International Monetary Fund (IMF) And Third World Countries A Case Study of Nigeria

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Abstract

The neo-colonial element that has penetrate Africa has remained a doubt and one of the saddest episode in the overall history of those continent developments, which has now become a fertile ground for foreign investment whose ultimate aim is to perpetuate the exploitation of the vast resources in this part of the world adinfinitum. Worst still, Africa now the name of globalization, has her economies dominated by foreign investment, while she still maintains her status as Infernal called underdevelopment and dependent continent. It is against this backdrop that this paper will attempt to succinctly unfold the activities of IMF in their world countries like Nigeria. These called African development has remained too, an imbroglio as it favours the metropolitan economies.

Introduction

With the advent of globalization international institutions began to emerge and role of international institutions and non-state actors increased. National boundaries were transcended by international institutions which were governed by these states mutually with a mutual goal of improving political and economic gains. According to Cohn (2008), IMF emerged as an international institution after 2nd world war during the Breton woods conference in 1944 to rebuild Europe which had been devastated by war. Secondly to save the world from Great depression, which resulted in huge unemployment throughout the entire world? It resulted from beggar thy neighbour policies in which currency of a country

was devalued and restricted often at the expense of neighbouring countries. This resulted in spreading of depression affecting many countries. IMF was established to monitor money exchange primarily among rich countries, later its role expanded towards third world states as it started lending to poor countries to liberalize their economies as the basis goal behind IMF was an international market system based on principles of economic liberalism. IMF has a similar role like UN where UN is involved in providing collective security, IMF provides collective economic platform. IMF was with the passage of time it started lending to poor countries.

In the words of Marc (1994), IMF is run by 22 executive member boards and its voting system is based on the monetary contribution of member country. Larger the contribution larger is the influence of that country. Despite its important role as an international economic institution, IMF has been criticized extensively for its policy, governance issues and its lending conditions specifically with regard to third world countries. Often IMF pushes for economic conditions and social pressures. IMF pressurizes on privatization and competing in international market when domestic industries are not ready to compete and social safety nets are not in place. Many developed countries refused IMF's policies and applied their own models. USA and Japan privatized a few industries protecting major industries which were not ready to compete. However, if any country fails to perform well and does not fulfill its lending conditions economic assistance is suspended from not only IMF but other international institutions like World Bank and WTO also withdraw their assistance.

The Objectives of the IMF

i. To promote economic growth, development and international trade, and by extension promote high levels of employment and real income of all member states.
ii. To promote international monetary cooperative through a permanent institution, which provides the machinery for consultation and collaboration on international monetary issue?
iii. To promote foreign exchange rate stability and the maintenance of the US dollar as a standard international currency and to avoid competitive exchange depreciation, as well as exchange rate restrictions.
iv. To assist member states and even recipients of loans on how to manage and correct maladjustments in the balance of payment without resorting to measures counterproductive to (ii) and (iii).
v. To serve as a clearing house and financial agency for member states, which gives greater members on how to lesson disequilibrium in the balance of payment issue?

vi. To act as a thin-tank for recipients of its loan facility on proposals, designing and execution of capital projects. It takes the form of technical assistance.

Furthermore, the establishment of the Bretton Woods did usher in an era of unprecedented growth in international trade and increasing global economic independence. The American economy became and is still the principal engine of world economic growth and development. American monetary policy is still the worlds' monetary policy and the out flow of dollar measure the liquidity that greased the wheel of commerce.

Membership of IMF and Resources Management

As previously noted, IMF is not United Nation creation. So, every state is not part of the ownership. IMF was originally established by leading western capitalist states to assist their economic recovery following the negative trends in the 1930s economic depression. In Marc (1994) analysis, IMF began operation in May 1946, it had 39 members. The US was the strongest pioneer in both political will and financial empowerment. In 1970 the number rose to 115 as membership went beyond the boundaries of Europe, and the U.S.A. in 1991 and 1997, the membership of IMF further rose from 155 to 181, particularly due to the fall of the Bretton Woods system in preference to flexible exchange rates which recognized the values of their national currencies.

The IMF and Loan Conditionalities

The IMF is open to assisting members with balance of payment difficulties. The IMF has a number of resources facilities capable of assisting the needy members with enough foreign currency to pay for what they have bought or intended to buy from other countries. Loan facilities from IMF may well be used to embark on capital provides that member with balance of payment problem (deficit) should borrow foreign exchange from institution to settle it. IMF lending to needy countries is not given for the asking. It is not free. It is not supposed to be one as the IMF is a business portfolio and not a charitable institution. According to Jeffrey (1994), there are both general and specific conditionalities.

a. The general conditionalities of the IMF to the needy countries include:
i. The capacity to repay in hard currency.
ii. The evidence of economic reforms or restructuring to eliminate or control the causes of balance of payment deficit.
iii. The preparedness and / or openness to involve the IMF technical crew in proposing, designing and executing of capital projects.
iv. The evidence of governmental stability and
v. A guarantee that the recipient countries are not reactionary or communist inclined.
b. The specific conditionalities of the IMF to the needy countries include:

i. Devaluation of national currency and that is a reduction in the exchange value of a country's currency in relations with international monetary and exchange regime.
ii. Wage freeze/retrenchment of workers as a measure to reduce supposedly government (wasteful) expenditure.
iii. Reduction in government social and welfare expenditure such as removal of subsidies, and deregulation of any sectorial control by government (e.g. the oil industry in Nigeria).
iv. Trade liberalization which allows greater free flow of imports-exports, capital, labour, foreign direct investment (FDI) and market offering.
v. Privatization and commercialization of economic realms or public enterprises. For clarity, privatization has to do with the sale of public enterprises to the private sector for more fruitful and productive management. Commercialization represents the introduction of profit making motive in the management of public enterprising with greater assurance of efficiency of services,
vi. Reviewing of interest rate (s) periodically.

IMF in Third World Countries

In the case of Ethiopia IMF withdrew its assistance if its budget should be on more solid grounds. IMF wanted Ethiopia to open up its market "liberalization its financial market which USA and Western Europe themselves did not adopt till 1970's. Colin (2008). "IMF was confusing ends with means". One size fit all approach of IMF often fails in the developing countries as there are no markets in these countries and social and cultural problems are often an obstacle. But IMF pushed for market liberalism as its policies "required it to give little of any consideration of a country's particular circumstances and immediate problems". East Asian countries which are economically successful liberalized their economies step by step.

IMF encourages privatization but privatization in third world countries led to many social and economic problems. It affects the rate of employment as foreign firms often work without any regard to social cost associated with it. In developing countries, privatization of educational institutions often means costly education which cannot be afforded by children of poor people. Privatization in any sector means high rates which are not affordable for a common man. In fact, Diane (1992) posited that children, pregnant and lactating mothers are seriously affected by IMF pressures to remove food subsidies for consumers and that poorer women pay the price for Structural Adjustment Programmes through increased unpaid work and a deterioration of health and nutrition.

Privatization often leads to corruption as there is no effective means to ensure mat money given has been used privatization. Corrupt politicians often benefit from the aid given as there is no accountability.

IMF focuses on bringing down inflation but in the recent case of Pakistan conditions wore imposed to increase interest rates to bring down inflation. It adversely a I tooted situation in the country as inflation increased more and manufacturing industry stopped working. In addition debt of 1.3 trillion in five years from 2002 2007 have been incurred. Even in 2009 it incurred a debt of 1.6 trillion Ellen and Marer (2013).

Imposition of VAT and privatization will lead to damaging local industries. VAT will be difficult to achieve due to lack of an effective system of collection of taxes. Excessive spending by government has led to decrease in revenue which in turn increases population that affects poor people more than the rich. "VAT will promote a dual economy in the country with unpredictable consequences. For many years country has been in a stale of stagflation, the IMF propelled stabilization has failed to materialize.

These lending policies towards third world countries arc criticized for creating more poverty, "Countries like Botswana which have ignored IMF/World Bank policies are more prosperous whereas IMF's sanctioned policies have all but crippled once envied and thriving education of Ghanaians resulting in social and economic time bomb." Social effects of IMF's policies is damaging people whose income relies on local industries, which in turn have affected these policies. Many countries arc now increasingly turning away from assistance and creating their own regional organization like Latin American countries did on the model of EU. Many developed Asian countries rely on their economic models and did not work according to IMF's advice. They were labeled as failed economies, but they succeeded in emerging as developed nations, Evangelista (2007).

Impact of IMF in Nigeria

1. **Devaluation of currency:** This helps the IMF by raising the price of imports and making exports cheaper for other currencies. Furthermore, the devaluation of currency attached as a condition for the IMF loan has caused a serious problem to the third world economy because, before it is granted countries that signed up such agreement must devalue its currency. In the Nigeria case under IBB the naira was devalued and its effect on the economy cannot be gainsaid 'as virtually all parts of our economy have being crippled by this inferno IMF.

2. **Trade liberalization:** Is another conditionalities attached to the IMF loan. Before the loan is granted countries seeking for the loan must sign an agreement to trade with 78% of the loan which after it might have being granted will not yield result. In Nigeria we saw how refurbished machineries flooded everywhere after the said IMF loan, which Adebayo (1997) says did not help matters.

Nigeria's external borrowing dates back to the colonial period. The last colonial loan was the 1958 World Bank Loan to finance the Borno Railway extension (Dike; 1990:163).

In the words of Sheriff (2015), Nigeria under General Babangida in June 1986 announced the Structural Adjustment Programme (SAP) for the period of July 1986 - June 1988, which was occasioned by the directives of IMF. He went further to state that SAP was a recipe for the chain of social and political instability in Nigeria. Sheriff concluded by saying that the adverse effects of SAP programme are still with Nigeria today.

Additionally IMF and the World Bank couple with its twins sisters in Special Drawing Rights (SDR), the Structural Adjustment Programme (SAP) and the Structural Adjustment Loans (SALS) have all aided the fund to deform third world economy instead of reforming it.

Critique of The IMF Loan Conditionalities

The International Monetary Fund (IMF) does not represent the same thing for its members. The rich members of the IMF are structurally stable in their economies hence, the loan conditionalies of the institution are no grave concern for the majority of the less developed countries, the IMF loan conditionalities are too high and harsh to effect sustainable economic growth and development The IMF has been described by the LDCs as a bad doctor who prescribes the same drug *(s)* for different patients with different ailments.

IMF imposed cuts on government spending particularly regarding food subsidies, place serious burdens in an already poor population, spending cuts, combined with controls on wages, are politically unpopular and there have been numerous instances of riots and instability following the institution of policies prescribed by the IMF Diane (1992).

The Venezuela riot of 1989 is a good example where 300 lives were lost and about 1,500 wounded. In Nigeria too, during the reign of IBB there was austerity which was imposed on Nigeria by the same IMF.

The so called debt relief or cancellation pronounced by the International Monetary Fund (IMF) for the third world countries which Nigeria is among, is only laudable on paper but in reality it is still a string on the less developed countries economy world over.

IMF's policies led towards rising debts in developing economies, which have hindered development of those economies as Fidel Castrol said in his interview of Mexican magazine, 21st of March, 1985, "Our countries are not to be blamed for under-development or for the debt. Our countries are not to be blamed for having being colonies, neo-colonies, banana republics whose role was to produce raw materials exotic products and fuel at all cost and with cheap labour. The riches and well-being of which have been deprived through the imposition of economic dependence and underdevelopment cannot even be estimated let alone be measured. It is our people who, by right are the creditors of the rich and industrialized western world".

Conclusion

We, with all measures of objectivity, cast a search light on IMF as a conduit pipe used by the west to dislocate Less Developed Countries economies using its conditionalities as a string.

History too, affords no examples of countries that successfully depended on external policy prescriptions for development and survived. What is in Vogue, as the Japanese experience shows is for the LDCs to look more inwards, in order to correct the balance of payment disequilibral.

Recommendation

Activities of the IMF, World bank in Africa development cannot be allowed to stunt the question for development in African nay Nigeria first the problem of our economic woe lies with our low level of the development of the productive forces of production. Therefore, to achieve economic efficiency since the IBB's regime in 1986 took the loan that has battered the economy it behooves the government to develop the intellectual capacity of Nigerians that are billed to reposition our ailing economy and also to diversify the economy from the monoculture one.

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