

Nigeria

The Political Economy of Reform

***Strengthening the incentives
for economic growth***

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The views expressed in this paper are attributable to the authors alone, and are not necessarily shared by DFID.

List of Abbreviations

AU	African Union
ASYCUDA	Automated System for Customs Data
CAC	Corporate Affairs Commission
CET	Common External Tariff
ECOWAS	Economic Community of West African States
EFCC	Economic and Financial Crimes Commission
ERT	Economic Reform Team
FIRS	Federal Inland Revenue Service
ICPC	Independent Corrupt Practices Commission
NAFDAC	National Food and Drug Administration and Control
NCC	National Communications Commission
NEEDS	National Economic Empowerment Development Strategy
NEITI	Nigeria Extractive Industries Transparency Initiative
NEPAD	New Partnership for Africa's Development
NITEL	Nigeria Telecommunications Ltd
PARP	Policy Analysis and Research Project
PSI	Policy Support Instrument

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Summary

This paper, originally issued in July 2006, has been updated in October 2007 to take account of subsequent events, most notably the presidential elections of April 2007.

Introduction

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 paper 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.

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.

This paper, originally issued in July 2006, has been updated in October 2007 to take account of subsequent events, most notably the presidential elections of April 2007.

Introduction

1. Growth and competitiveness in Nigeria have been held back by poor policy choices and weak government. This chapter argues that these failures are fundamentally linked to problems of incentives rooted in institutions and the political economy. Most importantly these include the lack of public accountability arising from the use of oil revenues, weak state-society relations, patronage politics, a personalised rather than institutionalised policy process, the ever present threat of conflict, and value systems that have promoted short-term behaviour and opportunism. All of these conditions have created a disabling environment for private sector led growth.

2. These features of Nigeria's political economy have long been present. However, the recent reform experience provides encouraging signs that change is possible. Over the space of a few years meaningful reforms have been made across a wide range of policy areas. Many of these reforms have been politically difficult and have challenged powerful interest groups who stand to lose. Assisted by other favourable economic developments, the reform programme has contributed to more rapid growth, including outside the oil sector. By demonstrating the potential for further improvements, reforms have helped to raise public expectations of change, which may increase the momentum of the reform programme.

3. Although significant progress has been made, the reforms are incomplete and are mainly restricted to the Federal government. The gains are also fragile and there are significant risks of policy reversal. A striking feature of Nigeria's political economy has been its "recursive" nature – the tendency to revert, despite a succession of reform attempts, shifting political alliances and institutional changes, to the same fundamental patterns of political behaviour. The greatest challenge will be ensure sustainable progress by institutionalising changes to rules, values and processes, and strengthening sources of citizen pressure on government for improved performance.

4. Against this background the purpose of this paper is to enhance understanding of: (a) the impact of ineffective state institutions on Nigeria's growth performance, (b) the political economy of growth and the factors that drive economic policy making in the country, and how robust the process is; and (c) how the country can move from patronage and individual-based policy making to robust institution-based reform to facilitate sustainability.¹

5. The practical recommendations in this paper centre on the means for changing the incentives facing influential agents of change so as to make pro-growth choices more likely. There is a necessarily a focus on those in public positions with formal responsibility for policy and institutional choices. But, the

¹ From the TORs for this assignment.

analysis and recommendations also highlight the roles of those in non-state sectors, whether in the private sector or in civil society, including the media, research bodies and NGOs.

6. The structure of the paper is as follows. Section 2 examines the political economy of Nigeria's past economic performance, and suggests that six underlying linked processes have largely determined the outcomes. Section 3 explores more specifically the process of reforms so far, identifying seven factors that contribute to, or hinder, progress. Section 4 sets out ways of addressing, in the short, medium and longer term, the challenges faced by those seeking to embed improved economic governance in the future. There is a brief conclusion.

2) Political economy dimensions of Nigeria's economic performance

2.1 Introduction: institutions and economic performance

7. Since independence Nigeria has experienced several short periods of economic growth, and long periods of stagnation and decline.² GDP per capita remains below the level of 1971 in real terms.³ Over the past three decades poverty rates have increased and income inequality has deteriorated.⁴ Uncertainty, limited opportunities, and the slow-growth environment have in combination led to the exodus from Nigeria of large numbers of educated and able people. However, since 2000 there has been a notable pick-up in growth both in the oil and non-oil sectors. From 2000 to 2002, growth averaged 4.75%, rising to 7.07% from 2003 to 2006⁵.

8. The reasons for Nigeria's poor long-term growth performance are explored in a growing literature. Broadly they relate to the misallocation and wasteful use of oil revenues, misguided policy choices, a disabling investment climate, weak and corrupted public institutions, and growing violent conflict. Increasingly these failings are attributed to problems of incentives rooted in institutions and the political economy. Several studies have highlighted these issues, including the DFID Drivers of Change report that draws attention to the links between mismanagement of oil revenues, weak public accountability and lack of growth in the non-oil economy.⁶ In broad terms these features of the political economy have created a framework of incentives that have discouraged wealth creation and focussed energies on competing for state power and patronage in order to gain access to oil revenues and share in rent seeking.

9. These findings draw on a broad literature on the "resource curse", which documents the generally negative relationship between economic performance and mineral abundance.⁷ However, international comparisons indicate that it is not simply resource abundance that explains slow growth, but rather the failures of institutions governing economic policy-making and the use of mineral revenues. Bevan, Collier and Gunning compare the economic performance of Nigeria and Indonesia - two large, populous countries whose agrarian economies were transformed by the discovery of oil.⁸ In the 1960s both countries had similar levels of income, but by 2004 per capita GDP in PPP terms was more than three times greater in Indonesia than in Nigeria. The authors of the study attribute this sharply diverging economic performance to differences in policy choices and institutional performance. Sala-i-Martin and

² See OPM (2004) Nigeria Economic Growth Analysis; CSAE (2003) Sources of Economic Growth in Nigeria: An Initial Analysis;

³ World Development Indicators. Figures are in 2000 constant US\$. GDP per capita was \$383 in 1971 and \$360 in 2004.

⁴ Sala-i-Martin, X. and Subramanian, A. (2003) Addressing the natural resource curse, An illustration from Nigeria

⁵ EIU Nigeria Country Report, August 2007, p.23.

⁶ Heymans, C. and Pycroft, C. (2005) Drivers of Change in Nigeria: Towards Restructuring the Political Economy, Department for International Development

⁷ Auty, R.M. (ed.), (2001), Resource Abundance and Economic Development, Oxford University Press.

⁸ Bevan, D.L., Collier, P. and Gunning, J.W. (1999) The Political Economy of Poverty, Equity and Growth: Nigeria and Indonesia, World Bank Comparative Study

Subramanian use cross-country multiple regression to demonstrate that differences in institutional quality rather than natural resource abundance explain variations in growth.⁹ However, the authors acknowledge that the two variables are frequently linked, and that easy access to natural resource rents, oil revenues in particular, often results in lower institutional quality. Based on the regression estimates poor institutional quality in Nigeria appears to have contributed to lower long-run growth of 0.5 percent per year.

10. These studies indicate that weak and ineffective state institutions have had a serious impact on Nigeria's growth performance. However, limited research and patchy data make it difficult to provide numerical evidence on the size of economic losses. The most compelling evidence comes from qualitative sources describing the nature of incentive problems that have undermined economic growth in Nigeria.

11. Drawing on the available literature, the remainder of this section analyses the main features of Nigeria's political economy and how they have affected economic growth.¹⁰ They are presented as seven broad propositions describing an interacting set of processes.

2.2 Seven political economy propositions

2.2.1 Political and economic effects of oil

The oil sector offers great potential for stimulating economic growth, but in practice its political, economic and social effects have made sustained non-oil growth and diversification difficult to achieve.

12. As in many, but not all, natural-resource-rich countries, there has been a tendency in Nigeria for those in politics to seek rewards through control of these resources rather than by creating an environment that is conducive to broad-based economic growth. Government has expanded as a result of easy access to oil revenues and a guiding philosophy that the state should occupy the "commanding heights of the economy". In terms of its revenues government accounts for close to 50% of GDP.¹¹ Bureaucracy has expanded through the creation of numerous new State and local governments. There are thought to be around 1,500 public enterprises at Federal and State level.

13. A rentier state developed where the principal concern of governments is to share resource rents through large-scale public spending, job creation in government and public enterprises, and through protection of numerous sectors of the economy. Although these features were in place before the discovery of

⁹ Sala-i-Martin, X. and Subramanian, A. (2003) Addressing the natural resource curse, An illustration from Nigeria. The "institutional quality" variable was a composite indicator capturing elements of the protection of property rights and the rule of law.

¹⁰ The principal sources that have been used here are Heymans, C. and Pycroft, C. (2005) Drivers of Change in Nigeria: Towards Restructuring the Political Economy, Department for International Development; Utomi, P. (2006) Why Nations are Poor; Gboyega, A. (2004) The Political Economy of Reform in Nigeria, World Bank

¹¹ IMF (2005) Request for a two year Policy Support Instrument. Staff Report December 2005. Government spending is currently around a third of GDP.

oil, easy access to oil revenues added considerably to the power of the ruling groups, and created incentives to maintain such control at all costs.

14. In such conditions public resources have been used extremely wastefully and often for corrupt purposes. Governments, because they have not needed the private sector for revenue or job creation, have failed to provide the public goods and conducive investment climate that are essential to enable the growth of a competitive private sector.

15. In addition to its damaging effects on Nigeria's political institutions, there have been other negative economic consequences of the mismanagement of oil revenues. Dutch Disease has undermined the competitiveness of non-oil sectors, especially those producing tradable goods. Furthermore, the volatility of oil revenues has generated considerable macroeconomic instability because there has been a tendency to increase public spending during times of high oil revenues, which has been difficult to reverse during times of lower revenues.

16. The lack of diversification of the base of the economy has profound socio-political consequences. It has resulted in an economy characterised mainly by smallholder agriculture, an enclave oil sector (which directly generates few jobs), a small, protected and uncompetitive industrial sector, a formal service sector that is less-than-world-class, a large informal service sector, and employment by government much of which is unproductive. Arguably, this leads to a configuration of socio-economic interest groups in which the most influential will in the short term often feel threatened by productivity- and competition-enhancing reforms.

2.2.2 State-society relations

The relations between state and society are such as to lead to a lack of sustained citizen pressure on government for improved economic governance.

17. More than 80% of government revenues are derived from oil and gas.¹² The government is therefore able to generate most of its revenues without taxing its citizens. There is an absence of accountability politics which paying taxes engender, as taxpayers seek to hold their leaders accountable for use of tax money.¹³ A sense of social contract, where government is viewed as being responsible for using taxpayers' money to provide public goods and social services, is lacking in Nigeria. This has led to very low public expectations of government, and very little pressure on government to improve its performance.

18. The weakness of state-society relations is also explained by the repeated periods of military rule since independence, which has prevented the

¹² IMF (2005) op cit

¹³ See Moore and Unsworth 'How does taxation affect the quality of governance?' IDS Policy Briefing 34, 2007. Moore (2001) argues that states that do not have to rely on tax revenue tend to be less accountable and less responsive to citizen pressure. Moore, M.(2001) Political Underdevelopment. What Causes Bad Governance? Institute of Development Studies

development of strong tradition of democracy, public accountability and civil society engagement in politics.¹⁴

19. The weakness of state-society relations contrasts with the stronger allegiances between people and traditional authorities. Peter Ekeh's model of two public realms is broadly applicable to Nigeria, where links to ethnic, communal and local groups are generally strong (the "primordial public"), but government at all levels (the "civic public") is viewed with indifference or distrust.¹⁵ Unequal participation in the two public realms tends to result in institutions of government being used for predatory purposes in order to serve private or communal interests.

20. State-society relations in Nigeria are generally weak, and there are few effective sources of citizen pressure on government. Potential is created by the return to democracy, an active and critical media, a literary and intellectual tradition, and a growing number of civil society organisations.

2.2.3 Patronage politics

The way that competition for political power works means that elites have succeeded or failed through how well they have managed patronage relationships. They not been rewarded or punished according to their success in bringing about economic growth, stability, and rising general prosperity.

21. In the context of an ethnically fragmented political system and the absence of a social contract regimes have had to rely on dispensing patronage in order to stay in power. Political authority at all levels has depended on the granting of favours to supporters and interest groups. This has taken many different forms, and the scope of patronage and its beneficiaries have varied over time and between States. Patronage politics has often acted to heighten ethnic divisions and competition, as leaders have used ethnicity as an easy tactic to mobilise support, and have then come under pressure to corner a share of national resources for their people. Many commentators have pointed to the corrupting influence of political financiers and patrons, the so-called godfathers and kingmakers. Their power appears to be particularly strong at State level as witnessed by the controversial impeachment of the governor of Oyo State, and attempted removal at gunpoint of the former governor of Anambra State. In both cases the governors had fallen out with their backers.

22. These pressures have resulted in the use of human and financial capital primarily in order to succeed in the political struggle rather than to promote growth. Patronage politics has resulted in rampant rent seeking behaviour, and the misallocation and waste of resources. The quality of many public institutions and organisations, when judged by their contribution to development, is abysmal. Much of the civil service is over-staffed, and peopled

¹⁴ It must be stressed that there is no observable relationship between the strength of democracy and economic performance. An intriguing observation in this regard is that Indonesia, which as discussed above exhibited many similarities to Nigeria, has experienced an even more prolonged period of military rule, but has been far more successful in promoting broad-based growth.

¹⁵ Ekeh, P. (1975) "Colonialism and the Two Publics in Africa : A Theoretical Statement", *Comparative Studies in Society and History*, 17(1)

by individuals who are neither appointed nor assessed on the basis of competence.

2.2.4 Nature of the policy process

The policy process is personalised rather than vested in formal institutions. Policy making is driven primarily by informal processes of interest group lobbying rather than robust, formalised and consultative processes. Consequently policies tend to serve the interests of the ruling elite rather than the general public.

23. The political system in Nigeria is characterised by the concentration of power in the executive, and in particular the President and State governors. Other institutions of government, including the legislature, judiciary and civil service, have limited influence and capacity. The concentration of power in the hands of the Presidency reflects a long-standing trend since independence and several periods of autocratic military rule. However, since the return to democracy and constitutional rule, there has been a gradual shift in the balance of power. The National Assembly has begun to reassert itself, and some elements of the civil service linked to the reform programme have been reinvigorated. However, the Presidency has retained its dominant position in the policy process. State Governors with their constitutionally-defined powers are important sources of patronage, and in practice are relatively unconstrained by checks and balances.

24. In this context many policy decisions are taken personally by the President often in response to active lobbying from individuals and interest groups. This has resulted in a shifting and unpredictable policy environment that benefits certain interest groups, and can lead to vigorous change, but does not provide a coherent stable and predictable basis for investment and broad-based, private sector-led growth. Furthermore, weak capacity and corruption in the civil service has meant that policies are often inadequately prepared and inconsistently implemented.

25. Trade policy provides an important example of the weakness of the policy process in Nigeria. Formal systems for the setting of trade policy have not functioned effectively, and policy has largely been determined by individual lobbying by firm and sector-based interests seeking various privileges, waivers, exemptions and incentives. As a result trade policies have not been set according to evidence on their impact on growth and competitiveness, but have instead been used as a tool of patronage. The policy framework has been incoherent, inconsistently applied, subject to frequent reversals, and has had highly distorting effects on patterns of industrial development.¹⁶ As discussed in section 3 the introduction of the ECOWAS Common External Tariff is intended to introduce greater discipline and predictability into trade policy, but is so far only partly successful.

¹⁶ Ruffer, T., Imber, V. and Ibrahim, J. (2004) *The Political Economy of Trade Policy in Nigeria*, Oxford Policy Management

2.2.5 Violent conflict

Violent conflict, to which oil and support for political factions are currently contributory factors alongside others, has clear negative effects on economic growth. Violence serves some interests, but has had the effect of focussing attention on governance problems.

26. Violent conflict is widespread, often responding to local factors, whether a struggle for political or administrative power at national, State or local levels, for natural resources (land, water and grazing), or, in the Delta, for the jobs and incomes associated with the oil industry. Conflicts have often centred on ethnic, regional or religious divisions.¹⁷ The extent and intensity of conflicts is believed to have intensified since the return to civilian government in 1999.

27. Quite apart from its direct cost in terms of human suffering, violent conflict has clear negative effects on economic growth. It increases risks and uncertainty and contributes to Nigeria's poor international image, discouraging investment, especially that which (such as in manufacturing) has a medium and long-term payoff period. Conflict also creates a rationale for the leadership to use public expenditure and public employment as a means of containing conflict rather directly promoting growth. Any strategy for promoting growth and investment must therefore seek means of reducing and managing violent conflict.

28. The scale of the task of reducing violence should not be underestimated. Analysis of its causes in Nigeria suggests that poor services and unemployment, especially of young men, are important contributory factors, and will not be easily rectified. Some leaders, who are able to manipulate disaffected groups, use certain forms of conflict for their own benefit, and have an interest in perpetuating it. Further, powerful groups are better able to insulate themselves than poor people against the effects of conflict.

29. However, violent conflicts can also help to shift incentives in pro-reform directions. Major conflicts, such as those currently affecting the oil sector, threaten the well-being of a wide range of interests, and perhaps even the survival of the state. Influential stakeholders, including some State governors, are realising that without sustained economic growth in labour-intensive sectors, and without improvements in services, there will be no longer-term solution to the problem of unemployment and disaffection, and conflict will persist.

¹⁷ Institute for Peace and Conflict Resolution: "Strategic Conflict Assessment", 2003.

2.2.6 Exit options

Nigerian elites have an easy exit option by moving themselves and their capital abroad.

30. Some 70% of Nigeria's total private wealth is estimated to have been moved off-shore.¹⁸ This is in part of symptom of the weak investment climate in Nigeria. However, it also perpetuates the problem. The ability of Nigerian elites to move themselves and their capital abroad weakens domestic pressures for improved economic performance.

2.2.6 Value systems

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

31. Bringing about sustained institutional change that will favour growth is made more difficult by some features of value-systems in Nigeria that are in part generated by, and also serve to reinforce, the above political economy problems. Given economic, political and social realities over past years, it is no surprise that many Nigerians in politics, the public service and the private sector (whether formal or informal) appear in their relations with the state to have developed values that give almost complete priority to short-term gain even at the expense of greater medium- and long-term benefit. This has multiple effects on growth, almost all of them harmful: opportunism and corruption have flourished; patronage and nepotism are considered normal; winner-takes-all political competition persists; institution-building is discouraged, as are the types of investment with longer-term payoffs; and the country has an unfavourable international image that has further discouraged investment.

2.3 Concluding note

32. These propositions explain why sustained policy and institutional improvements that lead to economic growth have proven to be so elusive in Nigeria. They do not, however, suggest that progressive change is impossible, as is indicated by the recent reforms, and the improvements to which they appear to have contributed. These are examined in the next section.

¹⁸ Collier, P., (2003), Critical Success Factors in Implementing a Country's Growth Strategy, Presentation for the Nigerian Economic Summit, Abuja, September 10-12th, 2003.

3) The role of political economy in the recent reform process

3.1 Overview of the reforms

33. In 2003 the Federal Government of Nigeria embarked on a wide-ranging programme of reforms aimed at accelerating growth and reducing poverty. Progress has been made across a broad range of policy areas as described in the box below. Although it is too early to assess the impact of the reforms, there is reason to argue that they are now contributing significantly to growth. More prudent fiscal management, in particular, has helped to stabilise the economy and to improve investor confidence, as demonstrated by the credit ratings awarded by two global credit ratings agencies in early 2006.¹⁹ Reforms to public financial management and public procurement should reduce the corruption and waste in the use of public resources and improve the efficiency of investment. Structural reforms, including privatisation and deregulation, promise to create a more enabling environment for private sector development.

34. In assessing the impact of reforms, it is important to take a realistic view of the deep-seated problems of economic management and governance in Nigeria. The reforms have so far created islands of progress rather than transforming the broader incentives facing economic and political agents analysed in part 2. There are many significant gaps in the reforms. Most notably, nearly all of the reforms have taken place at Federal level and, with a few exceptions, have not touched State and local government, where governance problems are also severe.

35. However, without making excessive claims, it is important to acknowledge that significant progress has been made. Reforms have progressed in spite of well-organised resistance from interest groups. In general, the reforms have reduced the scope for government to dispense patronage and mark a shift towards more rule-based and institutionalised decision making. This part of the report attempts to identify how change has come about, and what political and economic factors have driven or obstructed reform.

Box 1 – A summary of recent reforms in Nigeria

Saving the oil windfall. Macroeconomic policy has been managed more prudently than during previous periods of high oil prices. All three tiers of government have agreed to implement an oil price based fiscal rule whereby expenditure is based on a conservative oil reference price (\$35 per barrel in 2006) and additional revenues are saved. Much of the oil windfall has been saved as foreign reserves, which now stand at an unprecedented level of some \$42 billion (2006). The IMF noted the 'successful resistance of intensive pressures to spend oil savings in the run up to the April [2007] elections'.²⁰

Greater fiscal discipline and transparency. The enactment of the *Fiscal Responsibility Act in 2007 creates a means of achieving substantially greater discipline over public spending, notably at State level.* And 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

¹⁹ Economist Intelligence Unit (February 2006). The Fitch rating (BB-) indicates a "stable outlook" for long-term foreign and local currency debt. Standard and Poor's awarded a BB- rating for long-term foreign currency debt.

²⁰ Third Review under the Policy Support Instrument, IMF, June 2007.

local governments.

Improved budgetary processes. Eight federal ministries have prioritised their expenditure around Medium Term Expenditure Frameworks.

Public procurement controls. The establishment of the Budget Monitoring and Price Intelligence Unit (Due Process Unit) has introduced stronger public procurement procedures and controls in relation to capital spending at Federal level, a process reinforced by the 2007 Public Procurement Act.

Privatisation. After a lull during 2003 and 2004 the privatisation process accelerated. During 2005 more than 21 public enterprises were divested, and concession agreements were signed for 18 seaports. An ambitious privatisation programme was announced for 2006/07, two oil refineries (whose 2007 privatisation was however reversed), oil service companies, the Nigeria Gas Company, and the Aluminium Smelter Company. Additional port, airport and railway concessions will be offered, and the Nigeria Post Office will be commercialised prior to privatisation. The Power Holding Company of Nigeria was unbundled in 2006, opening the way for private investment in the sector in power generation, transmission and distribution.

Public sector reform. Nigeria has made modest progress in reforming its underperforming and bloated public sector. Measures have included the retrenchment of at least 11,000 civil servants, monetisation of benefits, pensions reform and changes to recruitment policy to reprofessionalise the civil service.

Partial elimination of fuel subsidies. In the face of considerable opposition the government attempted to remove subsidies on domestic fuel in August 2005 when prices were raised by 25%. 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 major consolidation of the banking sector. Nigeria now has only 25 banks compared to 89 before the consolidation exercise. Capitalisation levels are improving, as are indicators of banking performance.

Tariff and customs 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). The CET establishes four tariff bands set at 0%, 5%, 10% and 20%. Transition measures include a temporary 50% tariff band, which will be retained until the end of 2007 and numerous (sometimes ad hoc) import prohibitions. Progress in reforming the customs administration has so far been limited, although a major overhaul is planned. Nigeria is introducing computerised customs management (ASYCUDA), and at the beginning of 2006 has replaced pre-shipment inspections with destination inspection of imports.

Improvements in the performance of key government agencies. Certain government agencies have undergone internal reform programmes resulting in marked improvements in performance. Examples include the Federal Inland Revenue Service (FIRS), the National Food and Drug Administration (NAFDAC), the National Communications Commission, and the Corporate Affairs Commission (CAC) that deals with business licensing.

Anticorruption. An anti-corruption drive led by the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) has resulted in several high profile trials and dismissals, including the former police chief, Education Minister, Senate President and, during 2007, five State governors.

Sources: Authors' research, IMF (2005) *Nigeria: Request for a two year Policy Support Instrument, December 2005*; Economist Intelligence Unit, *Country Report, February 2006 and August 2007*; Okonjo Iweala, N., Osafo-Kwaako, P. (2007) *Nigeria's Economic Reforms Progress and Challenges*, The Brookings Institution, March 2007

3.2 What factors have driven or supported the policy process?

3.2.1 Contextual factors.

36. There are number of contextual factors that have created a window of opportunity for reform:

- **Resumption of economic growth**
Since 2000 there have been several years of moderate growth, lending credibility to the reform programme, and making it easier to continue reforms. Stronger growth is in large part attributable to good luck, in particular the flattering effect of strong oil prices and good rains. However, greater political stability and progress in economic reform have contributed.
- **Buoyant government revenues**
High oil prices and strong economic growth have boosted government revenues. Although much of the oil windfall has been saved, public spending is still very high, allowing the regime to satisfy key constituencies, and to create a climate where it is easier to push through more difficult reforms.
- **Obasanjo's inheritance**
Obasanjo came to power at a time when the disastrous effects of past policies and the corruption and erosion of capacity of public institutions were clearly apparent. This created a greater public acceptance of the need for reform.
- **Electoral pressures**
Flawed electoral processes mean that their contribution to pressures for reform are limited --- but not wholly absent. The return to democracy in 1999 heightened expectations of change, but there was widespread disappointment with the lack of reform progress during Obasanjo's first term. During this period the space for reform was limited by the fragility of the new government, threats to regime stability, including the continued power of the military, and the power of the various interest groups that had supported Obasanjo's bid for office. Having won re-election in 2003, the President gained a stronger mandate that provided him with a freer hand to push through reforms.

The first part of the electoral cycle usually provides the best opportunity to enact reforms that may initially be painful and unpopular. This appears to have been the case in Nigeria where most of the reforms were begun during the period 2003-2005. 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 the 2007 presidential 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.

3.2.2 Leadership

37. In any political system, leadership is crucial to driving reforms. But, this is an even more critical factor in Nigeria where formal institutions are not deeply rooted and power is exercised by individual leaders largely through informal channels. Nearly all of the reforms at Federal and, to the extent they have occurred, at lower levels of government have depended on the actions of strong leadership.

38. Since his re-election in 2003 President Obasanjo played a leading role in driving most of the major reforms, and staked his credibility on their success. The President's main strategy for advancing reform was to appoint an Economic Reform Team (ERT), who were inserted into key positions in government. The Economic Reform Team was pivotal in ensuring rapid progress in reform. Their success was attributable to strong presidential backing, as well as the characteristics and personal style of the team members, in particular their credibility and technical competence, international experience and recognition, clean image, determination to achieve results, and toughness in spite of their relative inexperience in politics.

39. While the ERT has enjoyed considerable success, there are inherent risks with an approach that relies on a few key individuals to drive reforms. Ownership of the reform programme within cabinet remained patchy, and many parts of the civil service were indifferent or hostile to reform. In this context the ERT tended to rely on a bulldozer approach to push through reforms rather than attempting careful consensus building. However, there are some exceptions, for example the efforts of the former Minister of Finance to build support around the passing of the Fiscal Responsibility Bill which was finally enacted in 2007, perhaps partly because abuses at State level strengthened the incentives facing members of the National Assembly to act. All of these issues raise questions about the sustainability of reform. However, as a means to kick-start reforms in the context of a dysfunctional and incapacitated civil service, there may have been no alternative to the ERT model.

40. There are inevitably uncertainties as to whether and how the new administration will sustain the momentum for reform. The early signs are generally considered to be good: a respected official has been appointed as Minister of Finance, and the ERT has been kept in place (though reduced in size). On the other hand, the new President has backed down in the face of union pressure on privatisations of two oil refineries, on rises in fuel prices, and on pay rises.

41. At the level of individual agencies changes in leadership have often proven decisive in turning around performance. For example, the performance of NAFDAC has improved markedly under the leadership of the latest Director-

General, who has ensured much more aggressive enforcement of food and drug regulations. Recent reforms to tax administration are closely identified with the new appointment of a Chairman of FIRS. It must be stressed that these are fairly isolated examples, and that many government ministries, departments and agencies are still characterised by weak and incompetent leadership. A critical problem is that recruitment is often not made on a merit basis, but reflects political patronage and policies to ensure regional balance in high level appointments (the principle of Federal Character).

Box 2 - NAFDAC leadership and reforms

Strong and very impassioned leadership by Dora Akunyili brought NAFDAC (the National Food and Drug Administration and Control) from the doldrums into public consciousness, improved credibility of the Pharmaceutical Sector across West Africa where adulterated drugs from Nigeria had earned the industry a very bad reputation, and triggered a revival of the ailing pharmaceutical manufacturing sector.

Several factors explain NAFDAC's success with liberalising and reviving the sector. They include Prof Akunyili's personal integrity, leadership by example, management skills and media relations skills. She has remained steadfast in enforcing food and drug regulations even in the face of threats to her life.

The challenge of sustainability has been raised by the indication some staff may leave after her tenure ends.

42. There are wide variations in the quality of political leadership at State level, which are closely connected to the contrasting economic performance of different States. Some reformist State Governors have played a critical role in pushing through reforms, for example in Lagos state and the Federal Capital Territory (see box below on Lagos State Revenues). However, such examples are unusual. Many states have suffered from leadership whose corruption and incompetence have harmed economic performance.²¹

Box 3 - Lagos State Revenues.

A combination of dynamic political leadership and organisational reforms led to Lagos State revenues rising over 100-fold, from some N600mn in 1999 to an estimated N84bn in 05/06.

One factor in explaining the impetus for reform is that a political divide between the State governor and central government is widely believed to have contributed to an irregular flow of revenues from the centre. The State leadership was therefore faced with a choice between operating under severe financial constraints, and taking local initiative.

Vigorous reforms to the State revenue board, including restructuring, changing its management team, and creating powerful financial incentives (the board retains 5% of revenues collected, for meeting its own operating costs, including salaries and bonuses), has transformed performance. An Internal Revenue Service Act has been passed as a means of institutionalising the changes.

While this is still early days, there is some evidence that reliance on local sources for revenues is creating local pressure on the State administration for improved performance. It is possible that if there is widespread incompetence and abuse in the spending of these funds, disillusion and anger would be generated, and a political price paid by those responsible.

²¹ See for instance the Human Rights Watch report on Rivers State:
<http://hrw.org/reports/2007/nigeria0107/>

3.2.3 Confronting opposition

43. The main obstacle to reform is that the losers tend to be more vocal, organised and politically influential than the winners. This has been the case with most of the recent reforms in Nigeria. However, there are important instances where opposition from powerful vested interests has been overcome.

44. Two main strategies have been employed to confront and overcome opposition to reform. First, the losers of reform have in some cases been compensated. In the case of recent privatisations workers have been brought on side by government commitments to pay salary arrears, to finance severance payments and to take on pensions liabilities. Most of this will be financed from the proceeds of sales. Given the very weak financial position of many public enterprises this compensation has acted as a substantial inducement to workers. The second strategy has been to sideline the losers of reform. For example, port managers have lobbied hard to avoid concessioning, and have attempted to mobilise worker opposition, but have not been able to obstruct the process. The banking sector consolidation has simply been pushed through by decree in spite of initial opposition to the reform.

45. Two factors explaining why opposition to reform has in some cases been ineffective may be highlighted. First, Obasanjo's position strengthened during his second term, and he could afford to ignore numerous interest groups that may previously have been part of the patronage mechanisms that supported the regime. Second, the losers of reform have often been those groups, who benefited from rent seeking and corruption, and can therefore easily be discredited.

46. While the recent reforms may indicate the beginning of change in the nature of the policy process in Nigeria, it is important to avoid making overly optimistic assertions, and to recognise the deep seated institutional and incentive problems that underlie the political economy. Patronage and interest group politics still play a crucial role. While moving against certain interest groups, the regime has attracted criticism for offering favourable treatment to individuals close to the former President, for example in the issuing of tariff exemptions, purchase of divested state owned enterprises, and rights to distribute diesel in the partially deregulated downstream petroleum sector. The apparent bias in the work of the EFCC undermines the credibility of anti-corruption efforts.

47. The timing and sequencing of reform indicates a tendency to delay measures that would be expected to generate most opposition. For example, the ECOWAS Common External Tariff has only been partially implemented²² and manufacturers continue to enjoy a high level of protection as a result of import prohibitions and a temporary 50% tariff band, due to be lifted by the end of 2007.

²² By early 2007, the weighted average tariff had fallen from 25% to 17% (Source: 'Nigeria's economic reforms', Ngozi Okonjo-Iweala and Philip Osafo-Kwaako, Brookings Institution, March 2007.)

48. Another example of delayed reform is civil service retrenchment, which has only begun on a small scale within a limited number of pilot ministries. The Federal Government has announced an extension of the programme, but progress will be difficult because of the strength of opposition to reform in the civil service, and the key role of civil service appointments in the patronage machinery supporting the regime.

49. Certain interest groups appear to have been more successful than others in holding out against reform. For example, in spite of the political priority given to customs reform, there has been little progress in overhauling the customs administration and tackling endemic corruption. Interest groups within the customs service have actively lobbied Cabinet and the National Assembly to obstruct and delay the preparation and implementation of reform.

50. The recent reform experience also indicates that the regime has been unwilling to undertake measures that generate broadly-based public opposition. For example, in the face of widespread protest against attempts to remove fuel price subsidies, the government has retreated from liberalising fully the downstream petroleum sector. Although the overall level of subsidy has been substantially reduced, the government has introduced a price cap to protect consumers from further increases in oil prices. The strategy of going slowly on reforms that are not popular with the general public may be a response to political necessity; but it may also be a means of gaining public support for high priority items.

51. These examples illustrate that the Obasanjo government was able to move against a large number of interest groups. However, in most cases these have been fairly narrowly based and no longer constitute an important support base for the regime. It has proven more difficult to challenge more powerful interests that are central to the patronage networks underpinning the regime, or to implement measures that would prove unpopular with the general public.

3.2.4 Business interests of the political elite.

52. 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. A notable example is the rise of Transcorp, a new company set up by friends of President Obasanjo (the former President is himself a shareholder) that has acquired many previously state owned enterprises.

53. There is a clear risk that these groups will seek to stifle competition, but they may also support certain reforms that improve the enabling environment for doing business. This new alignment of interests has at least begun to dismantle Nigeria's sclerotic public enterprises and the vast patronage networks that they supported.

3.2.5 Raising public expectations by generating some early quick wins.

54. In Nigeria decades of weak governance have created a high level of public cynicism towards government. This has lowered public expectations of government performance and weakened pressure for reform. 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. Recognising this, the government has pursued a strategy of delivering some quick wins that benefit at least some people, while working towards a longer term reform agenda. A notable example is the deregulation of the mobile telephone sector that has stimulated rapid growth and strong competition in the sector. Petrol shortages have also become less frequent following liberalisation of the downstream petroleum sector. High profile anti-corruption cases and the sacking of non-performing officials have also begun to change public perceptions the government's reform intentions. The recent debt relief agreement is widely perceived as an important achievement of the reform process and may begin to generate tangible benefits for the public through the use of the Virtual Poverty Fund to finance social service provision. At State level, some citizens of Lagos are beginning to see improvement in local services.

55. With some many forces against them, the prospects for reform are highly uncertain, but these examples of progress have begun to demonstrate the benefits of reform, and may have begun to create expectations of further change. There are indications of increasing public support for certain elements of the reform programme. For example, public attitudes towards privatisation have become more supportive as a result of clear differences in service delivery between private and public operators in some sectors. Greater public support for reform and heightened expectations of government performance should increase the prospects of present reforms being sustained, and of future reforms being undertaken.

56. It is important not to exaggerate the extent to which ordinary Nigerians have yet benefited, and identify with the reform process, and support for reform is also undermined by cynicism resulting from the abuse of the electoral process. Many of the reforms lack visibility because they have taken place at Federal level and have been focussed on macroeconomic management. There has been less progress in improving service delivery at state and local government level, which are generally perceived to be more pressing issues. Most importantly there has so far been little impact on employment generation, which has limited benefits for the poor. There is a perception that higher income groups have enjoyed most of the early benefits of reform. While in the immediate term it is critical that important elements of the elites are supportive of reforms and perceive the benefits, over the medium term (three to five years) reforms will be threatened if the benefits are not more broadly shared.

3.2.6 Coalitions

57. Building coalitions, or constituencies, among groups with shared interests in pro-growth reforms can be one way of increasing the likelihood of their enduring. Interest groups opposed to reform tend to be muted where reforms are publicly supported and backed by strong coalitions.

58. Nigeria's recent reform experience provides a few examples of reform coalitions. Progress with ports concessioning is in part due to active lobbying by a range of companies and business organisations, which have long complained about the costs of delays in clearing goods through the ports. Civil society and the media have also tended to support the reforms. In the face of this broad-based coalition, opposing interest groups have been incapable of obstructing reform. The communications sector provides another example where the National Communications Commission has established an "NCC Parliament" bringing together the regulator, consumer groups, service providers and suppliers. This has been critical in building trust and confidence in public policy and regulation towards the sector.

Box 4 - National Communications Commission Consumer Parliament

A major infrastructural constraint to growth in Nigeria had been telecommunications sector. Until 1999 the state owned telecommunications monopoly NITEL had only managed to install around 400,000 lines. With fewer than 300,000 of those lines ever functional at any one time there was widespread frustration and pressure for change. Partial deregulation brought in private Fixed Wireless PTOs and an analog mobile network. Services remained poor.

A National Communications Commission was established that carried out a globally acclaimed transparent auction of GSM licenses in January of 2001 and initiated a number of reforms aimed at enhanced quality of human capital for the sector, effective competition and consumer protection. There are now some 20 million mobile telephone subscribers in Nigeria.

One of the initiatives which has broadened stakeholder's ownership is the NCC Consumer Parliament. The Consumer Parliament is essentially a moving town hall meeting that goes out to meet telecommunications consumers, and includes spokespersons for operating companies and the regulators. These televised interactions bring out the problems encountered by the consumer for discussion and clarification of issues. The Parliament has created an interest group committed to preserving and improving on what Nigerians have to see as their telecommunications revolution. Keen interest in the Parliament, which is partnership between the Regulator, Civil Society and the Private Sector, reflects the fact that there are now nearly twenty million Nigerians with a stake in the telecommunications sector. In addition to this process of continuous public engagement, visionary leadership of the NCC offered by the combination of Chairman (Ahmed Joda) and CEO (Ernest Ndukwe) has helped to improve the performance of the NCC in serving the growth of the sector.

59. In general, however, coalitions have not been a major force in driving the reform process in Nigeria. Many of the reforms have been imposed in a top-down manner and are notable for the absence of supportive constituencies. For example, in the case of trade policy reforms the majority of business groups continue to oppose the introduction of the Common External Tariff. Consumers and importers, who would be expected to benefit from lower-priced imported goods, have not organised themselves into an effective lobby in support of change. In the absence of broad-based support it is uncertain whether the government will be able to implement fully the CET.

60. The relative weakness of reform coalitions is a reflection of the nature of the private sector and civil society in Nigeria. With a few exceptions, private sector organisations are mainly concerned with narrow sector- or firm-specific interests, which are often contrary to broader aims of strengthening competition and improving the enabling environment. Although there are numerous active civil society organisations in Nigeria, most have limited capacity to engage with government on economic policy reform issues. The scope for engagement with government at Federal level is constrained by the ethnic, regional and religious divisions that cut across Nigerian civil society.

3.2.7 Strengthening public accountability

61. Strengthening both horizontal and vertical public accountability is a critical challenge in Nigeria where public organisations and resources have been used for the benefit of narrow groups. Unfortunately, as the flawed 2007 elections showed, any improvements to political accountability are so far very limited. Over time, improved accountability can be both an important result of reform, and a driver of further reforms. Greater transparency and better public information has the potential to increase public pressure for change, but progress so far is disappointing.

62. There have been notable achievements at Federal government level where systems of accountability have been established, both of the horizontal type (among public institutions) and of the vertical type (between government and civil society). So far the accountability reforms in Nigeria have tended to focus on establishing horizontal mechanisms, for example the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission, the Budget Monitoring and Price Information Unit (Due Process Unit). However, there has also been significant progress in strengthening vertical systems, including greater transparency around the budget process, NGO monitoring of budgets and the Nigeria Extractive Industry Transparency Initiative.

63. Both horizontal and vertical accountability are critical, but horizontal systems always risk being subject to being weakened or subverted by powerful interests. The perception of capture, whether founded or unfounded, is often sufficient to undermine their credibility. For example, there is good reason to believe that the Economic and Financial Crimes Commission is guilty of partiality in its investigations, and that the organisation has been manipulated

politically in order to target the government's political opponents and protect its supporters.

64. Vertical accountability is beginning to emerge through greater transparency in relation to oil revenues and publicisation of the budget allocations to all tiers of Government. This was a major innovation in Nigeria where basic budgetary information was previously not made publicly available. Greater transparency has enabled civil society organisations to monitor budgets and scrutinise spending priorities. While such processes have begun to ensure greater accountability in the use of public funds, they will need to be strengthened and extended to cover broader aspects of public sector performance and service delivery.

3.2.8 External agents

65. 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 an important influence. Multilateral and bilateral agencies have played a significant role in supporting reforms, but this has not taken the form of imposing an outside agenda through aid conditionality. The ability of development agencies to influence directly the reform process in Nigeria has been limited because the volume of aid flows has been small. On average net aid disbursements to Nigeria between 2000 and 2004 amounted to just 0.6% of GDP, a far lower level of aid dependency than in most African countries.²³

66. Debt relief may provide a more important, although temporary, source of leverage. The debt relief package cancelled around \$18 billion of Nigeria's debt owed to Paris Club. This sizeable transfer has provided an important reform incentive because the debt negotiations would not have begun without significant progress in reform, and without IMF endorsement. The modalities of debt relief provide for a certain degree of creditor leverage because debt write-offs will be undertaken in two tranches linked to implementation of conditions under the IMF Policy Support Instrument.²⁴ However, such influence will be temporary as the debt relief operation was completed during 2006.

67. Multilateral and bilateral agencies have limited financial leverage, but have nevertheless played an important role in supporting reforms. This has mainly been achieved through the provision of technical assistance to the Economic Reform Team and key agencies implementing the reforms, for example the Ministry of Finance and Bureau of Public Enterprises. Technical assistance has generally been provided in a low-key manner, and in response to government requests. The experience has generally been viewed as a successful partnership that has targeted a key constraint to reforms, namely the weakness of capacity in key agencies responsible for economic management. Multilateral agencies, in particular the IMF and World Bank, have also played a constructive role in publicly reviewing Nigeria's reform progress and providing ongoing policy

²³ Sources: OECD Development Assistance Committee Database on Annual Aggregates, World Development Indicators

²⁴ Press Release 20 October 2005, Club de Paris

advice. Under the Policy Support Instrument the IMF conducts quarterly reviews of an agreed set of macroeconomic targets and structural reform benchmarks²⁵. The PSI is an unusual IMF arrangement because it is not linked to the lending of Fund resources, again highlighting the priority given to technical assistance.

68. OECD countries have increasingly cooperated with the Nigerian authorities in addressing financial crime, apprehending individuals associated with corruption and returning stolen assets. British police has assisted in the pursuit of several state governors accused of corruption and have also assisted in tracking down 419 scammers.

69. At the same time Multinational Corporations are increasingly committed to higher standards of integrity and transparency, the main example in Nigeria being the Extractive Industries Transparency Initiative.

70. Nigeria's increasingly active participation in regional organisations, including the AU, NEPAD and ECOWAS, is becoming an important influence on the domestic policy process. The most important example in relation of economic reforms is the introduction of the ECOWAS Common External Tariff, to which Nigeria has committed itself in spite of considerable domestic opposition (though in practice implementation is uneven, and ad hoc).

71. Finally it is important to mention the role of the Nigerian diaspora, who could potentially provide skills and finance on a large scale to boost growth and competitiveness in Nigeria. There is anecdotal evidence that an improved investment climate in Nigeria is beginning to encourage the return of expatriate Nigerians and to reverse capital flight. The potential contribution of the diaspora has been highlighted by the performance of the Economic Reform Team. Two prominent members, the former Minister of Finance and the Central Bank Governor, are Nigerians who returned from living abroad.

3.3 General assessment of progress and risks

72. This section has documented the significant progress of reforms over a wide number of areas in a short period of time. However, it is evident that the achievements have been mainly restricted to Federal government, and the gains are uneven and fragile.

73. In the context of Nigeria, where political institutions are weak, leadership has been the decisive factor in bringing about reform. It is important to consider how the incentives on leadership have changed in order to enable reform. In Nigeria a key factor was the strengthening of President Obasanjo's position following his re-election in 2003. As the regime became more secure, it no longer had to dispense patronage so widely in order to remain in power. This provided the space to confront vested interests that may have previously succeeded in obstructing reform. The extent to which the new administration

²⁵ See IMF Third Review of the Policy Support Instrument, July 2007.

will be able to or willing to do the same remains uncertain. The early signals are mixed.

74. The change in incentives on leadership has been gradual and should not be overstated. While the recent political and economic context has provided favourable conditions for reform, patronage politics is still very active at all levels of government. For example, powerful business interests continue to engage in political lobbying in order to gain favourable treatment, such as tariff exemptions.

75. Because the reforms have been leadership-driven they have also tended to be “top-down”, and have been applied using a bulldozer approach rather than careful consensus building. There may have been little alternative in a complex country such as Nigeria that is riven by social divisions, has weak institutions and no strong tradition of civil society participation in the policy process. Reform imposed from above may have been necessary to kick start the reforms, but may not be sufficient to extend and sustain them. Further the early signs are that the new presidency starts from a position of greater weakness than did its predecessor, and may well be unable to adopt the same approach, or indeed any approach that offers a good prospect for sustaining reform momentum. The reform experience in Nigeria is notable for the relative weakness of public participation, reform coalitions and vertical systems of accountability. All of these elements will need to be strengthened in order to sustain the reform process. In spite of this, there are indications of a gradual shift in public attitudes and expectations towards government that may strengthen pressure for reform from below. Early quick wins have helped to build public support for reform, but greater progress in improving service delivery and generating employment will be required to sustain this.

76. In addition to the essential role of incentives, another important condition for reform is the strengthening of capacities to formulate and effectively implement improved policies. Capacity building has been an important element of the reform experience in Nigeria. While public sector capacity in Nigeria in general remains weak, those agencies that have led the reform process have all invested heavily in capacity strengthening. The Economic Reform Team provides an important example of the difference that can be made by a few competent and determined individuals if politically supported. Donor support, while having a limited impact on incentives for reform, has played an important role in building capacities to manage change and deliver reform.

77. **Risks to sustainability.** Although good progress has been made in reforms, there is a significant risk that the process may stall or gains may be reversed. The following points outline the principal risks that are judged to be most likely to occur and most serious in impact:

- **Political risk.** Because reforms have essentially been leadership-driven progress may not be sustained under the new administration. The weakened legitimacy resulting from the flawed conduct of the elections could make it more difficult to move against reform opponents and thereby reduce the space for reforms. The cross-party nature of the new

cabinet may go some way to broadening the necessary support, though there is the risk that this may make it impossible to reach agreement on the way forward.

- **Conflict risk.** An upsurge in violence would threaten reform progress in several ways. There is a serious risk that interruptions to oil production would cut off government revenues and thereby undermine regime stability. It is a cause of concern that current tensions in the Niger delta have already resulted in a 25% loss of oil production. More generally an upsurge in violence in any part of Nigeria could divert the attention of leadership away from the reform process. There would also be a damaging effect on investor confidence with negative consequences for growth and public support for reforms.
- **Oil price fall.** Although oil prices will in all likelihood decline from their current high levels, the adherence to the oil price based fiscal rule should help to cushion the effect of a price fall. However, a prolonged period of low oil prices (more likely in the medium term than in the short term) would strain public finances, and could undermined macroeconomic stability, growth and reform progress.
- **Fiscal risks.** Macroeconomic stability has depending on the exercise of considerable fiscal restraint by all levels of government. Such discipline could break down under conditions of reduced revenues, higher spending pressures, weaker public financial management, and a breakdown of the understanding between different tiers of government on the saving of oil revenues. The Fiscal Responsibility Act codifies principles of sound public financial management in legislation. However, legislation provides no guarantee of adherence.
- **Exhaustion of quick wins.** After a period of intense reforms there is always a risk that momentum may be lost as political capital invested in reforms is used up. This is may occur when easier reforms are enacted first and opportunities for quick wins have been exhausted.

78. While all of these risks are significant they can be avoided, or at least minimised, if the right policy choices are made. The following section discusses in detail the requirements for sustaining and extending the reform process.

4) Extending and sustaining the reform process

4.1 Introduction

79. The previous sections have suggested that progress is being made with initiating a range of reforms (mainly at Federal level) that are critical to economic growth. However, while the reforms are significant, they remain both limited in scope and impact, and susceptible to reversal in the future. The purpose of the present section is to suggest ways forward to improve the breadth, depth and sustainability of measures that will promote growth. The proposed measures support three broad aims:

- widening, in the political and economic centres of the country, the range of individuals and organisations who have interest and commitment in taking the reforms forward;
- extending the momentum of reform and pressure for better performance across an increasing number of States and in local government; and
- reducing the prospects that promising reforms are subsequently reversed.

80. A number of principles have been followed in developing recommendations:

- First, the overall emphasis is on promoting institutional reforms aiming to change incentives so that influential groups increasingly gain an interest in acting in ways that favour improved economic governance.
- Second, there is a recognition that political leadership will continue to play a pivotal role in driving the reform process, and incentives need to be geared towards the motivations of those in power. However, in the longer term the policy process needs to become less dependent on individual leaders, and more firmly rooted in formal democratic institutions.
- Third, there is a need to strengthen mechanisms of public accountability that create pressure on government and leaders for improved performance.
- Fourth, there is a need to empower elements of civil society and the private sector whose interests coincide with a growth and competitiveness agenda. Coalitions bringing together these groups and reformist elements of government around common interests will be required.
- Fifth, there is an understanding that strengthening institutional and organisational capacities is a necessary but generally not sufficient condition to bring about change.

- Finally, there is a recognition of the time dimension of the proposed measures. The importance of taking a realistically long-term view of the challenges of addressing deep-seated governance problems rooted in Nigeria's political economy needs to be stressed. On the other hand the recent reform experience indicates that meaningful change can occur within a few years, and there are numerous options for immediate action.

4.2 Ways forward

4.2.1 Long-term structural economic change

81. At the heart of the vicious circles that need 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 more 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 interest groups, whose incentives would be better aligned with a growth and competitiveness agenda.

4.2.2 Strengthening accountability systems

82. 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.

83. Some of the forms these measures could take are:

- Generating public information that is accurate, timely and digestible on the actions and performance of government at all levels, building on progress that has already been made largely at Federal level (e.g. in NEITI, or in improving the budget process)
- Supporting the media and civil society in accessing, analysing and publicising information on performance. The Policy Dialogue Facility being supported under DFID's Shared Growth Framework is one means of doing this.
- Fostering issue-specific coalitions to press for improved policy and institutional performance, who might focus on subjects such as the CET, the customs service and power sector. Consumer interests are strikingly poorly represented in Nigeria, exercising little countervailing influence over protectionist tendencies in areas such as tariff reforms. Finding

ways of strengthening the articulation of these interests is particularly important.

- Ensuring that the National Assembly is well-informed and capable of contributing to reform processes, through such mechanisms as the Policy Analysis Research Project (PARP).
- Seeking ways of financing elections and political parties that minimise abuse, and maximise transparency
- In order to minimise the risk of capture, designing horizontal systems of accountability so as to maximise their independence and effectiveness. There is room for improvement in this regard. For example, the decision to establish the Due Process Unit within the Presidency increases vulnerability to capture. The physical location of the Unit within the highly guarded Presidential Villa creates an impression of lack of openness and transparency. In general terms all of the horizontal systems of accountability need to be exposed to public scrutiny and independent audit - in other words vertical accountability.

4.2.3 Generating wider benefits of reform

84. The sustainability of reforms, achieving growth, and containing violence, 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. While the support of parts of Nigeria's elite has so far been sufficient to launch the reforms, sustaining change will require broader support. The two most critical areas arguably lie in generating jobs and incomes for a larger number of people than have so far benefited, and in improving public services, such as health and education, that are most highly valued. Innovative approaches to these areas will be needed (such as finding ways of efficiently undertaking labour-intensive public works, or delivering services through a mix of public and private sectors, and to introduce greater competition as a means to reward the most efficient providers.

85. There are opportunities to link existing 'islands' of progress to create synergies that lead to progress across a broader front, and benefit larger numbers of people. An existing example is that the win of external debt relief has generated resources that are to be used to support anti-poverty measures; another might be to build on the greater financial stability that results from improved budget management to secure spending increases in those areas of public services in which delivery capacity exists.

4.2.4 Working at all levels

86. Most of the reforms have so far taken place at Federal level, complemented by actions in only a few States, and with little apparent improvement in the great majority of local government areas. As long as this is the case, public spending will continue to be extremely ineffective, and growth elusive. For reforms to be meaningful to the great majority of citizens, in the

form either of better publicly-provided services, or of broader growth, more pervasive change is needed at all levels. These changes will involve government, the private sector and civil levels of society, and there is also a role for external development agencies to focus increasingly at State level and below.

87. Some of the reforms at Federal level provide lessons and models that could be replicated in States with reform minded governments. In this respect mechanisms such as joint Federal/State planning, or staff development involving Federal and State counterparts, offer potential as a means to transfer good practice.

88. Federal transfers to lower levels of government are a critical instrument that could be used to provide stronger incentives for improved government performance. There is scope for more intensively using performance criteria in prioritising Federal expenditures at State level. Within the constraints of the constitution there is a need to revisit the issue of fiscal federalism, and to move beyond automatic State allocations to provide stronger performance incentives. Pressure for performance at States and local governments may also be sustained through extending transparency in budget allocations to these levels.

89. Private sector representative bodies and civil society organisations with a more strategic vision of what is needed to promote investment and growth should also be encouraged to apply pressure on State and local governments for improved performance. A variety of mechanisms may be used, for instance the investment ratings initiative, which will publicise investment climate indicators for different states, or support for State and local advocacy groups and media with an interest in promoting transparency. In many instances, this pressure may involve those with shared interests coalescing around particular issues, such as pressing for value for money around particular locally-provided services.

90. Given the diversity of States and their different political and economic structures, it should be expected that reforms will proceed more rapidly in certain States than in others. In many cases the quality of local leadership will determine progress in reform at State level. Pressure on leadership from reform constituencies is also a key factor, and it may be expected that change may occur more easily in locations with more developed private sector and civil society organisations, such as Lagos and perhaps Kano.

4.2.5 Finding ways of making reforms more durable

91. Three mutually reinforcing ways of embedding reforms so as to reduce the scope for reversal may be explored:

- First, bring about institutional and structural changes that cannot easily be reversed, for instance through privatisation or concessioning.

- Second, introduce legislation to reinforce change. The case of Lagos Revenues has been noted in this paper. Numerous bills have passed through, or are proposed for, the legislative process, including the Fiscal Responsibility, public procurement, the NEITI, EFCC, money laundering, corrupt practices, energy, pensions, and debt management.²⁶
- Third, use reforms to create new constituencies, who are in favour of further change. For example, liberalisation of the mobile telephone sector has led to the rapid growth of the sector and created strong consumer interests in fostering competition and effective regulation.
- Fourth, making public information available on government performance routinely available, as a means to strengthen public expectations of government openness and to reduce the likelihood of reversion to previous practices.

4.2.6 Addressing violent conflict alongside underdevelopment

92. The multiple relationships between violent conflict and underdevelopment (noted in section 2 above as a cause of Nigeria's poor growth record) highlight the risk of a vicious downward spiral, not just in individual areas of Nigeria, but also affecting national prospects. Any strategy for growth must integrate conflict perspectives in both its analysis (recognising for instance who benefits from the perpetuation of violence), and in the measures to be taken to reduce or contain violence.

93. The measures will need to address the wider causes of violent conflict (including resource scarcity, the nature of political competition, poor services, and poverty and unemployment), as well as supporting those (whether in government, in the private sector, or in civil society) with an interest in conflict reduction. Innovations will also be needed for mediation, arbitration and reconciliation.

4.2.7 Strengthening technical capabilities

94. The analysis in this paper suggests that the causes of faltering economic performance are fundamentally related to the nature of the underlying incentives affecting stakeholders in Nigeria. However, weak organisational capacities can impede reform even where the incentive framework is favourable. First, weak capacities increase the risk that reforms will fail in implementation, and may therefore reduce incentives for political leaders to initiate administratively complex reforms. Second, weak public sector capacity may weaken the rationale for citizens or service-users to invest time, money and political capital in pressing for improvements, since there is little immediate prospect of improvement. More positively, improvements in some aspects of an organisation's capacities can generate rapid benefits, and begin to raise expectations that broader improvements are possible. There are currently

²⁶ These legislative priorities were identified by the Governor of the Central Bank in 'The political Economy of sustainable democracy in Nigeria', the 2005 Democracy Day Lecture, Charles Soludo.

examples of this in Nigeria, some of which are noted in this paper, including the ERT, the NCC, NAFDAC, FIRS, and aspects of the administration of Lagos State.

95. In parallel with seeking to shift incentives, therefore, there is a need for sustained attention to the capacities of public organisations. While the main onus for this lies with Nigerians, there is a particular role for development agencies. A number of lessons have been learned on how these challenges should be approached by development agencies:

- Provide external technical assistance only in response to genuine demand from Nigerian stakeholders.
- Adopt a low-key approach that respects Nigerian leadership and ownership, and recognises that Nigerian perceptions of external interference will lead to strongly negative reactions.
- Recognise that many of the greatest challenges are at State and local government level; effectively raising capacities at this level in the right political context should contribute to broadening popular support for reforms, and should reinforce initiatives that began at Federal level.
- Adopt a sufficiently long time-scale for institutional development, but be prepared to respond rapidly and flexibly in response to requests from reformist public officials.
- Provide technical assistance not just to government, but recognise that a range of non-state actors (whether in the private sector, the research community, or in civil society) have critical long-term roles to play in promoting reforms.

4.2.8 Working with stakeholders

96. In order to address the incentive framework there is a need to work with a range of stakeholders, going well beyond the state to include also the more visionary parts of the formal private sector, as well as elements of civil society, especially those with soundly-based advocacy programmes.

97. Of particular importance is strengthening the **leadership's incentives** to promote reforms. Section 3.2.2 (above) highlighted the critical role of the leadership in bringing about change. The incentives that induce reformist actions by political leadership reflect two factors: the leadership's motivation, and external factors (rewards and punishments). Motivations (which are often multiple and conflicting) are extremely difficult to identify, and even more so to influence. There may, depending on the circumstances, be some scope for influencing the external factors to which the leadership responds.

98. For instance, at State level, ways in which political leaderships may benefit from broad-based economic growth (e.g. through revenue growth, or employment creation) may come to strengthen the political rewards for pro-

growth actions. The Federal government has various instruments that may reinforce this, as do external donors (e.g. through channelling some resources and programmes towards better performing States). Sustained international efforts to pursue corrupt State Governors, and to repatriate stolen assets, may also help to shift incentives at State level.

99. At Federal level, where the role of the leadership, and especially the Presidency, is absolutely critical to the prospects for sustained reforms, there are relatively few instruments of leverage from outside Nigeria. However, external agencies may have some modest means of rewarding the leadership for improved performance. Nigeria's pre-2007, and present, leaderships have been concerned about its credibility abroad and its standing in the international community. Foreign governments and regional organisations, such as the AU and Nepad have a role in acknowledging progress in Nigeria and giving credit when credit is due.

100. The need to bring about a major improvement in the performance of large parts of the **civil service** has been emphasised. The prospects for this are, however, made more difficult by the extent to which employment in the civil service has been a principal instrument of patronage. But, experiences with macro-economic management, and perhaps of Lagos State revenues, do indicate the potential for streamlining parts of the civil service. Making some senior appointments on merit, and providing appropriate incentives to those in post, can go some way to changing overall performance and results.

101. The important role of **civil society** --- the media, NGOs, professional groupings, or the research community --- has been frequently noted in this paper, whether as advocates for change, or as the providers of quality services, generating competition for public sector providers. Alongside these, parts of the **formal private sector** are concerned with a growth and competitiveness agenda and can play an important role in policy dialogue and calling government to account for its performance.

102. Finally, there are a range of external stakeholders that can affect Nigeria's growth prospects, albeit as junior partners. First, the time may be right for new initiatives from members of the **Nigerian diaspora** to influence domestic events. The diaspora, as Nigerian citizens, have some domestic legitimacy, but are also exposed to international norms of governance and corporate practice. They also include some individuals who command significant financial resources that might be available for productive investment in the country.

103. Second, in the event private companies come to invest more substantially in Nigeria outside of the oil sector, they may provide channels for good international practice. An assessment from this perspective of the growing role of investors from China and India would be worthwhile.

104. And third, other governments, whether in the west African region, in the West, and perhaps also China, will have considerable influence because of their strategic interests, which include security, political stability, and ensuring that

Nigeria's oil continues to reach world markets. For western governments in particular, it will be important to ensure policy consistency to the extent possible.

105. Finally, Nigeria's development partners are likely to continue to play a significant role in supporting the reform programme, not just in the provision of technical assistance, but also in arguing for international support in support of reform programmes. Some of these agencies, including DFID and the World Bank, have built up substantial in-country analytical and operational capacities that will continue to be needed if they are to understand and engage with Nigerian realities.

4.2.9 Priorities for the new administration.

106. In this large agenda, it will be necessary for the new administration to prioritise. The choices need to be based not just on the intrinsic importance of the measures themselves, but also the need to raise citizen's expectations about the performance of government --- expectations that will themselves come to sustain pressure for further reforms. The following would appear to be critical at the early stages of an administration.

- The first, recognising the critical role of leadership in promoting reforms, is from the start through public statements and through actions that demonstrate lasting commitment to citizen empowerment and greater public accountability.
- Second, to invite non-state actors to participate in formal consultations on public policy, and to scrutinise the actions of government.
- Third, to accelerate progress in passing legislation that is critical to sustaining reforms. Further progress in fiscal management, public procurement, anti-corruption, civil service reform, liberalisation of trade and investment, and privatisation will be required.
- Fourth, to strengthen, and make more independent, agencies of horizontal and vertical accountability.
- Fifth, to extend and strengthen transparency in providing public information on the actions of government, not least in its financial dealings, but also in the performance of public bodies.
- Sixth, to exert stronger pressure on state and local governments for improved performance.
- And finally, to identify and act on one or two areas in which changes can be made that generate, within one or two years at most, improvements in the quality of public services. This may include ensuring that reforms already begun, such as in the ports, deliver visible benefits.

5. Conclusion

107. For good reasons, Nigeria has for many years been seen as presenting an almost unique combination of daunting challenges. It is of enormous importance to the wider prospects for Africa's economic and political recovery. Yet, domestic shortcomings have meant that its continental potential has, at least until recently, been unfulfilled, as living standards have fallen and institutions have decayed. For long periods, it has not been a full member of the international community and has often been viewed as a pariah state, an isolation reinforced by its poor image amongst foreign investors.

108. Against this background, political and economic progress since 1999 has been real, and presents perhaps the best opportunity in forty years for Nigeria for sustained progress. The analysis in this paper suggests that contextual factors go a long way towards explaining the improved record of recent years, but also that these cannot be divorced from the nature of the leadership and from features of the reforms themselves. A significant number of people (largely among those who are already better-off, and not yet among most of the poorest) have begun to see some benefits. While there are disturbing trends, such as the increase in violence, and the flawed 2007 election, some factors support continued progress, notably signs that certain vested interests have lost, at least temporarily, some of their blocking power. For all the limitations of the scope of reforms so far, and the very real risks that they may lose momentum and Nigeria will 'revert to type', some of the conditions are in place for continued progress. A realistic assessment is that Nigeria may yet come to fulfill some of its potential for its citizens, and for Africa.

109. For this reason, there is a good case for continued support from Nigeria's international partners. 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 needed to address some of the underlying factors.