

# chapter 12



## OBJECTIVES

At the end of this chapter, students should be able to:

• discuss the contributions of IMF to the economic growth and development of Nigeria;

• discuss the contributions of IBRD, ECA, etc., to the economic growth and development of Nigeria;

• explain the development and problems of Economic Integration in Africa;

• explain the background to the creation of New International Economic Order.

## 12.1 Introduction

International economic organisations refer to the coming together of groups of people across international borders or countries to form a body in view of achieving economic goals. After the Second World War, many nations met in Brettonwoods, USA in 1944 and established the International Monetary Fund (IMF) and World Bank with its affiliates so as to promote world recovery through reconstruction and development. To this end, this chapter will examine the contributions of these international economic organisations to the development of Nigeria and other African countries.

## 12.2 The International Monetary Fund (IMF)

IMF was formed with an initial motive of world trade promotion. It started with membership of a 44 countries, which has now risen to over 150 countries. It helped members to overcome balance of payments problems by ensuring stability of exchange rates.

## Objectives of IMF

Article 1 has the following as its major objectives:

- (a)** To promote international monetary co-operation through a permanent organisation.
- (b)** To encourage and promote free convertibility of currency of member countries.
- (c)** To remove restrictions on free exchange transactions.
- (d)** To provide short-term financial aid to member countries struggling with balance of payment problems.
- (e)** To discourage and find if possible and avoid competitive exchange and depreciation between the currencies of members.
- (f)** To advise members on financial positives.

## Functions of IMF

- (a)** Fund and assist member countries with short-term credit useful in liquidating temporary balance of payment deficits.
- (b)** Provision of mechanism for improving the balance of payments through orderly adjustments of the exchange rates of members.
- (c)** Bringing together representatives of member countries for advice and consultations thereby promoting international co-operation.
- (d)** It is an international clearing house for settling problems arising from international settlements in respect to recurrent transactions.

## IMF and Nigeria

Nigeria joined IMF in 1960 and her quota then was about N28.5 million as the financial structure of IMF is contribution of funds from member countries based on quota allocation. Nigeria has benefited from its being a member of IMF not only from borrowing funds from the organisation but also through promotion of international co-operation between her and other member countries, as well as, receiving encouragements in the field of economic research and provision of periodic consultations between Nigeria and other fund members.

## Shortcomings of IMF

- (a)** The industrialised countries, especially the "Group of Ten", seem to gain control of the fund since they contribute more and even have more voting rights.
- (b)** IMF seems ineffective to solve the monetary problems of the developing countries in terms of the financing needs of world trade.

**(c)** IMF seems passive in periods of world monetary crises, when they should provide leadership and control.

**(d)** IMF seemed to create more problems in terms of International liquidity. Despite the support by the group of ten and their central banks, international reserves are still inadequate for world demand.

## **The World Bank**

The World Bank was formed to reconstruct the war-damaged regions of Europe as well as develop the backward areas of the world. The World Bank is made up of three distinct institutions: The International Bank of Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC). It is still the concern of the three affiliated banks today to assist in raising the standards of living in the developing countries through channeling of financial resources from the developed countries to the underdeveloped areas.

### **12.3 International Bank for Reconstruction and Development (IBRD)**

IBRD was established in 1945 to provide long-term loans for reconstruction to the damaged economies, but presently it provides loans for specific developments like: Hydroelectric dams, agricultural development, rural and urban development, education and family planning programmes.

**(a)** The project for which the loan is required must be designed to strengthen the economy of the borrowing country.

**(b)** The loan must be guaranteed by the borrowing country, ensuring prospects for repayment.

**(c)** Member countries are required to subscribe to the capital stock of the bank based on the economic strength of each member.

**(d)** The bank lends out on a long-term basis usually for a period of 15 to 23 years to the developing countries.

**(e)** The lending Interest rates are generally low.

## **Evaluation of IBRD**

**(a)** The bank is criticised because of its rigidity of lending policies especially in restricting lending to specific projects only.

**(b)** The foreign exchange cost tends to reduce the effectiveness of the assistance.

**(c)** The bank loan, in most cases, is not sufficient to complete the targeted project.

**(d)** In most cases, the bank's influence is a propaganda for promotion of capitalism and growth of multinational companies.

## **Benefits of the bank to Nigeria**

In 1958, before Nigeria became independent, she obtained loan of N20 million (N10 million) guaranteed by the British Government then in 1962, she received from the bank, the sum of N58.6 million (N29.3 million) for the construction of the Niger Dam Project. In 1970, she also received N60 million for the establishment of oil palm estates. Nigeria has been receiving assistance from the bank over the years, and the influence of the bank's assistance is generally felt throughout the states of the Federation.

## **12.4 Economic Commission for Africa (ECA)**

ECA is one of the regional economic bodies set up under the United Nations mainly for development. It is responsible for coordinating the activities and efforts of the UN for Africa as a region.

### **Some Functions of ECA**

- (a)** Publication of bulletins containing data collection, analysis, and their evaluations on social and economic issues within the sub-region.
- (b)** Encouraging and organising research, workshops and seminars on economic and developmental problems in Africa.
- (c)** Providing advice to African countries on projects, programmes and institutions mostly connected with international co-operation, and thereby promoting regional development.
- (d)** Initiation of conferences and studies which foster industrialisation as well as development of transportation and communication.

### **Some Regional Establishments by ECA**

- (a)** Africa Institute for Higher Technical Training and Research (AIHTTR)
- (b)** Africa Regional Center for Engineering Design and Manufacturing (ARCEDEM)
- (c)** Africa Center for Applied Research and Training in Social Development (ACARTSOD).
- (d)** African Institute for Economic Development and planning (AIEDP)
- (e)** Regional Institute for Population Studies (RIPS).

## **12.5 African Development Bank (ADB)**

African development Bank (ADB) was established in 1964 with the assistance of

organisation for African Unity (OAU) and the United Nations Economic Commission for Africa. Membership of the Bank is open to all independent African States. With its Headquarters in Abidjan, Cote d'Ivoire. The bank is controlled by member countries which also have voting rights. These rights are based on the principle that one member country has one vote, but members may have additional voting rights depending on the amount of contributions made.

## **The Objectives of ADB**

- (a)** Mobilisation of money and manpower resources to implement development of projects and other state plans.
- (b)** Participation in the election study and project implementation for member countries so as to ensure full utilisation of finance and orderly development.
- (c)** Providing technical assistance especially for project appraisal and development.
- (d)** Promoting economic and social development of member countries by using bank's own resources.
- (e)** Promotion of regional co-operation which would facilitate mutual understanding of member states especially in areas affecting monetary and credit policies.
- (f)** Providing activities and services which help to improve the welfare of African countries in general. From the above objectives, we can state that ADB's Special areas of operation involves promotion and development of transport, communication, agriculture, industrial projects, tourism, energy, insurance and financing of multinational investment in Africa.

## **12.6 The West African Clearing House (WACH)**

Generally, a clearing house is required for effective banking facilities and operations in a given wide area or region. In an attempt to remove obstacles for effective trade and commercial transaction among West African countries, governors of the Central Banks in West Africa agreed to establish a clearing house. West African Clearing House was formed in 1976.

### **Objectives of the Clearing House**

- (a)** Promoting the use of each member's currency for commerce within the sub region.
- (b)** Encouraging members to trade freely among themselves.
- (c)** Promoting monetary co-operation and consultation among members.
- (d)** Rational use of member's foreign reserves.

## **12.7 General Agreement on Trade and Tariffs (GATT)**

GATT is one of the main economic institutions which have the main objective of making international trade and payment system easy. In 1947, about 23 major trading countries of the world made an agreement on certain rules for trade policy to reduce tariffs and dismantle most restrictions which impeded trade. The general agreement known as GATT has its secretariat in Geneva, Switzerland. Members agreed to meet regularly to negotiate agreements to reduce tariffs, quotas and other trade restrictions. GATT came into existence as a means of expanding multilateral trade with minimum barriers to international commerce, reduction of tariffs, quotas, and abolition of preferential treatments. Although, GATT has made much impact on trade relation, the rate of progress is still low because of some of the following reasons:

- (a)** There is the tendency to favour the wealthy industrialised member countries while neglecting the developing countries since most of the tariff reduction are made on industrial goods rather than primary products.
- (b)** Even though the rules of GATT forbid discrimination among member countries, yet the member countries that suffer from adverse balance of payment are allowed to use quotas, while developing countries may want to protect their infant industries with some of the restrictive measures.
- (c)** The cumulative effect of trade liberalizations by GATT members has led to the establishment of trading blocks such as EEC, EFTA, etc.
- (d)** Some of the reasons given above have made it possible for most members of GATT, particularly the developing countries to feel that they have more protection in their international trade dealing under UNCTAD and for patronage.

## **12.8 The United Nations Conference on Trade and Development (UNCTAD)**

The United Nations Conference on Trade and Development (UNCTAD) is an organ of the General Assembly of UNO. The Conference was first held in 1964 as a result of the frustrations of the developing countries with the operations of GATT, especially its policies affecting the widening gap between the less developed countries and industrially developed nations. UNCTAD has a General Assembly of its own which convenes every three years. The member countries which number over 55 usually meet once a year to review their problems and prospects of trade.

### **Main Objectives of UNCTAD**

- (a)** To consider possibilities for the implementation of new policies which help to enlarge the export earnings of the developing countries.
- (b)** To help fill their prospective foreign exchange earnings gap between their exports and virtually stagnate foreign aid from the developed countries.

## **UNCTAD tries to achieve these objectives by:**

**(a)** Insisting on commodity agreements to increase the prices of primary products and for the granting of trade preference in industrial products by the advanced industrialised countries.

**(b)** Embarking on measures that will generally lead to stabilisation of international commodity prices of primary products of the developing countries.

## **Achievements of UNCTAD**

**(a)** UNCTAD was set up a panel of experts at the end of 1965, which reviewed these objectives and problems of the developing countries. It puts forward a plan for providing liquidity for the developing countries.

**(b)** UNCTAD had also made proposals which helped to bring about the granting of preferential duties on imports for the developing countries.

For instance in 1970, EEC, EFTA and USA gave preferences to the developing countries in some specified manufactured goods.

**(c)** UNCTAD has succeeded in the formulation of commodity agreements on international levels involving primary commodities, examples include;

**(i)** Cocoa Agreement in 1961

**(ii)** Coffee Agreement in 1963

**(iii)** Rubber Agreement in 1960

The commodity agreements under UNCTAD sought to stabilise the prices of the various commodities through the following measures:

**(a)** Restriction of production

**(b)** Initiation of imports from non-member countries

**(c)** Fixing of quotas from member countries

**(d)** Maintaining minimum stocks

**(e)** UNCTAD has, therefore, aroused the interest of producers of primary commodities and helped developing countries to form stronger economic alliances to bargain for better and stable prices under the New International Economic order.

## **12.9 Organisation of Petroleum Exporting Countries (OPEC)**

The organisation of petroleum exporting countries (OPEC) is an Intergovernmental organisation established in 1960 at the Baghdad Conference by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five founding members were later joined by Nine other members which include: Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Angola and Gabon.

## **Objectives of OPEC**

- (a)** To co-ordinate and unify the petroleum policies of member countries and safeguard their interest individually and collectively.
- (b)** To device ways and means of ensuring the stabilisation of prices in international markets with a view to eliminate harmful and unnecessary fluctuations.
- (c)** To interrupt the monopolistic control of the multinational oil companies and have more control in production, extraction and marketing of oil products.

## **Achievements of OPEC**

- (a)** OPEC has set a quota for the level of production for its member countries, which regulated over production and excess supply of oil.
- (b)** It has greatly influenced and controlled the price of oil products in the international market to favour its member countries.
- (c)** OPEC has influenced the control of the operations carried out by the multinational oil companies by its member countries.

## **12.10 The Association of African Central Banks (AACB)**

After many African countries have gained independence, they established their own central banks. In 1966 central Bank in West Africa, in particular, decided to form the Association of African Central Bank (AACB).

### **Objectives of the AACB**

- (a)** Promotion of co-operation in monetary, financial and banking matters.
- (b)** Promotion of stability in monetary matters in general
- (c)** Co-operating to safeguard the interest of African economies in external economic relations.
- (d)** Giving guidance on agreements on inter-state dealings or transactions.

To achieve these objectives, AACB conducts research and provides up-to-date information on financial and monetary problems involving African Countries. The association also provides technical assistance to members.

## **The African Re-Assurance Corporation (ARAC)**



For many developing African states, insurance undertaking has become a very important instrument of development. So in 1977 with the help of ADB, African Countries established the African Re-assurance Corporation. At the beginning of its formation, 32 countries registered for membership with initial capital formation of US \$15 million. The Headquarter of the African Re-assurance Corporation is in Lagos, Nigeria.

## **Objectives of the Corporation**

- (a)** Promotion of the development of insurance and re-insurance schemes in the sub-region.
- (b)** Promoting and developing national regional underwriting in Africa.
- (c)** Attempting to reduce Africa's reliance and dependence on overseas insurance.
- (d)** Contributing from insurance schemes, realisation and profits towards economic development in Africa in general.

## ***Summary***

**International economic organisations:** These refer to the coming together of groups of people across international borders or countries to form a body in view of achieving economic goals.

**Intentional Monetary Fund (IMF):** This was formed with an initial motive of world trade promotion. It started with 44-member countries, which has now risen to over 150 countries.

### **Objectives of IMF**

• To promote International monetary co-operation through a permanent organisation, to encourage and promote free convertibility of currency of member countries,

• To remove restrictions on free exchange transactions,

• To provide short-term financial aid to member countries struggling with balance of payment problems, to discourage and if possible avoid competitive exchange and depreciation between the currencies of members,

• To advise members on financial policies.

### **World Bank**

World Bank was formed to reconstruct the war-damaged regions of Europe as well as develop the backward areas of the world. It is made up of three distinct institutions; the International Bank of Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC).

**IBRD** was established in 1945 to provide long-term loans for reconstruction to the damaged economies, but presently it provides loans for specific developments like: Hydro-electric dams, agricultural development, rural and urban development, education and family planning programmes.

### **Economic Commission for Africa (ECA)**

ECA is one of the regional economic bodies set up under the United Nations mainly for development. African Development Bank (ADB) was established in 1964 with the assistance of Organisation for African Unity (OAU) and the United Nations Economic Commission for Africa.

**General Agreement on Trade and Tariffs (GATT):** This one of the main economic institutions which have the main objective of making international trade and payment system easy.

**United Nations Conference on Trade and Development (UNCTAD):** This an organ of the General Assembly of UNO. Its policies were to widen the gap between the less developed countries and industrially developed nations.

**Organisation of Petroleum Exporting Countries (OPEC):** This an intergovernmental organisation established in 1960 at the Baghdad Conference by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five founding members were later joined by Nine other members which include: Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Angola and Gabon.

### ***Class Activities***

1. Students should make a list of projects for which the following economic organisations have contributed to in their country: IFC, IBRD, and IMF.
2. The teacher should arrange students into groups for series of closed debates on the implications of the following international organisations for the Nigerian economy:

- (a) IMF
- (b) ECA
- (c) IBRD
- (d) UNCTAD

### **Revision Questions**

#### ***Objective Questions***

1. One of the functions of International Monetary Fund is:
  - (a) Devalue the currency of member states
  - (b) Reduce drastically the size of deficit financing of member states

**(c)** Give financial assistance to member states that have temporary balance of payment difficulties

**(d)** Discourage the rapid industrialization process in the less developed nations of the world

**(SSCE 2006)**

**2.** ECA means:

**(a)** Economic Commission for Africa

**(b)** Economic Community of Africa

**(c)** Exporting Countries of Africa

**(d)** Economic Conference of Africa

**(SSCE 2007)**

**3.** The Economic Commission for Africa is an agency of the:

**(a)** Organisation of African Unity

**(b)** African Development Bank

**(c)** European Union

**(d)** United Nations Organisation. **(SSCE 2008)**

**4.** Which of the following is not an international economic organisation?

**(a)** Economic Commission for Africa (ECA)

**(b)** African Development Bank (ADB)

**(c)** World Health Organisation (WHO)

**(d)** International Monetary Fund (IMF) **(SSCE 2010)**

**5.** The headquarters of the African Development Bank (ADB) was originally located in:

**(a)** Cotonue

**(b)** Harare

**(c)** Abidjan

**(d)** Lagos

## ***Essay Questions***

**1. (a)** Discuss the role of International Monetary fund (IMF) in post war international economy.

**(b)** What are the shortcomings of the IMF?

**2.** Discuss the main objectives of the following:

**(a)** Africa Development Bank (ADB)

**(b)** The West African Clearing House (WACH)

**3.** Write short notes on the following:

**(a)** International Development Association (IDA)

**(b)** International Finance Corporation (IFA)

**4. (a)** What do you understand by UNCTAD?

**(b)** What are the objectives of UNCTAD?

**(c)** How has UNCTAD been able to achieve these objectives?

**5. (a)** What is Economic Commission for Africa?

**(b)** What are the objectives of ECA

**(c)** What are the other established arms of ECA?

## ***Glossary***

**International economic organisation:** This refers to the coming together of groups of people across international borders or countries to form a body in view of achieving economic goals.

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**Organisation of Petroleum Exporting Countries (OPEC):** The organisation of petroleum exporting countries is an intergovernmental organisation established in 1960 at the Baghdad Conference to co-ordinate and unify the petroleum policies of member countries and safeguard their interest individually and collectively.