Foreign-Sponsored Development Projects And The Poor: The Nigerian Perspective

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Abstract

This study attempts to evaluate the Bretton-Woods Institutions': IMF and World Bank poverty reduction projects in Nigeria since the adoption of the Structural Adjustment Program (SAP). The fundamental problem indicates an overflow of conditionalities -- a symptom of structural weakness and distorted priorities, whereby, policy and decision making were in line with the typical top-bottom paradigm. Consequently, the economic performance during the SAP period was mixed-- economic growth rate rose moderately, however, other performance indicators were floundering. In sum, the study posits that though adjustment is a necessary condition for poverty reduction, nevertheless, any real sustainable economic growth and development policies: planning, implementation, and monitoring would require grassroots consultations, proper mix of monetary and fiscal instruments, and good governance; as sufficient conditions for poverty alleviation.

Introduction

Prior to the mid 1980s, with the exception of oil, Nigeria demonstrated similar economic and institutional characteristics of developing countries: exports depended heavily on a small number of commodities; the domestic capital market was repressed; there were no organized future markets for the Nigerian currency (the Naira); and export taxes represented a significant portion of government revenues. Consequently, the Nigerian economy was in distress and poverty exacerbated. In response, the Nigerian government like many African countries sought relief from creditors and donors such as the Bretton-Woods Institutions (BWI), namely, the International Monetary Fund (IMF) and the World Bank. Thus, the Structural Adjustment Program (SAP)—the centerpiece of the BWI policy reforms program was introduced in 1986 to alleviate the economic deterioration at the macro level, and the resultant economic deprivation at the micro level (Hope, 1999).[1]

In essence, Selowsky (1987) stated the two main areas of SAP as follows: rationalizing the scope and operations of the public sector, and improving the structure of incentives faced by the private sector. In the Nigerian case, SAP was to achieve two main objectives: restructure and diversify the productive base of the economy to reduce over-reliance on the export of crude oil and imports, and to lessen the dominance of unproductive investments in the public sector, and in turn, improve the sectors efficiency as well as intensify the growth potential of the private sector. Following Hope

(1999), to achieve the aforementioned objectives of SAP, the basic policy instruments employed are: 1) exchange rate adjustment via devaluation; 2) control of the money supply and credit ceilings; 3) market-determined interest rate; 4) debt rescheduling; 5) contractionary fiscal policy; 6) deregulation of goods, services, and factor inputs; 7) liberalization of trade and payments arrangements; and 8) the reform of institutions with an emphasis on capacity building for policy analysis, implementing public investments, and privatization of public assets. The major spillover benefit of these objectives or conditionalities was posited to be 'poverty alleviation' through efficient sustainable economic growth and development. Salop (1992), asserted that "sustainable poverty reduction is the Bank's overarching objective." In accordance with the World Development Report (1990), she appraised poverty by addressing the questions of who, why, and what, respectively.[2]
From an economist perspective, this dilemma between poverty reduction and conditionalities can be viewed as an example of the "economizing problem." In other words, limited resources of the recipient nations on behalf of the poor, versus, unlimited conditionalities of creditors and donors. Sachs (1996) captured this predicament-- "It was, alas par for the course when the bank set 111 conditions in its policy framework paper on Kenya." Therefore, this paper attempts to evaluate the BWI (that is the IMF and World Bank) poverty alleviation projects in Nigeria since the inception of the SAP. To this end, the following fundamental questions will be analyzed in the Nigerian context:

1. Who are the poor and why are they poor?
2. What are the BWI strategies for poverty reduction?
3. What are the BWI projects and to what extent have they contributed to economic growth, development, and hence, poverty alleviation?
4. Can the donors or sponsors such as the BWI adapt to change in terms of the needs of the poor in developing nations? In other words, can their approach be client-driven or need-based rather than conditional dictations?

The remainder of this study is organized as follows. The second section primarily reflects a diagnosis of the receiver nation's economy in order to ascertain the necessary prescriptions for the nation's economic malaise. In this context, the Nigerian setting profiles an overview of the nation's economy within the confines of the development projects and macroeconomic performance. The third section analyzes the fundamental questions within the parameters of foreign-sponsored development projects during the SAP period, whereas the last section concludes with a brief summary of findings and policy recommendations.

The Nigerian Setting

Nigeria, a country with approximately 125 million inhabitants has been heavily dependent on oil exports which accounts for about 85 percent of national foreign exchange earnings and about 40 percent of gross domestic product (GDP). As a result, the exogenous price shocks in the international oil market of 1973-74 and 1979-80 resulted in a large transfer of wealth to Nigeria

(Pinto, 1987). Subsequently, the agricultural sector; which was the nucleus of the nontradables decreased immensely, thus exhibiting evidence of the "dutch disease" during the oil boom period. The concept of the dutch disease in the Nigerian context exposed an oil boom vulnerability that led to a shift in the domestic production structure in favor of nontraded goods as traded goods are replaced by cheaper imports (Salehi-Isfahani, 1989). However, the import substitution itself was flawed, mainly because it did not generate any significant multiplier effects on the Nigerian economy—that is, instead of utilizing local raw materials, import substitution industries were externally motivated (Walker, 2000).

Following the collapse of oil prices, Nigeria was besieged by severe economic crisis characterized by economic recessions, external debt problems, financial fragility, and rising inflation. In view of Nigeria's dependency on oil export revenues, it was no coincidence that the decline in oil prices precipitated a balance of payments deterioration and external debt that rose from 12.8 billion naira in 1981 to 21.2 billion naira in 1985. In addition, the external payments position was worsened due to high and rising interest rates in world financial markets which aggravated Nigeria's interest payments on external debt from roughly 0.6 percent of total export earnings in 1978 to 9.7 percent in 1985. As Mosley (1992) noted, real oil prices continued to fall, while government policy was adjusted through a gradual depletion in Nigeria's foreign exchange reserves. As of 1983, it had declined to about one-sixth of a peak 1980 amount (see Table 1). With real output and domestic production falling, high inflation and the deteriorating foreign exchange reserves implied that the monetary authorities could not continue to support the gradual realignment in the volume of the naira. Consequently, economic activities came to a virtual halt as real output declined appreciably during 1980-85 (refer to Table 1).

In response to the economic crisis, the federal government adopted a strategy of economic austerity measures such as strict foreign exchange controls, credit ceilings, and cuts in public investment expenditures. Despite further tightening of the exchange controls and increases in import demand restrictions, the fiscal positions of the federal and state governments continued to worsen.[3] In the period of 1984-87, budget deficits averaged 4.7 percent of GDP, reaching a maximum of 8.8 percent in 1988 (again, see Table 1 for Nigeria's macroeconomic indicators). New policies were adopted when the military regime of General Ibrahim Babangida came to power by force in 1985 declaring its intention to move from "austerity alone to austerity with adjustment" and to seek international financial aid for its program (Tallroth, 1987). At the time, the federal government budget for 1985 consisted of N11.2 billion for total expenditures, while revenues for the year was projected to N6.7 billion for a deficit of N4.5 billion. The dramatic fall in world oil prices in early 1986 (first quarter) kept the Nigerian economy in the depths of recession, and thereafter increased the urgency of more structural reforms.

The federal government responded to the deteriorating economic conditions with a structural adjustment program designed with the assistance of the World Bank. The World Bank support of the Structural Adjustment Program (SAP) began in September 1986 with a trade policy and export development loan amounting to $452 million. The objective of the SAP included the following: to restructure and diversify the productive base of the economy in order to reduce dependence on oil and imports; to lay the foundation for long-term economic growth by encouraging exports, to strengthen fiscal and balance of payments position, to improve the efficiency of the public sector, and to intensify the efficiency of the private sector's growth potential.

The main strategies of the SAP comprised of the adoption of a realistic exchange rate policy as well as the liberalization of the external trade and payments system complemented with an appropriate pricing policies in all sectors with more reliance on market forces and reduction in complex administrative controls. In essence, the Second-Tier Foreign Exchange Market (SFEM) was launched in September 26, 1986 in order to reduce the overvaluation of the naira exchange rate.[4] In 1987, the SFEM and the first-tier rate which was kept for an interim period with its use reserved for debt service and public sector payments to foreign organizations and embassies; were combined in what was known as the Foreign Exchange Market (FEM) system.

Mosley (1992) preliminary assessment of the SAP in the period immediately preceding the SAP and during the SAP, suggested that the performance of the Nigerian economy from a macroeconomic viewpoint was better since the implementation of the SAP.[5] In this regard, the next section evaluates the BWI projects in Nigeria within the context of its main objective, namely, 'poverty alleviation.'

Table 1 Nigeria Macroeconomic Indicators 1980-1990

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Real Growth of GDP	5.3	-8.4	-3.2	-6.3	-5.2	-5.3	3.4	-4.7	3.9	5.8	4.9
Investment/GDP	21.8	27.5	21.6	16.8	12.3	9.6	14.0	11.1	12.0	12.4	
Public Private											
Current Acct./GDP	5.6	-7.4	-8.8	5.7	0.2	1.7	-4.6	-0.3	-0.4	1.3	8.7
Reserves Monthly Average	5.8	2.0	1.2	1.0	1.7	2.0	1.9	1.6	1.0	2.2	4.4
Debt Service Ratio							30.0	12.7	28.4	17.4	17.7
REER[6]	100	111	114	134	185	166	91.0	29.0	30.0	25.0	24.0
Budget Deficit/GDP							2.8	10.0	11.1	7.1	

Source: Mosley (1992)

Analysis

The BWI proudly asserts "poverty alleviation" as its main objective, and hence, utilize various programs and projects as means to this end. In the case of Nigeria, the analysis of the BWI development programs and the poor, focuses on addressing the aforementioned fundamental questions in the introduction.

Dimensions Of Poverty

In general, White and Killick et al (2001) categorized poverty in Africa as "chronic versus transitory, poor versus destitute, and the dependent versus the economically active poor." Their assertion follows the World Development Report 2000/2001: Attacking Poverty; which postulated that "poverty is multidimensional." As such, Narayan (2000) noted the World Bank study of more than 60,000 poor men and women from 60 countries that professed poverty as the inability to exercise control over their lives. For instance, old men in Nigeria, posited that "if you want to do something and have no power to do it, it is taluchi—poverty." Essentially, the World Bank study concluded that poverty is characterized by powerlessness and voicelessness – symptoms which reduce the choices of the poor as well as define the quality of their associations with employers, markets, government, and nongovermental organizations. Further, the report inferred that poverty is perpetually and specifically targeted to a location and a social group. In any case, differences notwithstanding, the experience of poverty by different groups and different places are common in different countries, from Russia to Brazil, Nigeria to Indonesia.

Statistics have shown that the poor are more likely to be located in rural areas and urban slums of major cities (see Table 2). Internal migration from rural areas, nonetheless, has increased the population of the poor in urban centers. Given the case of Nigeria, Table 2 illustrates that in 1985, the population of the poor living in urban areas is significantly less than the nationa1 average, compared to the same figures in 1992-93. As a result, the population has become very urbanized at the end of the structural adjustment period—a significant portion of the population remains unemployed and underemployed (Odulana and Olomajeye, 1999). Their study indicated a general consensus by participants that "poverty simply means not having enough – a condition when one experiences a shortage of the basic necessities of life including money, food, and shelter." This observation supports Salop (1992) appraisal of poverty with a poverty line – "the level of income associated with a minimum acceptable level of nutrition and other necessities of everyday life and a count of the people whose incomes fall below it."

Table 2 Nigeria National Poverty Line[7] Survey of Population below the Poverty Line

Year	Rural %	Urban %	National %
1985	49.5	31.7	43.0
1992-93	36.4	30.4	34.1

Source: World Bank, World Development Indicators, 2001.

Causes Of Poverty

Since poverty is multidimensional, incidentally, it follows that the causes of poverty can be traced to a multitude of factors—for example, according to White and Killick (2001), may be classified by: 1) social process – economic, political, social/demographic, and situational (such as remoteness); 2) level—international, national, (macro), and household (micro) – examples include poor economic performance, and lack of education; and 3) primary and proximate causes – political and social with a poor environmental record and demographic factors, as well as low rates of economic growth as a result of the political system.

Specifically, in the Nigeria example, the discussants in the study by Odulana and Olomajeye characterize the causes of poverty as: low and uncertain income, unstable livelihoods, a surbodinate status in the social structure, and residence in unplanned, uncontrolled, unserviced, or inadequately serviced settlements among categories of workers, self-employed, and unemployed, and their dependents.

Bwi And Poverty Reduction

Generally, the BWI rely on the following strategies for assisting Sub-Saharan African countries to reduce poverty -- broad-based labor intensive growth, social services improvement, and targeting assistance to the poor. In line with World Bank (1997), the BWI strategy for poverty alleviation consists of three operational phases: research and assessment, discussion and strategy formulation, and implementation.

Research and assessment phase focuses on poverty assessment based on household surveys, poverty profiles, participatory poverty assessments, beneficiary assessments, public expenditures reviews, country economic memoranda, and sector reviews. The discussion and strategy formulation phase relies on the country dialogue and on the development of the country assistance strategy -- the central document outlining the World Bank's operational strategy in a country. Finally, the implementation phase involves lending and nonlending outputs and evaluations of performance.

Bwi Projects In Nigeria

The central issue of this study begs the question: what are the BWI projects, and their contributions to poverty alleviation? The remainder of the analysis section attempts to answer this question beginning with the BWI projects in Nigeria from 1986-91 (the SAP period) as illustrated in Table 3.

Table 3 shows that the key sectors of the economy, namely, agriculture, industry, and trade make up more than 50 percent of the expenditures of the BWI projects in Nigeria. No surprise, given that the conditionalities of the SAP concentrate mainly on the promotion of non-oil exports and lessening the inefficiencies in the public sector, while intensifying the growth of the private sector. Thus, agriculture, industry, and trade were the main beneficiaries with 19, 21, and 12 percents of the BWI-sponsored development projects, respectively.

Conversely, Table 4 indicates that although the agricultural and industrial sectors improved slightly during the later years of the SAP (1988-91); the same case could not be made for the trade sector—where the terms of trade (TOT) was floundering during the SAP era. This poor showing of the TOT index could be attributed to the initial devaluation and subsequent depreciation of the naira exchange rate in order to boost exports, and foreign exchange earnings intended for external debt payments and service (see the REER indicator in Table 1).

Invariably, this export-led growth strategy was initiated to correct the overvalued naira exchange rate and corollary price distortions implicit in the non-oil export sector. Unfortunately, this strategy contributed to a lackluster Nigerian economy because non-oil exports, mostly agricultural commodities (cash crops), are price inelastic in terms of demand. Consequently, devaluation and depreciation of the domestic currency (the Naira), lowered export prices which increased the quantity of cash crops demanded and exported (Nwafor, 1997). However, since the prices are demand-inelastic, the decrease in price due to devaluation or depreciation lead to a decline in total revenues (foreign exchange earnings) and, was used as a reason for subsequent depreciation as evidenced in 1987-91. The continuous depreciation for more foreign exchange earnings contributed to the demand-pull and cost-push inflation as indicated by the consumer price index (CPI), particularly from 1988-91. Hence, this vicious cycle of export-led growth using devaluation and/or depreciation as a tool to boost exports and foreign exchange receipts undermined the main objective of the SAP, that is, poverty alleviation, given sustainable economic growth and development.

Table 3 BWI Projects in Nigeria: 1986-91

Project Name	US$M	Sector	Approval Date
National Agricultural Research	78	Agriculture	6-11-91
Health System Fund	70	Health	5-21-91
National Water Rehabilitation Fund	256	Water and Sanitation	5-21-91
National Population	78.5	Health and Population	5-07-91
Oso Condensate Field Development	218	Oil and Gas	4-09-91
Primary Education	120	Education	12-31-90
Telecommunications	225	Telecommunications	6-26-90
Oyo State Urban	50	Urban Development	6-26-90
Federal Universities Development	120	Education	5-24-90
National Seed and Quarantine	14	Agriculture	3-29-89
Essential Drugs Program	68.1	Health and Nutrition	10-17-89
Tree Crops	106	Agriculture	10-17-89
Power System Maintenance	70	Electric Power and Other Energy	8-29-89
Refineries Rehabilitation	27.7	Industry	6-29-89
Multi-State Agricultural Development	100.9	Agriculture	6-13-89
Imo Health and Population	27.6	Health, Nutrition and Population	3-30-89
Trade and Investment Policy Loan	500	Industry	12-22-88
Small and Medium Scale Industry	270	Industry	10-20-88
Multi-State Agricultural Development	85.2	Agriculture	8-25-88
Lagos State Water Supply	173.2	Water Supply and Sanitation	7-28-88
Highway Sector Loan	250	Transportation	6-16-88
Technical Education	23.3	Education	3-29-88
Infrastructure Development Fund	69.5	Urban Development	3-29-88
Forestry	71	Agriculture	10-21-86
Trade Policy and Export Development	452	Multisector	10-16-86
Borno State Agricultural Development	25	Agriculture	7-15-86
Livestock	81	Agriculture	7-08-86
Transport Parastatals	20.9	Transportation	6-26-86
Multi-State Agricultural Development	162	Agriculture	6-26-86

Source: The World Bank (Internet Site: Worldbank.org)

Note: Pipeline Projects are excluded.

US$M= Millions of U.S. dollar.

Table 4 Key Sector Indicators of Nigeria's Economy: 1980-91

1987 Billions of Naira

Year	80	81	82	83	84	85	86	87	88	89	90	91
Agriculture	39	32.6	33.4	33.3	31.7	37	40.5	39.2	43	45	46.9	48.8
Industry	50.5	45.4	43.5	37.1	36.9	38.9	36.6	35.6	39.1	42.1	44.8	46.7
Services	27.9	31.8	31.8	31.1	28.4	29.7	30.5	32	35.2	37.8	39.8	42.3
Index TOT	186	203.8	188.5	182.6	184.5	167	83	100	71.5	85.1	103	87.1
CPI	35.4	42.7	46	56.7	79.1	85	89.9	100	154.5	232.5	249.6	282

Source: World Bank, World Tables, 1994

Conclusion And Policy Recommendations

The real challenge for policymakers is to address the question commonly posed by critics, that is, "can the donors or sponsors of development projects adapt to change with respect to the needs of the poor in developing nations?" Specifically, how effective have the BWI strategies been in alleviating poverty in light of the multidimensional causes of poverty?

First and foremost, the study finds that the BWI strategies of poverty reduction involve a plethora of sub strategies which comprise of several conditionalities that tend to overlap and overflow. In the Nigerian case, it appears that these overflow of conditionalities were not client-driven or need-based, but rather based on the interest of various departments within the BWI. Thus, exhibiting lack of leadership and inefficiency. Basically, implementation plans follow the typical top-bottom paradigm, with policies and decisions made without consulting the poor. Invariably, Sachs postulated that "the main challenge for the new bank president, James Wolfensohn, is not, as is sometimes suggested, mainly managerial. It is conceptual: to set priorities."

Secondly, the study infers that adjustment and the attendant projects of the BWI generally improved real economic growth to an average of 2.6 percent from 1986 to 1991. Nevertheless, this real growth rate is far below what is needed to significantly alleviate poverty -- policy analysts for the World Bank and IMF have stated in various position papers that Sub-Saharan African countries require at least an average of 5-7 percent growth rate to attain necessary spillover benefits for the poor. Moreover, although statistics show that poverty was reduced nationally, nonethelesss, poverty became more urbanized from 1985 to 1992-93 period. Subsequently, a significant portion of the population remained unemployed and underemployed. This was mainly attributed to lower priority given to tradable goods by the federal government of Nigeria in favor of cheaper imports. As a result, the multiplier effects that would have been gained domestically by investments in traded goods were forgone, thereby, further aggravating the incidence of poverty.

Thirdly, the study indicates that agricultural and industrial sectors' improvements notwithstanding, the trade and cost of living indicators -- terms of trade (TOT) and the consumer price index (CPI), respectively, deteriorated. In effect, undermining the main objective of the BWI and the corollary SAP, notably, poverty alleviation, given sustainable economic growth and development.

In view of these findings, it is imperative that the Ngerian authorities, donors, and sponsors of development projects listen to the voices of the poor in general, and particularly, women-- since women and their children consist of the majority of the poor. Furthermore, given the fact that women are the main primary care providers for children and the elderly; empowering women economically via public transfer payments (health and education, et cetera), tax incentives (exemptions), and market incentives (small business loans) would enhance their standard of living, hence, reduce poverty. Indeed, adjustment should seriously include the voices of the poor and the powerless as the main cornerstone of the research and assessment phase of poverty reduction strategies. Essentially, the poor should be the major and direct beneficiaries of poverty alleviation programs. Unnecessary conditionalities and other administrative red tapes should be jettisoned.

In addition, central to a viable economy is macroeconomic stability -- for instance, avoiding stagflation as well as excessive fiscal and external payments imbalance through proper mix of fiscal and monetary policies. In so doing, the Nigerian authorities, together with like nations, and their development partners such as BWI, should take into consideration debt forgiveness as part of the poverty reduction package with due respect to what some pundits call the "moral hazard" problem.

Finally, another key element to a sustainable poverty alleviation scheme is good governance. In a 1999 address during the transition of military to civilian rule in Abuja, Nigeria, the managing director of the IMF, Michel Camdessus; stressed the importance of good governance as a fundamental tenet of the BWI new approaches to poverty reduction in the forms of: democratically-elected government, an uncompromising respect for the rule of law, a renewed emphasis on transparency and accountability, in conjunction with a clear and unambiguous commitment to equity in society. A welcome development and adaptation to changing times with respect to the grassroots, especially, the poor -- whom have been marginalized in the political, social, and economic arena.

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[1] As Hope noted, SAP was a combination of two types of policy responses—stabilization policies which are the domain of the IMF and structural adjustment policies which are the province of the World Bank.

[2] Who is poor? Assessed with a poverty line (the level of income associated with a minimum acceptable level of nutrition and other necessities of everyday life) and a count of the people whose incomes fall below it. Why are they poor? Based on the profile of the poor in order to help diagnose the constraints to poverty reduction. What should policymakers do about it? Recommended actions to enhance the poverty-alleviating impact of country policies, public expenditures, and institutional development.

[3] Given the collapse of oil prices in 1984-85, revenues declined—the budget was projected at an oil price of US $23.5 per barrel versus an actual US $17.25 per barrel. Thus, a deficit of N4.7 billion was accumulated in spite of a 19.4 percent cut in defense spending.

[4] The value of the naira was discounted by 66 percent, trading vis-a-vis the US dollar at $1 = N4.6 versus the administered rate (first-tier rate) of $1 = N1.6.

[5] Mosley further asserted that the result was the same for a control group of African countries surveyed which did not adopt the SAP.

[6] REER—The Real Effective Exchange Rate is defined as the Nominal Effective Exchange Rate (NEER) adjusted for relative price movements in both the domestic and foreign countries, respectively.

[7] National poverty rate is the percentage of the population living below the national poverty line. National estimates are based on population-weighted sub-group estimates from household surveys.