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International Finance Corporation (IFC) and the Nigerian Economy

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ABSTRACT
This study examine the impact of International Finance Corporation on the Nigeria economy between the period of 2001and 2018 using the Ordinary Least Square method. This is so because IFC started contributing to the Nigerian economy financially since 2001. The GDP was used to proxy the economy while the net flow of IFC, IBRD and External Debt were the regressors. The findings reveal that IFC impact the economy positively though insignificant. However other variables have a significant effect on the economy within the period. It is therefore recommended that while government and policy makers can still allow and encourage increased activities of IFC in its private sector, external debt and financing should be effectively monitored and directed towards developmental purpose.
Keywords: Finance, Corporation, Nigeria Economy, External Debt, GDP

1.1 INTRODUCTION

Following the United Nation Monetary and Financial Conference at Bretton Woods, New Hampshire in 1944, numerous developmental financial institutions were established with various functions. Among which are the foremost institutions such as International Monetary Fund (IMF) established in 1945, the sister agency the World Bank, and the International Trade Organization established in 1948. These institutions were established to provide different kind of developmental financial services to the member countries. The underlining objectives range from developmental purposes, reconstruction, advisory, guarantees to settlement of financial disputes. Of these institutions, the World Bank Group has been reconstituted to other various international finance organizations that provide a broad range of financial services. The group now includes International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Center for Settlement of Investment Disputes (ICSID). Of all these organization, the IFC stands out in its private business financing ideology.

According to Chakraborty (2015) the twin forces of globalization and the deregulation have breathed a new life to private business. That is, financial organizations as they are have a great tendency of impacting various establishments world over. Each country's financial system can be more deepened through the activities of international organization. Ndebbio (2004) argued that a shallow financial depth (FD) means that the range of financial assets for that country is narrow. It is a scenario that goes far in explaining why most Sub-Sahara Africa countries have low or negative per capita growth rates.

Financial deepening is the product of the growth of financial intermediation. As given by Nguena and Abimbola (2013) financial deepening can be understood as a process by which the range of products and players widens, deadlines extend and services play a role in risk coverage and diversification. By the activities of International Finance Corporation, a nation's financial depth is broadened to the advantage of its economy.

According to Kenny, Kalow and Ramachandran (2018) **t**he International Finance Corporation (IFC) is the private sector lending arm of the World Bank Group. It is the largest global development institution focused exclusively on the private sector in developing countries, using debt, equity, guarantees and advisory services to support private investment across a range of sectors. Between 2001 and 2016, the IFC committed $127 billion through 3,343 projects across the developing world.

IFC commitments in the financial institutions area are mostly concentrated in the commercial banking sector, with a significant focus on MSMEs in recent years. Between 2013 and 2016, nearly half (47 percent) of financial institutions projects mentioned MSMEs in their project descriptions. By contrast, only 20 percent of financial institutions projects between 2001 and 2004 projects mentioned SMEs. IFC has also recently moved towards non-banking financial institutions and has invested over 1.5 billion dollars in this sector since 2013.

To improve access to finance and promote inclusive economic growth, the Central Bank of Nigeria (CBN), in partnership with the International Finance Corporation (IFC) has established the National Collateral Registry and is supporting the development of a modern credit reporting system in Nigeria. This new financial infrastructure will allow for increased use of moveable and reputational collateral to make it possible for more Small and Medium Enterprises to access financing through the formal sector.

To this end, it is pertinent to examine the impact of the activities of the International Finance Corporation on the Nigerian economy. This will adjudge its relevance in the economy development of Nigeria.

1.2 Statement of Research Problem

Many research studies have been carried out in the area of foreign capital flow such as Foreign Direct Investment, Foreign Portfolio Investment and other kinds of inflows of investible funds but limited study to the knowledge of the researcher has focused on the IFC investment activities in Nigeria. This necessitates the investigation to adjudge the economic impact of IFC in Nigeria.

1.3 Research Questions

i) How does International Finance Corporation impact the Nigerian economy?
ii) What relationship exists between International Bank for Reconstruction and Development and the Nigerian economy?
iii) To what extent does external debt affect the Nigerian economy?

1.4 Research Objectives

i) examine the impact of International Finance Corporation on the Nigerian Economy
ii) investigate the relationship between International Bank for Reconstruction and Development and the Nigerian economy
iii) determine the extent to which external debt affect the Nigerian economy

1.5 Research Hypotheses

$H0_1$: International Finance Corporation do not impact the Nigerian economy.

$H0_2$: No relationship exist between International Bank for Reconstruction and Development and the Nigerian economy.

$H0_3$: External debt does not affect the Nigerian economy.

1.6 Scope of the Study

The study focuses its attention on the impact of International Finance Corporation on the Nigerian economy. The need to examine how the Nigerian economy fair through the financial contribution been provided by the International Finance Corporation prompts this study. The private sector of the economy is been targeted for developmental purposes by the IFC, therefore we seek to evaluate the reflective impact on the economy. Scope-wise, the study period covers 2001 to 2018. This is because the IFC started its financial activities in Nigeria this period.

1.7 Significance of the Study

The study will provide us with the effect of the activities of IFC in the Nigerian economy. Also, government agencies, private institutions, and other policy makers can observe if the economy is been impacted and how it is been impacted. This will either encourage/discourage the clamor for such international agencies activities in the Nigerian economy.

1.8 Limitation of the Study

As there are many international financial agencies, the study is limited to examining the impact of International Finance Corporation a member of the World Bank on the Nigerian economy. International Finance Corporation been a member of the World Bank itself concentrate on private sector financing.

2.0 REVIEW OF RELATED LITERATURE

In this section we examine the concept of International Finance Corporation and the Nigerian economy

2.1 Conceptual Review

2.1.1 Concept of International Finance Corporation

According to Kenny, Kalow and Ramachandran (2018) Private sector flows are at the center of the "Billions to Trillions" agenda, the multilateral development banks' effort to increase resource flows to finance the Sustainable Development Goals,1 and the IFC is an integral component of that agenda. As a development finance institution (DFI), IFC's aims are to catalyze investments in projects and countries investors consider too risky to invest in alone. IFC does this through a range of instruments—loaning to private investors, guaranteeing loans, taking an equity stake in an investment, and offering advisory services. Thus DFIs are able to open up new markets to private investors. DFI investments can have positive externalities, like a demonstration effect of new products or technologies.

The International Finance Corporation (IFC), a member of the World Bank Group (WBG), is the largest global development institution focused exclusively on the private sector. IFC helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

Between 2001 and 2016, the IFC has committed $127 billion through 3,343 projects in debt financing, equity, guarantees, and risk management. The volume of annual commitments increased significantly in the early 2000s and has fluctuated around $10 billion in annual commitments over the past 10 years. Over the past five years, IFC has committed an average of 244 projects and $10.1 billion per year.

The largest recipients of IFC financing by volume have been large, middle-income economies: India ($10.1 billion), Turkey ($8.1 billion), China ($7.8 billion), Brazil ($7.7 billion), and Russia ($6.6 billion). Other countries that have received over $2.5 billion in financing from the IFC since 2001 are Mexico, India, Colombia, and Nigeria.

2.2 Broad Objectives of International Finance Corporation (IFC)

According to Smriti (2019), the objectives of the IFC are as follows:

1. To invest in productive private enterprises, in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.
2. To serve as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management.
3. To help in stimulating the productive investment of private capital, both domestic and foreign.

2.3 Areas of Expertise of IFC

- Agribusiness and Forestry
- Funds
- Infrastructure
- Oil, Gas, and Mining
- Telecommunications, Media & Technology

Financial Institutions
Health and Education
Manufacturing
Public-Private Partnerships
Tourism, Retail & Property

2.4 Theoretical Review

Judging by the activities of the IFC, it can easily be seen that the organization tends to promoting financial depth of member nations especially focusing on the private sector of the economy. In the 1970s, the applicability of the Keynesian view to analyzing the role of financial intermediaries and financial markets in the development process was cogently challenged by McKinnon (1973) and Shaw (1973). The McKinnon model assumes that investment in a typical developing economy is mostly self-financed.

Given its lumpy nature, investment cannot materialize unless sufficient saving is accumulated in the form of bank deposits. Such a complementary role between money and physical capital is termed the "complementarity hypothesis". On the other hand, the "debt intermediation" view presented by Shaw (1973) postulates that financial intermediaries promote investment and raise output growth through borrowing and lending. These two arguments suggest that a higher level of financial development, which can be the result of financial liberalization, will lead to increased output growth.

2.5 Empirical Review

Although development finance is becoming a hotly debated topic, literature is very limited to track the chain of studies (Jumaniyozov, 2018).

Hassan (2013) in his study of the effects of globalization on the Nigerian economy observed that globalization through the inflow of Foreign Direct Investment has impacted the Nigerian economy positively and hence should be encouraged by the policy makers. The study was carried out using OLS and the variables used include the GDP, FDI, Export and Import.

Aguwamba, Ogbeifun and Ekienabor (2016) using the Error Correction Model (ECM) statistical techniques, observed that International Finance Co-operation and International Development Association Grants has an insignificant positive impact on the economy of Nigeria between 1990 and 2010.

3.0 METHODOLOGY

3.1 Source of Data

The data collected and analysed were sourced from the World Bank. Both the Dependent variable, GDP and the independent variables, IFC Net Capital Flow (IFC-NCF), IBRD Net Capital Flow (IBRD-NCF) and Nigerian External Debt (NIG-ED).

3.2Method of Analyses

The method of analyse of the study is basically the statistical and the econometric analyses. Descriptive statistics is used in identifying the individual characteristics of the variables, while the preliminary test of unit root is carried out before the OLS examine the impact of the independent variables identified on the dependent variables.

3.3 Model Specification

Following the work of Jumaniyozov (2018) we specify the functional form thus:

GDP = f (IFC, IBRD, ED)

The econometric form is specified as:

$$GDP_t = \alpha_0 + \beta_1 IFC + \beta_2 IBRD + \beta_3 ED + \varepsilon_t \qquad \text{eq (1)}$$

4.0 PRESENTATION OF RESULTS

4.1 Analyses and Interpretation

Table 4.1 Descriptive Statistics

	GDP	IFC	IBRD	ED
Mean	48110495	31313228	3.95E+08	1.42E+10
Median	29865320	17128210	1.24E+08	9.63E+09
Maximum	1.29E+08	2.26E+08	1.34E+09	3.26E+10
Minimum	6895198.	-94814403	0.000000	3.61E+09
Std. Dev.	41562224	90191052	4.94E+08	1.07E+10
Skewness	0.717790	0.687509	0.933943	0.602103
Kurtosis	1.955066	2.744922	2.259959	1.754161
Jarque-Bera	2.364582	1.466805	3.027493	2.251670
Probability	0.306576	0.480272	0.220084	0.324381
Sum	8.66E+08	5.64E+08	7.11E+09	2.55E+11
Sum Sq. Dev.	2.94E+16	1.38E+17	4.15E+18	1.93E+21
Observations	18	18	18	18

Table 4.1 which is the descriptive statistics presents the individual characteristics of the variables considered. GDP averaged 48110495 within the period while there is rightly skewed judging from the 0.717 skewness value. The J-B value and its prob-value show that the variable is normally distributed. IFC averaged 31313228 within the period considered and its minimum Net value -94814403 within the period. Also rightly skewed and J-B value shows a normal distribution. IBRD and ED were also normally distributed seeing the J-B value and its prob-value

Table 4.2 Correlation Matrix

	GDP	IFC	IBRD	ED
GDP	1			
IFC	0.15	1		
IBRD	-0.66	-0.70	1	
ED	-0.14	0.02	0.78	1

From the result of the correlation output, it is observe that International Finance Corporation and Gross Domestic Product have about 15% positive correlation, while that of IBRD and ED both have about 66% and 14% negative correlations with the Nigeria GDP.

Unit Root Test

Table 4.3 Unit Root Test Result

Variables	ADF Test	
	Levels	*First Difference*
LNGDP	-1.41	-7.28*
LNIFC	-3.06	-4.31*
LNIBRD	-0.49	-4.73*
LNED	-1.16	-5.61*

Note: * indicates significance at the 0.05 level
Source: Author's computation

The result of stationarity test conducted using the Augmented Dickey Fuller test shows the variables to be free of unit root at their first difference; hence the output can be used to make informed decision.

Regression Analysis

Dependent Variable: D(LGDP)
Method: Least Squares
Date: 11/12/19 Time: 14:10
Sample (adjusted): 2002 2018
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LIFC)	0.072639	0.082685	0.878511	0.3945
D(LIBRD)	-0.115288	0.016502	-6.986258	0.0000
D(LED)	0.003752	0.000735	5.104100	0.0002
C	35413545	10937467	3.237820	0.0060

R-squared	0.407566	Mean dependent var	48110495
Adjusted R-squared	0.366330	S.D. dependent var	41562224
S.E. of regression	20090927	Akaike info criterion	36.66256
Sum squared resid	5.65E+15	Schwarz criterion	36.86043
Log likelihood	-325.9631	Hannan-Quinn criter.	36.68985
F-statistic	19.58409	Durbin-Watson stat	2.900968
Prob(F-statistic)	0.000028		

Author's compilation

The result of the regression analysis reveals IFC has a positive impact on the GDP with a coefficient of 0.07. That is, a unit change in International Finance Corporation fund to or out of Nigeria will lead to about 7% increase or decrease in the GDP respectively. This shows that International Finance

Corporation is positively affecting the Nigerian economy. However, this is not significant considering the t-stat and p-value of the coefficient of 0.87 and 0.39 respectively.

On the other hand and surprisingly, IBRD has a significant negative impact on the GDP with coefficient value of about -11.5% and its p-value of 0. This indicates the negative effect IBRD loans have on the Nigeria economy within the period.

Also surprising is External debt (ED) having a significant positive relationship with the GDP. This is surprising because of the general believe that the Nigerian government do not manage its debt finance so well. It may however be due to the fact that many Developmental Finance Institutes (DFIs) gave Nigeria debt relief within the period considered.

The value of the R^2 of 0.407 and the Adj R^2 which is low indicates that about 41% variation in GDP is been explained by the joint independent variables considered. The F-stat and its prob value show that there is linear relationship in our model.

5.0 DISCUSSION OF FINDINGS

The study examines the impact of International Finance Corporation on the Nigerian economy. IFC a member of the World Bank Group has been facilitating the development of the private section in Nigeria. GDP which was used to proxy the economy has a positive correlation with the IFC within the period considered. However the result of the OLS conducted shows a positive insignificant relationship between the dependent variable GDP and IFC. This means there is every likelihood that an increase in the financial activities of IFC in the economy, the greater chance of improving the economy status of Nigeria. On the other hand, IBRD a significant negative effect on the economy, meaning its loans and advances negatively impacted the economy. ED on its own has a positive and significant relationship with the economy growth.

6.0 CONCLUSION AND RECOMMENDATION

Judging from the analyses carried out, the benefits of IFC operation in the country even though not significant in the period considered is positive. With time it is believed that an increase in the activities of IFC in the private sector will pay off significantly. Therefore, it is recommended that the government and policy makers alike should continue to encourage and support the activities of the IFC in the private sector of the economy. Also recommended is that government external debt should be trimmed down in order to avoid any kind of adverse effect from too much borrowing.

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