

Policy Practice Brief 3

The political economy of reform: the case of Nigeria 2003-2007*

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In many developing countries sustained growth and poverty reduction will not occur without far reaching reforms to public policies and institutions. Yet, while there has been a great deal of discussion of what measures are required, there is limited understanding of how reform takes place within the constraints imposed by political and economic processes. In this briefing paper we discuss the political economy of reform with reference to recent research work undertaken by the Policy Practice in Nigeria.

Why study Nigeria?

The case of Nigeria is particularly interesting because, in spite of the challenging political and economic context, some of the policy and institutional reforms that are necessary for development have begun to occur over the past five years (summarised in box 1). These reforms are limited to the sphere of economic management, mainly at the level of Federal government. As the dismal conduct of the 2007 Presidential election showed, they have barely begun to touch the sphere of political reforms. The changes have been patchy, and progress is fragile, but in the Nigerian context they are highly significant. The purpose of this note is to analyse the factors that drove the reforms, and to consider how the process may be sustained and extended.

The political and economic context

Nigeria's political economy creates a difficult context for reform, which has been fully discussed elsewhere, for example in DFID's Drivers of Change study. For the purposes of the discussion that follows we highlight seven main challenges:

Large **oil revenues** offer great potential for stimulating economic growth, but in practice have created distortions, whether political (crucially inducing elites to struggle for control of the resource), economic (via Dutch disease effects) and social (contributing to ethnic tensions), that have undermined growth and prospects for diversification in the non-oil sectors.

The weakness of **relations between state and society** leads to a lack of sustained citizen pressure on government for improved economic governance. Nigeria's colonial beginnings, the state's easy access to oil revenues, and frequent reversion to military rule since the 1960s are central to this.

Competition for political power depends mainly on managing patronage relationships. Political elites have not been rewarded or punished according to their success in bringing about economic growth, but rather according to their ability to enrich their supporters and to counter competing claims.

The **policy process is personalised** rather than vested in formal institutions, and is typically driven by informal interest group lobbying rather than robust and formalised consultation.

The ever-present **risk of violent conflict** reduces the space for reform by strengthening the hand of interest groups who can threaten instability, as is currently occurring in the Niger Delta.

Nigerian **elites have an easy exit option** by moving themselves and their capital abroad. This weakens domestic pressures for improved economic performance.

Value systems have developed that promote opportunism and short-term behaviour.

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Box 1 - A summary of recent reforms in Nigeria

During the second Obasanjo administration (2003-2007) a number of reforms have been enacted:

- **Greater fiscal discipline and transparency.** Macroeconomic policy has been managed more prudently than during previous periods of high oil prices by introducing an oil price based fiscal rule whereby the windfall has been largely saved. The enactment of the Fiscal Responsibility Act in 2007 creates a means of achieving substantially greater discipline over public spending, notably at State level. Through the Nigeria Extractive Industries Transparency Initiative (NEITI) oil revenues received by government are published on a monthly basis, and these statements are reviewed by an internationally appointed independent auditor. There is now a greater level of transparency over Federal budgets including the publication of Federal allocations to State and local governments.
- **Public procurement controls.** The establishment of the Budget Monitoring and Price Intelligence Unit (Due Process Unit) has introduced stronger public procurement, a process reinforced by the 2007 Public Procurement Act.
- **Privatisation.** During 2005/06 more than 21 public enterprises were divested, and concession agreements were signed for most of the seaports.
- **Partial elimination of fuel subsidies.** In the face of considerable opposition the government reduced subsidies and raised prices of domestic fuel by 25% in 2005. A further rise prior to the 2007 election was, however, reversed by the new administration under union pressure.
- **Banking consolidation.** Increased capitalisation requirements imposed by the central bank have resulted in a consolidation of the banking sector, though the process needs to go further.
- **Tariff reforms.** In October 2005 the government introduced a new tariff regime as a transition stage towards the implementation of the ECOWAS Common External Tariff (CET). Progress in reforming the customs administration has so far been limited.
- **Improvements in the performance of key government agencies.** Public sector reform has been modest, but certain government agencies have undergone internal reform programmes resulting in marked improvements in performance. Examples include the Federal Inland Revenue Service, the National Food and Drug Administration, the National Communications Commission, and the Corporate Affairs Commission.
- **Anticorruption.** An anti-corruption drive led by the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission has resulted in several high profile trials and dismissals. However, initial successes have been tainted by widely-perceived political bias in the investigations of the EFCC in the run-up to the 2007 Presidential election.

Factors driving reform

In spite of these deep-seated obstacles, reforms have made progress over wide areas in a short period of time. However, the achievements have been mainly restricted to Federal government, and the gains are uneven and fragile. Most of the reforms have tended to be imposed in a top-down manner --- though this may in reality have been the only way of generating the necessary momentum. The role of leadership has been particularly crucial in Nigeria where formal institutions are not deeply rooted, politics are personalised, major divisions exist along ethnic, regional and religious lines, and there is no strong tradition of civil society participation in the policy process. While interest groups have played a major role in enabling and blocking reforms, they have generally acted singly, rather than in coalitions, and through personalised connections with political leaders.

The progress so far made in driving reforms is largely explained by the following factors:

Context. There are number of contextual factors that have created a window of opportunity for reform. Obasanjo's inheritance when he came to power in 1999 included a greater public acceptance of the need for change. Seven consecutive years of economic growth have since lent credibility to the reforms and may have strengthened business interests that are aligned with improving the investment climate. High oil prices have resulted in buoyant government revenues and have enhanced the government's room for manoeuvre.

Electoral cycles. Obasanjo's second election victory in 2003 strengthened his position and provided him with greater freedom in moving against reform opponents. As the 2007 Presidential elections approached there was some evidence of slippage in some reforms, as exemplified by the sudden departure of the Minister of Finance, though others continued. The very poor conduct of these elections and the perceived weakness of the successor administration create major risks to further reform. A likely scenario is that the new President will be primarily interested in shoring up his support base and placating opponents, and will be less willing to implement further reforms that hurt key

constituencies; on the other hand if there are political gains to be made from the benefits resulting from the present growth, the administration's incentives to sustain reforms will be enhanced.

Confronting opposition. A major obstacle to reform is that the losers tend to be more vocal, organised, and politically influential than the winners. However, there are important instances in Nigeria of opposition from powerful vested interests being confronted and overcome. Two main strategies have been employed to do this: losers of reform have in some cases been compensated, and in others have been sidelined. The example of port concessioning illustrates these principles: dock workers were compensated, while the protests of port managers were overridden in the face of more powerful arguments put forward by business groups drawing attention to the costs of port delays.

Business interests of the political elite. The business interests of political leaders and groups supporting them have been a powerful driver of reform, reflected in a widespread perception that influential figures close to the regime have been main beneficiaries of privatisation. There is a clear risk that these groups will seek to stifle competition. However, this new alignment of interests has at least begun to dismantle Nigeria's sclerotic public enterprises and the vast patronage networks that they supported.

Generating some early quick wins. Decades of weak governance have created a high level of public cynicism towards government. In this context, achieving some early and visible results is critical to creating public support for reforms and raising expectations of further improvements in institutional performance. There have been some achievements in this regard (e.g. liberalisation of mobile telephony), and attitudes and expectations towards government may have begun to shift. However, it is important not to exaggerate the extent to which ordinary Nigerians have yet benefited from, and identify with, the reform process. Most importantly, there has so far been little impact on employment generation, which is the most pressing issue for the poor.

Strengthening public accountability. Strengthening both horizontal accountability (between different public organisations) and vertical accountability (between government and citizens) is a critical challenge in Nigeria where public organisations and resources have been used for the benefit of narrow groups. Greater transparency and better public information have the potential to increase public pressure for change --- this is the rationale behind, for instance, the Ministry of Finance now publishing actual figures on budget transfers to States and local governments. Unfortunately, while progress has been made in certain areas of public financial management, democratic accountability is still extremely weak, as the flawed 2007 elections revealed.

External agents. Domestic forces have been the main drivers of reform in Nigeria, but outside actors, including international donors, regional organisations and the Nigerian diaspora, have also been important influences. Although aid flows are relatively small by African standards, Multilateral and bilateral agencies have played an important role in supporting reforms by providing debt

relief and well-targeted technical assistance. OECD countries have increasingly cooperated with the Nigerian authorities in addressing financial crime, apprehending individuals associated with corruption and returning stolen assets. At the same time MNCs have committed themselves to higher standards of integrity and transparency, for example through the EITI. Nigeria's increasingly active participation in regional organisations including the AU, NEPAD and ECOWAS is becoming an important influence on the domestic policy process.

Extending and sustaining the reform process.

There are multiple risks to the sustainability of reforms, including from politics (notably the relative weakness of the new administration), conflict related to oil and to ethnic, religious and political divides, and the loss of momentum following exhaustion of quick wins. A range of measures, long-, medium- and short-term, would improve the prospects for sustaining economic reforms, including:

Long-term structural economic change. At the heart of the vicious circles that have to be broken is the need for an economy that diversifies beyond oil. Current economic structures, based primarily on oil, smallholder farming, largely protected and uncompetitive industries, and often inefficient public and private services, have not created interest groups with a strong interest in reform. A diversified economy with a more vigorous, competitive and less protected private sector would both contribute to more sustainable and equitable growth, and generate a healthier configuration of influential interest groups, whose incentives would be better aligned with an agenda of growth, competitiveness and quality public services.

Strengthening accountability systems. The return to civilian government in Nigeria creates at least the possibility of accountability to citizens and voters. However, as the conduct of the 2007 Presidential elections has demonstrated there is still a major deficit in democratic accountability that undermines the government's legitimacy and public confidence in reforms. In addition to strengthening democratic processes, other forms of accountability need to be strengthened, for example in relation to public financial management, performance in service delivery, and due process in public procurement.

Accelerating progress in passing legislation that is critical to embedding reforms and making reversion more difficult. Further progress will be required with laws to support improved fiscal management, public procurement, anti-corruption, civil service reform, liberalisation of trade and investment, and privatisation.

Emphasising transparency and public information. Accountability depends on making publicly available quality and timely information on a wide range of government actions. A good start has been made in Nigeria in some areas; this needs to be institutionalised, and widened. Improved transparency will create greater scope for 'intermediaries', including the media, the more strategically-minded elements of the private sector and advocacy NGOs, to help create a more informed public opinion

and to scrutinise the actions of government. There is a need for measures to strengthen the capabilities of these agencies.

Generating wider benefits from reform. The challenge is to create a dynamic of higher citizen expectations, so that improved performance is widely seen as the norm, generating pressure for further progress. Achieving this, and improving the sustainability of reforms, will require that government and its development partners find ways of broadening the wins beyond those groups (sometimes still quite small in number) who have so far benefited. Employment generation and improved public services are critical in this regard. There is particular value in identifying and acting on one or two areas in which changes can be made that generate, within one or two years at most, improvements in jobs and services. This may include ensuring that reforms already begun, such as in the ports, deliver visible benefits.

Extending reforms to state and local governments. Reform has so far been limited at the level of State and local governments, which account for the largest share of public expenditure, and the greatest abuses of public office. Until reforms can be extended from the Federal level to lower levels of government, public spending will continue to be ineffective and broad-based growth will prove elusive. Some of the reforms at central level provide a starting point, the challenge being to learn lessons, and to support more progressive States where conditions are conducive to improved economic governance.

Addressing violent conflict alongside underdevelopment. The multiple relationships between violent conflict and underdevelopment highlight the risk of a vicious downward spiral, not just in individual geographical areas, but also affecting national prospects. Any reform strategy must take these risks into account, and should avoid measures that may add to instability.

Strengthening technical capabilities. Weak organisational capacities in the public sector can impede reform, even where the incentive framework is favourable; conversely, improvements to some aspects of an organisation's capacities can generate rapid benefits, and begin to raise expectations that broader improvements are possible. A number of lessons, many positive, have been learned for how these challenges should be approached by development agencies: (a) provide

external technical assistance only in response to genuine demand; (b) adopt a low-key approach that respects Nigerian leadership and ownership; (c) recognise that many of the greatest challenges are at State and local government level; (d) adopt a sufficiently long time-scale for institutional development, but be organised so as to be able to respond rapidly and flexibly in response to requests from reformist public officials; and (e) provide technical assistance not just to government, but also to the non-state actors that have critical long-term roles to play in promoting reforms.

Working with external stakeholders. There are a range of external stakeholders that have so far contributed to the reforms and to Nigeria's growth prospects, albeit as junior partners, and that have more to offer. They include: the Nigerian diaspora; international private companies inside and outside of the oil sector; development agencies and other governments, whether in West Africa, OECD countries, and increasingly China. External stakeholders can of course also hinder reforms, for instance by contributing to corrupt practices, or in the case of development partners not following good practice in aid management.

Looking forward

Nigeria presents a daunting combination of development challenges rooted in problems of political economy. Its development is of enormous importance to the wider prospects for Africa's economic and political recovery, yet shortcomings in domestic political processes have meant that its potential has been unfulfilled.

Against this background the modest improvements in economic management documented in this paper have been very significant. For all the limitations of the scope of reforms so far, the very real risks that they may lose momentum, and the possibility that Nigeria will 'revert to type', some of the conditions are in place for continued progress. For this reason, there is a good case for continued support from Nigeria's international partners seeking to extend reforms and create conditions for stronger public accountability. But, all parties to this relationship need to have their eyes wide open to the realities and risks, and the long time-scale that will be required to address them.

About us

The Policy Practice analyses policy options and supports institutional reforms in developing countries. We advise governments, development agencies, civil society organisations and companies, providing practical, innovative solutions based on realistic assessments of the challenges and opportunities they face. Our multi-disciplinary approach uses 'The New Political Economy Perspective' to understand the processes of socio-economic change and their effect on the implementation of development programmes.

This paper is part of a series of policy briefs intended to share our insights on an ongoing basis, in a form that is easily digestible and readable to policymakers, experts and others in the development field. For further information please contact **Alex Duncan** (alex.duncan@thepolicypractice.com) or **Gareth Williams** (gareth.williams@thepolicypractice.com).

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