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# Aid and Policy Reform in Nigeria

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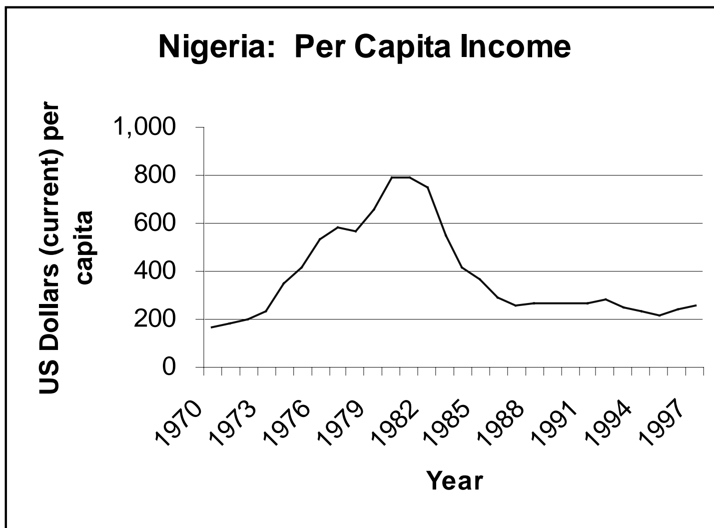
Recent discussions of the effectiveness of foreign aid have focussed on Africa because that region has received the greatest amount of aid (on a per capita basis) but policy reform has been the weakest (Holmgren: 1998, p. 1). Nigeria must have a critical role in any analysis of why foreign aid has been so ineffective because the country's one hundred and eighteen million people account for roughly twenty percent of the sub-Saharan Africa's total population (World Bank: 1998a, p. 191). At the same time, given its bountiful oil resources, Nigeria's economic performance has been startling poor. Per capita income has suffered a significant erosion since the highpoint in the early 1980's (not coincidentally when oil prices were at an historic high) and the country has not been able to escape dependence on petroleum exports. The World Bank's (1998b, p. 103) judgment that, "almost nothing positive has happened. . . in Nigeria in the past three decades" is harsh but not inaccurate.




Nigeria has received less foreign aid (on a per capita basis) than other countries in Africa. . While average net per capita real Overseas Development Assistance (ODA) for African countries (1990- 96) was $52, Nigeria received just $2.2 per person. As a percentage of Gross National Product, net ODA for Nigeria was less than one percent in the period, while it averaged 14 percent for sub-Saharan Africa (O'Connell and Soludo: 1999). Rather, debt rescheduling, including the rescheduling of private debt (again,

unusual for Africa) has been as or more important than foreign aid flows during most periods of Nigeria's economic history. As a result, the power of the international financial institutions (IFI's) comes from their unique ability to provide "certificate of good health" that are a necessary element of private debt rescheduling

This paper will examine the relationship between foreign assistance, debt rescheduling and policy performance between 1970 (when the civil war ended and oil began to dominate the Nigerian economy) and 1998. The paper will place particular emphasis on the reforms attempted during the presidency of Ibrahim Babangida (1985-1993) because these were the most comprehensive ever attempted in Nigeria and because, at points during this period, Nigeria was receiving more aid, on a per capita basis, than the average for other countries in this study. As the new Obansanjo government takes power in Nigeria, the lessons of the previous major episode of reform will be particularly relevant because Nigeria still faces the fundamental challenge of removing policy distortions and lessening the dependence on petroleum exports.

The rest of the paper is organized as follows. First, a brief discussion of Nigerian political economy is presented. The following section is an overview of aid intensity, sources and uses. In particular, we examine how the *character* of aid can affect policy design and implementation. We then evaluate the context and environment for policy reforms, paying attention to the politics of policy choice, the specific policies and implementation record. We also examine the interaction between aid and the nature and effectiveness of reforms. The conclusions presents the lessons derived from the Nigerian case.

Nigerian Political Economy

Chief Obafemi Awolowo noted in 1947 that one of the fundamental problems facing Nigeria was that at the time it was, in many ways, little more than "a geographic expression (Joseph: 1987, p. 184)."[1] The post-colonial period witnessed far-reaching political, economic, and social programs aimed at accelerating the processes of nation-building within a federal system. Today, Nigeria is much more than a geographic expression and has taken on many of the characteristics of a modern nation-state. Nevertheless, a constellation of ethnic, regional, religious, and class conflicts continue to pose tremendous problems and still have the potential (as demonstrated in the civil war of 1967-1970) to seriously threaten national unity. These conflicts have had a significant impact on the economic policy-making and on the reform process. Indeed, many of the economically inefficient public investment projects that successive governments have embarked upon since the early the 1970's can be attributed directly to the myriad ethnic, regional, and religious competitions that are always a component of Nigerian politics.

As a result, resource allocation has always been central to Nigerian politics. Nigerian governments have always had to mollify fears in southern Nigeria of Hausa/Fulani political domination while at the same time attempting to win the confidence of the peoples of the relatively more underdeveloped north through the deliberate allocation of industrial, infrastructure, and commercial assets. Indeed, the peoples of the south, especially in the oil producing areas, sometimes openly protest the "enrichment" of the "north" via the state at the expense of the "south."

[1] This section is partly based on Herbst and Olukoshi (1994).

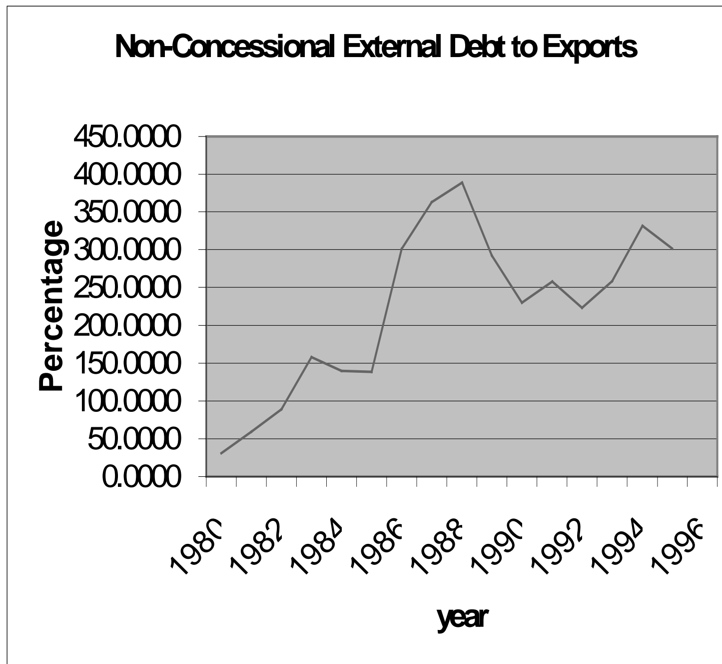
The tendency toward clientelism and patrimonialism was greatly aggravated by the oil windfall that Nigeria received in the early 1970's due to increases in production and the OPEC price increases. In 1970, oil exports equaled N510 million, a decade later it had increased to N14,186.7 million. Since almost all of the oil revenue was funneled through the state, government expenditures increased by over 3,000 percent during the same period (Federal Office of Statistics: 1991, 7-8). As a result, control of the state became exceptionally valuable and the explosion of oil revenue fuelled the creation of ever larger and more elaborate patron-client networks. Indeed, the oil boom greatly expanded the ranks of the indigenous trading, contracting, and manufacturing classes, many of whose members were utterly dependent on the state for their continued existence. With the robust flow of oil revenue, it seemed in the 1970's and early 1980's that government revenue could indefinitely finance public projects at what was, for a still-poor African country, an extravagant level.

The great inflow of revenue caused by the oil boom also created other strong constituencies that continue to lobby the central government for significant budgetary allocations. The public expenditures program of the state was greatly expanded so that utilities and social services were delivered relatively cheaply. For instance, primary education was made free and mandatory, creating an enormous market for school building construction and textbooks, all of which had to be allocated through the state. A strong exchange rate also enabled the importation of cheap food and consumer goods for the population. Moreover, speculators, contractors, commission agents, importers of all commodities, local and foreign manufacturers, and the urban working class all benefited to varying degrees from the massive increase in state expenditures.

Finally, the military was well-rewarded, especially in terms of imported equipment and other expensive perquisites.

As a result, the availability of government revenue to reward constituencies, fund public works programs, and buyoff opponents is the central consideration for any Nigerian ruler. For many good reasons (including the desire to build schools and roads), leaders in Lagos are vitally concerned that they have access to the maximum amount of revenue possible in the short-term. However, since government revenue also goes to buy support for both leaders and, at some fundamental level, national unity, leaders are vitally concerned about their immediate access to revenue for political considerations. Indeed, given the history of coups and instability in Nigeria, it is understandable that the elite in Lagos view the fluctuations of availability of government revenue in the short-term as literally a life or death consideration. The notion that any Nigerian leader can be a champion of reform, as the World Bank now says (1998b, p. 104) is necessary, is particularly problematic given the political pressures that leaders face.

It is therefore necessary to have a model of leadership behavior that takes into account politics. Otherwise, as is the case with Moser, Rogers and van Til (1997, p. 45), Nigeria's failure to reform is not readily explainable. To measure the pressure that government leaders were under to reform, we use non-concessional debt as a percentage of total exports. This fraction serves as a relatively good proxy of how much




revenue government leaders had available in light of their almost complete dependence on oil for government revenue and given the repayment schedule that they had committed themselves to. Note that the model explicitly assumes that debt rescheduling and oil revenue are essentially interchangeable, a realistic provision given the need of Nigerian rulers for maximum revenue in the short-term.

Aid and Nigeria

Aid has not been nearly as an important component of Nigeria's political economy as has been the case in other African countries. There are three reasons for this. First, the well known bias of donors against countries with large populations tends to work heavily against Nigeria given its status as the giant of Africa (see, World Bank: 1998b, pp. 41-2). Second, Nigeria's extravagant oil wealth made it appear to many donors that it might not need aid. This sentiment was occasionally encouraged by Nigerian leaders who, especially in the 1970's, pictured their country as the superpower of Africa. As a result, Nigeria agreed not to demand significant concessionary inflows as part of the Lomé agreements. Finally, the outrageous nature of corruption in Nigeria[2] and the sheer difficulty of working in Lagos has undoubtedly deterred many aid agencies.

Chart one displays net overseas development assistance by all donors on

**Chart one about here**

a per capita basis to Nigeria and the average for the nine other countries in the study (Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Mali, Tanzania, Uganda, and Zambia). For most of the last twenty-five years, Nigeria has received far less aid on a per capita basis. However, Nigeria is not immune to trends in foreign assistance; indeed, Nigeria's trajectory clearly tracks the average of the rest of the sample for most of the period. The late 1980's and early 1990's are a dramatic break from the general pattern: in those years Nigeria received far more money on a per capita from all donors than was the case for the rest of the sample. When both the economic reforms and the political transition proposed by the Babangida government began to unravel after 1993, aid to Nigeria declined sharply, reverting to its historic position below the rest of the sample.

Tracking inflows from multilateral donors demonstrates much the same pattern. Nigeria received far less on a per capita basis than the average for the

**Chart two about here**

rest of the study except for the period in the late 1980's and early 1990's and for an exceptionally brief spike in the late 1970's. Via subtraction, it is clear that both the multilateral and bilateral donors approached Nigeria (vis-à-vis the rest of the sample) in much the same manner over the last twenty-five years.

[2] In its 1998 ratings, Transparency International rated Nigeria tied for eighty-first out of eight-five countries in terms of perceptions of businesspeople, risk analysts, and others familiar with the country. See, Transparency International at: http://www.gwdg.de/~uwvw/icr.htm.

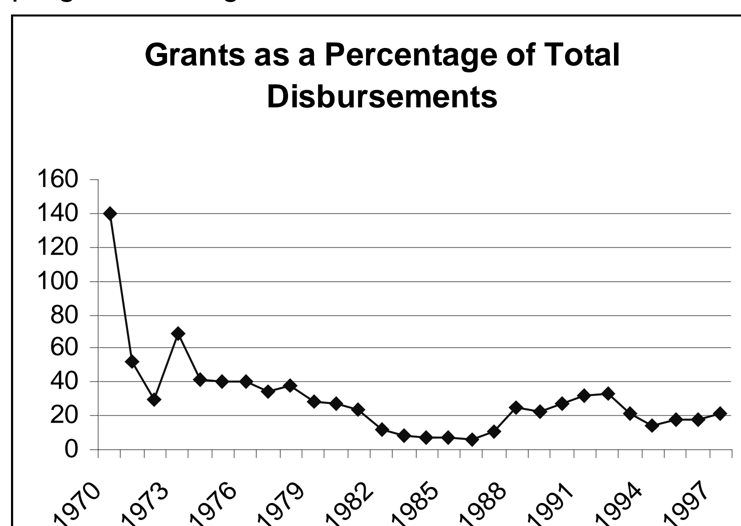
When funding is disaggregated by source, it is clear that Nigeria received far more funds from the World Bank, as a percentage of its total flow of disbursements from all creditors between 1970 and 1997, than is the case for the average of the sample.

Disbursements by Creditor (Percentages of total aid received)

| **Source** | **Nigeria** | **Nine other Countries** |
|---|---|---|
| African Development Bank | 18.8 | 14.3 |
| Canada | 0.6 | 1.7 |
| EC | | 0.4 |
| Denmark | | 0.8 |
| Finland | | 0.3 |
| France | | 8.0 |
| Germany | 3.3 | 4.5 |
| Italy | | 3.8 |
| Japan | 5 | 6 |
| Netherlands | 0.2 | 0.7 |
| Norway | 0.4 | 0.3 |
| Sweden | | 0.7 |
| Switzerland | | 0.1 |
| United Kingdom | 0.8 | 2.3 |
| United States | 6.1 | 5.5 |
| World Bank | 63.6 | 52.3 |

Not surprisingly, very few of the small donors in particular tend to work in Nigeria because they prefer countries where they can make some impact.

Nor did Nigeria receive any concessional IMF flows throughout the period. Even in the Babangida period, when reform was nominally at the top of the government's agenda, Nigeria refused an IMF loan, despite the Fund's formal role in monitoring the program. The government was afraid to take the loan given popular fears that the money would be spent on supporters of the regime.




Further, Nigeria has became progressively more

dependent on World Bank loans throughout the period as grants from the bilateral donors have gradually declined over time. For instance, United States' aid went from $30 million in grants in 1970 to $1 million in 1977 and did not increase significantly again until the early 1990's (the high point was 1991 when American grants totaled $44 million). After the Babangida program failed, American aid went to zero. As the chart indicates, grants as a percentage of disbursements declined significantly throughout the 1970's and 1980's. Grants did rise when total aid increased in the late 1980's and early 1990's as many bilateral donors who had fled Nigeria returned to support the Babangida program. However, when the political and economic reforms began to collapse, grants declined even more than total disbursements. After General Sani Abacha took control in 1993, Nigeria became increasingly isolated from the international community.

As is the case for all other countries in the sample, the distribution of disbursements to Nigeria by sector did evolve over time. At least two factors are at work: the evolving needs of Nigeria and changes in the overall aid regime. Not surprisingly, in the early 1970's, sectors associated with basic infrastructure

**Table one about here**

received the greatest amount of money as development thinking was still guided by the two-gap model. Thus, transport and storage; electricity, gas, and water production; and communications dominated disbursements, accounting for seventy-four percent of all aid in 1970. By 1979, when the basic human needs philosophy was probably at its operational highpoint, those three sectors received only fourteen percent of total disbursements to Nigeria while community, social, personal and environmental services

hit its high point of fifty percent (this sector had been thirteen percent in 1970). In the late 1980's and early 1990's, the period when Nigeria was receiving significant inflows on a per capita basis, balance of payment support, which had been almost non-existent before 1986, came to dominate overall disbursements. When the reform program collapsed, balance of payment support returned to almost zero

As a result of Nigeria's relatively low inflows of official aid and its ability to borrow, however briefly, in the 1970's and 1980's against its then robust oil revenues, debt rescheduling is far more important than foreign aid. In the critical seven year period of adjustment between 1986 and 1993, total rescheduling of principal and interest payments was US$18.5 billion, averaging about $2.6 billion per annum. Of these, average annual rescheduling of private debt was $2.04

**Table two about here**

billion, with the residual annual average of $596 million rescheduled from official debt. Put differently, the total annual debt service payments due was about $3.6 billion, which was about 10% of GNP, 40% of oil export receipts, and more than 70% of government spending. Without debt rescheduling arrangements that reduced the actual service payments to about $1.0 billion annually, it is difficult to see how the government could have coped. In contrast, of the countries in the sample, DRC, Côte d'Ivoire, Mali, Tanzania, and Uganda had close to zero private debt flows. For the other countries in the sample, private flows as a percentage of official (excluding IMF) flows are 21% for Ethiopia, 28% for Ghana, 26% for Zambia. However, private flows were eighty-eight times larger ($617 million compared to seven million) than official flows for Nigeria between 1992 and 1996. Only Kenya had a remotely similar ratio (official flows are

ninety-two percent of official flows) but it is coded as a moderately indebted low income country while all of the others (including Nigeria) are severely indebted low income countries (World Bank: 1999, p. 10). Indeed, Nigeria is the only African country whose net transfer to the creditors was substantially negative (-$8.6 billion) for the 7 year period of reform between 1986 and 1992 (O'Connell and Soludo: 1999).

Adjustment in Nigeria

Due to the collapse in oil prices and the accumulation of poor policies, debt repayment as a percentage of exports began to rise quickly in the early 1980's. As a result, the government of Shehu Shagari (1979 to 1983), which had assumed that oil prices would remain buoyant forever, was forced to contemplate adjustment. The Shagari administration enacted the 'Economic emergency and stabilization Act' of 1982. These measures targeted the manifest excesses in government spending and tried to curb the persistent deficit in the balance of payments through stringent import and exchange rate controls. Negotiations with the World Bank and the International Monetary Fund commenced in 1983 as the crisis deepened, but being an election year, the government did not dare to even give the impression that it was going to institute tougher reforms.

Shagari was toppled in a military coup by General Muhammadu Buhari on the eve of 1984. Among the reasons given for the overthrow of the regime were: the enduring economic crisis and the hardship which it entailed, corruption, and decay of social services. Buhari suspended the negotiation with the international financial institutions, and instead embarked on a stringent fiscal retrenchment program, initiated an anti-corruption crusade, and imposed import and exchange rate controls. Under this regime, it was a crime to be found in possession of foreign currency. Without an agreement with the

international financial institutions, debt service payments could not be rescheduled, but the government could also only partially service the debt. The economy groaned under the weight of the austerity measures, and there were no explicit measures to ensure longer-term viability.

By the time General Ibrahim Babangida took over in a palace coup in August 1985, the economy was in dire straits and the government was starved for revenue. Non-concessional debts as a percentage of exports reached 138% that year, in 1980 this fraction had only been 31 percent. The fraction would quickly rise to 301% in 1986. The government was facing a profound fiscal challenge that also challenged all of Nigeria's traditional political practices of state-centered clientelism. It was therefore imperative that the government reach an agreement with the IMF, both to receive new funds and, critically, to enable it to begin debt rescheduling talks with the private lenders.

In a clever maneuver to prepare Nigerians for the painful adjustment to come, Babangida orchestrated a national debate which was somewhat deceitfully couched in terms of whether or not Nigeria should take the IMF loan and the accompanying conditionalities. When the outcome of the debate was announced in early 1986, it was predictable. Nigerians, it was said, had rejected the IMF loan/conditionality, but instead agreed to embark on their own 'home grown' adjustment measures designed to ensure "economic reconstruction, social justice and self-reliance." Consequently, a fifteen month national economic emergency was declared by Babangida. As he told Nigerians in his January 1986 budget speech:

> in my silver jubilee address to you on 1st October 1985, I declared a state of national economic emergency for a period of 15 months. This action was dictated

> by the serious economic problems facing us- huge foreign and domestic debts, a rapidly declining per capita income, a high rate of unemployment, severe shortages of raw materials and spare parts for our industries, and a high rate of inflation. We Nigerians all agreed the solution to these serious social and economic problems must be found through our own efforts at own pace and our volition, consistent with our own voluntary national interest. We are determined more than ever before to harness our own homegrown efforts to solve our problems and set a new path for the future (Babangida: 1995).

Much of the motivation for this convoluted strategy was derived from movement in the oil spot market from $27 per barrel in December 1985 to $9 per barrel in May 1996 (Biersteker and Lewis: 1997, p. 308).

While this speech pandered to the emotions of the eminently proud Nigerians who hated the intervention of any external agency in their internal affairs, Babangida did not tell them two things. First, he did not tell Nigerians how this 'homegrown' program would be fundamentally different from the typical IMF program (or whether the difference would simply be that it was designed (copied?) by Nigerians). Second, Babangida did not tell Nigerians how their supposedly 'unique' program would be sustained without reaching an agreement with the international financial institutions and, critically for Nigeria, private creditors on debt rescheduling as well as garner possible new financing (given the binding budget and balance of payments constraints). Subsequent events showed that this political strategy, while clever in the short-term, was not viable because at some point the government in Lagos had to take ownership of what was, in the finally analysis, a very conventional program if the reforms were to succeed. In retrospect, it is clear that

Babangida should not have been considered the type of reformer that the World Bank now says is necessary:  one with a "long-term vision at the local or national level (World Bank: 1998b, p. 116).  His limited and halting embrace of reform was simply too problematic.

While the 1986 budget committed to the general principles of a typical structural adjustment program (fiscal retrenchment, monetary controls, devotion of 30% of exports to debt servicing, etc), it still insisted on 'not devaluing the Naira overnight', and thus maintaining the import licensing system.  However, by July 1986, the limited success of the stabilization program was obvious, and  Babangida admitted in his broadcast of July 1, 1986, that:

> we were aware that the successful outcome of the economic stabilization program depended on a favorable and stabilized foreign market; good weather for agricultural production; effective implementation by the public bureaucracy; and an inherent political understanding and mass support. Our experience on each of these factors has so far been a mixed one (Babangida:  1986)."

This admission paved the way for further actions and an intensification of negotiations with the multilateral institutions.

However, while Nigeria effectively began to embark on what appeared to be the standard reform package backed by the World Band and the IMF across the world, the official rhetoric insisted that it was adjustment Nigerian-style.  Even as Babangida was launching the reforms July 1, 1986, he assured Nigerians that:

> Our international creditors appreciate our commitments in the path of agro-structural adjustment which we have started for ourselves. They have remained in useful dialogue with us to ensure successful implementation of our programs.  We

are particularly gratified that the major international financial institutions have come to recognize and to agree with this administration's position not to take the IMF loan, and not to devalue the Naira overnight (Babangida: 1986).

In his budget speech of January 13, 1987, Babangida, sensing the increasing cynicism of Nigerians to the claims of full 'ownership' of the reforms, assured them that:

> "Once again, the real or assumed roles of the international institutions in the conduct of our affairs must be put in their right perspectives. In my Republic Day address last 1st October, I affirmed that we have neither sought nor obtained any loan from the International Monetary Fund, but in line with our normal rights and entitlements, the World Bank, of which we are a member, has assisted us with a moderate resource backing to help the kick off of SFEM. Our structural adjustment programs was produced by Nigerians for Nigerians (1987)."

It was, in fact, obvious that the Nigerians had the technical ability to design an adjustment program. Unlike many sub-Saharan governments, Nigeria, which has a population ten times larger than the average African country, has a critical mass of trained technocrats who can readily accomplish much of the preparatory and technical work the IMF and the World Bank are forced to do elsewhere on the continent. Indeed, in 1987, in spite of the huge brain drain, Nigeria set up "a technical aids corps scheme to assist African countries which regularly requested Nigerian personnel in specific fields. Under this scheme, young Nigerian professionals in such fields as medicine, engineering, surveying, teaching, law, agriculture, veterinary medicine and others. . . were sent to other African countries requesting assistance to work for a period of two years in the first instance (Babangida: 1987)."

There was also a clear understanding within the bureaucracy of the structural problems that Nigeria faced. Indeed, Finance Minister Dr. Kalu Idika Kalu captured this sense when, during one of his many interventions in the debate over structural adjustment, he stressed that the question was not whether Nigeria should take the IMF loan and the accompanying conditionality but whether it could afford not to do so. The Annual Reports of the Central Bank of Nigeria and analysis in the independent business press also indicated that there was no shortage of economists with technical skills who had a persuasive diagnosis of what was wrong with the Nigerian economy and prescriptions to fix the problem that fell well within the emerging Washington Consensus.

To assist in implementing the economic recovery program, the President also relied on a core group of officials from the key economic ministries and the Presidency. Particularly prominent were the ministers and director-generals of the Ministries of Finance and Budget and Planning, the Governor of the Central Bank, the Secretary to the Federal Military Government, and their advisers. Besides this core group, the President also established the Presidential Advisory Committee (PAC), independent of all ministerial control and located in the Presidency. Headed by a prominent economist, the PAC became a key part of the economic policy formulation and budget production process, providing a platform for internal debates on policies and ways to manage their repercussions. This “change team”—to use the language of the day—was designed to be independent of politics but they had to report to a leader who was still deeply embedded in the Nigerian political system.

Nigeria's problem is less about knowing what is the “right economics” then being derailed when attempts are made at policy implementation. Some useful technical

assistance was provided by the IFI's but the Nigerian government had the basic technocratic capability to design the reforms. Indeed, the government's strategy of denying that it was adopting an IMF-type program essentially foreclosed on it developing a relationship where technical assistance could have become even more important. Critically, technical assistance, as the Nigerian case clearly shows, is a political matter in African countries given the widespread distrust of the IFI's. Those who believe that technical expertise can be provided in an apolitical manner until a country is ready for structural adjustment may, as the Nigerian case clearly indicates, underestimate how controversial these reforms still are in African countries.

**Implementation**

A two year full adjustment program was announced on July 1, 1986, the highpoint of which was the promulgation of the decree establishing the Second-tier Foreign Exchange Market (SFEM). SFEM came into effect in September 1986, and instantly caused the depreciation of the by Naira by 66%. Liberalizing the foreign exchange market was considered the linchpin of other subsequent reforms affecting the financial sector, trade, and the product markets. According to the Central Bank of Nigeria (1986), the broad objectives of the reform program were to:

> (i) restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports; (ii) achieve fiscal and balance of payments viability over the period; (iii) lay the basis for a sustainable non-inflationary or minimum inflationary growth; and (iv) lessen the dominance of unproductive investments in the public sector; improve the sector's efficiency and intensify the growth potential of the private sector. The policy strategies in terms of

> the main measures to be adopted were: (i) a realistic exchange rate policy coupled with the liberalization of the external trade and payments system, (ii) appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative controls; and further rationalization and restructuring of public expenditure and custom tariffs.

With the introduction of the SFEM, the import licensing system was effectively abolished, and the large and depreciation of the real exchange rate substantially reduced the black market premium on the Naira. These changes were important steps towards a more open trade regime. Another major institutional reform was the abolition of the marketing boards in order to eliminate the implicit overtaxation of the agricultural sector by the exploitative boards.

As they were enacted, there was mass rioting against structural adjustment measures (especially in 1988 and 1989) and unrepentant and venomous criticisms from all sections of the society. The opposition, led by university students, labor and losers from the reforms, was monumental. At the same time, the pro-reform coalition was extremely limited. Even those who might benefit from the reforms had a significant problem identifying themselves as winners. The structural problems in the Nigerian economy (including a problematic infrastructure, limited credit system, and an extremely difficult business environment) prevented businessmen from becoming enthusiastic about price reforms, no matter how politically difficult they were.

The implementation of the reform program was therefore uneven as it experienced frequent reversals. Several factors accounted for this inconsistency. Of course, the reforms measures were technically hard to implement, sometimes contradictory, and vied

for resources and leadership attention with the political transition that was occurring simultaneously . Indeed, many analysts reckon that from 1989, the political transition grossly overshadowed economic reforms. With a regime that was especially sensitive to public opinion and eager to please the opposition, public resources were freely used to bribe the opposition. Some extravagant but politically savvy programs, such as the successive rounds of state and local government creations, were implemented. Second, it was not clear how determined the government was to reform the economy as opposed to simply lifting the constraint on resources that it faced. Finally, the reforms were politically unpopular.

For example, the government's response to the riots of 1988 and 1989 was to embark on a set of reflationary measures designed to cushion the effects of the policy changes. The Babangida government raised the minimum wage, unfroze wage rises in the public sector, and removed the ban on civil service recruitment. Furthermore, in reaction to the demand for economic reform to acquire a 'human face"-- a phrase made popular by the recently elected president, Olusegun Obasanjo-- the government embarked on a series of initiatives to aid vulnerable groups and sectors. This effort included the establishment and funding of the National Directorate of Employment (NDE), the People's Bank (for lending to artisans, petty traders, and all those without the usually required collateral); the Directorate of Food, Roads and Rural Infrastructure (DFRII); the Better Life program (designed to empower rural women); and a variety of urban mass transit schemes. While these programs consumed significant public resources and were politically popular, their impact on the poor was dubious.

Of course, the government was able to spend more because, as debts were rescheduled, the amount owed as a percentage of oil revenue began to decrease. Inevitably, however, budget deficit soared, money supply rocketed, and inflation and balance of payments deteriorated as the Babangida government became less concerned about enforcing austerity. The fungibility issue is particularly severe in Nigeria because the preferences of the Nigerian government are strikingly different from the international donors (World Bank: 1998b, p. 63). Certainly, it is absolutely clear from Nigeria that, absent a constructive policy environment, aid and debt rescheduling are useless and possibly counterproductive. For reform to be institutionalized, government leaders must be motivated by something other than the amount of government revenue that is immediately available.

The consequences of these stop-go reforms were mixed. Inflation generally averaged more than 40% per annum but the trade balance remained positive (though the current account still deteriorated). GDP growth rate average about 5% per annum during the period. However, the economy remained essentially monocultural and dependent on oil for exports, and agriculture for employment. The budget deficit as ratio of GDP also gyrated from year to year, and in 1993 it rocketed to about 13 percent of GDP. The effect of the reforms were always problematic because the halting nature of the effort meant that initiatives, when they were implemented, had to be of a large magnitude in order to make up for the policy slippage of the previous period. Correspondingly, the dead-weight losses associated with the suddenly introduced measures were large as individuals and businesses were unable to adjust quickly (Moser, Rogers and van Til: 1997, p. 44). In

other words, reform had begun to make a difference in some areas but it was hardly institutionalized four years after adoption.

<u>1990-1991: Coping with the Oil Windfall</u>

The oil "boomlet" of 1990-1991 provided an excellent test of the degree of institutionalization of key aspects of the economic reform program. Indeed, given that the weak link in Nigeria's structural adjustment program had been fiscal policy (due to the importance of government revenue to leaders), the oil windfall associated with the Iraqi invasion of Kuwait in August 1990 presents an ideal opportunity to test the degree to which the Babangida government had been able to institutionalize controls on spending. Certainly, the suddenly rapid rise in oil prices after August 1990 had a profound effect on Nigerian finances. The World Bank estimates that total oil export revenue in 1990 was $14 billion, a 49 percent increase over the level for 1989 (World Bank: 1991, p. 404). As the chart shows, the ratio between nonconcessional debt and oil exports declined from 292 in 1989 to 230 percent in 1990. Relative to previous years, there was suddenly far less pressure on the fiscus with the result that the leverage that the IFI's had through influencing debt rescheduling was severely reduced.

The Nigerian government said, from the start of the Persian Gulf crisis, that it was going to treat the increase in revenue as a temporary exogenous shock that would not have a long-term affect on the level of spending. Indeed, General Babangida, in his 1991 budget address, went out of his way to stress that his administration had learned the lessons of the 1973 and 1979 oil windfalls and was committed to handling the huge increase in revenue in a responsible manner. Babangida said that "most of the extra earnings [from the oil windfall] were in fact sterilized in building up the nation's foreign

exchange reserves (Babangida: 1991, pp. 5-6)." If the money had been treated in such a manner, it would have been nothing short of a revolution in Nigerian finances given the fiscal irresponsibility of previous regimes over the last twenty years.

However, the pressure on the Babangida regime to increase spending after the invasion was powerful. First, as noted in the previous sections, opposition to the structural adjustment program was still strong and a visible pro-reform coalition had not developed. Indeed, the manufacturers' association had announced in April 1990 that first quarter capacity utilization had actually decreased below the 1989 level. The regime therefore felt the need to increase expenditures in order to buy popular acquiescence. Second, in April 1990, there was also an amateurish coup attempt by junior officers which came surprisingly close to succeeding. While the coup-makers grievances centered around ethnic and religious issues (they declared that the states in northern Nigeria were expelled from the federation), Babangida felt it necessary to buy more support from the military. As a result, a large expenditure program for the rehabilitation of the police and military barracks was embarked upon; spending on security, including a proposed but controversial National Guard, was increased; new weapons were procured; and special grants to improve the welfare of officers were approved. For instance, in February 1992, $50 million was allocated to purchase 3,000 Peugeots for the private use of captains and majors in the Nigerian Army. Similar Presidential gifts were promised to the officers of the Navy and the Air Force. Third, the states made a strong appeal for their share of the oil revenue. Finally, more money may have been needed to grease the wheels of the political transition program.

In the face of this increased spending, the IFI's were essentially powerless. As there was suddenly more revenue available to the Babangida government, its desire to reform the economy automatically declined. Funds from the outside (aid—that was largely used for balance of payment assistance-- plus debt relief plus oil inflows), which were treated as largely fungible by the Nigerian government, were no longer moving in lock-step with reform. The World Bank (1998b, p. 51) has noted that in Ghana and elsewhere, the receipt of outside funds had to be correlated with reform to make the new initiatives successful. However, an oil producer can receive a windfall that will make other sources of outside funds (aid, debt rescheduling) much less salient than is the case in most African countries. Indeed, as the beneficial effects of the rescheduling and the oil boomlet occurred at roughly the same time, the government in Lagos may have felt particularly unmotivated to carry on with the politically unpopular and technically difficult adjustment exercises.

In fact, it appears that the government ratcheted up spending almost as soon as the spot oil market responded to the Iraqi invasion by dramatically increasing the price of crude. Total expenditures as a percentage of GDP increased from 21.2 percent in 1989 to 26.4 percent in 1990 (Herbst and Olukoshi, 1994), causing the overall deficit to **increase** (despite the revenue windfall) from 7.9 percent of GDP to 10.1 percent (Central Bank of Nigeria: 1991, p. 2). The government increased expenditure massively by funding the intervention in Liberia and the purchase of new military equipment (estimated cost $250-$500 million), failing to curb spending on the Ajaokuta steel plant (initial price was $1.4 billion, final price estimated at $4 billion), continuing the commitment to a dubious $2.4 billion aluminum smelter, and sponsoring the 1990 OAU

summit ($150 million) (Keeling: 1991, p. 4). A World Bank report completed in early 1991 also noted that there was:

> a breakdown in fiscal and monetary discipline in 1990 . . . not only characterized by additional spending and monetary expansion but also by a major surge in expenditures bypassing budgetary mechanisms for expenditure authorization and control (Quoted in Holman: 1992, p. 14).

The report noted that "significant domestic currency spending appears to have occurred without any apparent budgetary authorizations." In particular, the report noted that inconsistencies in the Federal Stabilization Account, if they are equivalent to actual expenditures, "imply spending outside normal accounting and budgetary mechanisms which exceed total budgetary non-debt service spending of the Federal government in 1990 (Quoted in Holman: 1992, p. 14)." The reform package essentially came apart. At this point it should have become clear that Babangida was not a champion of reform, if there was any doubt beforehand. Similarly, our simple model of Nigerian leadership behavior appears to be vindicated.

Any notion of Nigerian reforming was finally ended when General Abacha had the political transition program aborted in June 1993 and took power directly a few months later. Abacha had extremely bad relations with the IFI's and the major bilateral donors because of disagreements over human rights and poor economic policies. Debt rescheduling and foreign assistance dropped to zero as Nigeria became isolated from Africa, the Commonwealth, and the international community. The new leader coped with the decline in oil revenue by printing money to finance the government deficit (Moser, Rogers and van Til: 1997, p. 39). Abacha also ruled with particular brutality in

good part because the traditional levers of Nigerian politics that were available through the creative use of government revenue disappeared after the donors began to boycott Lagos. The debt to export ratio climbed perceptibly until the government and economy were in crisis. Abacha died in 1998 and now the new Obasanjo government must start over again to try to reform the Nigerian economy.

## Conclusions

Nigerian leaders before 1985 understood the economic crisis they faced but failed to address it. The Babangida government attempted to address the complex issues that contributed to the impoverishment of Africa's largest country but failed to implement a coherent program. These failures came about because the logic of austerity and economic reform is anathema to the clientelistic system of Nigerian politics. Of course, the money the donors provided gave the Babangida government some breathing room. However, in an odd manner, it was both inadequate and too much. It was inadequate because the government still faced a grave fiscal crisis and was under a far greater revenue constrain than in the early 1980's. As a result, some patronage opportunities were not available to the new government and (for this and other reasons) it became deeply unpopular. At the same time, the money provided (through assistance and rescheduling) was too much because when it was combined with the additional oil revenue from the post-Kuwait invasion spike in 1990, the Babangida government tried to revert to politics as usual. It did not have enough money to return to the status quo ante but the immediate impetus for adopting the reform program was no longer there. The donors could never have provided enough money for Babangida to get the reform program

through the old-fashioned way via bribes and patronage. As a result, the program floundered on its own contradictions.

The mantra of the latest study on aid effectiveness (World Bank: 1998b, p. 58) is "if commitment, money—if not, ideas." This is a laudable notion and represents a substantial rethinking by the World Bank. By 1991, it was clear that the government was not committed to the reform package and therefore the money from the IFI's and the donors was not consequential. However, the Nigerian program also did not fail because of a lack of ideas. Discussions between Nigerian authorities and the International Monetary Fund, the World Bank, and the bilateral donors were useful but not nearly as important as in other African countries where there is an absolute lack of technocratic knowledge. What is needed is to develop new ideas about how Nigerian politics should operate, something that the World Bank, the IMF, and the bilateral donors cannot provide. Only the Nigerians can do that.

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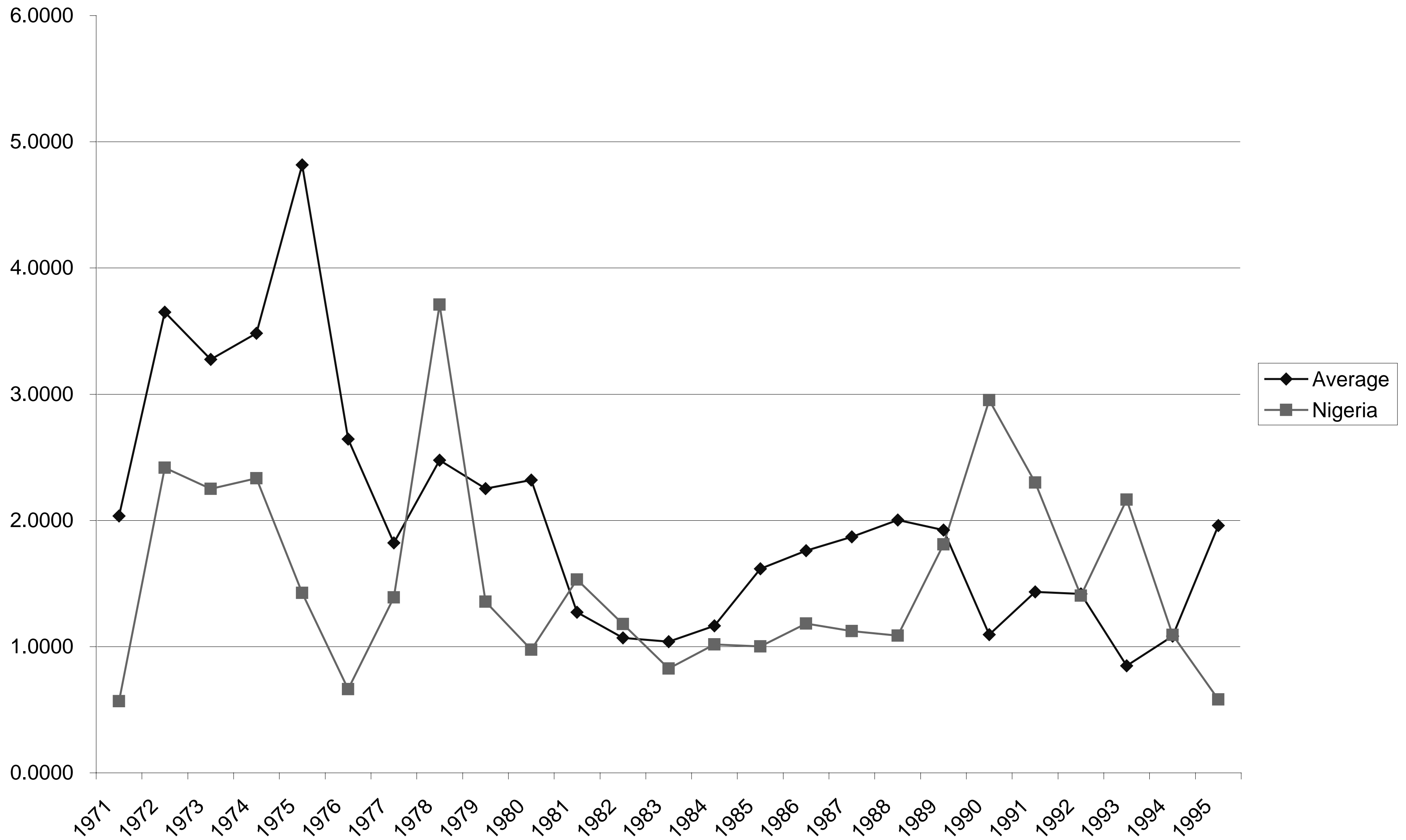
Table: 2: External Debt Service Profile (US millions of dollars)

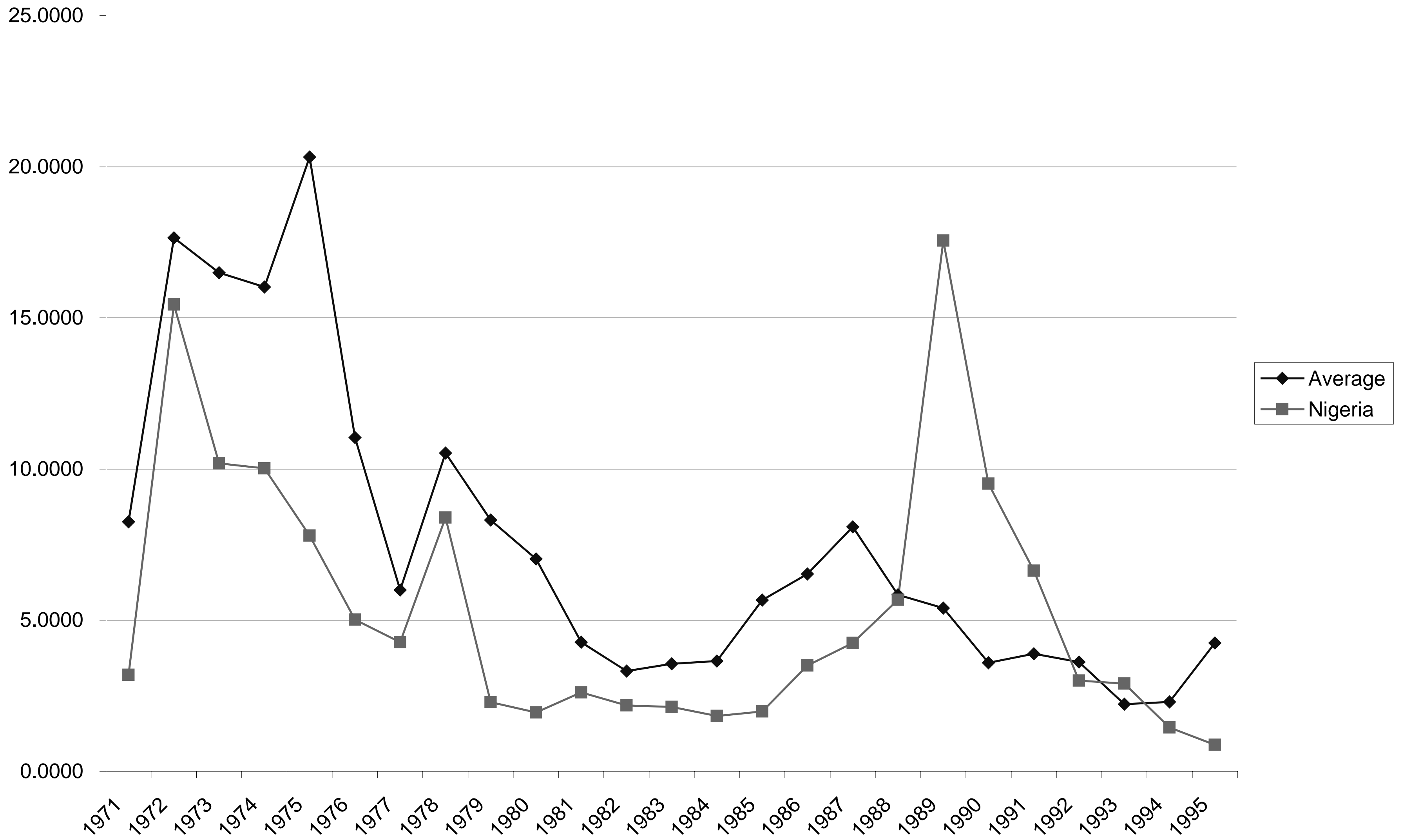
| Year | Principal Rescheduled | Official Rescheduled | Private Rescheduled | Interest Rescheduled | Official Rescheduled | Private Rescheduled | TOTAL RE-SCHEDULED | REPAYMENTS PLUS RESCHEDULING | Principal Repayments | Net Transfers | Total Debt Stock |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1981 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 634 | 634 | 1,305 | 12,108 |
| 1982 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 833 | 833 | 1,607 | 12,815 |
| 1983 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1148 | 1,148 | 407 | 18,422 |
| 1984 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2217 | 2,217 | (2,183) | 18,435 |
| 1985 | 21 | | 21 | 7 | | 7 | 28 | 3546 | 3,518 | (3,702) | 19,324 |
| 1986 | 3,673 | 44 | 3,629 | 343 | 23 | 321 | 4016 | 5241 | 1,225 | 427 | 23,164 |
| 1987 | 5,459 | 71 | 5,388 | 500 | 40 | 460 | 5959 | 6389 | 430 | 552 | 30,039 |
| 1988 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 812 | 812 | (1,448) | 30,718 |
| 1989 | 2,879 | 684 | 2,194 | 1,206 | 569 | 637 | 4085 | 4692 | 607 | (499) | 30,122 |
| 1990 | 1,280 | 1,090 | 191 | 169 | 149 | 21 | 1449 | 2629 | 1,180 | (2,376) | 33,440 |
| 1991 | 1,731 | 589 | 1,142 | 834 | 568 | 266 | 2565 | 3427 | 862 | (2,130) | 33,527 |
| 1992 | 327 | 277 | 51 | 60 | 49 | 11 | 387 | 2265 | 1,878 | (3,174) | 29,019 |
| 1993 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 579 | 579 | (897) | 30,699 |
| 1994 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 746 | 746 | (1,223) | 33,092 |
| 1995 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 918 | 918 | (1,344) | 34,093 |
| 1996 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1418 | 1,418 | (2,153) | 31,407 |
| Total (1986-92) | 15,349 | 2,755 | 12,595 | 3,112 | 1,398 | 1,716 | 18,461 | 25,455 | 6,994 | -8,648 | |
| Average (1986-92) | 2,193 | 394 | 1,799 | 445 | 200 | 245 | 2,637 | 3,636 | 999 | -1,235 | |

Sources: World Bank, World Debt Tables, 1989-1990 (Washington: World Bank, 1990), pp. 282-5 and World Bank, Global Development Finance, 1998 (Washington, DC: World Bank, 1998), pp. 408-11.

Table 1: Sectoral distribution of aid to Nigeria (Percentages)

| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **AGRICULTURE, FORESTRY, FISHING** | 0 | 0 | 0 | 0 | 0 | 0 | 26 | 36 | 40 | 30 | 29 | 36 | 49 | 16 | 26 | 22 | 11 | 18 | 21 | 19 | 24 | 17 | 27 | 28 | 28 | 14 | 13 |
| **BALANCE OF PAYMENTS SUPPORT** | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 34 | 38 | 24 | 58 | 46 | 17 | 3 | 0 | 0 | 2 | 3 |
| **COMMUNICATION** | 33 | 11 | 2 | 8 | 3 | 0 | 1 | 1 | 0 | 0 | 1 | 15 | 24 | 2 | 0 | 10 | 3 | 3 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 1 | 1 |
| **COMMUNITY,SOCIAL,PERSONAL & ENVIRONMENTAL SERVICES** | 13 | 36 | 47 | 17 | 12 | 13 | 12 | 11 | 17 | 50 | 27 | 7 | 3 | 13 | 11 | 11 | 11 | 12 | 29 | 8 | 8 | 10 | 23 | 20 | 26 | 32 | 30 |
| **CONSTRUCTION** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| **CONTRIB.TO FINANCE CURRENT IMP** | 0 | 12 | 4 | 0 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **ELECTRICITY,GAS,& WATER PRODUC** | 24 | 11 | 8 | 6 | 25 | 36 | 30 | 25 | 15 | 0 | 11 | 24 | 4 | 6 | 13 | 16 | 15 | 12 | 18 | 9 | 8 | 14 | 18 | 31 | 31 | 31 | 20 |
| **FINAN.,INSUR.,REAL ESTATE,BUS.** | 5 | 3 | 2 | 3 | 2 | 0 | 0 | 0 | 0 | 3 | 14 | 14 | 7 | 1 | 2 | 6 | 6 | 6 | 3 | 4 | 7 | 9 | 5 | 1 | 6 | 2 | 4 |
| **MANUFACTURING** | 8 | 4 | 5 | 8 | 3 | 5 | 3 | 11 | 5 | 3 | 2 | 1 | 0 | 9 | 45 | 34 | 19 | 11 | 3 | 1 | 2 | 15 | 2 | 7 | 2 | 7 | 14 |
| **MINING,QUARRYING** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 15 | 8 | 2 | 0 | 0 |
| **OTHER CONTRIBUTIONS** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 52 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TRANSPORT & STORAGE** | 17 | 22 | 28 | 59 | 44 | 45 | 28 | 16 | 23 | 14 | 16 | 2 | 14 | 1 | 3 | 1 | 1 | 1 | 1 | 0 | 6 | 1 | 5 | 5 | 5 | 11 | 13 |


Net ODA per capita, Multilateral Donors
6.0000
5.0000
4.0000
3.0000
2.0000
1.0000
0.0000
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
Average
Nigeria


Net ODA per capita, All Donors
25.0000
20.0000
15.0000
10.0000
5.0000
0.0000
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
Average
Nigeria