“Conditionality and its Effects on Development Finance Ownership: The Case of Nigeria”

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CONDITIONALITY AND ITS EFFECTS ON DEVELOPMENT FINANCE OWNERSHIP: THE CASE OF NIGERIA

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Introduction: The Country Nigeria at a glance

Going by the most recent national census held in 2006, Nigeria has a population of over 140 million inhabitants. It is the most populated country in Africa and accounts for more than 25 percent of the population of sub-Saharan Africa. Between it and the republic of South Africa they account for more than 50 percent of sub-Saharan Africa GDP. Nigeria as a member of Organization of Petroleum Exporting countries produces an average of 2.3 million barrels of oil per day and it is reckoned to be the sixth largest oil producer in the world. Nigeria spans a geographical area of 924,000 square kilometers, and it is bordered by the Gulf of Guinea, the Cameroon, the republics of Benin, Niger and Chad.

The country in addition to being endowed with oil, has a wide variety of solid mineral resources including deposits of coal, tin ore, kaolin, gypsum, gold, columbite, barites, graphite marble, tantalite, uranium, sulphur, salt and soda, most of which are yet to be exploited in commercial quantities. It is also blessed with rich arable land which is about 75 percent of the country's total land area, and of which less than 50 percent is under cultivation. With low level of industrialization agriculture remains the dominant economic activity, contributing on the average over 45 percent of annual total GDP, while oil remains the dominant foreign exchange earner. The principal non-oil export commodities are cocoa and rubber which between them account for more than 60 percent of non-oil merchandise. Given Nigeria's size, location and potentials the country occupies a strategic position in African policy space as far as the economic and political agenda of the continent are concerned.

Conditionality and Foreign Aid in Nigeria

It is generally assumed by Western donor countries that part of the challenges of underdevelopment is the deliberate perpetuation of poor governance by a few elite over the generality of the populace. The resulting poor governance is often characterized among others things by acts of repression and of exploitation of their people; fostering unnecessary military build-ups; enacting and condoning fiscally irresponsible measures; taking environmentally irresponsible decisions, or allowing a laissez-faire attitude on this; and often are guilty of (or lenient about) overt corruption and other undesirable traits such as tribalism, nepotism, gender discrimination or ethnic cleansing; they often are not accountable to anybody on these counts and, for this reason, are highly unpopular both at home and abroad. Consequently it is considered that withholding international bilateral or multilateral non-emergency assistance from such a government is justifiable in most, if not in all such cases, unless certain minimum conditions are met by such recipient governments,(Hewitt de Alcantara, 1993).

Nigeria in its forty years plus of post independence development effort has had some of these manifestations of bad governance under various administrations particularly in the two to three decades under military rule prior to 1990. Similarly it has over the same period moved from being a major aid dependent country in the sixties, to greater reliance on domestic resources for development finance, as its oil wealth grew steadily over the decade of the 80s and 90s. Inexplicably however its external debt grew over the same period such that as at 1999 it was estimated at about U.S. $33 bill largely owed to the Paris club. It is estimated that as at 2006 the share of ODA in the country's development fianance had whittled down to less than 0.5%, [Fed. Govt.2006].The insignificant contribution of ODA to development finance not withstanding, the country is actively engaged with the international development architecture through its involvement with the Breton woods institutions. Their conditionalities were imposed on the country as a necessity for securing favourable terms in debt rescheduling negotiations aimed at mitigating the impact of the heavy debt servicing burden. Since exiting the Paris club in 2005/2006, the government has put a new ODA policy in place [Fed. Govt. 2006]. The primary thrust of the new policy is that of reliance on domestic resources, complemented with external aid biased in favour of, technical assistance and for which the country is willing to continue to welcome self-imposed conditionality through IMF/World Bank supported Policy Support Instrument (PSI).

The country and IMF Conditionality

Just as developing countries vary in their level of accountability or the lack of it that justifies conditionality as pre-requisites for dispensing aid and technical assistance, it is also possible to differentiate between different types of conditionality. IMF's conditionality most often pertains to stand-by or other loans to support countries' balances of payments. They are generally perceived as neoliberal, monetarist, mostly macroeconomic conditionality that are used as a threat of reducing all external resource flows that leave developing countries little or no room for manouver , and are often given on take it or leave it basis. Usually the Fund's conditionality is either low or high[1]. The country's attitude to development aid finance continues to be influenced by conditionality that have moved from high to low conditionality and from mandatory sanction attracting provisions to voluntary policy propositions and guide-lines.[2]

[1] For detailed discussion of taxonomy of conditionality see Dubey (1993)

[2] The country through its voluntarily adopted PSIs is required to state "policy understandings" as actions that the government agrees to undertake, and that do not have any explicit sanctions associated with their non-performance. This form of low conditionality sets out preconditions and performance criteria which may include among others general commitment to cooperate with the IMF in setting policies reducing government spending, budget deficits, and foreign (external) debt; reducing the rate of money growth to control inflation; ending government monopolies to encourage privatization; deregulating industries; reforming the banking sector; redirecting domestic credit from the public to the private sector; ending government wage, price, and interest-rate controls and government subsidies; raising real interest rates to market levels; removing barriers to export growth; lowering tariffs, ending quotas, and removing exchange controls and discriminatory exchange rates; and maintaining adequate levels of international reserves.

Conditionality and Ownership of development finance System

On the issue of the country's leadership and ownership in relation to the development architecture, the Nigerian case exhibits some degree of complexity that may be absent in other countries. As earlier indicated, in terms of magnitude of intervention in the development agenda, external aid currently plays no major role in development financing in Nigeria. However when it comes on to shaping the development agenda the policy intervention of the international development architecture looms large particularly from the BWIs – the International Monetary Fund and the World Bank. Consequently we have this peculiar situation in which there is no overarching dependence on external aid for development finance, and yet there is an inexplicable craving for international support and approval of every domestic policy initiative or program embarked upon. There are a number of plausible explanations for the inability of the authorities to hitherto own and provide leadership in the execution of the country's development agenda.

The most obvious explanation which can be readily dismissed is that of neo-colonial dependency; which makes the country to still look on to the metropolitan country for support and approval. A more plausible explanation would include among others the realities of a mono cultural economy that is over ninety percent dependent on the export of oil whose price and volume of exports are exogenously determined. This simple structure of the economy in which there is preponderant dependence on a single export commodity (oil) to purchase varied imports, imposes some sense of vulnerability of the economy on policy makers. It is true that the oil earnings from which the bulk of funding of the development programs derives are owned domestically. However indirectly the magnitude and content of these development programs are largely determined by exogenous factors over which major stakeholders in the international development architecture exert tremendous influence. This situation was until very recently further exacerbated by the external debt burden and the crowding out effect of the debt servicing obligations on the availability of funds to finance development programs.

More recently there have been genuine attempts on the part of government to enlist the support and involvement of academics and opinion leaders in the design and implementation of home-grown development policies. This has been particularly true of NEEDS (2004) and the ongoing updating to NEEDS-2. These efforts not withstanding for as long as the BWIs are perceived to have a final say of approval or disapproval of these policies, it hinders genuine interaction with the development architecture that is still perceived as pursuing primarily the interest of the donor countries. The implications of the crowding effect of local initiative carry through to policy coherence and legitimacy of the development agenda. It remains a herculean task to create a policy environment in which the government, civil society and the donor community can be seen to be working hand in hand to pursue development goals and objectives that represent the perceived interests of the country and its citizens. By and large existing policies (rightly or wrongly) are perceived by vocal public opinion leaders as purposely designed to serve the interests of a minority elite or the donor community. These interests are viewed as being at variance with policy goals and objectives to promote rapid, sustainable growth and development. Thus the country is faced with a peculiar situation in which aid component of development finance is relatively insignificant and yet full ownership of development effort is often hindered not by mandatory conditionality but by low conditionality associated with voluntary subscription to the BWI supported PSI and technical assistance programs. The newly designed ODA policy of the government is specifically aimed at rectifying this annomally on ownership, along with other problems which prevent aid effectiveness.

Paris Declaration and Ownership

The goals and objectives of the country's new ODA policy [Fed. Government 2006], draw inspiration from considerations and concerns set out in the "Monterrey Consensus", and the Paris Declaration" (even though the country was not formally represented in the conference leading to the latter). The Paris Declaration objectives and goals towards aid effectiveness are laudable but their success depends heavily not necessarily on further strengthening or reworking of the provisions, but on the willingness and ability to implement them effectively, both on the part of aid recipient countries as well as donor countries.

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