the IMF-backed programme in Nigeria as in most of the developing countries has been attributed to excessive reliance on monetary policy measures. Whereas what is required is an integrated stabilization and restructuring programme and a consistent and broad set of criteria which will include monetary targets but shifts the emphasis from purely monetary conditionality to a developmental conditionality.

The devaluation of the naira as one of the IMF conditionalities has further eroded the purchasing power of average Nigerians. The levels of employment, unemployment and underemployment are very important macro-economic aggregates for indicating the impact of monetary and fiscal policies on development. Theoretically, devaluation is used as a policy instrument for promoting exports, replacing imports and thereby expanding domestic production of goods and services and consequently generating more jobs.

The evidence so far in the implementation of IMF led programme in Nigeria has pointed to increasing unemployment inspite of the enormous resources the government has been putting into employment creating activities.

In general terms, the massive almost ten fold devaluation which the naira has undergone since 1986 has resulted in a considerable increase in the cost of production for all industrialists. The increased cost of industrial production, which arises from devaluation as well as the very high cost of borrowing have as can be expected led to exorbitantly priced goods which are beyond the real purchasing power of most Nigerians. As a result of IMF sponsored programme, a vicious inflationary cycle is presently at work in the Nigerian economy in which devaluation and high interest rates lead to high costs of production. This in turn reflect themselves in highly priced commodities and an ever-growing wholesale and retail price index which in turn leads the government to tighten further the liquidity and credit squeezes, thereby increasing the cost of production in the context of an ever-dwindling naira.

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The gradual removal of oil subsidy by way of incessant increase in the price of petroleum products as dictated by IMF has brought untold hardship on the lives of average Nigerians. In June 2000, the federal government of Nigeria announced a 50% increase on the pump price of petrol from N20 per litre to N30 per litre. This was however reviewed downward to N22

per litre following a nationwide condemnation and protests by the Nigerian public and the Nigerian Labor Congress (NLC).

Thus, the various IMF loans obtained by Nigeria for various development especially as contained in the structural adjustment package left much to be desired as the programme has not been able to bring to bear on the lives of Nigerians the much desired development.

5.4 THE INCIDENCE OF EXCHANGE AND INTEREST RATES

Following the onset of a recession in the Nigerian economy from about 1982, a recession triggered by the collapse of the world oil market, the monetary authorities became increasingly aware of the consequences of the overvaluation of the naira and of the need to devalue it. Up to 1982, the exchange rate of the naira to the dollar was still below N0.70 for $1. In the mean time, the country's total outstanding debt had risen from N500 million in 1970 to about N2.331 billion in 1981 and almost N10.081 billion in 1983.

At this stage it became clear that some drastic measures had to be taken regarding the naira exchange rate. A deliberate policy was therefore embarked upon to depreciate

the naira administratively. The exchange rate management became characterized by the crawling-peg approach to depreciation.

Table 3 Nigerian exchange rate and total outstanding external debt 1970 – 1989

Year	Average exchange rate (US$:₦)	Total outstanding debt	% change in naira debt
1970	0.71	688.50	-
1975	0.63	555.40	-28.4
1980	0.54	3457.0	433.5
1981	0.64	3642.5	24.9
1982	0.67	13163.3	278.3
1983	0.75	14103.6	19.9
1984	0.81	17946.4	37.4
1985	1.00	17290.6	18.9
1986	2.22	18540.9	138.1
1987	4.03	25009.3	144.9
1988	4.52	29636.3	32.9
1989	7.36	29163.5	60.2

Source: CBN annual report and statement of accounts 1970-1989

The country's total external debt increased four folds between 1981 and 1983. Similarly, total external debt reserves declined at an alarming rate from about US $8.5 billion in May 1981 to about US $2.5 billion at the end of that year (Democrat Weekly, 14 January 1990) and US $1.53 billion or N1.03 billion at the end of 1982. The balance of trade was in deficit every year from 1981 to 1983. From a favorable trade balance of over N5.1 billion in 1980, there was a deficit of over

N2 billion during 1982. There was a balance of payments deficit of over N3 billion in 1981 (see table 4).

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Table 4 Balance of payment 1979 – 1989 (₦ million)

Year	Export	Import	Balance of trade	Overall balance of payment
1979	10836.8	6169.2	4667.6	1868.9
1980	14186.7	9095.6	5091.1	2402.2
1981	10876.3	12719.8	-1843.5	-3020.8
1982	8722.5	10770.5	-2048.0	-1398.3
1983	7502.5	8903.7	-1401.2	-301.3
1984	9088.0	6788.2	2299.8	354.9
1985	11720.8	6655.7	5065.1	349.1
1986	8920.5	5476.6	3443.9	-784.1
1987	30360.6	16392.5	13968.1	159.2
1988	33138.1	22790.7	10347.4	-2294.1
1989	48747.8	-	-	9803.6

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Source: CBN annual report and statement of accounts 1979-89

The economic balance sheet of the nation was indeed dismal. The evidence of an overvalued currency was overwhelming and the consequences frightening. Some of the more obvious indicators of an overvalued naira during the period under review were as follows:

(a) The wide divergence between the official exchange rate and the rate at the parallel market, with the latter between two and three times lower than the former

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before the introduction of the second-tier foreign exchange market in September 1986.

(b) The naira equivalent of a foreign currency bought far fewer goods in the local market than it could fetch in a foreign market. This development was in line with the purchasing power parity (PPP) theory of exchange rate determination which postulates that when domestic prices are higher than the foreign prices of traded and non—traded goods, the currency should depreciate in a flexible exchange rate regime to the point where the prices are the same after adjustments in transport and custom duties differentials.

(c) Excessive demand for foreign exchange for imported goods resulting from the increase in personal incomes made possible by the oil boom in a context of an inadequate domestic supply of required goods by local producers.

The introduction of SAP in 1986 signaled the effective abandonment by the Nigerian state of some 25 years of administrative controls, legal restrictions and administrative regulations in the management of the foreign exchange value of the naira. It heralded the arrival of a new era of exchange

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rate management informed by the philosophy of economic liberalism and deregulation.

The exchange rate of the naira to US dollar began to fluctuate upon the implementation of IMF/SAP policies. In 1993, the naira fared well in the official market as it enjoyed relative stability, while in other markets such as bureau de change it fluctuated. Table 5 shows the exchange rates of the naira to the US dollar for 1993 in the foreign exchange market.

Table 5 Naira exchange rate (₦/US$) 1993

1993	Items	Appreciation Depreciation	Bureau de change	Appreciation Depreciation	Parallel market	Appreciation Depreciation
January	20.3564	(3.4)	24.8000	(9.4)	24.5700	(7.1)
February	24.9900	(18.5)	27.7300	(10.6)	27.6200	(11.3)
March	24.8100	(0.7)	33.6800	(17.7)	33.0800	(16.5)
April	22.5964	9.9	38.7500	(13.1)	38.0500	(12.9)
May	21.9960	2.7	33.3600	15.9	33.0100	15.2
June	21.9960	0.0	34.6400	(4.0)	34.2600	(4.0)
July	21.9960	0.0	37.7300	(8.3)	37.1900	(7.9)
August	21.9960	0.0	38.0200	(0.8)	37.5800	(1.1)
September	21.9960	0.0	39.2900	(0.3)	38.9900	(3.8)
October	21.9960	0.0	42.9700	(8.6)	42.6700	(8.6)
November	21.9960	0.0	43.6200	(1.5)	43.6400	(2.2)
December	21.9960	0.0	46.3200	(5.8)	46.1800	5.5
Cumulative	22.3934	-	36.3200	-	36.4033	-
Depreciation	-	-	-	-	6.35	-
Average	1.28	-	0.33	-	-	-

Source: NDIC market survey, 1994.

So, the exchange rate of the naira stabilized to ₦21.9960 to US $1 in the foreign exchange market from May to December 1993. The average rate was ₦22.3934 to a dollar. The cumulative depreciation of the naira in the official market was merely 8.6% compared to 55.4% recorded previously.

In the same year under review (1993), interest rate became highly volatile. This was due to heightened cash shortage, which characterized the money market. The widest fluctuation was experienced in the loans market and as the NDIC market survey revealed, the prime lending rate (PLR) stood at 27.7 percent in January peaked at 48.5% in 1993.

Table 6 Average interest rates in 1993

1993	Savings A/c	Current A/c	Time deposits					Prime lending	Treasury bills rate
			7-Day	1-Month	3-Month	6-Month	12-Month		
Jan	16.8	2 - 8	18.0	20.3	20.7	21.3	23.0	27.7	21.5
Feb	16.9	2 - 8	19.0	20.5	20.5	21.5	24.2	20.7	22.0
Mar	17.8	2 - 8	20.5	21.4	23.6	23.7	24.1	32.6	22.625
Apr	18.3	2 - 8	20.5	21.4	22.0	23.3	27.5	34.5	23.6
May	18.5	2 - 8	20.7	21.6	22.4	23.7	27.9	36.2	25.0
Jun	18.5	2 - 8	22.0	22.1	23.1	24.0	28.5	42.8	25.1
Jul	20.1	2 - 8	22.5	23.0	25.2	26.9	28.7	43.0	24.27
Aug	20.5	2 - 8	23.2	24.5	26.7	27.5	29.1	48.0	23.938
Sept	20.8	2 - 8	23.8	25.9	27.5	28.0	29.2	48.5	24.43
Oct	20.8	2 - 8	24.4	25.1	27.3	27.4	29.2	36.5	25.45
Nov	20.5	2 - 8	23.0	25.1	26.4	28.4	29.6	34.2	26.563
Dec	20.7	2 - 8	20.0	21.7	23.1	22.2	25.2	31.7	26.981
Averg	19.2	2 - 8	22.2	22.7	24.1	24.8	27.2	37.1	24.29

Source: NDIC Market survey

The deregulation of the financial system is one of the causes of fluctuations in the naira exchange rate. This has equally affected the various financial institutions in Nigeria. In 1997, about six financial institutions got their licenses revoked by the federal government. They were considered as distressed banks.

Evidence has shown that an increase in the interest rate will not necessarily necessitate increase in investment as purported by IMF. What is on ground is that an increase in interest rate has led to high cost of overdraft and loans. The manufacturing capacity has declined as a result of high cost of production and this has consequently led to rise in prices of goods and services.

5.5 PROBLEMS ENCOUNTERED BY NIGERIANS FROM RECEIVING/REJECTING IMF LOANS

The prime objective of any worthwhile economic policy package is to achieve an increase in welfare through the maximization of employment possibilities and earned income. The IMF financed programmes in Nigeria has however resulted in more unemployment during and after the period of their implementation. The programmes have succeeded in

sector like manufacturing represents a great waste of resources and an obstacle to an early attainment of national economic recovery.

(b) Domestic demands – the drastic and continuous devaluation of the naira resulted in a sharp increase in the cost of machinery and equipment, industrial raw materials and other inputs necessary for sustaining factory production.

(c) Smuggling – according to MAN, the period since the introduction of IMF financed SAP some fourteen years ago has been characterized by wide-scale smuggling, (especially of wheat flour, vegetable oils and rice), poverty, bribery and corruption stealing, etc.

Table 7 Economic performance from MAN

	1995	1996	1997	1998
Inflation	72.9%	29%	8.5%	9.8%
Interest rate	21	16 - 21	18 – 21	18 – 21
GDP	2.2	3.25	3.7	2.36
Capacity utilization	-	-	31.8	29.5
Agricultural produce	3.64	4.89	4.19	2.0
Balance of payment	-	-	$7518 m	$7220.6m

Source: MAN, 1999 half-yearly economic assessment

The table above shows some few sectors of the economy. It is just to show a highlight of the serious set back in the economy.

Table 8 Survey of increasing wave of crimes and social vices

YEAR	MUR	MAN	FW	ASS	OCP	ARE	BHB	LARC	FCC	OCPR	B $ C	TOTAL
1986	1918	218	15509	57696	862	1311	15364	63067	2438	502	513	159398
1987	1910	174	15758	47171	445	1241	13184	63069	2958	-	483	146485
1988	1869	125	14490	55252	917	1405	21897	86138	2389	522	1085	186089
1989	1619	89	16671	49880	935	1194	23692	90506	1781	111560	804	306340
1990	2332	94	15956	53584	800	1308	30491	82305	1498	6327	588	195283

Source: The Nigeria Police Force – Lagos

Keys: MUR: Murder, MAN: Manslaughter, FW: Felonious wounding, ASS: Assault, OCP: Other crimes against persons, ARC: Armed robbery & extortion, BHB: Burglary & house breaking, LARC: Larceny, FCC: Forgery & currency crimes, OCPR: Other crimes against property, B & C: Bribery & corruption.

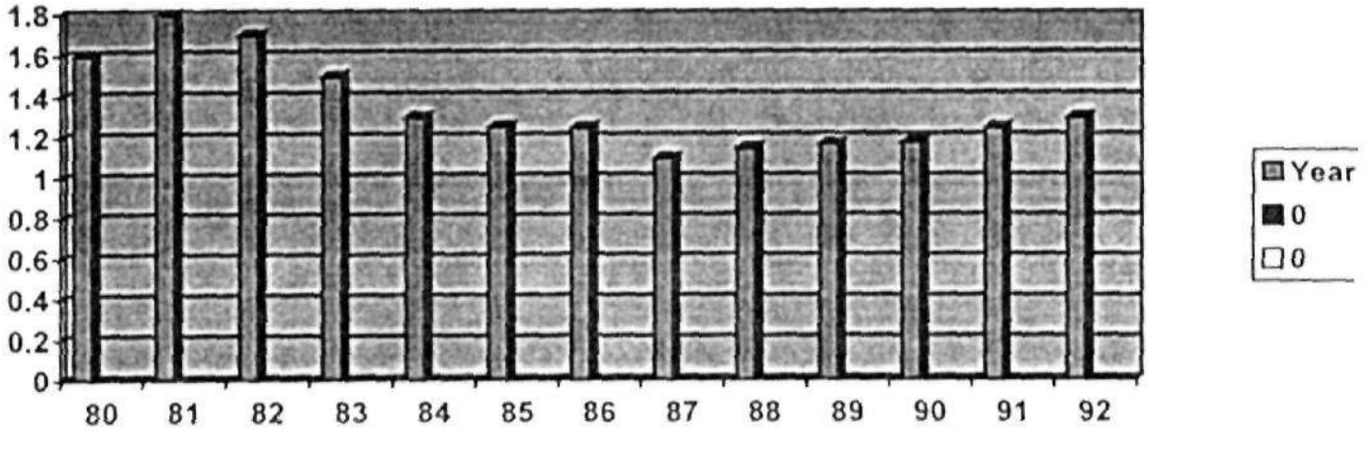
From the table above, it is important to note that murder includes attempted murder. Assault includes other unnatural offenses such as child stealing, suicide and kidnapping.

Following the retrenchment exercise in 1988 as a result of SAP/IMF loans, the country recorded a crime rate of

306,340. Out of this figure, 111,560 were crimes committed against property, 23,692 against burglary and house breaking and 90,506 on larceny as compared to 159,398 in 1986 when IMF programmes have not fully taken off.

In 1995, nine years into the adoption of IMF/SAP, Nigeria effectively joined the league of the twenty poorest countries in the world amidst its large human and material resources with an average per capita income of less than $300.

Table 9 Real per capita consumption



Year

Source: Nigeria and IMF (1995) IBRD Lagos, p. 19.

In conclusion, the period 1986 - 1993, when IMF programmes were implemented in Nigeria was a lost period to the country. Although the World Bank admitted that African countries have made great strides in improving policies to

restore economic growth in the 1980s, Nigeria has not achieved a sound macro-economic policy stance - which in broad terms means inflation under 10%, a very low budget deficit and a competitive exchange rate. In Nigeria, macro-economic policies actually deteriorated over the period. Thus, the implementation of IMF programme was more of a curse than a blessing to majority of Nigerians.

5.6 NIGERIAN DEBTS AND DEVELOPMENT

Without doubt, debt management has constituted a big problem for the Nigerian State and economy in recent times. Debt repayment as a proportion of export earnings increased from 5 percent in 1981 to 8.7 percent in 1982 and 26.9 percent in 1985. The total amount of money committed to debt service underwent a phenomenal growth from ₦1.126 billion in 1982 to ₦5.534 billion in 1985. Furthermore, the country's total external debt as a percentage of its GNP became alarmingly high. This is very clear when set against the decline in the GDP and real income and the generally poor performance of the primary production sectors of the economy, the full implications of the Nigerian debt crisis will be fully grasped.

Table 10 Comparative figures of Nigeria's indebtedness between the IMF/World Bank and the CBN as at 1995

Year	CBN ($ m)	IMF/World Bank ($ m)	Difference ($ m)
1988	26,246	31,246	5,000
1989	31,424	31,997	573
1990	33,099	34,538	1,439
1991	33,364	34,436	1,072
1992	27,544	30,989	3,445
1993	28,718	32,531	3,813
1994	29,248	NA	NA

Source: (1) CBN annual report and statement of account 1994, p. 66.
(2) The World Bank, 1995, Washington DC, p. 172.

According to available records, Nigeria's total debt rose from $8.9 billion in 1980 to $19.5 billion in 1985, to $34.5 billion in 1990 and declined slightly to $32.5 billion in 1993. There appears to be some discrepancy in the IMF/World Bank statistics and that of the Central Bank of Nigeria over the exact figure of the total national debt.

This consistent but serious difference between what Nigeria perceives its owes its creditors and the perception of the major lending agencies about Nigeria's indebtedness suggests that either the full implication of Nigeria's rising debt

is not appreciated or it is being underplayed by the Nigerian government.

Table 11 Nigeria's external debt service payment by the creditors ($ million)

Creditors	1991	1992	1993	1994	Total
London club	316.1	637.4	195.8	143.5	1292.8
Paris club	1506.7	536.6	234.6	59.2	2337.1
Multilateral:	733.4	801.1	643.2	758.9	2936.6
1. IBRD	689.9	-	563.1	626	1879
2. EIB	16.5	-	4.9	24.1	455
3. ADB	27	-	75.2	108.8	211
Promissory notes	377.6	267.3	256.1	354.8	1255.8
Others	502.2	141.9	444.8	526.6	16155
Total	4169.4	2384.3	2446.7	2601.9	11602.3

Source: (1) CBN 1994, P. 66.
(2) IBRD
(3) EIB - European Investment Bank
(4) ADB - African Development Bank

As Nigeria's debt was growing, so were its debt service obligations. Between 1984 and 1993, Nigeria's external debt service payments for long-term loans and IMF credits amounted to $27.2 billion out of which $13.7 billion or 50% was paid out as interest. The period witnessed a serious net capital flight from Nigeria. From the table above, it is evident that a total of $15.45 billion was the net capital flight from Nigeria in a period of ten years, between 1984 and 1993. In

other words, when all loans and credits both short and long-term including the IMF facility are calculated on one side and total debt servicing and repayments are calculated on the other, then, Nigeria lost over $15 billion in a period of ten years. This is the same period during which structural adjustment programme was initiated, planned and implemented in the country.

In the period 1983 to 1987, Nigeria made total repayments of $740.20 million to the World Bank made up of $265 million as principal repayments and $475.2 million as interest. During the same period, new IBRD and IDA commitments were only $1.618 billion and gross disbursement for both new and old loans was only $1.626 billion just about as much as new commitments but excluding net outflow of capital in the form of payments of outstanding debts. This effectively means that the net capital transfer to Nigeria was only $885.9 million, an average of $177 million in the period 1983 to 1987.

More recently, as a result of the American and western European propaganda against Nigeria over some domestic issues, the World Bank suspended further loans to the country

since 1993 and October 1996 a period of three years no loans were extended to Nigeria.

Table 12 Nigeria's selected external debt ratios: 1990 - 1994

DEBT RATIOS	1990	1991	1992	1993	1994
Debt service payment due/ exports	50.0	47.1	41.3	42.1	45.5
Actual debt service payment/ exports	26.8	29.1	20.1	16.9	18.7
Interest payments due/ exports	20.6	19.9	20	20.3	17.6
Actual interest payments/ export	11.6	14.3	5.7	6.3	9.7
Capital payments due/ exports	29.4	27.2	51	21.8	24.9
Actual capital payments/ exports	15.2	24.9	14.6	10.5	9.7
Debt stock/export	242.1	275	231.9	273.5	292.1
Debt stock/GNP	114.3	101.1	98.9	79	72.3

Source: CBN: Annual reports and statement of account (1994), Lagos p. 66.

From the selected external debt ratios, we can see that if the capital repayments and interest due are to be honored in full as it should be in normal circumstances, Nigeria would be spending nearly half of all its export earnings only on managing the debt, without actually overcoming it. This has invariably heightened the fiscal crisis of the country with corresponding impact on the development of the infrastructural, industrial and social sectors.

In effect, senior government officials believe that borrowing additional finance from development aid agencies such as the World Bank and IMF is not only necessary, but also inescapable. This is necessary in order to supplement domestic resources. However, the question still has to be asked given our experiences so far does multilateral aid solve problems of development? The answer is obviously not an affirmative one.

5.7 INITIATIVES FOR SOLVING THE DEBT CRISIS

Various suggestions have been offered in the attempt to tackle the enormous debt problems of the third world. These have ranged from the call for a reduction in debt servicing to an across the board reduction in interest rates, the conversion of debts to grants, a longer repayment period and outright cancellation. The strategies adopted by Nigeria in offsetting its debt servicing obligations include temporary default and debt rescheduling.

Debt equity conversion is another strategy that has been employed by some countries of the third world to alleviate their debt problem. Essentially, this strategy encourages the repayment of debt incurred in one of the major international

currencies with local currencies are then invested locally. Thus, it is informed by the willingness to open up third world economies to increased foreign participation.

The following initiatives have been suggested in solving the country's debt crisis:

(i) Nigeria should make greater effort to authentic its external debt so as to avoid being swindled by international financiers. This has become all the more necessary in view of the evidence brought to light by the Johnson Mathey Bank scandal in London which indicated that a great deal of fraud was involved in the provision of short-term trade credits to the country. In seeking to authenticate the country's external debt, the government should place the burden of proof on the creditors and define more rigorous terms of proof.

(ii) Although, the adoption of the strategy of cartelization to the management of Nigeria's external debt will require a lot of diplomatic work and probably entail the risk of reprisals from the international financiers, the country should as a matter of policy, promote cooperation among African debtor countries within the framework of the organs of the organization of African unity (OAU). The

Nigerian government should also encourage third world debtor nations to come together in multilateral forum and work out a joint approach to global debt crisis. Such a joint approach has become all the more necessary as the creditor nations and institutions have already organized themselves into the London and Paris club.

(iii) In managing Nigeria's debt, the government should ensure that the momentum of social and economic development in the country as well as the living standards of Nigerians, are not compromised. In this regard, the government should strive to reduce the country's debt service obligation downward on an annual basis. The country's debt service ratio should by 2002, not exceed 20 percent of the total foreign exchange earnings accruing to the government. If necessary, the government should consider employing a strategy of systematic default to ensure that debt servicing does not undermine domestic economic growth and welfare prospects.

(iv) Since the emergence of the Nigerian debt crisis, there has been no comprehensive debt policy to provide the necessary framework for the country's debt

management strategy. In view of the fact that the debt problem has continued to deepen, the time has come to have such policy. The policy should spell out the government's strategy for ensuring domestic economic recovery and growth while meeting its genuine international obligations.

(v) As much as possible, the government should avoid raising loans from the international capital market and other creditors such as the IMF which charge high interest rates and whose money carry short maturity. Emphasis should instead be put on the raising of soft loans on concessionary terms from such bodies as the international development association (IDA), the United Nations development programme (UNDP), and the African development bank (ADB). As a general rule, only soft loans with long maturity should be taken from international lending agencies.

(vi) The Nigerian government should reject outrightly all debts whose sources and usage are questionable. This could be achieved through concerted effort with other third world that has similar questionable debts.

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(vii) The government should continue to call for the covering of an international conference brining together both the creditor and debtor nations to work out a comprehensive, equitable, just and fair solution to the global debt crisis. Such a solution should be part and parcel of a wider package for the rescheduling of the existing international financial and monetary system, which has become archaic and is loaded against the developing countries.

The adoption of the above initiatives would have far reaching effect in solving the country's debt crisis.

5.8 SUMMARY OF CHAPTER FIVE

The World Bank considered Nigeria's structural adjustment programme at inception very comprehensive. The Bank was impressed by the thrust of the outlines of the structural adjustment programmes in Nigeria. Some of the thrusts of the programme include exchange rate liberalization, currency devaluation, banking and financial sector deregulation, oil subsidy removal; privatization of government controlled utilities.

The country's total external debt increased four-folds between 1981 and 1983. The exchange rate of the naira to US dollar began to fluctuate upon the implementation of IMF/SAP policies. The programme succeeded in increasing nominal income by the monetization of the country's petrol-dollar earnings through grossly undervalued naira exchange rates.

As Nigeria's debt grew, so were its debt service obligations. Between 1984 and 1993, Nigeria's external debt service payments for long-term loans and IMF credits amounted to $27.2 billion out of which $13.7 billion or 50% was paid out as interest. The period witnessed a serious net capital flight from Nigeria. Some of the strategies adopted by Nigeria in offsetting its debt servicing obligations include temporary default and debt rescheduling.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 SUMMARY

The theme of this work is impact of IMF loans on the economic development of Nigeria. A critical and extensive investigation has been made and the result has been analyzed. We have seen how the various organs of the IMF interplay. Attention has been given to the fund's credit facilities that are available to the needy nations, such as tranche policy, compensatory financing, buffer stock financing, extended fund facility among others.

Some areas of inadequacy in the fund performance were not left out. Such areas include the size of the fund quotas, conditionalities, the need for medium term facility, exchange rate volatility, etc. Steps to be taken in overcoming these inadequacies have been suggested. We have been able to bring to bear how the fund had underdeveloped the third world nations through its stringent and ill conceived economic measures that benefit no nation except the fund and its western corroborators.

Various tables and data were used In the analysis of the impact of IMF loans on the economic development of Nigeria. The analysis shows that upon taken the IMF loans and implementing some of its stringent economic policies, the country has become poorer, more corrupt and indebted. In fact the level of unemployment has increased b leaps and bounds and the solution to these problems is not forthcoming especially in the short-term.

How the nations debt rescheduling and debt servicing have retarded the growth and development of Nigeria were also examined. Suggesting some steps to be taken in alleviating the country's debt crisis arising from IMF loans concluded the work.

6.2 CONCLUSIONS

It was evident from this work and the vast literature on the current debate on Nigeria's debt and indebtedness and indeed on the debt crisis in the developing countries in general that the underlying assumptions that the developing countries sought and received loans and credit because they did not have enough capital calls for further reexamination.

In the first place, as experience of Nigeria clearly shows, in spite of the fact that no country can claim to have all the financial resources and capital it needed for development, it could safely be argued that lack of capital per se was not the central issue in Nigeria at least in the period 1973 to 1983 when most of the world bank projects were approved. The world bank representative in Nigeria noted in 1987 that within a single decade, Nigeria's earnings from oil exports alone was over $100 billion most of which could have brought far reaching development to the country.

One explanation for the failure of Nigeria to stimulate and expand industrial development was said to be the blatant corruption of the ruling class, which misused and squandered Nigeria's riches. Between 1979 and 1983, virtually all business transactions are inflated by 20 percent or more in order to account for the numerous bribes to be paid to get the job done. One consequence of this was massive misuse and under utilization of resources and self enrichment by those who control access to resource allocation which both weakens the economy and generates political instability.

It is our hope that the present anti-corruption campaign of the government will be successful. President Olusegun Obasanjo having signed the anti-corruption bill into law, every Nigerian owes it a duty to support and cooperate with the present government in fighting corruption in our society.

Whatever the explanations one point remains evident, that Nigeria did not receive loans from IMF and World Bank because it did not have financial resources. The loans were obtained because of the nation's leadership habit of promoting wasteful expenditure on schemes of dubious value.

The restructuring of the economy, which the international financial agencies so much favored, has not brought any dividend. This restructuring is something which the adjustment programme of the IMF and world bank has proved incapable of doing as various aspect of the agrarian crisis such as the problem of food security for Nigerians and the persistence of rural poverty remain unresolved in spite of several years of market reforms. What all of this suggests is that there is still a strong need for an effective developmental state, which is able to address the twin issues of economic rationality and political accountability.

6.3 RECOMMENDATIONS

Over the last few years, the response to the international monetary disarray and the emergence of the debt crisis has been to find temporary solutions. The type of ad hoc arrangements for crisis management that we have witnessed cannot be a substitute for a plan of international monetary reform. Such arrangements have only added to the complexity and fragility of the system, virtually making it a non-system.

If we have to evolve a system where we are not moving from one economic crisis to another as we have been doing for nearly two decades, the role of the fund would need to be redefined so as to make it more responsive to the emerging requirements of the international economy and more specifically to the legitimate needs of developing countries.

Such a redefinition of the role of the fund as part of the effort to bring about a better and more stable international monetary order should be part of thorough international monetary reforms. Such reforms should include inter alia :

(a) The creation and distribution of international liquidity to meet the expanding needs of world trade and the specific circumstances of developing countries;

(b) The widening of the facilities for financing shortfalls in exchange earnings or increase in import payments arising out of factors beyond the control of member countries;

(c) The creation of effective mechanisms for symmetrical surveillance and discipline of both deficit and surplus countries;

(d) The creation of mechanisms for the effective supervision of the activities of the international banking system; and

(e) The establishment of a framework for dealing with international debt crisis and for avoiding such crises in the future.

Moreover, the existing power structure, the ability to bring about reform in the fund's operations and policy would depend upon a greater degree of understanding on the part of the developed countries. Sympathy and compassion have perhaps no place in the lexicon of a financial institution but understanding the problems of the weak in an interdependent

world is not outside the realm of statesmanship in international economic affairs.

Finally, there should be no further delay in moving towards a comprehensive reform of the international monetary system, which would secure the objectives of reasonable exchange and monetary stability and address itself to the special concerns of the developing countries. The convening of an international monetary conference with a development focus as suggested at the New Delhi meeting of the non-aligned summit would be an important step in this direction.

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APPENDIX I

NIGERIA: TOTAL EXTERNAL DEBT SERVICE PAYMENTS ON LONG-TERM LOANS AND IMF CREDITS AND NET TRANSFERS ON LONG-TERM LOANS 1984 – 1994 ($ MILLION)

Year	Total payments	Interest	Net transfers
1984	3,474	1,249	-1,450
1985	4,067	1,299	-2,408
1986	1,765	515	-412
1987	1,074	613	-330
1988	2,176	1,484	-1133
1989	2,207	1,527	-569
1990	3,342	1,848	-2,406
1991	3,347	2,231	-2,503
1992	3,737	1,656	-331
1993	1,981	1,271	-1266
1994	NA	NA	NA
Total	27,170	13,693	-12,817

Source: The World Bank: African Development Indicators 1994 – 1995
The World Bank (1995) Washington D. C. pp. 159 – 162

APPENDIX II

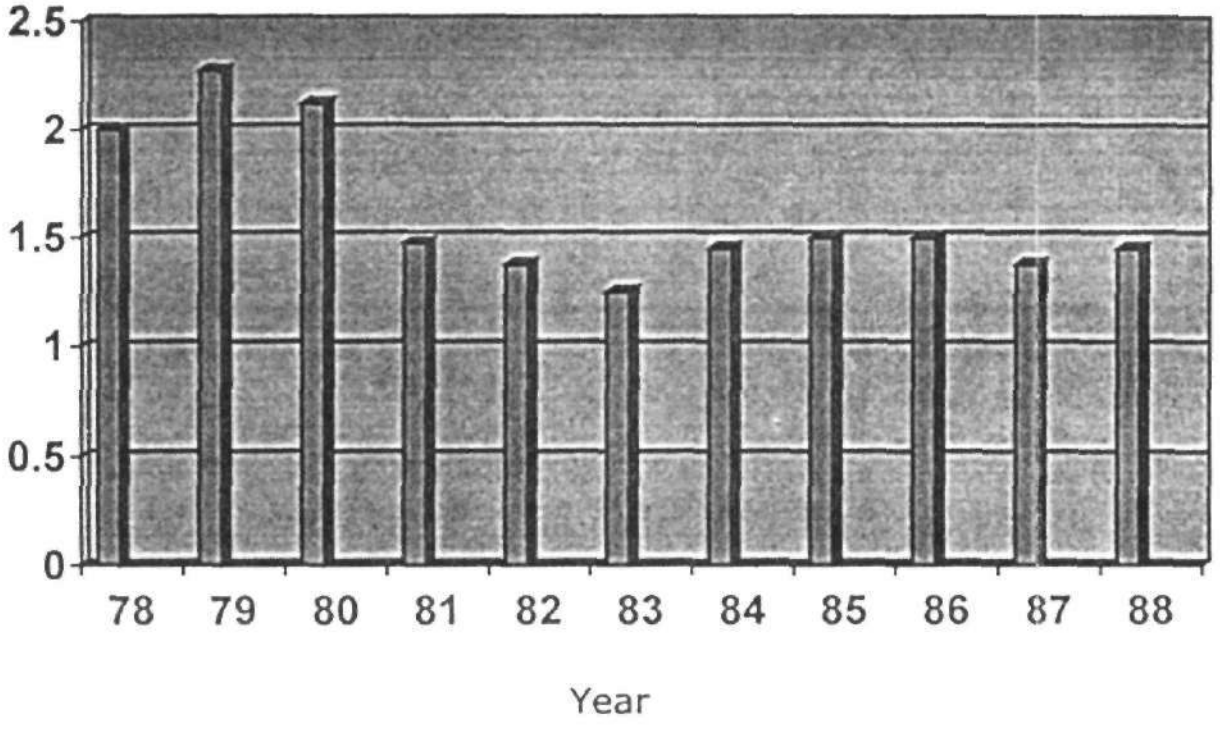
MICRO-ECONOMIC INDICATORS OF THE SOCIAL SECTOR IN NIGERIA AND SOUTH AFRICA AS AT 1994

	NIGERIA	SOUTH AFRICA
Life Expectancy (Males)	48	62
Life Expectancy (Females)	50	67
Birth Rates (per 1000)	46	35
Death Rates (per 1000)	17	8
Infant Mortality (per 1000)	110	51
Literacy (National Average)	51	70*
Doctors/Population	1/6900	1/1320

Source: The World Almanac: A Book of Facts 1994: World Almanac (1994) US. For the White population, literacy is 99% while for the Black population it is 50%

APPENDIX III

NIGERIA'S OIL PRODUCTION: 1978 – 1988
(MILLION BARRELS PER DAY)

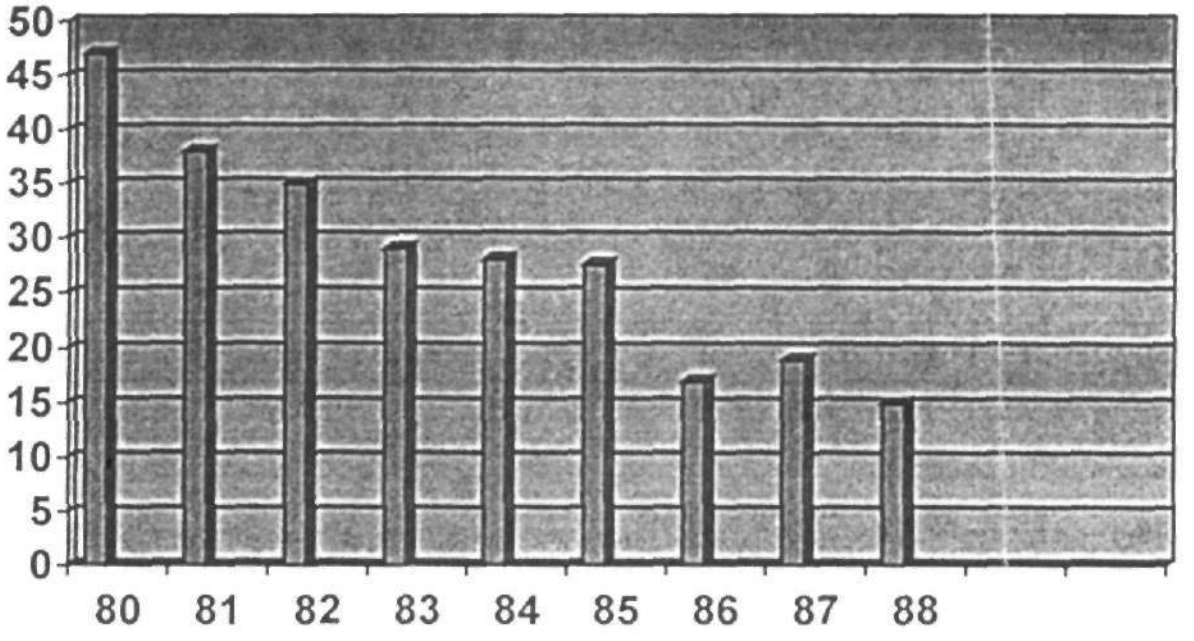


Source: Financial Times, March 1st 1989, London p. 2.

APPENDIX IV

AVERAGE PRICE/BARREL OF BRENT OIL: 1980 – 1988 (US $)

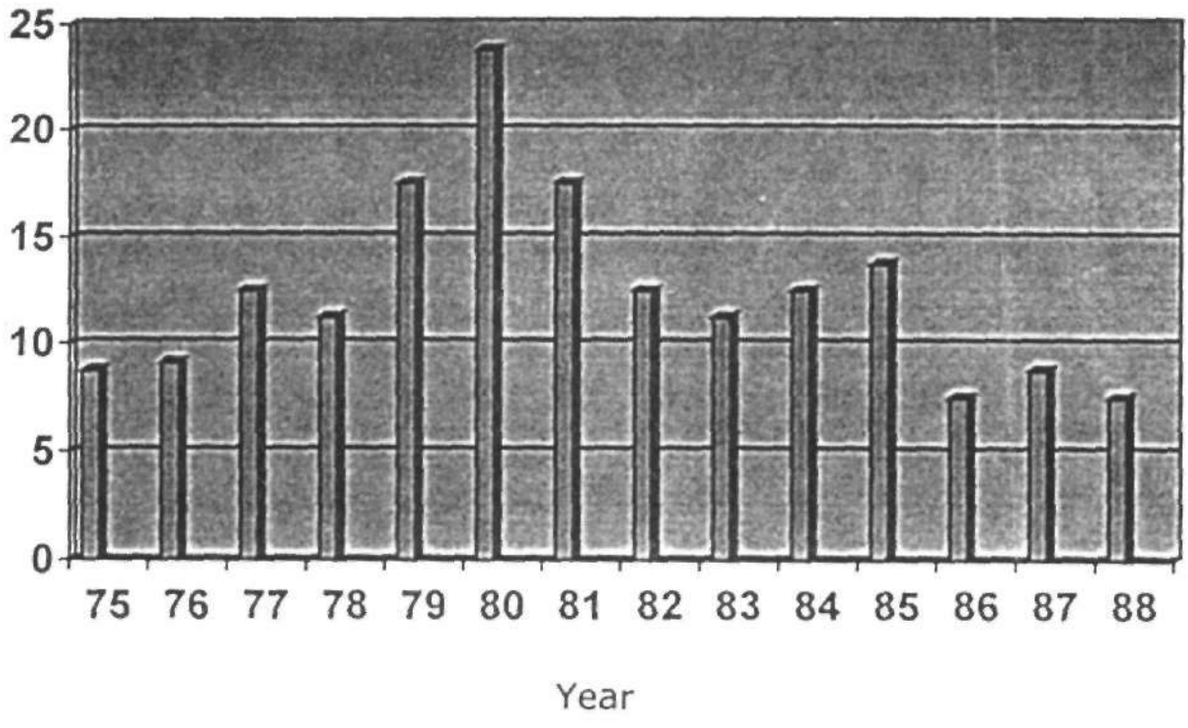
US Dollars



Source: Financial Times, March 1st 1989, London

APPENDIX V

NIGERIA'S OIL EXPORT EARNINGS 1975 – 1988 ($US billion)



Source: Financial Times, March 1 1989. London