BAB III
STRUCTURAL ADJUSTMENT PROGRAMS IN NIGERIA

In this chapter, I would like to discuss the Nigeria's economic condition before the implementation of Structural Adjustment Programs and how the economic crisis could occur in Nigeria.

A. History of Nigerian Economy

Nigeria is one of states in Africa continent which was gaining the independence by struggle, not by granted. Nigeria was colonized by British for a long time. Nigeria gained its independence in October 1, 1960 and became a Federal Republic state in 1963. Nigeria is located in West Africa and Abuja is the capital city of the country. The flag of Nigeria consists of three equal vertical bands of green, white, and greeen. Nigeria made its first appearance on the international arena when joined United Nations General Assembly and then became the 99th member-nation of the UN (Obasogie, 2015)

The Nigeria's economy is fluctuation, sometime good and sometime worst. After independence, Nigeria's economy was promising about 25% and perceived as emerging economic power among African countries (Nigeria Finder, 2017). Unfortunately, the trend of economic performance of Nigeria was slightly drop since the last decades.

The main product of national economy are agricultural and petroleum. Before the discovery of oil fields, Nigeria's economy highly dependent on the tax revenues from western multinational companies established along the Nigerian coasts. These companies were established as the trading center by the European countries including British. In the early of Nigeria independence, it was only agricultural sector and tax sectors as main economic sources of the Nigeria's economy. In fact, about 70% of the population in Nigeria is working in agricultural sectors. The fields of agriculture include brown farming, palm oil, cotton, and rubber become the main export after crude oil. The cotton farms are mainly concentrated in the northern part of Nigeria with sand and high temperate. While many coconut plantations are in the south and produce palm oil for soap, cooking oil and lubricants industries.

Petroleum was founded in Oilibiri around 1950s, and then continuously founded in Afam, Bomu, Ebubu, and Ughello. Since then, Petroleum became the most important source of Nigeria's economic incomes. The discovery of oil fields in Nigeria had attracted many MNCs to explore more. It is not a surprise that according to Nigeria government in 1970s, the oils reserves was around 27 billion barrel (Genova & Falola, 2003)

In 1969, Nigeria government issued a law called Petroleum Decree No. 51 to strengthen the state ownership in oil industry. Through the decree, Nigeria has a big control to guarantee concession, increase the involvement in refinery activity, distribution, and set a price on the crude oil. Thus, every oil field is under control by Nigeria government. Nigeria government only gave a license to the local corporations operated inside the country. It means, every single development plan in natural resources should be based on the Nigeria's Petroleum Decree (Genova & Falola, 2003, p. 137)

The discovery of oil fields totally gave a significant impact on Nigeria's economy and influence to the main national income, from agriculture to oil industry. However, many scholars and experts had suggested encouraging the production of agriculture, unfortunately, the suggestions was ignored by the government. Nigeria's government at that time was too focusing on the huge benefits of oil industry rather than diversify the non-oil production.

Oil industry in Nigeria was complicated due to the country was hit by the civil war in 1967-1970. In fact, after that conflict, Nigeria was in oil boom period. During the oil boom period, Nigeria's government more focus on the oil industry to increase the level and capacity of imported goods, which in the other side destroy domestic economics. Nigeria highly rely too much on the imported goods which basically can be produced by Nigeria if the country encouraging diversify of agriculture and manufacture sector. As a result, many farmers were leaving their rice fields to seek another job that can guarantee their life. This is because agricultural production is no more productive and had been replaced with oil industry.

In 1976, the income from oil industry was decreased and Nigeria government announce that the oil boom period was over. Nigeria was entering the period of oil blast. The oil blast condition enforced the Nigeria's government to get loan from the western countries to sustain and implement the existing domestic programs. The debt was continuously increased and Nigeria became dependent on foreign debt. The Nigeria's government has lost its political credibility and attempted to revive by creating a new program called Operation Feed the Nation's (OFN). By creating OFN, the government expected to reduce high dependence on exported popular goods especially for basic needs. Unfortunately, the policy was failed and the foreign debt increased significantly (Genova & Falola, 2003, p. 142)

B. The Economic Crisis in Nigeria

Nigeria was hit a serious debt crisis in early 1980s. This crisis was triggered by the declie of oil prices as the country's main export and the international debts rised. The domestic policy mistakes was also a major cause of the crisis (Aigbokhan, 2000). It was the worst crisis in Nigeria's history since the shift of system into the world capitalist system.

The impact of oil boom and oil blast on Nigeria economic was really significant and impacted to all economic aspects in the country. The oil blast condition enforced Nigeria to get more and more loan from the western countries. Non-oil production became main issue to stabilize economic condition. Diversify on agriculture and manufacture could decrease the dependent of Nigeria on oil industry.

In 1981, Nigeria re-experience suffered a shock in oil market that impacted on Nigeria national income. Internationally, the production of oil at that time were so plenty. Moreover, Saudi Arabia offer oil with a cheap price. This plentiful oil stock brought a negative impact on Nigeria's economic. From 1981-1986, the oil production had decreased significantly. In early 1982, the oil production decreased to 500.000 bpd. This condition directly impacted on the decrease of Nigeria's national income. The income from oil industry decreased from Naira 13,1 billion to Naira 9,6 billion in 1983. As a result, the government created a new policy to re-construct the national development (Fourth National Development Plan) that resulted national Spending was cut about USD 1,5 billion.

Figure 3.1 GDP Nigeria | Statistics from the World Bank, 1960-1979,

	Nigeria							
	GDP growth (annual %)	GDP per capita growth (annual %)	GDP (constant LCU)	GDP per capita (constant LCU)	GDP (current LCU)	GDP (current US$)	GDP per capita (current US$)	GDP, PPP (current international $)
1960			8,819,015,424,300.0	195,379.8	2,997,268,700.0	4,196,092,258.2	93.0	
1961	0.2	-1.8	8,835,929,898,100.0	191,823.1	3,190,921,200.0	4,467,200,336.0	97.0	
1962	4.1	2.0	9,198,467,447,000.0	195,590.8	3,506,715,100.0	4,909,302,953.9	104.4	
1963	8.6	6.3	9,987,568,915,800.0	207,934.7	3,689,708,800.0	5,165,489,010.2	107.5	
1964	5.0	2.7	10,482,002,382,300.0	213,630.4	3,966,381,100.0	5,552,822,483.6	113.2	
1965	4.9	2.7	10,994,045,770,800.0	219,322.9	4,196,100,000.0	5,874,422,511.5	117.2	
1966	-4.3	-6.3	10,526,742,295,500.0	205,530.8	4,547,800,000.0	6,366,792,664.1	124.3	
1967	-15.7	-17.6	8,869,451,126,300.0	169,452.4	3,716,600,000.0	5,203,135,937.3	99.4	
1968	-1.2	-3.4	8,758,728,424,400.0	163,696.3	3,715,000,000.0	5,200,895,982.1	97.2	
1969	24.2	21.4	10,878,111,570,300.0	198,807.8	4,738,800,000.0	6,634,187,316.3	121.2	
1970	25.0	22.2	13,598,427,247,600.0	242,909.7	8,961,500,000.0	12,545,849,083.0	224.1	
1971	14.2	11.6	15,534,507,618,600.0	271,131.0	10,375,400,000.0	9,181,769,911.5	160.3	
1972	3.4	1.0	16,057,129,160,000.0	273,720.0	11,034,700,000.0	12,274,416,017.8	209.2	
1973	5.4	2.9	16,923,051,676,200.0	281,532.7	12,251,600,000.0	15,162,871,287.1	252.3	
1974	11.2	8.3	18,811,778,397,500.0	305,021.8	19,604,000,000.0	24,846,641,318.1	402.9	
1975	-5.2	-7.8	17,828,346,111,600.0	281,321.5	22,945,400,000.0	27,778,934,624.7	438.3	
1976	9.0	5.9	19,440,447,874,700.0	298,046.5	28,611,400,000.0	36,308,883,248.7	556.7	
1977	6.0	2.9	20,611,563,364,500.0	306,647.6	33,585,000,000.0	36,035,407,725.3	536.1	
1978	-5.8	-8.6	19,423,480,205,000.0	280,307.2	36,053,000,000.0	36,527,862,208.7	527.1	
1979	6.8	3.6	20,736,396,934,600.0	290,461.2	42,912,000,000.0	47,259,911,894.3	662.0	

Source: nigeria.opendataforafrica.org

The Nigeria annual growth rate in 1982-1985 was really under average that can be seen from the above table. The decline in oil export meant a similar decline in government revenue and investment expenditures. Gross domestic product (GDP) in 1981 fell by 5.9 percent and the index of industrial output fell by 7.9 percent. The balance of payments moved from a surplus on Naira 1868.9 million and Naira 2406.2 million respectively in 1979 and 1989 to a deficit of Naira 4.3 billion in 1981 as the glut in the international oil market continued. This led to a heavy drain on the external reserves. At the same time, there was an upward pressure on domestic price level. The inflation rate which had earlier fallen from 11.8 percent in 1979 to 9.9 percent in 1980, rose substantially to 20.8 percent in 1981 (Aigbokhan, 1991, p. 53)

By April 1982 the external reserves had fallen to less than one month's imports finance at the level of importation. Then, Economic Stabilization Measures (ESM) was introduced in April, aimed mainly at conserving the level of external reserves by curbing imports and foreign exchange outflows. The ESM were including: (1) exchange controls in the form of reduction in traveling allowances and remittances; (2) fiscal measure whereby more items were either banned or placed under specific import license requirement, and tariff charges on 49 items were upward; and (3) monetary policy in which compulsory advance deposits for imports were imposed for certain classes of imports at a rate fixed as some proportion of the import value (Aigbokhan, 1991, p. 54)

The import trend was also declined marginally 2.7 percent, which reflects the relative inelasticity of imports demand in Nigeria. Thus, the balance of payments further deteriorated, with a deficit Naira 5.2 billion in 1982. In 1983, GDP fell by 6.4 percent, agricultural output fell by 9.5 percent and manufacturing output fell by 25.1 percent while the inflation rate increased from 7.8 percent in 1982 to 23.2 percent in 1983. External debt service payments rose by 62.5 percent from Naira 0.8 billion to Naira 1.3 billion, with the corresponding increase in debt service ratio being 8.9 and 17.5 percent respectively.

Moreover, Inflation pressure worsened and unemployment became very serious that was caused by the dismissal workers and university fresh graduates that crowded the labor market. The situation did not show any improvements in 1984, when the GDP fell by 0.6 percent, and industrial and manufacturing output fell by 10.2 percent. Moreover, inflation rate rose by 39.6 percent and made the food index increase as well by 42.9 percent. Along with these condition, many manufacturing company closed temporary or operated less than full capacity.

All these condition made the recession worsened, moreover in late 1985 and early 1986, the world oil markets contracted once again that makes Nigeria's economy was already on the verge of crisis. Economic Stabilization Measures (ESM) were to stabilize the economic crisis in the first time, unfortunately failed because the Government too focused on maintaining the artificially high value of its currency to contain inflation rather than allowing the exchange rate to depreciate as a way of stimulating economy. Capital outflow total Naira 10,463 million and debt service ratio was 33.2 percent. It became apparent that Nigeria was an economic crisis. In October 1, 1985 the government declared a State of National Economy Emergency for a period of fifteen months during which new policy measures were adopted aimed at revamping and stimulating the economy (Aigbokhan, 1991, p. 55).

C. The Implementation of Structural Adjustment Programs in Nigeria

As the explanation in the previous sub chapter about economic crisis in Nigeria, the government sought to reinforce the economic stabilization measures by further tightening financial policies and introducing more administrative controls. The government also implemented the counter trade policy in the light of economic circumstances at that time. The objectives was to revive the destroyed economy through the provision of raw materials that were needed in industries, such as stopping further closure of industries, assisting in reducing the unemployment problems, and minimizing the high inflation.

The government's economic stabilization measures achieved some success in 1985 in which the inflation fell to a single digit, the external current account moved from deficit to balanced positions, and real GDP growth increased to 9½ percent. The substantial growth in real GDP was due to an increase in oil production and to the recovery of the agricultural sector from a two-year dying. However, the improvements in the fiscal and external positions in 1984 and 1985 showed temporary and failed to establish a basis for sustained economic growth. The short-run economic stabilization measures and quantitative trade controls was too focus on the adjustment efforts, while underlying economic and financial conditions continued to worsen. Between 1980 and 1985, government revenue fell from 24 per cent of GDP to 12 per cent, reflecting the sharp decline in oil prices as well as the decreased of non-oil taxes earnings (National Centre for Economic Management & Administration (NCEMA), 2004).

In this regards, the government realized that the adjustment of structural imbalances and external shocks was necessary. The government had three policy options in order to: (1) maintain the status quo, such as a continuation of the economic stabilization measures without structural adjustment reforms; (2) accept IMF Structural Adjustment Facility including its conditionality; and (3) reject the IMF loan proposal but adopt a modified variant of the traditional structural adjustment package, designed and implemented by Nigerians (National Centre for Economic Management & Administration (NCEMA), 2004). To avoid public resistance, the government decided to announce publicly whether take the IMF loan or not. This was because the government perceived that the loan would be a serious burden on the citizens; yet not taking the loan will have effects since donors ask to stop imports of raw materials for national industries.

As a result, after the debate, the government adopted the Structural Adjustment Programs in July 1, 1986. It emphasized on market forces and the private sector in dealing with national economic problems. The SAP was originally introduced in last for two years before the implementation in Nigeria. Yet it was extended in order to improve implementation. The objectives of the SAP were (Tackie & Abhulimen, 2001):

1. Restructure and diversify the productive base of the economy to reduce dependency on the oil sector and imports.
2. Achieve fiscal and balance of payments viability over the medium term.
3. Promote non-inflationary economic growth.
4. Lessen the dominance of unproductive investments in the public sector, improve the sectors efficiency level and intensify the growth potentials of the private sectors.

The national growth and inflation in 1987-88 were only 3-4 % and a reduction of inflation to 9 % per year in average. The anticipate devaluation of the Naira would have a considerable impact on consumer prices. Thus, to achieve those objectives, the SAP possesses some features as the main elements of the programs. Such elements are (National Centre for Economic Management & Administration (NCEMA), 2004):

1. Rationalization and privatization of public enterprises to encourage competition through liberalization and deregulation to reinforce the process of efficiency.
2. Strengthening of hitherto strong and relevant demand management policies.
3. Adoption of measures to stimulate domestic production and broaden the supply base of the economy.
4. The setting up of a Second-Tier Foreign Exchange Market (SFEM) as a mechanism of realistic exchange rate and consequently, the alteration of relative prices to enhance efficiency in resource allocation, and to promote domestic-based production and nonoil exports.
5. Further rationalization and restructuring of tariffs in order to aid industrial diversification.

6. The liberalization of the external trade and payments system-dismantling of price, trade and exchange controls.
7. The elimination of price controls and commodity boards.
8. The decontrol of interest rates.
9. The rationalization and restructuring of public sector enterprises and overhauling of the public sector administrative structure.

Various policy measures related to SAP generally have been pursued into various degrees of implementation coincided with a number of complementary policies and programs. The various degrees of implementation aimed to alleviate additional effects of the adjustment policy. The programs and policies lead to the establishment of National Directorate of Employment (NDE) in 1986; a SAP relief package introduced in 1989; the establishment of the Urban Mass Transit Programme in 1988; establishment of the People's and Community banks in 1989/90; the establishment of the Directorate of Food, Road and Rural Infrastructure (DFRRI) in 1986; a reflationary budget package in 1988; the 1991/1992 relief package for public sector officers; the reform of the civil service; and the Better Life for Rural Dwellers' Programme in 1989. (National Centre for Economic Management & Administration (NCEMA), 2004)

As a result, the liberalization of economy in Nigeria has brought significant benefits to the people. The improvement of agricultural sector, manufacture sector and the rise of foreign direct investment have stimulated the Nigeria's economy. Thus, the implication of Structural Adjustment Programs was obviously positive toward Nigeria's economy.