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Fuelled Power: Oil, Financiers and Central Bank Policy in Nigeria

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Abstract

While the literature on business power and global finance has illuminated the ways in which financial institutions limit the policy autonomy of states in developing countries, we know much less about the circumstances under which the power of financiers is undermined. In this article I advance explanations of these circumstances by arguing that state access to natural resource revenues reduces the power of financial institutions and enhances the capacity of the state to pursue central bank policies which violate the interests of major financiers. I employ a case study of central bank policy in Nigeria to probe this argument and find evidence that supports the claim that whenever the Nigerian government's access to resource revenues increased, the state's capacity to diverge from financiers' preferred central bank policies and to advance its own preferences increased as well. The analysis provides the basis for broader propositions about the policy space of developing countries vis-à-vis financial institutions and the variability of structural power.

Keywords: Structural power; natural resource dependence; IMF; Sub-Saharan Africa; finance

Introduction

A significant body of literature on business power and global finance has examined the influence of financial institutions over policy choices in developing countries. This literature has illuminated how financial institutions may, due to their ability to withdraw much needed capital, reduce the policy autonomy of governments and encourage a policy stance that reflects the interests of financiers.[1] However, there is much less knowledge about the circumstances under which the power of financiers is undermined, even though this happens quite often. These circumstances are the subject of this article.

I argue that state access to natural resource revenues reduces the structural power of financial institutions and, as a result, enhances the capacity of the state to diverge from financiers' preferred policies and to advance its own policy preferences.[2] My argument has its roots in scholarship on structural power, which examines how groups that control investible resources shape policy. Specifically, this article builds on the claim of Jeffrey Winters (1994, 1996) that the influence business has over policy decreases as states' access to investible resources that can replace privately controlled resources increases.

I illustrate my argument with a case study of central bank policy in Nigeria, a major oil-exporting developing country. An analysis of central bank policy is well suited to examine the power relationship between states and financiers such as private banks and the International Monetary Fund (IMF) because it is an area of concern for both groups. For states central bank policy shapes variables which determine a country's economic prosperity, such as price and financial stability or access to credit. For financial institutions central bank policy shapes a country's investment climate and creditworthiness.

My analysis shows that when the Nigerian state had a low level of resource revenues, the state felt pressures to be responsive to the preferences of financiers for a central bank policy stance that prioritised stability because it relied on these financiers for the provision of investment resources. Yet as the resource revenues of the state increased, the reliance on financiers decreased. As a result, there was an increase in the capacity of the state to diverge from financiers' preferred policies and to advance its preferences for central bank policies that prioritised an expansion of access to finance.

The contribution of this article is twofold. First, the article makes a theoretical contribution by combining insights from the literature on structural power and on resource dependent developing countries. Theories of structural power are most helpful in predicting the direction of policy when the power of investors is high. Winters (1996, p. 141), for instance, argues that when 'the structural leverage of investors is effectively blocked (…) one can account for the direction of policy changes only by looking at contextual factors that vary widely from jurisdiction to jurisdiction'. I contend that by bringing in arguments derived from the literature on the politics of resource dependence, it is also possible to account for the direction of policy when the power of financiers is undermined. Moreover, my findings bear important theoretical implications for understanding the politics of economic policymaking in resource dependent developing countries by pointing to structural power as the causal mechanism linking state access to resource revenues and the capacity of the state to employ expansionary policy.

The second contribution is empirical. Recent work on structural power has improved our understanding of the independent variables shaping the structural power of financial institutions (Culpepper and Reinke 2014, Bell and Hindmoor 2015, James and Quaglia 2018). Yet few researchers have examined the conditions under which the power of financiers is blocked in developing countries, even though their power is likely to be particularly high in capital-poor countries (Mosley 2005). Even fewer scholars have examined Winters' claim that state access to investible resources that can replace privately controlled resources can mediate business power. Nigeria's story adds some empirical 'meat' to this claim.

The next section combines arguments about structural power and the politics of resource dependence to develop an explanation of how state access to resource revenues may enhance the capacity of the state to diverge from financiers' preferred policies. Section 3 introduces the research approach and Section 4 presents a historical narrative of central bank policy in Nigeria. Section 5 highlights the implications of the findings for our understanding of the power relationships between states in developing countries and financiers.

Power and Resource Dependence

Many scholars invoke the hypothesis that the control of financial institutions over financial resources, which allows them to withhold or relocate capital, exerts strong pressures on governments to pursue policies which reflect the interests of these financiers and subordinate their own interests. In demonstrating this claim, scholarship on developed countries tends to focus on the power of private financiers such as banks.[3] Scholarship on developing countries, in contrast, tends to focus on the influence of public financiers, notably the IMF, because many developing countries rely to a significant extent on external financial assistance.[4]

Even though scholarship has highlighted that financiers do not always win political battles (Maxfield 1990, Culpepper and Reinke 2014, Pagliari and Young 2014, Gallagher 2015), research examining the circumstances under which the capacity of the state to diverge from financiers' preferred policies increases is rare. Much of the existing research seeking to understand these circumstances falls into one of three broad categories. The first category of explanations suggests that distress in financial institutions reduces their ability to shape policy (Maxfield 1994). The second category suggests that ideas government officials hold may decrease the perceived threat that financiers withdraw financing and thereby mediate financiers' powers (Bell 2005, 2012, Bell and Hindmoor 2014). A third category of explanations, which seeks to account for failures of the IMF and the World Bank to shape policy in developing countries, argues that the conditionality of these institutions has often been ineffective because they were unwilling to withdraw funds if conditions were not met (Killick 1997, Stone 2004).

I provide an additional explanation, namely that state access to natural resource revenues may limit the power of private banks and the IMF as major financial institutions. Specifically, I argue that when a state has a low level of resource revenues, its capacity to diverge from financiers' preferred central bank policy stance is limited and the state has strong incentives to employ a policy stance that reflects the preferences of major financiers. As the resource revenues of a state increase, the state's dependence on financial institutions decreases, enhancing the government's capacity to diverge from financiers' preferred central bank policy stance and to advance its own policy preferences. This argument has its roots in scholarship on structural power and extends this literature by highlighting resource revenues as a factor that shapes the variability of such power.

Structural power and central bank policy

The literature on the structural power of capital provides a set of propositions why and how financiers should be able to exercise power over policy in a context of low resource revenues. This literature suggests that structural power arises from the dependence of states on private sector agents to invest in a way that allows for the maintenance of the level of economic activity necessary to finance the state apparatus and to sustain the popular support needed for staying in power (Block 1977, Lindblom 1977). Private sector agents respond to policy by changing their investment decisions in accordance with their own individual profit-maximizing objectives. Consequently, governments feel strong pressures to implement policies which are responsive to the interests of the private sector.

Issues of anticipation and perception are critical for the operation of structural power (Hay and Rosamond 2002, Bell and Hindmoor 2014, Fairfield 2015). Policymakers reform policy when they perceive it to have negative effects on investment to improve the 'investment climate'. Moreover, the mere anticipation of a downturn in investment following a policy which is not in the interest of business may be sufficient for policymakers to rule out the policy. Structural power is thus distinct from instrumental power, which shapes policy through political mobilization in the form of lobbying, participating in policymaking, financing campaigns, or marches (Fairfield 2011).

The structural power of the financial sector has received considerable attention in the literature because it is assumed to be high compared to other sectors (Maxfield 1990, Winters 1994, Bell and Hindmoor 2017, pp. 104-5). Finance capital may be particularly powerful because it is highly mobile and can thus be easily withdrawn. Moreover, financial institutions sustain investment in the productive sectors and help to finance public investment.

Much of the existing scholarship on financiers' structural power focuses on the role of banks as major private financial institutions. Yet I extend the insights of the literature to encompass the role of the IMF, a major public international financial institution (IFI), because the IMF may gain significant influence over policy when private investment and the financial resources of the state decline (Winters 1996, Lukauskas and Minushkin 2000). Often the IMF exercises material power in a way that is non-structural, for instance by resorting to open coercion. There may however be circumstances when the IMF exercises material power in a structural manner, playing the role of a gatekeeper: States often make the provision of aid and debt relief conditional upon whether a country successfully participates in an IMF programme (Gould 2003). Moreover, private investors often attach weight to the IMF's assessments of economic policy in deciding about investment in developing countries. Thus, a government may pursue policies that are responsive to the concerns of the IMF *in the belief* that 1) the IMF reacts to policies deemed unfavourable by negatively assessing the performance of a programme or suspending it and 2) that states and private investors respond to the IMF's reaction by withholding funds. The IMF would then pose structural constraints on government policy. Therefore, in examining financiers' power, I focus on private banks and the IMF as key financiers in developing countries.

What central bank policy stance can we expect when a state depends on the IMF and banks as major financiers and capacity to diverge from their preferences is therefore limited? In specifying the central bank policy preferences of financiers, I focus on monetary and financial policy because they tend to be the main policy fields of developing country central banks. Financial policy notably includes prudential regulation to enhance financial stability and allocative policies targeting the expansion of access to credit for specified sectors.

Both the IMF and private banks are likely to prefer a central bank policy stance that prioritises stability over the expansion of access to finance.[5] In particular, the IMF has considered the orientation of monetary policy towards price stability and of financial policy towards financial stability as the primary tasks of central banks in developing countries (Guitian 1995, Babb 2003, Rodrik 2006, IEO 2007, Epstein 2013). Although private banks are a diverse group of actors the orientation of monetary policy towards price stability is a concern of most banks, domestic and foreign (Maxfield 1991, Posen 1996, Brownbridge *et al.* 1998, Kirshner 2001). While banks may be supportive of an expansionary monetary policy to the extent that their own real borrowing costs fall, they fear high and changing rates of inflation because they erode interest earnings. Given the negative impacts of unanticipated inflation on banks' profitability, they are likely to prefer a central bank policy stance that prioritises price stability over the expansion of access to finance.

As regards financial policy, private banks tend to prefer a central bank policy stance that emphasises prudential regulation over allocative policy. Banks certainly want to minimise prudential regulation, which restricts their borrowing and lending decisions (Maxfield 1990, Young 2012). Yet banks also want to enjoy central banks' lender of last resort protection and operate in a context of financial stability because the defaults, rising borrowing costs and bank runs associated with banking sector distress might reduce banks' profits and damage their reputation among investors. Banks are thus likely to support an orientation of financial policy towards financial stability as long as the benefits arising from financial stability, such as enhanced creditworthiness in the eyes of investors and lender of last resort protection, are perceived to outweigh the costs of prudential regulation (Maxfield 1990, p. 25, Walter 2008, p. 160, Jones and Zeitz 2017). Allocative policies, in contrast, tend to face opposition from bankers because such polices usually seek to enhance access to credit for sectors to which banks are unwilling to lend because they perceive other sectors as more profitable and creditworthy (Maxfield 1990, Brownbridge *et al.* 1998, Mwaniki 2017, Naqvi 2017).

Resource revenues and central bank policy

My argument that state access to natural resource revenues may limit the power of financial institutions builds on previous work on the structural power of capital by Jeffrey Winters. Winters (1994, 1996) claims that state access to financial resources that can replace those provided by private capital, so-called 'replacement resources', reduces the reliance on the private sector for the maintenance of the level of economic activity necessary to finance the state apparatus and sustain popular support, thus mediating the structural power of capital. Extending this claim to the realm of finance and natural resource dependence, I argue that an increase in a state's resource revenues may undermine the power of financiers and, as a result, enhance the government's capacity to diverge from financiers' preferred policies and to advance its own policy preferences, which I refer to as policy space.

The key point here relates to the pattern of capital control in resource-rich developing countries. In many of these countries governments control a large portion of the resource revenues because laws allocate the ownership of natural resources like petroleum to the state and the extractive sector is state-owned. If the extractive sector is in part or entirely privately-owned, governments may gain control of resource revenues through royalties, corporate taxes or concession fees. During resource booms resource revenues may become large enough to replace a significant amount of private investment and financial assistance on which countries rely in normal times. As the reliance on financiers declines, not only does the fiscal space for expansionary policies increase, but the government's political space for policies which diverge from financiers' preferences such as directed credit does as well.

Jeffrey Winters's book on structural power in Indonesia, which also includes a brief case study of Nigeria, provides one of the few examples which explores the claim that the structural power of business decreases as states' access to replacement resources increases (Winters 1996). However, it focuses on business in general rather than financiers and regarding Nigeria Winters finds that institutional incoherence and the weakness of Nigeria's political opposition, rather than access to resource revenues, account for the Nigerian state's unresponsiveness to business. A limitation of Winters's case study of Nigeria is, however, that it does not systematically examine whether changes in the state's resource revenues are associated with changes in policy.

What central bank policy stance can we expect when governments in resource dependent developing countries have a high capacity to diverge from financiers' preferences and advance their own preferences? Research on the politics of resource dependence suggests that these governments usually have a preference for a policy stance that supports economic expansion (Gelb 1988, Karl 1997, Kaufman 2011, Ross 2012).[6] Extending these insights to the realm of central banking suggests that governments in resource-rich developing countries prefer monetary and financial policies that prioritise an expansion of access to finance over stability.[7]

The literature highlights two main reasons for this preference. One is that an expansionary policy stance may enhance political support as it allows dispensing patronage to political rivals and constituencies (Ross 2001, 325-61, Robinson *et al.* 2006, Morrison 2009, : 107-38). Employing expansionary policy to gain political support may be particularly appealing for governments in resource dependent developing countries because limited income opportunities increase the susceptibility of citizens to patronage. Another reason is that the very phenomenon of weak private sector development, a corollary of resource dependence, may provide incentives for expansionary economic policies, as they may help to develop and diversify the private sector (Karl 1997). Expanding the non-resource sectors is an important way to decrease the vulnerability to economic shocks arising from the volatility in the markets for natural resources like oil (Mazaheri 2014).

Overall the foregoing discussion suggests that state access to resource revenues reduces the structural power of financial institutions and, as a result, enhances the capacity of the state to diverge from financiers' preferred policies and to advance its own policy preferences. Table 1 summarises the arguments in this section. Both the IMF and banks on balance favour a central bank policy stance that prioritises stability. The tightening of monetary policy or prudential regulation and lower emphasis on policies that reduce the costs of lending such as schemes that support the provision of credit at below-market interest rates are indications that a central bank prioritises stability (Mishra *et al.* 2012, Barajas *et al.* 2013, Sahay *et al.* 2015). Governments in resource dependent developing countries usually favour a central bank policy stance that prioritises the expansion of access to finance. Indications of such a stance are the loosening of monetary policy or prudential regulation and an increase in the emphasis placed on financial policies that reduce the costs of borrowing. The key point is that changes in resource revenues lead to changes in the ability of financiers and the government to enact their preferences.

<Table 1 about here>

Note that what is particular about my argument is not that resource dependent countries are likely to employ expansionary fiscal and monetary policy during resource booms, as has been demonstrated in the literature (Kaufman 2011). Neither do I claim here that the policy space governments gain during resource booms implies beneficial development outcomes. Whether governments use their space to advance policies that diverge from financiers' policy preferences in ways that improve development outcomes is likely to depend on various factors, including the existence of strategic alliances with non-resource exporters (Mosley 2017). I argue that by studying the consequences of the variation in states' resource revenues for central bank policy we can improve our understanding of the conditions under which financiers' structural power is undermined and the central bank policy options that can reasonably be considered expand to include expansionary, state-led policy. Diverging preferences among financiers and governments in resource dependent developing countries as well as financiers' ability to withhold funds render central bank policy an important but understudied locus of political conflict in resource dependent developing countries.

Probing the Power of Financiers

I employ a historical narrative of central bank policy in Nigeria to examine the effect of resource revenues on state capacity to diverge from financiers' central bank policy preferences. Nigeria was selected as a case for three reasons. First, Nigeria has a national rather than regional central bank, hence the ability of Nigeria's policymakers to determine central bank policy at the national level. Second, the relative importance of resource revenues, which in 2000-2010 amounted on average to 95 per cent of exports. Third, arguments based on the theory of the structural power of capital have rarely been applied to African countries even though many countries are extremely dependent on external finance and private investors and IFIs have championed a neoliberal capitalist model in Africa (Harrison 2010).

In assessing the role of structural power, the analysis relies on primary data such as speeches and more than 50 in-depth, semi-structured interviews with central bankers, commercial bankers, donors and representatives from IFIs, and on secondary literature. The interviews were conducted during fieldwork in Abuja and Lagos between 22 October and 14 November 2010, 17 January and 10 February 2012, and 8 and 22 September 2017. While the primary data was mainly collected to understand the constraints that financiers impose on policymakers and policymakers' perceptions of these constraints, the secondary data served specially to ascertain the extent to which policy becomes responsive to financiers' concerns during moments of financial vulnerability due to oil busts.[8]

Given that multiple factors might account for changes in the capacity of the Nigerian state to diverge from financiers' preferences, I focus on pendulous swings in key variables over time. Specifically, I examine whether changes in policy systematically follow changes in the power financiers have due to their control over investible resources which in turn follow changes in resource revenues. My expectation is that whenever the Nigerian state's access to resource revenues declines, the responsiveness to financiers' concerns increases and, as a result, central bank policy becomes oriented towards stability. Whenever the resource revenues of the Nigerian state rise, we should observe that the state's responsiveness to financiers' concerns decreases and as a result, central bank policy becomes oriented towards an expansion of access to finance.

The Politics of Central Bank Policy in Nigeria

The case study of Nigeria spans the years 1959, when the Central Bank of Nigeria (CBN) was established, to 2013. As Table 2 shows, I divide Nigeria's story into five sections with the level of oil revenues being the main criterion for the division. This division allows to contrast periods of high and low oil revenues, and thus to examine the linkages between changes in resource revenues, the government's capacity to diverge from financers' central bank policy preferences and the stance of central bank policy. As we will see, Nigeria's story provides support for the claim that state access to resource revenues may enhance the capacity of the state to diverge from financiers' preferred central bank policies. As the resource revenues of the state increase, the state's capacity to diverge from financiers' preferences for a policy stance prioritising stability and to advance its preferences for an expansion of access to finance increases as well.

< Table 2 about here>

Oil booms and state indifference, 1959-1981

When Nigeria's central bank was established in 1959 there was agreement that stability should not be compromised for political reasons (CBN 1979, p. 42). Yet pressure on the CBN to pursue expansionary policies soon mounted. A key source of such pressure was the government's access to a vast amount of discretionary resources following the first oil boom. When oil prices quadrupled in 1973/1974, the public ownership of oil reserves and equity stakes in the oil industry allowed the Nigerian state to gain control of an enormous amount of financial resources as Figure 1 shows. By the mid-1970s, oil had moved to the centre of economic accumulation in Nigeria, accounting for 93 per cent of exports in 1977 (Karl 1997, p. 206) and an average of 76 per cent of government revenues between 1975 and 1980 (CBN 1994b, pp. 97-8).

<Figure 1 about here>

What was the effect of access to a significant amount of investible resources on the Nigerian state? Faced with the task of reconstruction when the Biafran war ended in 1970 and expectations from citizens to rapidly deliver economic growth, the government embarked on a massive programme of oil-funded, state-led economic development. The CBN aligned its operations with the government's stance, reflecting the government's view that the role of the CBN was, in the words of finance minister Okotie-Eboh, to 'establish conditions which will be most suitable for the implementation of Government's economic policy' (1959 cited in Uche 1997, p. 146). Specifically, central bank policy began to prioritise expanding access to finance for the government and the private sector. The CBN promoted access to credit for instance through its ownership and funding of public development banks. It also established in 1977 an agricultural finance department, which, for instance, administered credit guarantee schemes (CBN 1979, p. 147). In addition, the CBN used financial regulation extensively for allocative, rather than prudential purposes (Brownbridge 1998, p. 106). For instance, the 1969 Banking Decree failed to require banks to make provisions for non-performing loans but empowered the CBN to set sector-specific interest rate ceilings and lending quotas to encourage lending to development priority sectors such as agriculture. In addition, in 1977 the CBN issued regulation requiring banks to set up rural branches to deliver agricultural credit (World Bank 1983a, p. 58).

Although price stability was formally a primary goal of the CBN, it often resolved trade-offs between price stability and financial access in favour of the latter. In a publication the CBN (1979, p. 127) acknowledged: ‘In pursuit of the objective of fostering the growth of a sound financial system to mobilise adequate development-oriented finance, the CBN has been obliged to be less constraining on the credit operations of the banking system than it otherwise would have been’. Thus while the CBN controlled the structure of interest rates, it avoided increasing interest rates to tame inflation in the 1970s to limit public and private borrowing costs (World Bank 1983a).

At that time, many central banks in other developing countries also sought to expand access to finance because it was part of the predominant economic thinking that central banks may actively support development (Helleiner 2001, Beck *et al.* 2009). Yet what was different in Nigeria was the state’s control of sizable resource revenues. This control not only widened the fiscal space of the state, enhancing for instance the fiscal capacity to provide direct financing to the economy. Oil revenues also enhanced the government’s political space for expansionary policy by allowing the government to gain control of a significant share of Nigeria’s investible resources, thereby reducing its concerns that investment would decline if financiers’ preferences were dismissed.

The banking sector illustrates these dynamics. In the mid-1970s, the state used its oil revenues to acquire controlling equity stakes in all foreign-owned banks and to set up state government banks. From that time until the late 1980s public sector ownership became predominant in Nigeria's banking system, allowing the state to govern banks in line with its preference to expand access to finance. Policymakers displayed indifference to the preferences of banking sector agents which favoured a limitation of CBN policy to the promotion of stability, notably the foreign shareholders of Nigeria's four largest, formerly foreign-owned commercial banks. The CBN's controls on interest rates, rural branching requirements, credit guidelines and loose monetary policy combined to reduce the profits of these banks (World Bank 1983a, Brownbridge 1998, pp. 109-10). Yet when banks complained about the costs of opening up rural branches, for instance, they received no redress from the state (Wallace 1983, p. 170). The government could afford to display limited sensitivity to the concerns of banks because of its control of capital. In fact, the government as a major shareholder used its powers to reinforce compliance with the CBN's allocative regulation (Brownbridge 1998, p. 109). Upset about the impacts of CBN policies, foreign shareholders were left to seek to appoint conservative managers, who tried to limit the share of loans among assets (Brownbridge 1998, pp. 108-10).

The political influence of public financiers, notably the IMF and the World Bank, was also limited because they provided only a small share of investible resources in Nigeria. Specifically, Nigeria had never sought IMF financing involving conditionality by the early 1980s. As soon as oil revenues increased, Nigerian leaders had been keen to reduce their reliance on foreign assistance because the accompanying conditionality was seen to reduce the policy space (Okolie 1995, pp. 35-6, Herbst and Soludo 2001). As a member of the CBN's monetary policy committee (MPC) reflects, the view emerging in Nigeria was: 'We are not an IMF debtor country and are thus more free' (Interview with MPC member, 4 February 2012). Given the limited reliance on the IMF, the World Bank and other donors until the mid-1980s, it is not surprising that Nigerian policymakers did not address criticisms of central bank policy such as the interest rate scheme, which the World Bank deemed 'excessive' (World Bank 1983a).

The government's preference for expansionary policy became particularly evident when Nigeria experienced a second oil boom between 1979 and 1981. Government revenues increased by 31 per cent in 1979 and 21 per cent in 1980 (Karl 1997, p. 247). IFIs voiced warnings at the beginning of the boom that the government should limit inflationary pressures (World Bank 1979, pp. iii-iv). Nonetheless, monetary and financial policy became increasingly expansionary to finance an agenda of state-led growth and political patronage.

Declining oil revenues and increasing responsiveness to financiers, 1981-1986

The expansionary policy spurred by the second oil boom generated a full-blown crisis in 1982 when the boom had turned to bust. Between 1981 and 1982 government revenues had declined by 19 per cent owing to falling oil prices. Fiscal deficits increased rapidly because Shehu Shagari's civilian government failed to reduce expenditure. In 1982 government borrowing from the CBN and domestic banks expanded by 57 per cent and Nigeria withdrew its final entitlement from the IMF (Forrest 1986, p. 12). The Nigerian government also incurred significant international debt through syndicated bank loans. In sum, the state's reliance on the IMF and private banks increased significantly.

The government sought to contain the crisis with short-term measures such as increasing interest rates but was unable to regain control over the economy. Investors responded with exit through capital flight (World Bank 1983b, p. 4, Forrest 1986, p. 13). International banks withheld capital in the face of the international debt crisis and Nigeria's crisis. Lacking room to move, the government stepped up its efforts to stabilise the economy in 1983. Notably, the government began negotiations with the IMF because international banks blocked credit to most developing countries without an IMF seal of approval (Okolie 1995, p. 203). Showing greater responsiveness to some concerns of the IMF for macroeconomic stabilization helped Nigeria to secure refinancing agreements but the government was unable to agree with the IMF on a programme because it feared a backlash from voters in the 1983 elections (Forrest 1986, p. 13, Herbst and Soludo 2001, p. 661).

Limited responsiveness to the policy concerns of the IMF and private financiers had devastating effects. Nigeria's GDP contracted by 5 per cent in 1983. Moreover, while Shagari was re-elected, he was soon overthrown in a military coup by General Muhammadu Buhari. Among the reasons given for the coup were the enduring economic crisis and widespread corruption (Herbst and Soludo 2001, pp. 661-2). The fall of Shagari's administration in 1983 thus underscores the political instability which may arise when those controlling capital withhold their funds and the state has no replacement resources.

Buhari's regime sought to regain control over the economy and win the confidence of international creditors to reschedule existing and access new debt. He began a reform programme which combined monetary contraction, fiscal retrenchment and tight import and exchange controls (Okogu 1986, Lewis 2009, p. 161). Buhari believed that Nigeria's economic crisis could be solved by withstanding three years of austerity (Forrest 1986, p. 24). A Structural Adjustment Programme (SAP), which the IMF and the World Bank requested and which required more wide-ranging measures such as financial liberalization, could then be postponed.

Although the regime made some progress in containing the fiscal deficit, the economy suffered from the austerity measures. In addition, efforts to reschedule debts were not successful because international creditors rejected rescheduling in the absence of an IMF programme (Forrest 1986, p. 24). Moreover, due to the austerity measures, popular protests ensued, which were swiftly repressed. Divisions within the military about the use of repression and the lack of popular support for the government provoked a successful coup attempt in August 1985, led by General Ibrahim Babangida (Forrest 1986, p. 23).

By the time Babangida seized power, the pressure to be responsive to financiers by changing the orientation of policy had become overwhelming. Nigeria's ratio of non-concessional debt to total exports serves as a relatively good measure of the pressure for reform because it indicates how much revenue government leaders had available in light of their almost complete dependence on oil export earnings for government revenue (Herbst and Soludo 2001, p. 650). As Figure 2 shows, this ratio was tremendously high in 1986. Another indication of the vulnerability to external pressure is the low level of oil revenues in 1986 (see Figure 1). Babangida's military regime believed that tinkering at the margins and intensifying the austerity measures and import controls, as Shagari and Buhari had attempted, was not a viable option (Herbst and Soludo 2001, p. 650). Such measures had failed to reverse the economic decline and lacked the support of the IMF which Babangida's regime considered necessary to begin debt rescheduling talks with foreign banks. The government believed that the only option it could realistically consider was to embark on an SAP that was supported by the World Bank and the IMF. As Idika Kalu, who was finance minister at that time stressed in a public debate, the question was not whether Nigeria should take an IMF loan and the accompanying conditionality but whether it could afford not to do so (Herbst and Soludo 2001, p. 666). In July 1986 the government embarked on a SAP that was monitored by the IMF and promoted measures such as tightening monetary policy, removing credit allocation guidelines and raising interest rates (Federal Republic of Nigeria 1986).

<Figure 2 about here>

Failed structural adjustment in the context of rising oil revenues, 1986-1993

A close look at monetary and financial policy illustrates that commitment to the SAP waned as oil revenues rose over time. Specifically, efforts to orient financial policy towards stability had limited success. While the CBN removed interest rate controls in 1986 and 1987, it reintroduced some controls in 1989 and 1991 (Herbst and Soludo 2001, p. 668). Credit allocation guidelines were simplified but maintained and development financing schemes remained in place. Prudential regulation was tightened in 1991 but rarely enforced (Lewis and Stein 1997, p. 11, Brownbridge 1998, p. 121). The liberalisation of entry into the banking sector gave rise to a domestically owned, private banking sector but low entry requirements allowed financial instability to increase.

Monetary policy was also very loose between 1991 and 1993. After its tightening in 1986 and 1987, the CBN embarked on some reflationary measures following public protests in 1988 and 1989 (Lewis and Stein 1997, p. 11). Between 1991 and 1993 the CBN’s advances to the government increased by 359 per cent (CBN 1994a, p. 17). While the government increased the CBN’s autonomy from the ministry of finance in 1991, the formal strengthening of independence failed to orient CBN policy towards price stability because the government’s preferences for financial expansion continued to shape central bank policy (Uche 1997).

In 1992, the IMF and the Nigerian government abandoned the SAP. What accounts for the failed SAP? One factor appears to be pressure to consolidate power by placating domestic political interests through expansionary economic policy (Lewis and Stein 1997, p. 12). The SAP had been met with mass rioting and unrelenting criticism from most groups within Nigerian society. Babangida’s regime, however, wanted to increase its popular support and political stability, partly because it had, in parallel to the SAP, initiated a process of transition to civilian rule and had scheduled presidential elections, which after several deferrals, were held in 1993.

Another factor appears to be that access to replacement resources in the form of oil revenues increased over the course of the SAP. As Figure 1 shows, oil revenues increased steadily from 1986 and, following the Iraqi invasion of Kuwait in 1990, Nigeria experienced an oil windfall which lasted until 1991. The access to oil revenues reduced the influence the IMF and private creditors had gained over policy through their influence on debt rescheduling (Herbst and Soludo 2001, pp. 671-3).

When General Sani Abacha came to power through a military coup in 1993, the expansionary policy stance initially continued. Abacha had overthrown an interim government that Babangida had appointed to succeed him following his annulment of the 1993 presidential elections. At that time oil revenues were still considerable and financiers were unable to influence policy through withholding capital or political mobilization when their economic interests were violated. For example, large businesses and banks, which had organised themselves under the umbrella of the Nigerian Economic Summit Group (NESG), lobbied Abacha's government extensively in 1993 to promote price stability and to rely more on market mechanisms, including by deregulating interest rates (Kraus 2002, p. 423, Nigerian Economic Summit 1993). Yet despite these efforts to exercise instrumental power CBN policies remained expansionary in 1993 and the government reversed core elements of the SAP, re-establishing for instance interest rate ceilings (Lewis and Stein 1997, p. 15).

Shrinking capacity to diverge from the preferences of financiers after the boom, 1994-1998

When oil revenues declined heavily from 1994 onwards, the policy space of Abacha's government declined as well. Lacking the access to replacement resources, Abacha's regime decided to show some responsiveness to financiers' concerns by orienting expansionary policies more towards stability. In particular, the government and CBN sought to enhance stability in the distressed banking sector by introducing stringent anti-fraud legislation in 1994 and resolving failing banks (Brownbridge 1998, p. 120). In addition, the CBN tightened monetary policy and raised interest rate ceilings in 1995, displaying greater responsiveness to the demands of the NESG and IFIs to rely on market mechanisms and promote economic stability (IMF 1998, pp. 6-7, Lewis 2009, p. 176). Regulators were also given some de facto operational autonomy to enhance macroeconomic stability (Interview with financial regulator, 20 September 2017).

However, as Abacha's government failed to pursue a comprehensive programme of structural reform, the IMF and banks continued to withhold financing. In particular, debt rescheduling remained on hold and credit extended by commercial banks to the private sector fell from 13% of GDP in 1993 to 8% of GDP in 1996 (World Bank 2013a).When Olusegun Obasanjo came to power after elections in 1999, a year after Abacha's death, he inherited a weak economy.

High oil revenues and political space for expansionary policy, 1999-2013

Obasanjo was convinced that, after decades of military rule, multiparty democracy could only be cemented if standards of living increased (The Economist 2000). The government's strategy to raise living standards was based on two cornerstones: First, raising levels of private investment in the non-oil sectors to reduce Nigeria's vulnerability to changes in oil revenues (NNPC 2004). Second, securing debt relief, which the government considered imperative to free up government resources for public investment (Obasanjo 2003). In 1999 servicing of external debt amounted to 9 per cent of Nigeria's exports (World Bank 2013b) and a sizable share of government revenue even though oil prices rose in the early 2000s.

Obasanjo did not secure debt relief during his first term even though it was a political priority. His administration agreed on an IMF Stand-By Arrangement without borrowing from the IMF in 2000 as creditors made debt relief conditional on the IMF's stamp of approval of Nigeria's economic policies. However, from late 2000 onwards, the government and CBN pursued expansionary policies, alienating the IMF and foreign creditors. Specifically, the government massively increased expenditures against the backdrop of buoyant oil revenues. Instead of fighting inflationary pressures, the CBN maintained low interest rates to facilitate access to credit for the non-oil sectors (IMF 2001, 2004). The IMF urged policymakers to orient policy towards stability (IMF 2003), but lacked the power to enforce change. The Nigerian authorities were aware that expansionary policy would violate the monetary targets agreed with the IMF. Yet the government was willing to pay this price to stimulate the economy before elections in 2003 and could afford to pay it because high oil revenues had reduced reliance on the IMF and the debt service burden (Wallis 2002, DMO 2004, p. 14). As a result, the IMF resorted to its only disciplinary measure: It suspended its programme with Nigeria, which had been the precondition for debt relief.

Once Obasanjo had won another term of office in 2003 the government worked again towards an IMF-backed reform programme because it considered it a precondition to achieve its goal of economic expansion (Okonjo-Iweala 2007). According to Obasanjo (2003, pp. 5-6) servicing debt fully 'would mean that little or no capital expenditure for health, education and infrastructure, could be financed and hence, growth would be jeopardized. (…) Nigeria's debt overhang is serious and unsustainable. It constitutes a deterrent to private sector investment and to growth and development.' The government exploited the space created by high oil revenues strategically. It designed a reform programme which was formally monitored by the IMF but, to guard financial independence, not supported by an IMF loan (Okonjo-Iweala 2007, pp. 5-6). Moreover, the government used oil revenues to buy off political constituencies and increase social expenditure while exercising fiscal and monetary restraint (Utomi *et al.* 2007, Callaghy 2009, p. 35). Nigeria earned recognition from the IMF for maintaining macroeconomic stability in an environment of high oil revenues in 2005 (IMF 2005, 2006), paving the way for debt relief from official creditors in the Paris Club in 2005 and from commercial creditors in the London Club in 2007. While this episode is consistent with the claim that governments in resource dependent developing countries prefer expansionary policy it also shows that policymakers do not automatically pursue an expansionary policy in a context of high resource revenues but that there is room for agency. Nigerian policymakers decided to pay the price of short-term restraint to facilitate expansionary policy in the longer term and exploited the space provided by oil revenues to employ policies which helped them to raise investment and stay in power.

With debt relief efforts on track the government turned to raising non-oil investment. Obasanjo's economic team considered financial reform central to raising investment because many Nigerian banks were fragile, preferred lending to the government given its oil revenues and had become reliant on public sector deposits instead of mobilising public savings (NNPC 2004, pp. 24, 75, Soludo 2004). Therefore, Charles Soludo, a key member of Obasanjo's economic team since 2003, designed a banking reform agenda when he became CBN governor in 2004. The centrepiece of the agenda was the consolidation of the banking sector through an increase of the minimum capital requirement for banks from about US$15 million to US$190 million, which was envisaged to be achieved through mergers and acquisitions. Soludo (2004) argued that the consolidation would improve access to finance for entrepreneurs and create internationally competitive banks that would mobilise international capital to support domestic investment.

The CBN was indifferent to financiers' concerns. Most banks complained loudly about the reform because it would force them to close down the business or merge with other banks. Yet they were ultimately powerless because they provided only a limited share of resources for investment in Nigeria and were financially dependent on the government's oil revenues. Their contribution to the economy was, as a senior government official (Interview, 11 November 2010) explained, limited because most banks 'would be insolvent if they did not have the government as a client, as borrower or depositor'. Limited financial reliance on these banks and central bank independence – which was formally enhanced in 2007 and de facto high due to Obasanjo's backing of Soludo – enhanced the CBN's political space for the reform. The IMF did not speak out against the consolidation but raised concerns about its potential impact on banking sector stability (IMF 2005). Yet, as a senior IMF official (Interview, 8 September 2017) recalls, 'we were not listened to; we anyways were not asked.'

The banking sector consolidation epitomises the trade-offs between stability and expanding access to finance. It reduced the number of Nigerian banks from 89 to 25 and contributed to the desired credit growth. Yet the CBN failed to ensure the quality of the capital of merged institutions and to tighten supervision. The global financial crisis that began in 2008 magnified the risks in the Nigerian banking system, producing a full-blown financial crisis. In 2009, 10 out of Nigeria's 25 banks, accounting for about a third of banking system assets, were either insolvent or undercapitalised.

Under Lamido Sanusi, who succeeded Soludo when his term as CBN governor ended in 2009, the CBN used its formal and *de facto* independence to restore financial stability while expanding access to finance. Notably, the CBN rescued the failing banks, replaced some bank managers and tightened prudential regulation. The CBN did not care that some bankers complained loudly that the CBN's measures were 'aggressive' and Sanusi was 'acting with a sense of impunity' (Interview with a banker, 4 November 2010). At the same time, an increase in the state's oil revenues from 2010 onwards also enhanced the CBN's capacity for expansionary policy. Monetary policy became oriented towards both price stability and ensuring low interest rates to encourage bank lending to the private sector (IMF 2011, p. 9). Moreover, the CBN used moral suasion to exercise pressure on banks to lend to the real economy and massively expanded its subsidised credit schemes. Sanusi (2010) and his staff believed that the role of the central bank in a developing, undiversified economy like Nigeria went beyond promoting stability and included increasing flow of funds into productive investment.

Deliberate efforts by financiers to change the policy stance were unsuccessful. According to one banker (Interview, 3 February 2012) 'they meet with us, discuss their plans but in the end, they do not take up our suggestions.' Moreover, banks opposed the CBN's subsidised credit schemes because in their view the CBN passed risks on to banks and the associated margins were too small because the CBN had capped the interest rates for on-lending (Interviews with IFI officials, September 2017). The central bankers were not concerned about banks' ability to withhold investible funds in response to their policies because in their view, the contribution of the banks to economic development had been minimal since they focused on lending to the oil industry (Interviews with CBN officials, January 2012 and September 2017) and high banking sector liquidity had led to unproductive activities like speculation in commodities markets (FT 2009, Sanusi 2010). The IMF also criticised the CBN's efforts to stimulate lending through expansionary monetary policy and subsidised credit and urged the CBN to focus on ensuring price and financial stability (IMF 2011). Yet as high oil revenues had reduced Nigeria's reliance on financiers, they, once again, lacked the power to influence policy. As one MPC member (Interview, 4 February 2012) put it, 'we hear what the IMF says but we do not need to do what it says.'12-13

Conclusion

Nigeria's story illustrates that state access to resource revenues may enhance the capacity of the state to diverge from financiers' preferred central bank policies. The lower the resource revenues of the Nigerian state, the lower was its capacity to diverge from financiers' preferences for a policy stance prioritising stability and to advance its preferences for a stance that prioritised an expansion of access to finance. As resource revenues increased, the state's capacity to diverge from financiers' preferred central bank policies and to advance its own preferences increased as well. Especially in periods of high oil revenues financiers resorted to the deliberate use of political resources such as lobbying to influence policy, as did for instance the NESG in the early 1990s. The effectiveness of efforts to exercise instrumental power was, however, limited when the state did not rely on financiers' funds.

The quality of political institutions can hardly account for the pattern of central bank policy. There was a limited correspondence between periods of high central bank independence and the prioritisation of monetary and financial stability; nor were more democratic regimes, like the regimes of Shagari and Obasanjo, more likely to employ a central bank policy stance that was responsive to financiers. Similarly, changes in political leadership and key personnel such as central bank governors were not systematically associated with changes in the direction of central bank policy. In fact, central bank policy changed remarkably while Babangida, Abacha and Obasanjo were in power. Nigeria's story also lends only limited support to the argument that financial distress in the banking sector helps to account for the diminished influence of financial institutions. The state's responsiveness to bankers was limited during periods of high revenues even when the banking sector was stable. The claim that the IMF's influence over policy reform declines when it fails to sanction unresponsive behaviour does also not satisfactorily explain Nigeria's pattern of central bank policy because programmes were suspended when conditionality was not met.

In sum, Nigeria's case suggests that enhancing central bank independence, democracy, changes in leadership, banking sector soundness and IMF sanctions for violations of conditionality are unlikely to help maintaining an orientation of central bank policy towards stability during resource booms because policy has deep, structural roots. That is not to say that shifts in structural power are the only factor shaping Nigeria's central bank policy. Electoral incentives, for instance, were an additional important consideration for policymakers. However, access to resource revenues was a central enabling factor for the pursuit of popular expansionary policy.

The analysis pursued in this article contributes to explaining the finding of previous work that resource dependent countries are likely to employ expansionary fiscal and monetary policy during resource booms (Kaufman 2011) by pointing to structural power as the causal mechanism linking state access to resource revenues and the capacity of the state to employ expansionary policy during resource booms. The Nigerian government felt considerable pressures to raise investment to maintain political support and finance the state apparatus. When oil revenues increased, vulnerability to financiers' threats to withhold investible resources decreased, increasing not only the fiscal space but also the political space to pursue policies that violated the preferences of financiers.

Ultimately, this article contributes to the literature on structural power by advancing a still recent agenda on the variability of the power of financiers in developing countries. While resource booms and thus the space for expansionary, statist policy may be short-lived, institutions are sticky and may also survive busts, as the continued existence of the CBN's development finance department underscores. Future work could contribute to the emerging literature on the policies that improve development outcomes in resource dependent developing countries (Kolstad and Wiig 2009, Morrison 2012, Mosley 2017) by examining the conditions under which the space in central bank policy is used in ways that enhance development outcomes. Moreover, there is significant scope for research that explores whether access to state-controlled funds other than resource revenues, for instance revenues from state-owned enterprises, has similar effects on policy autonomy in developing countries. Shedding light on forces countervailing financial interests is also relevant for policy because it demonstrates that 'structural' does not mean 'inevitable'.

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[1] See for instance Maxfield (1990) Mosley (2003, 2005) and Campello (2014),

[2] I use the term 'natural resources' to refer to point-source non-renewable resources such as oil.

[3] See for instance Maxfield (1990), Andrews (1994), Cohen (1996) and Campello (2014),

[4] See for instance Lukauskas and Minushkin (2000), Bird and Rowlands (2002), Joyce and Noy (2008) and Dafe (2017).

[5] The literature provides several explanations for the alignment of interests between the IMF and private financial institutions such as: IMF staffs' professional training in Anglo-American

economics departments emphasising market-based economic governance (Babb 2003, Woods 2006, Chwieroth 2010); the dependence of the IMF on supplementary financing from private institutions in its programmes (Gould 2003); and the ability of powerful member states as major shareholders to shape IMF policies in ways that advance the interests of their domestic banks (Wade and Veneroso 1998, Oatley and Yackee 2004, Breen 2014).

[6] Institutions like sovereign wealth funds may help to reign in expansionary policies. However, the decision to set up a sovereign wealth fund is endogenous and, as also Nigeria's case confirms, few resource dependent developing countries have effectively managed these funds (Chwieroth 2014).

[7] This argument is in line with evidence that states with a high level of oil income are more likely to employ interventionist financial policies (Mazaheri 2014) and expansionary monetary policy (Kaufman 2011).

[8] The interview data mainly relates to the period from 2000 onwards because most key informants involved in designing policy, advising or negotiating with policymakers only took up their positions after Nigeria's transition to democracy and because there has been a generational change in key personnel.

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