IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAMME IN NIGERIA

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EXECUTIVE SUMMARY

This study on the impact of the Structural Adjustment Programme (SAP) in Nigeria was intended to test the indicators developed by the Food and Agricultural Organisation of the United Nations (FAO), Regional Office for Africa (RAFR), for monitoring and evaluating the impact of SAP in the countries of the sub-region. The long-term objective of the study is to enhance the capabilities of national statistical agencies for collecting, processing and analysing statistical indicators for monitoring and evaluating structural adjustment programmes so that appropriate policy interventions could be formulated to mitigate the economic, social and political costs of SAP.

As a background to the study, a review of the concept of structural adjustment and analytical approaches to stabilisation and adjustment programmes was undertaken. From the literature, adjustment is needed whenever macroeconomic disequilibria are generated or else the long-term objective of economic development may never be realised. Thus far, there are two main policy approaches for correcting macroeconomic imbalances. A government can achieve equilibrium or stabilise the economy by adjusting absorption or gross national expenditure and the nominal exchange rate. Generally, both instruments must be used in tandem in order to achieve internal and external balance.

The economic downturn in the country following the oil crisis of the early 1980s and the various control measures which could not arrest the downturn, thereby necessitating a more sustainable adjustment process was

reviewed. It was in the face of chronic balance of payments difficulties, sharp fall in commodity prices for both crude oil and non-oil exports, dwindling foreign exchange earnings, mounting domestic and external debts, with low international credit rating, that Nigeria started implementing a Structural Adjustment Programme in July, 1986.

The SAP was designed to restructure the production and consumption patterns of the economy as well as eliminate price distortions and the lop-sided structure of the economy. The programme had eight primary elements which together constituted its main features and distinguished it from the previous economic measures. These were: the strengthening of demand management policies; adoption of measures to stimulate domestic production; adoption of a realistic exchange rate policy; further rationalisation and restructuring of customs tariffs; moving towards improved trade and payments system; reduction of complex administrative controls; adoption of appropriate pricing policies; and encouragement of the rationalisation and privatisation of public sector enterprises.

The key issues that were expected to be addressed in the study were grouped and evaluated under two major headings; macroeconomic and sectoral responses. The following are the results of the evaluation carried out using various statistical and econometric procedures.

The Nigerian economy has shown signs of growth since the introduction of SAP, as the real Gross Domestic Product (GDP) assumed an upward movement during the implementation of the programme. In the SAP years, 1986-1996, the GDP grew by an average of 3.1 per cent per annum compared with the negative 0.36 per cent per annum GDP growth rate recorded in 1981 - 1985 which preceded the introduction of SAP. However, in recent years, 1993 - 1996, the growth rate of the GDP have decelerated to 1.0 per cent per year, compared with the average of 4.3 per cent recorded in 1986 - 1992. Similar trends have been observed in all the sectors of the economy while the industrial sector actually recorded a negative growth rate of 1.9 per cent in 1993 - 1996 compared with the positive average growth rate of 3.6 per cent recorded in the first years of SAP, 1986 - 1992.

Inflation rate which is another major macroeconomic indicator of the performance in the real sector of the economy has been on the increase since the introduction of SAP averaging 19.4 per cent pre-SAP (1981 - 1985) compared with 22.8 and 54.1 per cent recorded in 1986 - 1992 and 1993 - 1996, respectively.

There were some improvements in the current account balance after the introduction of SAP in 1986 as the current account which recorded an average deficit of ₦1,951.26 million per year in 1981 - 1985 improved substantially to a surplus of ₦4,664.52 million per annum in 1986 - 1990. In recent years, however, the current account position has deteriorated terribly with an annual average deficit of ₦109,991.7 million in 1991 - 1996. This therefore indicates that the balance of payments essentially remained under pressure during SAP.

The fiscal operations of the Federal Government resulted in an average deficit/GDP ratio of 7.3 per cent during SAP compared with an average deficit/GDP ratio of 11.0 per cent recorded in the years preceding SAP. Though, this represents an improvement, but it was still by far in excess of the deficit/GDP target of 3.0 per cent envisaged during SAP.

Monetary developments during SAP reflected an accommodative attitude of the expansionary fiscal operations as bank's credit to the domestic economy increased by an average of 28.9 per cent compared with an average targeted expansion rate of 10.8 per cent.

The excessive growth in bank credit resulted in a rapid expansion of the money stock culminating in high inflation, exchange and interest rates.

The performance of the agricultural sector during SAP though mixed was rather impressive. The aggregate index of agricultural production grew by 4 percentage points above the average growth rate pre-SAP. Considerable improvements were also recorded in agricultural exports and producer prices increased substantially as a result of the SAP policies.

However, the SAP policies have also brought about appreciable increase in prices of all farm inputs and this has had negative impact on export crop production. Results of the price analysis carried out using the nominal and effective protection coefficient model indicates that incentives are more in favour of the production of soya bean, a non-traditional export crop in Nigeria.

The socio-economic impact of SAP in Nigeria have generally been poor as indicated by declining per capita income, increasing consumer price index and deteriorating health, education and infrastructural facilities. There are also evidences of high unemployment rate. Unfortunately, the tempo of the activities geared towards mitigating the adverse impact of SAP in Nigeria, has declined in recent years.

In conclusion, the policy reform package under SAP has substantially addressed the problem of price distortions as sectors such as agriculture have responded positively to market incentives while the negative real GDP growth rate was reversed. Also, Nigerians unbridled appetite for imports moderated while a maintenance culture has been cultivated. But that certain macroeconomic problems have defiled solution and the fact that adverse social impact is being aggravated in recent years is worrisome.

Available evidence from the study indicates that the macroeconomic and social problems of SAP are associated more with the poor implementation and lack of proper coordination of SAP policies. Consequently, there is need to ensure macroeconomic stability through a more disciplined and better coordination of monetary and fiscal policies. This along with political stability and adequate investment in social and infrastructural facilities will provide the enabling environment for both public and private sectors of the economy to increase output and savings to levels that would improve the balance of payments and move the country on the path of sustained economic growth.

As regards the indicators developed by the FAO regional office for Africa for monitoring and evaluating SAPs in the countries of the sub-region, they are adjudged to be very relevant from the results of this study. However, some of the social indicators such as data on nutritional status, food budget share, real unemployment rate and mortality rate could not be compiled due to dearth of these type of data in Nigeria. It is therefore recommended that the FAO strengthen the capacity for the generation and compilation of the social indicators for monitoring SAPs in Nigeria.