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Nigeria's Economic Reforms

Progress and Challenges

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Nigeria's Economic Reforms: Progress and Challenges

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List of Acronyms

BOOT	Build-Own-Operate-and-Transfer
BOT	Build-Operate-and-Transfer
CET	Common External Tariff
ECOWAS	Economic Community of West African States
EFCC	Economic and Financial Crimes Commission
EITI	The Extractive Industries Transparency Initiative
FCT	Federal Capital Territory
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSM	Global System for Mobile [Communications]
HIC	High-Income Countries
ICPC	Independent Corrupt Practices and Other Related Offences Commission
IFC	International Finance Corporation
IMF	International Monetary Fund
IPPIS	Integrated Personnel and Payroll Information System
LIC	Low-Income Countries
MDA	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTSS	Medium-Term Success Strategies
NAICOM	National Insurance Commission
NCIA	Nigeria Canada ICT Alliance
NDDC	Niger Delta Development Commission
NEEDS	National Economic Empowerment and Development Strategy
NITEL	Nigerian Telecoms, Ltd.
NLC	Nigeria Labor Congress
OPEN	Oversight of Public Expenditure on NEEDS
PHCN	Power Holding Company of Nigeria
PPP	Public Private Partnership
ROT	Rehabilitate-Operate-and-Transfer
SAP	Structural Adjustment Program
SEEDS	States Economic Empowerment and Development Strategy
SSA	Sub-Saharan Africa

Executive Summary

Following years of economic stagnation, Nigeria embarked on a comprehensive reform program during the second term of the Obasanjo administration. The program was based on the National Economic Empowerment and Development Strategy (NEEDS) and focused on four main areas: improving the macroeconomic environment, pursuing structural reforms, strengthening public expenditure management, and implementing institutional and governance reforms. This paper reviews Nigeria's recent experience with economic reforms and outlines major policy measures that have been implemented. Although there have been notable achievements under the program, significant challenges exist, particularly in translating the benefits of reforms into welfare improvements for citizens, in improving the domestic business environment, and in extending reform policies to states and local governments. Consequently, we argue that the recent reform program must be viewed as the initial steps of a much longer journey of economic recovery and sustained growth. This paper concludes by outlining a number of outstanding issues that future Nigerian administrations must address.

Introduction

With a population of 140 million people, Nigeria is the most populous country in Africa, with a GDP second only to South Africa's. Yet, following several years of military rule and poor economic management, Nigeria experienced a prolonged period of economic stagnation, rising poverty levels, and the decline of its public institutions. By most measures, human development indicators in Nigeria were comparable to that of other least developed countries while widespread corruption undermined the effectiveness of various public expenditure programs (see table 1). Moreover, the lack of public investments in previous decades meant that there were severe infrastructural bottlenecks that hindered private sector activities. In particular, the poor condition of the power sector prior to economic reforms illustrated the severity of Nigeria's infrastructure deficit. Per capita power consumption in Nigeria was estimated at 82 kilowatts (kW) compared with an average of 456kW in other sub-Saharan African countries and 3,793kW in South Africa (see table 2).

Table 1: Selected Social Indicators (2003-4)

	Nigeria	South Africa	Low-income countries
GNI per capita, Atlas method (current US$)	430	3,670	507.02
Immunization, measles (percent of children ages 12 to 23 months)	35	81	63.45
Improved sanitation facilities, urban (percent of urban population with access)	53	79	60.56
Improved water source (percent of population with access)	48	88	75.09
Mortality rate, infant (per 1,000 live births)	101.4	54	79.52
Mortality rate, under 5 (per 1,000)	196.6	67	121.59

Source: World Bank (World Development Indicators, 2004)

Table 2: Selected Data on Infrastructure

	Nigeria	South Africa	SSA	LIC	HIC
Electric power consumption kW per capita (2001)	82	3,793	456	317	8,421
Road-to-Population Ratio 1000km per million people (1995-2001)	1.1	8.5	2.6	--	--
Paved primary roads – percent of roads (1995-2001)	30.9	20.3	13.5	16	92.9
Telephone – Mainlines per 1000 people (2002)[a]	6	107	15	28	585
Access to sanitation – percent of population (2000)	54	87	54	43	--
Access to safe water – percent of population (2000)	62	86	58	76	--

Source: World Bank (World Development Indicators, various years)

[a] The number of GSM lines in Nigeria, however, has increased significantly in recent years to about 32 million. Nigeria has the fastest growing GSM market in the world after China.

Following elections in 1999, the first administration of President Olusegun Obasanjo (1999-2003) focused on ensuring political stability, strengthening democratic practices, and tackling corruption. The second Obasanjo administration (2003 – present) embarked on a comprehensive economic reform program based on a homegrown strategy, the National Economic Empowerment and Development Strategy (NEEDS).[1] The development of NEEDS at the federal level was complemented by individual State Economic Empowerment and Development Strategies (SEEDS), which were prepared by all 36 Nigerian states and the Federal Capital Territory (FCT). The NEEDS program emphasized the importance of private sector development to support wealth creation and poverty reduction in the country. The objectives of NEEDS were addressed in four main areas: macroeconomic reform, structural reform, public sector reform, and institutional and governance reform.

This paper reviews Nigeria's recent economic reforms and examines policy measures implemented in each area of reform. The broad conclusion of this paper is that although Nigeria has made significant progress with its current reform program, many other challenges remain, particularly in translating the benefits of reforms to citizens, in improving the domestic investment climate, and in extending the reform program to the state and local government levels. The current reform program must therefore be viewed as the initial steps of a much longer journey of economic recovery and sustained growth.

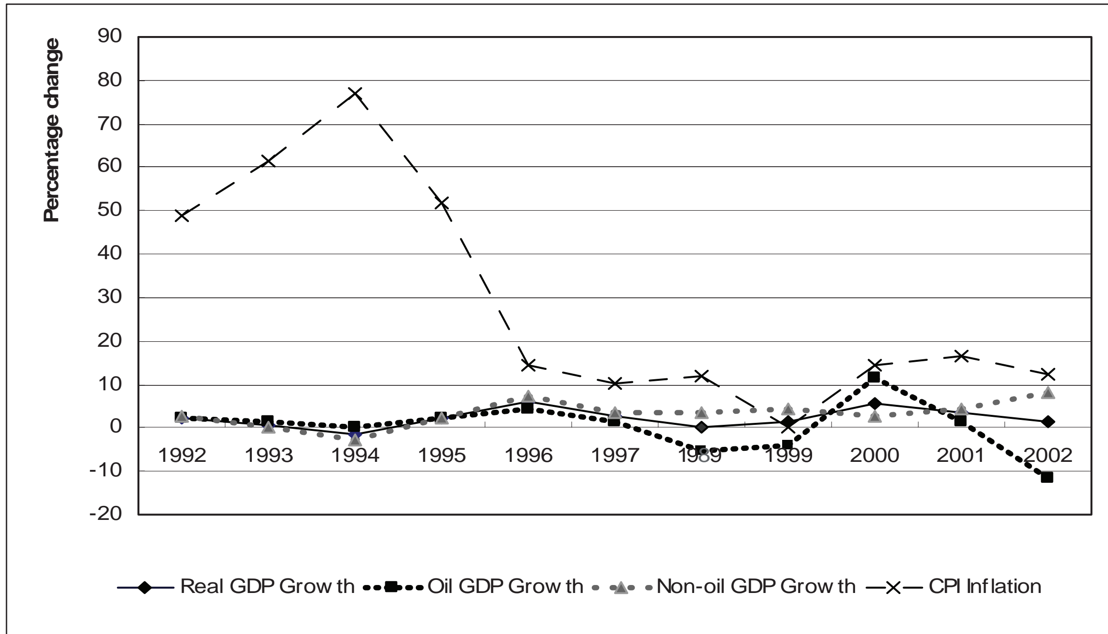
The following pages contain an examination of the various components of the economic reform program: macroeconomic reform, structural reforms, and institutional and governance reforms. In each case, we provide a brief background prior to the reforms and subsequently examine the reform measures and progress made. Beginning on page 21, we discuss some of the current challenges to the Nigerian economy and suggest a number of policies and programs that must be addressed in the next phase of economic reforms. Our conclusions are provided on page 25.

Macroeconomic Reforms

Nigeria's economic performance in the two decades prior to economic reforms was generally poor. Over the period 1992 to 2002, annual GDP growth had averaged about 2.25 percent. With an estimated population growth of 2.80 percent per annum, this implied a contraction in per capita GDP over the years that had resulted in a deterioration of living standards for most citizens. Inflation levels were high, averaging about 28.94 percent per annum over the same period (see fig. 1). By 1999 (at the start of the first Obasanjo administration), most of Nigeria's human development indicators were worse than, or comparable to, that of any other least developed country.

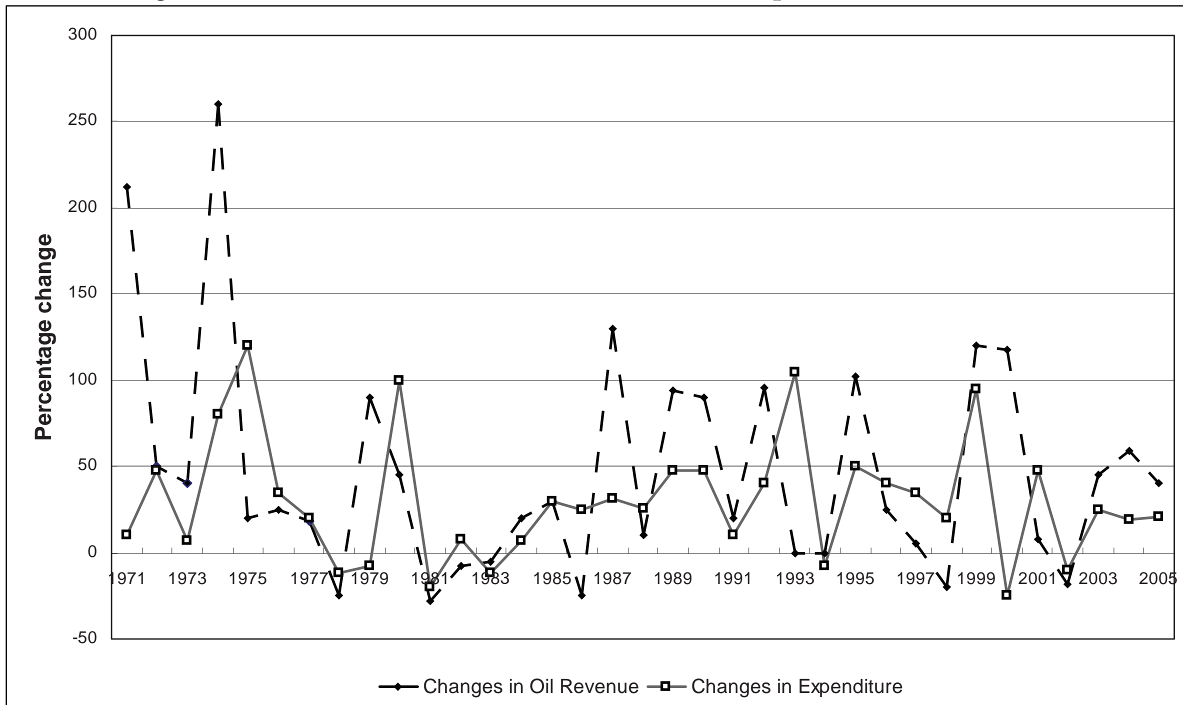
A major challenge for the Nigerian economy was its macroeconomic volatility driven largely by external terms of trade shocks and the country's large reliance on oil export earnings. By some measures, Nigeria's economy ranked among the most volatile in the world for the period 1960 to 2000 (World Bank, 2003). Public expenditures also closely followed current revenues, implying that fluctuations in oil earnings were transferred directly into the domestic economy (see fig. 2). Fluctuations in public expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by previous governments. Volatile fiscal spending also tended to cause real exchange rate volatility. In particular, fiscal expansions financed by oil revenues often resulted in domestic currency appreciation, creating Dutch-disease concerns and reducing competitiveness of the non-oil economy (Barnett and Ossowski, 2002).

Figure 1: Real GDP Growth and Inflation (1992-2002)



Source: IMF (2005; 2003; and 2001)

Figure 2: Fluctuations in Government Revenues and Expenditures (1971-2005)



Source: Government of Nigeria Estimates

The costs of such macroeconomic volatility were significant for Nigeria. There is considerable theoretical and empirical evidence on the adverse effects of volatility for growth (Fatas and Mihov, 2003; Servén, 2003; Bleaney and Greenaway, 2001). These adverse consequences may occur via two channels: first, unsteady revenue flows tend to reduce the quality and productivity of government expenditures; and second, private investments tend to be reduced in a volatile environment. Both effects appear to have occurred in the case of Nigeria.

First, expenditure volatility resulted in low quality government public spending, often with many incomplete capital projects, as well as the accrual of arrears for civil servant salaries and government contractor payments. Indeed, by 2003, accumulated arrears to domestic contractors alone amounted to about N150 billion (US$1.17 billion). Second, macroeconomic instability also hindered long-term planning by the private sector and resulted in a concentration of economic activity in various short-term arbitrage opportunities (particularly in retail trade) rather than productive long-term investments. Overall, a pro-cyclical expenditure pattern coupled with poor management of oil earnings resulted in low growth, persistent fiscal deficits, and the accumulation of debts (see table 3).

Table 3: Consolidated Government Operations

	1999	2000	2001	2002
	(in percent of GDP)			
Total Revenue	30.7	45.0	46.9	36.4
Total Expenditure	38.0	38.6	50.2	40.7
Fiscal balance	-7.4	6.4	-3.3	-4.2
	(in percent of GDP)			
Total Debt	106.3	89.2	81.3	87.9
External Debt	81.8	69.1	62.2	67.2
Domestic Debt	24.5	20.1	19	20.7
	(in percent of GDP)			
Total Debt (in billions of US$)	37.3	39.0	38.8	40.5
External Debt	28.7	30.2	29.7	31.0
Domestic Debt	8.6	8.8	9.1	9.5

Source: IMF (2001; 2003; 2005), and Federal Government of Nigeria

Reform Measures

Therefore, a central objective of the macroeconomic reform was to stabilize the Nigerian economy, to improve budgetary planning and execution, and to provide a platform for sustained economic diversification and non-oil growth. A major challenge was to de-link public expenditures from oil revenue earnings by introducing an appropriate fiscal rule. In addition, as has been the practice in other countries, the adoption of such a rule could enable the accumulation of government savings, which would be valuable, whether for precautionary reasons, for smoothening public expenditures or for ensuring intergenerational equity (Barnett and Ossowski, 2006; IMF 2005a).

In the case of Nigeria, an oil price-based fiscal rule was introduced in which government expenditure was based on a prudent oil price benchmark. Any revenues that accumulated above the reference prices were saved in a special excess crude account. In recent years, government budgeting has been based on conservative oil prices of $25 per barrel in 2004, $30 per barrel in 2005, and $35 per barrel in 2006, despite higher realized prices of $38.3 and $54.2 in 2004 and 2005, respectively, and an estimated average price of $68 for 2006. Adoption of this rule has ensured that government expenditures are de-linked from oil revenue earnings, thereby limiting the transmission of external shocks into the domestic economy. There was a marked improvement in the government's fiscal balance, with the previous deficit of 3.5 percent of GDP in 2003 turning to consolidated surpluses of about 10 percent of GDP in 2004 and 11 percent of GDP in 2005 (Government of Nigeria and IMF, 2005b). Adoption of the fiscal rule also resulted in significant public savings for the government. Gross excess crude savings totaled about $6.35 billion at the end of 2004 and about $17.68 billion by the end of 2005.[2] Over the period 2003 to 2006, foreign reserves also increased by more than fivefold, from $7.5 billion at the end of 2003 to about $38 billion in July 2006.

The implementation of monetary policy was similarly fairly disciplined, with the central bank adhering to various monetary targets and reducing inflation. End-year inflation declined from 21.8 percent in 2003 to 10 percent in 2004 but increased slightly to 11.6 percent at the end of 2005.[3] Similarly, interest rates, although relatively high, are gradually declining: prime lending rates have declined from about 21.3 percent at the end of 1999 to 17.6 percent at the end of 2005.[4] Finally, the adoption of the Wholesale Dutch Auction System facilitated the convergence of foreign exchange markets and the elimination of a previous black market premium.

The improved implementation of fiscal and monetary policies has provided a stable macroeconomic environment, which is crowding in private sector participation in the domestic economy. As an example, in 2005, credit to the private sector grew by 30.8 percent to N2.01 trillion (US$15.1 billion), exceeding the target growth rate of 22.5 percent. In addition, net credit to the federal government declined by 37 percent to N306.0 billion (US$2.3 billion) compared with the target decline of 10.9 percent. The fall in lending to the federal government was attributed mainly to a decline in the central bank's holding of treasury securities.

Overall, the attainment of macroeconomic stability has provided a platform for improved growth performance in recent years. Growth rates have averaged about 7.1 percent annually for the period 2003 to 2006. This is a notable improvement on the performance over the decade before reform when annual growth rates averaged about 2.3 percent. More importantly, the recent strong growth rates have been driven by strong growth in the non-oil sectors, which is needed for employment creation. Growth in the non-oil sector for 2003, 2004, and 2005 was 4.4, 7.4, and 8.26 percent, respectively (see table 4 below). The country's recent sovereign credit rating of BB- by Fitch and Standards & Poor further affirmed the recent progress made.

Progress in oil revenue management and implementation of monetary policy was complemented by improvements in debt management and the budget preparation process. Public debt declined substantially from about 74.8 percent of GDP in 2003 to about 14.2 percent in 2006, largely because of a successful debt relief agreement with the Paris Club. In 2004, Nigeria's stock of debt amounted to about $46.6

billion, comprised of $35.9 billion of external debt and $10.7 billion of domestic debt. High debt servicing costs on Nigeria's $30.4 billion Paris Club debt had placed a significant strain on government fiscal resources, crowding out space for other necessary social expenditure and investments in public infrastructure.

Table 4: Selected Economic Indicators

	1992-1998 (avg.)	1999-2001 (avg.)	2002	2003	2004	2005	2006 (est.)
(Annual percentage change; unless otherwise specified)							
Real GDP (at 1990 factor cost)	1.8	3.5	1.4	10.9	6.1	6.2	5.1
Oil GDP	0.9	2.9	-11.6	26.5	3.5	2.6	-1.6
Non-oil GDP	2.4	3.8	8.0	4.4	7.4	8.2	8.2
Inflation rate (year-on-year)	39.3	10.4	12.2	21.8	10.0	11.6	12.2
Money supply (M2) (% change)	…	35.0	21.6	24.1	14.0	16.0	…
Exchange rate (IFEM/DAS) (N/US$, average)	…	102.3	121.3	129.5	133.5	131.8	126.5
External reserves (US$ billion)	3.6	8.4	7.7	7.5	17.0	28.3	46.5

Source: CBN, 2006b; Federal Ministry of Finance (Nigeria), and IMF (2001; 2003; 2005)

As part of a tough but ultimately successful debt negotiation process with the Paris Club, Nigeria paid its outstanding arrears of $6.4 billion, received a debt write-off of $16 billion on the remaining debt stock (under Naples terms), and purchased its outstanding $8 billion debt under a buyback agreement at 25 percent discount for $6 billion. The entire debt relief package totaled $18 billion, or a 60 percent write-off in return for a $12.4 billion payment of arrears and buyback. The exercise involving the buyback was unprecedented in the Paris Club for a low-income country and was the second largest debt relief operation in the club's 50-year history. Other external debt, particularly debt owed to London Club commercial creditors, are similarly being restructured and paid off.[5] Payment or restructuring of domestic debt, totaling about 12 percent of GDP in 2005, presents a larger challenge. Following an audit of domestic debt arrears, the government has begun addressing these arrears by capitalizing such debt through issuance of three- to five-year bonds at competitive interest rates. For contractor arrears,[6] cash payments of about N4.6 billion (US$36 million) were made while an estimated N87.6 billion (US$684 million) was issued in bonds. Similarly, civil service pension arrears are being addressed with cash payments of about N8.6 billion (US$67 million) and about N75 billion (US$586 million) in bonds.

Strengthening the budget preparation and execution process was also urgently needed in order to improve the efficiency of government spending and improve service delivery to the Nigerian public. In the past, weaknesses in budget implementation and monitoring had resulted in a low quality of government expenditures and many incomplete projects. The current improvements are being supported by the preparation of a fiscal strategy paper laying out options and trade-offs for budgetary spending, as well as improved management of government finances by a Cash Management Committee chaired by

the finance minister. In addition, medium term expenditure frameworks (MTEF) and medium term sector strategies (MTSS) have been introduced to ensure that sectoral spending programs reflect government development priorities and also remain within projected resource envelopes. The government has also introduced the practice of preparing an annual budget implementation report which reviews the strengths and weaknesses in the execution of each year's federal budget. Implementation reports have been prepared for the 2004 and 2005 budgets.

Particular attention was also given to pro-poor expenditures within the budget that were needed to improve Nigeria's MDG indicators. Annual savings from debt servicing totaling about US$1 billion are being channeled to various poverty reduction programs. The federal government's share of about US$750 million in 2006 was spent for various MDG programs and monitored with a Virtual Poverty Fund Mechanism called OPEN (Oversight of Public Expenditure in NEEDS). The sum of US$750 million (N98.9 billion) was allocated for various MDG-based programs in the following sectors: health (US$161.5 million), education (US$135.0 million), water (US$145.6 million), power/rural electrification (US$128.9 billion), public works (US$75.1 million), agriculture (US$66.0 million) and other programs such as gender, youth and the environment (US$37.9 million). In each of these sectors, allocations from the debt relief savings were additional to the statutory allocations which MDG-related sectors obtained from the regular federal government budget. The additional financing supported a variety of programs, such as scaling-up of the national immunization program, training of an additional 150,000 school teachers, construction of small earth dams, and the extension of various rural electrification projects.

Structural Reforms

A broad range of structural reforms were also needed to improve the domestic business climate and enhance competitiveness, to deregulate and reduce government activity in various economic sectors, and to address various structural constraints to growth. In this section, we review four major areas of recent structural reform: privatization, the civil service, the banking sector, and trade policy. In each case we discuss the prevailing situation before reform in 2003, and outline the progress achieved so far.

Privatization

Prior to the recent reforms, the Nigerian public sector was underperforming and imposed a significant financial drain on the treasury. Within the public sector, the underperformance of state-owned enterprises was particularly costly. Large public investments in state-owned enterprises in previous decades had yielded very few concrete benefits. State-owned enterprises often were managed poorly, with a great deal of both hidden and overt corruption. They incurred repeated losses and required annual government transfers to remain operational. As an example, direct government financial support to state-owned enterprises in 2001 totaled about US$323 million (or 0.68 percent of GDP), with about one-half of the total subsidy allocated to oil refineries and the telecom sector. The actual overall costs of operating government enterprises were larger if various indirect subsidies such as tax exemptions and loans were included. The Adam Smith Institute estimated that for the period 2000 to 2003, it cost the federal government about N74.3 billion (US$558 million) to operate the Nigerian Ports Authority from 2000 to 2003, comprised of direct financial flows and various foregone earnings to the government (Adam Smith International, 2006).

Table 5: Government Support to state-owned enterprises (by sector) for 2001

	Investment Grants	Operational Subsidy	TOTAL
(in millions of naira)			
Steel mills	1,711.4	1,040.0	2,751.4
Coal company	283.6	20.0	303.6
Oil refineries	6,998.0	599.6	7,597.6
Mines (solid minerals)	4,919.8	46.7	4,966.5
NEPA, power sector	3,858.4	431.1	4,289.5
Chemicals	504.0	5.0	509.0
Railways	283.6	595.1	878.7
Ports	500.0	218.9	718.9
Airports	1,625.6	629.9	2,255.5
Telecom	8,300.0	3,100.9	11,400.9
Sugar	506.0	6.0	512.0
TOTAL	29,490.4	6,693.2	36,183.6
Total GDP			5,339,000
as percent of GDP	0.55	0.13	0.68

Source: Office of the Accountant General of the Federation

Reform Measures

Privatization of some state-owned enterprises, as well as deregulation of government activities in some sectors, was therefore needed to improve the efficiency of these enterprises, to curb corruption, and also to reduce the financial costs to the federal government. Between 1999 and 2006, about 116 enterprises were privatized, including various loss-making government enterprises operating in industries such as aluminum, telecommunications, petrochemical, insurance, and hotel.[7] A major component of the privatization program was the unbundling of the Power Holding Company of Nigeria (PHCN) into 18 companies responsible for power generation, transmission, and distribution. In some instances, state-owned enterprises such as ports were also concessioned to private sector operators. More recently, the government concluded the successful sale of 51 percent of its stake in the Hilton Hotel (in Abuja) and the sale of the state-owned Nigeria Telecommunications Limited (NITEL).

Privatization has also been accompanied by deregulation of various economic sectors to encourage private sector participation, notably in telecommunications, power, and downstream petroleum sectors. Liberalization of the telecom sector has been particularly successful, resulting in an increase in the number of telephone lines in the country from about 500,000 landlines in 2001 to over 32 million GSM lines at present. The sector has attracted over US$1 billion a year in investments in the past four years and Nigeria has been rated as one of the countries with the fastest growing teledensity in the world.

The privatization and liberalization exercise has been controversial in part and fraught with a great deal of resistance from entrenched interests who were accustomed to diverting public resources for private gain. Though there have been questions about the privatization of particular public enterprises (such as

whether the process was fair and transparent, or whether private monopolies were being created), most of these issues have been settled and the exercise has been largely successful.

Civil Service Reform

The Nigerian civil service was also oversized and poorly remunerated, resulting in poor service delivery. Rapid public sector recruitment under military administrations had resulted in an oversized and under-skilled work force in which employees often did not have the appropriate technical skills needed for their assignments. For example, about 70 percent of workers in the Ministry of Finance were low-level staff clerks, cleaners and administrative staff with a secondary school education or equivalent, 13 percent were university graduates, and only 8 percent had degrees related to economics, finance or accounting. More broadly, the government estimated that about 70 percent of federal civil servants had a high school diploma or lower, with less than 5 percent possessing modern computer skills.

Civil servants generally received low pay and several fringe benefits such as free housing, free vehicles, and various other allowances that often led to waste and misuse of government resources. Weak management and oversight also meant that there were problems with ghost workers on the government payroll; while personnel and pension registers often were unreliable. Moreover, a weak incentive structure in the civil service, which did not foster good performance, resulted in a weak work ethic and poor service delivery by many government ministries, often characterized by hidden or outright corrupt behavior on the part of many civil servants. Reforms were therefore needed to re-professionalize the civil service and increase its focus on service delivery.

Reform Measures

Civil service reform began with five pilot ministries and subsequently was extended to nine MDAs (ministries, departments and agencies). In each instance, internal consultations were performed while verification exercises were conducted to update personnel records and payroll data. Organizational structures for the reforming ministries were reviewed and rationalized, while the appropriate professional skills needed were identified. Redundancy packages and retraining programs were offered to severed staff. A total of 35,700 officials have been severed from the civil service at an estimated cost of about N26 billion (US$203 million), while 1,000 high flying university graduates are being recruited. In the process of restructuring, an estimated 8,000 ghost workers were expunged from the government payroll.

Government pay scales have also been reviewed. An initial recommendation from the Shonekan Committee[8] had recommended public sector wage increases of 25 percent in 2007 and a further 10 percent annually (plus cost-of-living adjustment) for the next 10 years. Full implementation of the Shonekan proposal was likely to result in significant growth of the payroll component of the federal government's budget: the wage bill would have accounted for 35 percent, 45 percent, and 45 percent of the national budget in 2007, 2008 and 2009, respectively. The federal government consequently opted to increase wages by 15 percent, beginning in January 2007, with further upward revisions being dependent on further implementation of the public service reforms. Various public sector benefits such as housing and cars were also monetized and consolidated with basic salaries. Only four non-regular allowances remain: job-specific allowance (e.g. for doctors on call), risk-related allowance (e.g. for employees in risk-prone areas), relocation allowances (e.g. for employees posted abroad), and scarce skills allowance (e.g. for information technology specialists). Finally, government payroll systems are being computerized with the

introduction of an Integrated Personnel and Payroll Information System (IPPIS) to assist in monitoring staffing numbers in the federal civil service.

As in most countries, civil service reform has been one of the most difficult areas, meeting with inherent entrenched resistance and self-preservation. It has often been an exercise with one step forward, two steps back, and much remains to be done. Nevertheless, the direction of reform has been set and trench warfare will need to continue for some years to come.

Banking Sector Reform

Prior to reforms, the Nigerian banking sector was weak and fragmented, often financing short-term arbitrage opportunities rather than productive private investments. The roots of the financial sector weakness may be traced to its poorly managed liberalization during the structural adjustment program of the 1980s.[9] The financial system was repressed before the structural adjustment program largely because of the imposition of interest rate ceilings that resulted in negative real interest rates. Initial attempts at financial liberalization, however, yielded poor results. Supervision remained weak and there was evidence that many banks had bad balance sheets. Many banks conducted only limited lending to the private sector while engaging predominantly in more lucrative short-term arbitrage foreign exchange "round-tripping" activities. Consolidation and improved supervision of the sector were needed to strengthen the financial sector.

Reform Measures

To strengthen the financial sector and improve availability of domestic credit to the private sector, a bank consolidation exercise was launched in mid-2004. The Central Bank of Nigeria requested all deposit banks to raise their minimum capital base from about US$15 million to US$192 million by the end of 2005. Banks failing to meet the new requirements were expected to merge or else have their licenses revoked. Implementation of the consolidation exercise triggered various mergers in the banking sector and reduced the number of deposit banks in Nigeria from 89 to 25. Moreover, in the process of meeting the new capital requirements, banks raised the equivalent of about $3 billion from domestic capital markets and attracted about $652 million of FDI into the Nigerian banking sector.

Reform of the insurance sector was similarly initiated to strengthen the industry. The expectation is that the 103 insurance businesses will consolidate to about 30 with a capitalization of about $1.6 billion by February 2007. The Ministry of Finance together with the industry regulator, the National Insurance Commission (NAICOM), has revised upwards the required minimum paid-up capital for the various categories of insurance businesses. As an example, life insurance businesses are required to increase capital to about $15 million from only $1.2 million while general insurance businesses must raise their capital base to $23 million from $1.5 million.

Reform of the banking and insurance sectors is complemented by improved regulatory oversight of the central bank. The central bank's supervisory powers are being strengthened with a migration from a prudential supervision system to a risk-based approach within the framework of the Basel-II Accord. To strengthen the capacity of central bank officials, various training programs in risk assessment tools have been organized and supervisory software used by officials has been upgraded. The central bank is also reviewing a new Draft Code of Conduct and of Corporate Governance with stakeholders in the

financial sector and is also adopting a zero-tolerance approach on issues related to misreporting and lack of transparency in the banking sector. Various measures were similarly implemented to ensure a smooth liquidation of banks that failed to meet new capitalization requirements. As a precautionary measure, contingency plans have been drawn up to ensure the smooth handling of merger breakdowns, if they occur in the future.

Three important pieces of legislation have been developed to strengthen the banking sector and its supervision and have been submitted to the National Assembly. First, the CBN/BOFI Act Amendment Bill will improve autonomy of the central bank in its monetary policy decisions; second, the Nigeria Deposit Insurance Corporation (NDIC) Act establishes a comprehensive framework for addressing the case of private depositors who may be affected by the liquidation process; third, a new Microfinance Act seeks to support development of the microfinance industry in Nigeria.

Trade Policy Reform

For the two decades prior to economic reform, Nigeria's trade regime was viewed as complex, restrictive, and opaque (WTO, 2005). Following the structural adjustment program (SAP) in 1988, a seven-year tariff schedule was adopted which significantly reduced tariff averages. However, further tariff revisions were made, often in response to pressures from domestic lobbies. Since 1978, the government had also introduced policies on import prohibitions which banned selected products that were viewed as strategic for the economy or which needed infant industry protection. Ad hoc import prohibitions and tariff revisions reduced the transparency and predictability of the tariff regime as tariffs applied at ports could differ from published tariffs. Indeed, prior to the recent economic reform, Nigeria maintained a complex tariff structure comprised of about 19 bands and 5,146 lines (at the HS-8 digit level), with tariffs ranging between 2.5 and 150 percent.

Reform Measures

Nigeria liberalized its import tariff regime by adopting the Common External Tariff (CET) of the Economic Community of West African States (ECOWAS). This was in keeping with the government's commitment to simplify the tariff structure and improve the transparency and predictability of Nigeria's trade policies (NPC, 2004). Under the new ECOWAS tariff structure, Nigeria has adopted a four-band arrangement with duty rates of zero, 5, 10, and 20 percent for capital goods, raw materials, intermediate products, and finished goods, respectively. A temporary 50 percent band exists but is to be phased out by the end of 2007, while a few import prohibitions will be eliminated progressively. The use of the 50 percent tariff band is permitted under current ECOWAS trade rules and provides Nigeria with some flexibility in its future industrial policies. For example, the 50 percent tariff is currently levied on goods in selected sectors in which the country has a comparative advantage and aims to support domestic production, such as vegetable oils (HS sections 15.11, 15.12, 15.13) and starch (HS sections 11.08).

Overall, with the adoption of the ECOWAS CET, the simple (unweighted) average tariff rate declined from 29 to 18 percent, while the weighted average tariff rate fell from 25 to 17 percent. The CET has also simplified and improved the transparency of Nigeria's tariff structure. Work remains to be done, however, to rationalize and eventually phase out remaining import prohibitions.

Institutional And Governance Reforms

A bane of Nigeria's existence since the oil boom of the 1970s has been the reputation for corruption, largely justified, but also partly the result of perception. Corruption and poor governance affected growth and public service delivery in Nigeria in various ways. Corruption distorts the climate for doing business and serves as a tax on private investments. In a corrupt environment, resources for human capital and other needed investments, such as in infrastructure, health and education are often diverted. There are various ways in which this may occur, including procurement fraud, patronage for access to services, absenteeism and misuse of facilities. In particular, poor households are disproportionately hurt in communities where corruption is most prevalent.[10] A key tenet of the reform program, therefore, was to prioritize anti-corruption measures as a central component of the reforms.[11]

Analytical studies on the extent of corruption in Nigeria before the recent reforms were often very negative. A survey of Nigerian firms in 2002 revealed widespread bribery across various public institutions. About 70 percent of firms surveyed reported the need for bribes to obtain trade permits, about 83 percent paid bribes to obtain utility services, about 65 percent paid bribes when paying taxes, an estimated 90 percent paid bribes during procurement, and 70 percent of firms acknowledged the need for bribes to obtain favorable judicial decisions. In addition, there was widespread perception of the leakage of public funds (see Kaufmann et al, 2005). Moreover, 100 percent of Nigerian firms surveyed agreed that public funds were diverted to private groups in contrast to about 78 percent of firms in Russia, and about 45 percent of firms in South Africa.

Tackling corruption under the recent economic reforms required two main elements: first, embedding anti-corruption measures in a comprehensive reform program, and second, conducting diagnostic studies to identify specific areas in which corruption had a high negative impact on the public purse. By embedding anti-corruption programs in the reform agenda, the battle against corruption was perceived to be an integral part of a broader exercise of economic reform needed to stimulate growth and address poverty in Nigeria. Identifying areas of major corruption also enabled the administration to focus reform measures on high impact areas.

As an example, public procurement in Nigeria was reviewed to determine the costs of corruption in government contracts. Although procurement fraud tends to be one of the most common avenues of corruption in most countries, its incidence in Nigeria was particularly severe. A federal government survey noted that prior to 1999 the government lost an average of about N40 billion (US$300 million) each year from corrupt practices in public procurement. This occurred in various forms: inflation of contract costs, award of contracts for non-existent projects, over-invoicing, diversion of public funds to foreign banks, and low project quality because of the use of inexperienced contractors. Moreover, procurement costs in Nigeria were significantly higher compared with costs for similar projects in neighboring countries such as Ghana.[12]

In the next section we examine a number of reform measures which were adopted by the Obasanjo administration to tackle corruption and improve governance in public institutions. We examine briefly policy measures and progress made in four areas of governance reform, namely: public procurement, public expenditure management, the oil and gas sector, and the prosecution of corrupt practices.

Reform Measures

Public procurement. Following an extensive review of public procurement systems, the government introduced a Value for Money audit, or Due Process mechanism, in public contracts. The Due Process mechanism has promoted an open tenders process with competitive bidding for government contracts. Any projects exceeding N50 million (US$400,000) also require approval (i.e. a due process certification). To ensure competitive costing of contracts, a database of international prices was developed (from bona fide internet sources) to serve as a guide during the bidding process. The government also publishes a public tenders journal periodically as a means of reducing patronage in the award of contracts. Finally, certification of completed government projects is also required before final payments are made.

With the introduction of the Due Process mechanism, there has been a notable improvement in the efficiency of capital spending. The federal government has saved over N200 billion (about US$1.5 billion) since 2001 in the form of reductions from inflated contract prices. Further, initial prices quoted by various government contractors have also declined significantly. The Due Process reform, one of the most hated and resisted in the comprehensive reform package, has also been one of the most successful, bringing more sanity, transparency, and competition into a previously opaque area.

Public expenditure management. Poor public expenditure management in Nigeria greatly hampered the quality of government capital projects, resulting in poor service delivery to citizens. Oversight of public expenditures was further made difficult due to fiscal decentralization in Nigeria, which allocated about half of total government revenues to states and local governments, with the remainder being allocated to the federal government. While increased resource allocation to states and local governments may potentially encourage more direct interventions in pro-poor programs, capacity constraints and the lack of transparency at the sub-national level posed serious challenges.

To improve transparency at all levels of government, but particularly the sub-national level, a monthly publication of federal, state, and local government shares of revenue from the country's federation account was introduced in January 2004.[13] The publication provides details of revenue allocations to all 36 state governments and the Federal Capital Territory (FCT), as well as 774 local governments. The publication has increased transparency, particularly of sub-national finances, and opened up dialogue on public revenues and expenditures at all tiers of government.

The oil and gas sector and the N-EITI initiative. The lack of transparency in the Nigerian oil and gas sector, particularly under previous military administrations, also presented a major challenge for economic governance. In 2003, Nigeria was among the first countries to adopt the Extractive Industries Transparency Initiative (EITI) to help improve governance of the sector.[14] President Obasanjo personally enrolled the country in the initiative. One of the key acts of the EITI aimed at improving transparency was to commission an independent audit of the oil and gas sector from 1999 to 2004. This was an unprecedented exercise domestically, and Nigeria was the first country in the EITI initiative to commit to such an undertaking.

The audit presented a number of instructive findings. Overall, 99.8 percent of revenues in the sector were accounted for. About 0.02 percent of aggregate revenue was unaccounted for, although this re-

mains within the conventional margin of error for such audits. However, the audit showed a history of poor data keeping. In the financial audit, only minor disparities were observed between revenues that oil companies reported as paid and the actual amounts received by the central bank.[15] Coordination among government agencies was however found to be weak and government data-keeping was also poor such that reported revenues fluctuated: in some years reported income exceeded what the central bank received while in other years the reverse occurred. A physical audit also pointed to the systematic loss of crude oil between the wellhead and export metering terminals. Poor metering infrastructure also hampered proper data collection on gross volumes. Finally, the audit highlighted some concerns with the discretionary powers of the petroleum minister in oil block allocation arising from the Petroleum Act of 1969. The findings of the study were subsequently disseminated to the public while various remediation measures are currently being implemented by the government.[16]

Prosecuting corrupt practices. Finally, the government also introduced two institutions to tackle corruption in the domestic business environment. The Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and other Related Offenses Commission (ICPC) are pursuing cases of corrupt practices such as Internet fraud and corruption in public office. There have been a number of high profile convictions: many advance fee fraud ("419") kingpins have been detained, two judges have been sacked and two others suspended, several legislators (including a past Senate president) have lost their legislative posts and are being prosecuted, three ministers have been dismissed, a former Inspector General of Police – the top law enforcement official in the country – has been tried, convicted and jailed for corruption, and three former state governors have been impeached by their state assemblies for corruption.

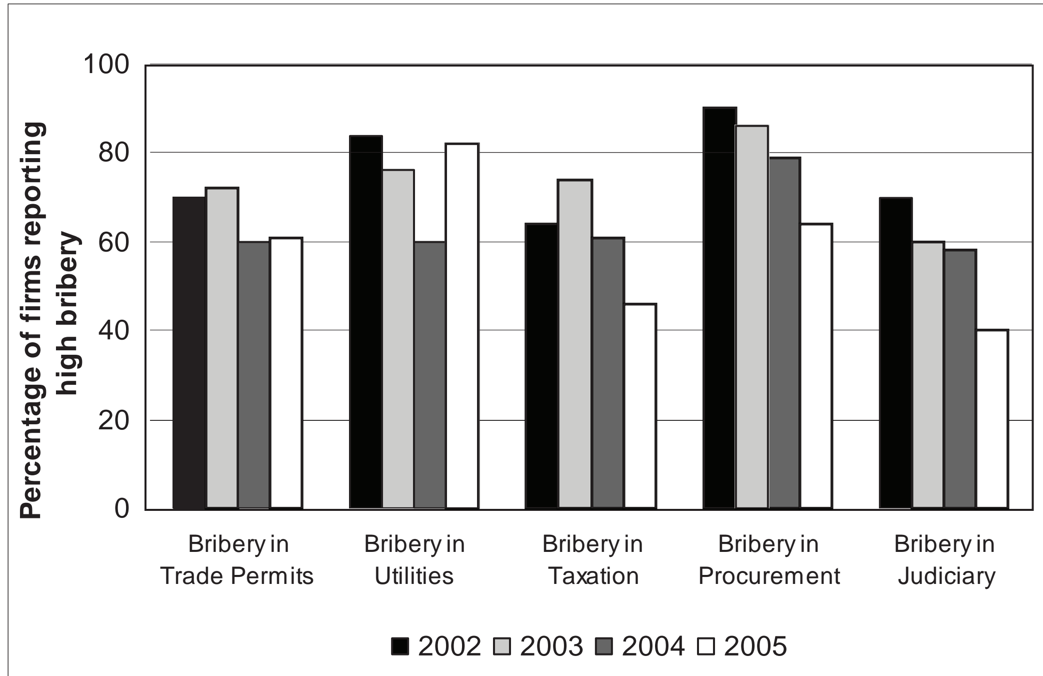
EFCC investigations have made good use of the monthly revenue share publications mentioned above, highlighting the importance of information and transparency in the fight against corruption. The EFCC and ICPC are gradually making efforts in removing the concept of the untouchable "big man" in Nigeria and in re-establishing the rule of law for all. Overall, about 350 EFCC cases are at an advanced stage of prosecution. About 5,000 people have been arrested over the past three years. There have been about 91 convictions for various corruption crimes and assets worth over $5 billion have been seized, confiscated and refunded to the state and various victims of crime.[17]

Overall, despite existing challenges, recent governance reforms appear to have yielded some concrete results. Recent survey data from Kaufman et al (2005), indicate that there has been a reduction in the perception of corruption by Nigerian firms in obtaining trade permits, in paying taxes, in procurement, in the judiciary, in the leakage of public funds, and in money laundering (see figures 3-5 below).

Current Challenges

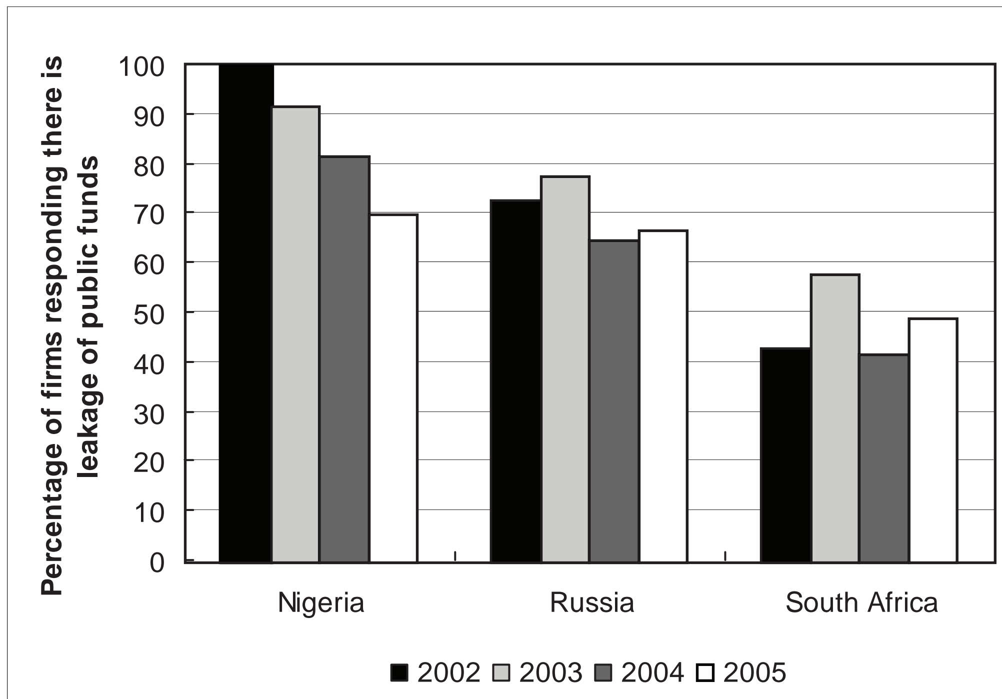
Despite recent successes, Nigeria faces many challenges in sustaining economic growth and improving its broad development indicators. An historic opportunity exists for Nigerian policymakers to consolidate recent gains from reform and to address outstanding areas of reform in the future. We outline below seven key issues that Nigerian policy makers must address in a future administration.

Figure 3: Nigeria: Bribery in Selected Sectors



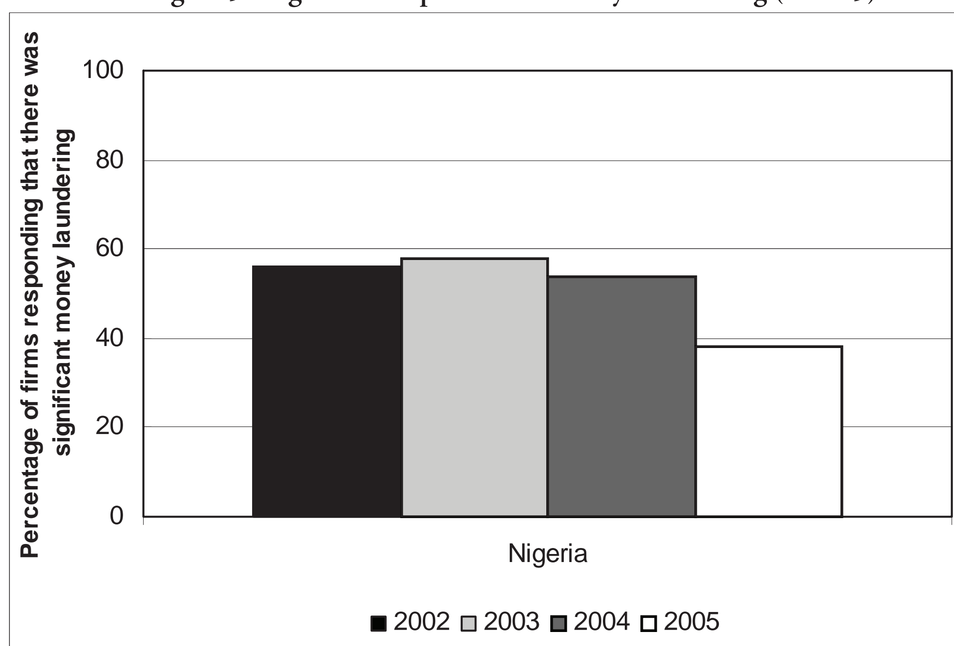
Source: Kaufmann et al (2005)

Figure 4: Nigeria: Leakage of Public Funds



Source: Kaufmann et al (2005)

Figure 5: Nigeria: Perceptions on Money Laundering (2002-5)



Source: Kaufmann et al (2005)

1. Extend reforms to the sub-national levels

Thus far, the economic reform program discussed in this paper has been implemented at the federal level. State governments adopted various States Economic Empowerment and Development Strategies (SEEDS) together with the NEEDS program implemented by the federal government. However, only a handful of states have adopted far-reaching economic reforms. Fiscal decentralization in Nigeria implies that state and local governments are responsible for nearly half of consolidated government expenditures. They also possess significant independence in their expenditure decisions, which are supposed to be targeted at the delivery of social services (such as in health and education). However, corruption, low capacity, and weak institutions at the sub-national level, hinder their ability to design and implement appropriate public policies. It is particularly important for state governments to improve budget transparency, to strengthen public expenditure management, to adopt the Due Process mechanism, and to focus on sectoral growth strategies. By extending reforms to the state level, the impact of the recent reform program could be doubled.

2. Focus on non-oil growth and employment generation

The recent economic reform program has stressed the importance of macroeconomic stabilization and structural reforms, and much of this has been largely achieved. A second phase of reform must move from the macro to the micro, and implement various sectoral growth strategies. As Nigeria's oil sector exists as an enclave, emphasis must be placed on non-oil growth, which is needed for employment generation and poverty reduction. Although non-oil growth has been strong in recent years, the benefits of reform to ordinary Nigerians would remain limited unless growth is sustained, and also derived from sectors with high poverty-reducing impacts such as agriculture. Some sectoral reform programs have begun in areas such as agriculture and solid minerals, and are already yielding modest results. However, more extensive sectoral strategies that address bottlenecks, such as access to financing, availability of in-

Resistance to Reforms

The reforms summarized in this paper constitute some of the most difficult public sector reforms attempted in Nigeria in recent decades. They were made possible by the initial strong support and political commitment of President Obasanjo and the hard work of an exceptional band of 12 women and men (later 17) known as the Presidential Economic Team, along with other cabinet colleagues and advisers who supported them. The reforms met with enormous resistance, mainly from a selfish political elite. The resistance at various stages involved vested interests whose opportunities for rent-seeking were threatened by the implementation of the reforms. The biggest obstacles to reform occurred in instances in which greater transparency was to be introduced in government business. Various entrenched interests who had benefited from the status quo often resisted any attempts to have a searchlight beamed on their activities.

For example, the monthly publication of government revenues at state and local government levels was disliked by a small political elite holding power, but greatly welcomed by the Nigerian public. This small booklet of figures containing national financial allocations data for the past seven years of the Obasanjo administration was viewed as one of the "most boring bestsellers" in the country. Citizens were now able to quote figures to their policymakers and public officials and demand to know why there was no chalk in classrooms, why teachers had not been paid, or why potholes on local roads had not been patched.

Similarly, the introduction of the Due Process reforms in public procurement also provided an interesting case in point. Before the reform program, there was widespread corruption in public procurement contracts in Nigeria. Corrupt practices occurred in various forms, such as inflation of contract costs up to four times the unit cost in neighboring countries, award of contracts for non-existent projects, and over-invoicing. Many government projects were not announced publicly and the contract award process often was opaque. The results were highly inflated contracts that provided enormous kickbacks to senior public officials and their cronies. It also implied that genuine, competitive contractors were often denied access to government contracts.

The introduction of the Due Process mechanism changed the contracting landscape significantly. A public tenders bill was published periodically listing forthcoming government contracts, competitive bidding was required for large government contracts, contract costs were checked against a database of international prices, and payments for completed jobs were disbursed only after Due Process certificates were produced.

For government agencies that had conducted independent contracting, Due Process emerged as a somewhat unwelcome culture shock. Contrary to previous practices, suddenly there was external scrutiny of their activities. Many large public contractors were also similarly in disbelief, as they were now required to bid for government projects competitively, and at competitive international prices.

The Due Process mechanism has created winners and losers. Senior officials at government agencies who benefited from corrupt public procurement procedures were denied access to economic rents. Similarly, large contractors who colluded with public officials to inflate contract prices also lost their source of rents. The winners have been the bulk of ordinary Nigerian contractors, often without any political "connections" or "contacts," who are now able to bid for, and win, government contracts transparently; as well as the Nigerian government and citizens who now pay lower and more competitive prices for various public investment projects. One positive note: many thankful letters were received by the Due Process unit and its founder, Oby Ezekwesili, from contractors who, under previous regimes, never had an opportunity to win government contracts but who now have competed and won.

Resistance to reforms occurred in many forms. Some were genuine, to be expected, and respected, such as protests by the Nigeria Labor Congress (NLC) following the withdrawal of petroleum subsidies. Other resistance occurred in the form of physical threats to economic team members and others involved in the reforms. There were constant media attacks (although the media also played an important role in publicizing and backing some of the reforms) and occasional reversals of implemented actions based on false stories to the highest authorities.

Nevertheless, the Nigerian public has taken ownership of several of these reforms, particularly those linked to more transparency in government business. The anti-reformers have not been able to shut down or change the direction of some of the most important reforms. In addition, legislation such as the Fiscal Responsibility Bill, when passed, will help entrench transparency and help ensure sustainability of reforms.

puts and technology, and skills are urgently required. A number of non-oil sectors (including agriculture, solid minerals mining, construction, tourism, and cultural and entertainment services) could experience high growth if such bottlenecks were addressed. In addition, a future administration should also consider improving access to financing, particularly for young entrepreneurs, by introducing various innovative schemes such as venture capital and microfinance funds. The current high level of youth unemployment and under-employment in Nigeria is partly because access to financing is particularly difficult for small businesses and start-ups. By introducing targeted innovative financing schemes, this constraint could be partly addressed.

3. Improve the domestic business climate

Uncoordinated and bureaucratic regulatory procedures often hinder private sector activities in Nigeria. The annual IFC/World Bank Doing Business survey identifies regulatory issues that affect the investment climate in various countries. The report examines various regulatory issues such as the time taken to start and close a business, the effectiveness of property registration, and the ease of obtaining licenses. Nigeria's performance in the survey's rankings increased marginally from 109 out of 175 countries in 2005 to 108 out of 175 countries in 2006 and this may partly reflect limitations in obtaining more recent data. However, the business climate studies provide useful lessons and insight for policy-makers in reforming countries. Recent efforts to establish a one stop-shop investment center and harmonize tax policies at the federal and state levels reflect the government's commitment to improving the business environment. However, additional challenges remain, such as computerizing land registration titles in various states, accelerating customs reforms, and increasing the efficiency of the judicial system. Improving the domestic climate for doing business must remain a priority for Nigerian policymakers in the future.

4. Expand and maintain investments in infrastructure

Decades of underinvestment resulted in the deterioration of public infrastructure in Nigeria (see table 2). The existing poor domestic infrastructure imposes large transaction costs on businesses and reduces the competitiveness of the Nigerian private sector. Major infrastructural bottlenecks exist in areas such as power, road and rail transportation, and ports. To address the infrastructure bottleneck in Nigeria, any future administration must focus on three main issues.

First, it is important to increase the quantity and quality of the government's infrastructure spending. Although there have been recent investments in infrastructure, notably in power, roads, and railways, Nigeria's current dearth of infrastructure implies that additional investments are needed in the medium term. Our preliminary estimates are that a minimum of US$5 billion a year for the next 10 years is needed to maintain and expand all types of infrastructure. In particular, progress must be maintained in implementing the federal government's *Power Master Plan* and, in the short-term, achieving the target of generating 10,000 megawatts of power in the country by the end of 2007.

Second, the federal government must work more closely with state governments to jointly finance infrastructure programs. This may be particularly important in developing large-scale projects (for example, an irrigation dam), which may benefit a group of states, but may be too costly to be financed by a single state.

Third, private investments in infrastructure must be encouraged to complement the government's efforts. The Obasanjo administration has been active in this regard. A future administration must continue to promote public-private partnerships (PPP) in infrastructure projects such as power plants, toll roads, and bridges. The Infrastructure Concession Regulatory Act that was passed in November 2005 provides an appropriate legal framework for such partnerships. PPPs may be structured in diverse ways such as: the BOT (Build-Operate-and-Transfer), BOOT (Build-Own-Operate-and-Transfer), and the ROT (Rehabilitate-Operate-and-Transfer).

5. Strengthen domestic institutions

Ultimately, Nigeria's central challenge is one of building strong domestic institutions to support long-term growth and development. Following the work of Douglas North, economists have recognized the importance of strong institutions in supporting economic development. More recently, Rodrik, Acemoglu, and others have stressed the importance of institutions in explaining cross-country growth differences among developing countries (Rodrik, 2003; Acemoglu et al, 2001).[18] Satyanath and Subramanian (2004) similarly note the importance of democratic institutions in supporting disciplined monetary policy and ensuring macroeconomic stability. When domestic institutions are strong and functional, day-to-day political configurations are less important for private sector investment decisions. It is essential that policymakers in Nigeria (now and in the future) focus on improving the effectiveness of domestic institutions. In particular, it is important that legislation to institutionalize recent reforms is passed and that these institutions and new regulations operate transparently in the future. This is critical to ensure the sustainability of recent reform measures. Various legislation that will institutionalize the recent reforms had been submitted to the National Assembly at the end of 2006. The draft legislation includes the fiscal responsibility bill (to lock in budget transparency and fiscal reforms), the public procurement bill, the NEITI bill, various tax reform bills, the CBN/BOFI act amendment bill, the ports bill, the anti-trust or competition bill, and the downstream gas bill.

6. Tackle unrest in the Niger Delta

Unrest in the Niger Delta remains an important challenge for policymakers now and in the future. After 60 years of oil exploitation in the Delta, widespread poverty remains in the region, causing discontent and the breakdown of social capital. In a sense, residents of the Delta have been let down by their governments and oil companies alike. It is, however, important to separate the genuine concerns of Niger Delta residents from those of criminal gangs exploiting the prevailing situation. For example, vandalization of oil pipelines by militants is a counterproductive exercise. By disrupting total exports of crude, there is less revenue earned for the nation and, consequently, less financial allocations to their states – the very situation which some militants claim they want to reverse. Kidnappings are also counterproductive, frightening away investments not only from the oil sector but also from other potential sectors of the Nigerian economy.

The federal government is already supporting the Niger Delta with targeted investments by the Niger Delta Development Commission (NDDC), building a new university and supporting local schools, and constructing the East-West highway linking various Niger delta states.[19] Youth employment opportunities are also being improved, with indigenes from the region being given preferential treatment for jobs in the military and police service.

We suggest that a broader long-term economic development program is needed for the region, building on current efforts of the federal government. Such a program must have two components. First, it must have a bottom-up strategy, and provide resources directly to local communities to enable them to *own, prioritize, and choose* their social sector programs. Second, the program must stress skills training, employment generation and equity participation of local residents in the oil and gas sector. This is essential for long-term economic development and diversification in the Niger Delta region. An upward review of oil derivation revenues allocated to oil-producing states may also be considered. However, additional revenues must be provided directly to affected communities as discussed above, to support bottom-up development programs.

7. Increase the quality of social sector spending

Finally, as noted at the beginning of this paper, Nigeria's social sector indicators have been particularly weak, following years of military rule (see table 1). As part of recent economic reforms, there has been targeted spending on various pro-poor programs with additional financing obtained from Nigeria's debt relief savings. A future administration must aim not only to maintain such pro-poor spending in the budget, but also to improve the implementation and monitoring of such projects. In particular, state governments should be encouraged to cofinance federal MDG-related projects to improve the delivery of social services. The federal government could also introduce matching grants for the best-performing states.

Conclusions

Viewed against the backdrop of its economic performance since the 1980s, Nigeria has clearly turned a corner. Owing to the recent progress made, Nigeria's reform program has formed the basis of a new non-borrowing instrument at the International Monetary Fund, the Policy Support Instrument (IMF 2005b). Countries participating in a PSI program set ambitious targets – meeting upper credit tranche conditionality of the Fund – and receive policy support and surveillance from the IMF. Elections scheduled for 2007 will mark an important watershed for Nigeria. Any future government will have a significant opportunity to choose between economic stagnation and further reforms that will accelerate growth. By extending reforms to the state and local government levels, focusing on non-oil growth, improving the domestic business climate, increasing and maintaining infrastructure investments, strengthening domestic institutions, tackling unrest in the Niger Delta, and increasing the quality of social sector spending, a progressive future administration could place Nigeria on a path of sustained economic growth by 2020.

Notes

[1] The NEEDS document is published as National Planning Commission (2004).

[2] These funds were subsequently used to finance Nigeria's Paris Club debt buyback and also to fund a number of infrastructure projects, notably in the power sector.

[3] The slight increase in inflation during 2005 was attributed to increases in food prices caused by a rise in food exports (particularly cassava and grains) to neighboring countries, Chad and Niger, during their drought episode in 2005.

[4] CBN (2006), 'First Quarter Economic Report', Abuja: Central Bank of Nigeria.

[5] Amounting to about $2.1 billion and comprised of par bonds, promissory notes and oil warrants.

[6] Comprised largely of arrears to pensioners and local contractors.

[7] Source: Federal Government of Nigeria (Bureau of Public Enterprises, BPE).

[8] Led by Chief Shonekan, President of Nigeria (26 August - 17 November 1993).

[9] See Lewis et al, 1997; Okogu, 1992; 1999; and Ikhide et al, 2002 for a broader survey of Nigeria's financial liberalization under the Structural Adjustment Program (SAP).

[10] Poor households are often likely to be excluded from public services which require grease payments as their burden of corruption (i.e. the cost of a bribe as a share of income) is larger; in addition where public service delivery is weak due to corruption, the poor are severely disadvantaged as they often lack resources to purchase private services (e.g. in private clinics or private schools).

[11] Indeed, although comprehensive economic reforms begun in 2003, anti-corruption reforms had already been initiated 1999, at the inception of the first Obasanjo administration. One of the first acts of President Obasanjo following his appointment into office in 1999 was to put forward legislation to underpin the Independent Corrupt Practices and other Related Offences Commission (ICPC) as a strong anticorruption agency.

[12] Source: Federal Government of Nigeria (Budget Monitoring and Price Intelligence Unit).

[13] Published in major national newspapers.

[14] The EITI scheme is a "publish what you pay" scheme initiated by Tony Blair and George Soros, and aims at improving transparency in the oil and gas sector of the country. The Nigerian EITI (N-EITI) is supervised by a national stakeholder working group comprised of representatives from government, the national assembly, the organized private sector, and civil society.

[15] About 0.02 percent of aggregate revenue was unaccounted for – which was within the conventional margin of error of 5 percent for auditors.

[16] Also available online at www.neiti.org.

[17] Source: Government of Nigeria (Economic and Financial Crimes Commission).

[18] For example, Acemoglu discusses the case of Botswana, where strong economic performance was closely linked with the development of institutions to secure property rights, to ensure law and order, and also to improve governance of diamond resources (Acemoglu et al., 2003).

[19] The construction costs for the East-West highway at about $2 billion is estimated to be the highest in the country's history.

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