



**Initiative for Policy Dialogue
Nigeria Country Dialogue
January 17th – 22nd, 2002**

IPD, in coordination with its two partners, the African Institute for Applied Economics (AIAE) and the United Nations Development Program (UNDP) held a series of policy discussions in Nigeria, with support from UNDP and the Macarthur Foundation. Forums were held in three cities (Enugu, Abuja, and Lagos) over a five-day period.

The goals of the IPD Dialogue were to discuss policy alternatives and promote the intellectual exchange between Nigerian policymakers, economists, businessmen and their international counterparts. The Dialogue focused on critical economic policy issues, drawing on comparable international experiences.

The results were threefold: immediate policy implications; a broadened debate; and a plan to institutionalize the dialogue format through locally organized forums.

There were several explicit effects on policy: the allocation to agricultural research in the budget was increased from \$3.2 million to \$8.9 million following the dialogue; the Central Bank lowered interest rates to encourage the development of a competitive private sector, which the press attributed directly to the IPD Dialogue; the Aviation Minister quoted the country dialogue as the basis for a slow but efficient privatization of Nigeria Airways; and in the area of transparency, two Presidential candidates, Olisa Agbakoba and Christ Okotie, announced that they are favorably disposed to making Freedom of Information Act (FOIA) part of their campaign platform.

Second, the dialogues broadened the debate to include new ideas and promote an intellectual exchange: there was significant amount of press coverage and discussion generated throughout the policymaking and economic community. Third, there are plans in Nigeria to continue the dialogue format on an ongoing basis. The Senate President, Pius Anyim suggested institutionalizing country dialogues through the creation of the Nnamdi Azikiwe Center. Since IPD's visit, efforts at fundraising for this center have begun.

IPD is planning a second set of forums in Nigeria for fall 2003 or early 2004, and the Presidency has been discussing holding monthly seminars in Enugu, Abuja and Lagos to

continue the dialogue process, in conjunction with our local partner AIAE. Ultimately, these discussions should create a proposal of policy alternatives appropriate for Nigeria as a reference for the next government. IPD has discussed providing contributors, consultants, and editors for this proposal.

Background

At the time of the visit, Nigeria faced slow economic growth, coupled with continued ethnic and religious tensions. Despite rich natural resources, poverty remains widespread and Nigeria is ranked among the 20 poorest countries in the world.¹ The World Bank estimates that about 66% of the population falls below the poverty line according to the national definition.² Nigeria accounts for nearly a quarter of Sub-Saharan Africa's poor.³

With a rising fiscal budget, high inflation, and falling oil prices, the situation appears to be worsening. The majority of Nigerians do not receive benefits from any of the wealth generated by natural resources. Discontentment is rising, as demonstrated by the January 2002 strikes protesting the rise in fuel prices. There is widespread demand from policymakers, businessmen, and civil society for change. A debate remains, however, as to the types of reform necessary to achieve results.

The forums focused on four main areas: Decentralization and Resource Management, Rural Development, Macroeconomic Management, and Institutional Reform.

The IPD Forums

IPD held three large forums for discussion. The first event was held in Enugu in southwestern Nigeria in conjunction with the Okigbo memorial lecture. The event was chaired by Governor David Duke of Cross Rivers State, and opened by Executive Governor Chimaroke Nnamani of Enugu State. Chief Olusegun Obasanjo, President of the Federal Republic of Nigeria, gave the keynote address. Nobel Laureate Joseph Stiglitz, Executive Director of IPD, presented the guest lecture on "Fiscal Decentralization, Resource Management and Growth"

The lecture was followed by panel presentations and an open discussion, focusing on issues of decentralization and resource management. The event brought together over 400 participants, including policymakers, private sector representatives, academics, development specialists, and members of civil society.

The second dialogue held in Abuja, the capital of Nigeria, was organized by IPD and our partner institution the African Institute for Applied Economics (AIAE). This forum

¹ According to Nigeria's basic social indicators. The World Bank. www.worldbank.org/afr/ng2.htm.

² "Nigeria – poverty in the midst of plenty: the challenge of growth and inclusion" The World Bank. www.poverty.worldbank.org/library/view/0807

³ "Income Poverty: recent regional trends" The World Bank. www.worldbank.org/poverty/data/trends/regional.htm

focused on issues of transition to a market economy, with emphasis on rural development and interest rate and macroeconomic management. It was composed primarily of senior government officials, but also included members of the private sector and the international community.

The final event was held in Lagos in conjunction with AIAE and UNDP. This forum focused on institutional reform, infrastructure, human capital development, and capital formation. This event was geared toward the private sector, civil society, and the international community, but also included government officials.

The events were well attended by high-level government officials and political leaders. Participants included: His Excellency Chief Olusegun Obasanjo President of the Federal Republic of Nigeria; the Vice President; the Senate President; the Speaker of the House of Representatives; the Chief Economic Advisor to the President; the Minister of State for Finance; the Minister of Commerce; the Minister of Industry; the Ministry of Agriculture; the Minister of Cooperation and Integration; the Minister of Works and Housing; the Minister of Transport; the Minister of Aviation; the Central Bank Governor and Deputy Governor; and several principal State Governors. Other senior members of the government, private sector, civil society, and the international community also participated.

The Abuja and Lagos Forums

The dialogue held in the Nigerian capital Abuja was organized by IPD and our partner institution the African Institute for Applied Economics (AIAE). It was composed primarily of senior government officials, but also included members of the private sector and the international community. The forum in Lagos was held in conjunction with AIAE and UNDP. This event was geared toward the private sector, civil society, and the international community, but also included government officials.

These two Dialogues formed the basis of the discussion of agricultural policy, macroeconomic and interest rate management, and privatization. The discussions looked at issues of transition to a market economy and emphasized the necessity for institutional reform, infrastructure, human capital development, and capital formation to promote private sector development.

1) The Agricultural Budget

Rural development was one of the main themes of the Abuja Dialogue. While most of the population still lives in the rural areas, Nigeria is experiencing rapid urbanization despite widespread unemployment in the urban areas⁴. One way to combat poverty and discourage urbanization is to create economic opportunities in the rural areas by developing rural industries.

⁴ The World Bank projects that 60% of Nigeria's population will live in urban areas by 2010: "Restoring Infrastructure and Services in Nigeria." The World Bank, www.worldbank.org/afr/findings/english/find62.htm

The IPD team stressed the importance of increasing support for the agricultural sector. Interestingly, after the dialogue, the allocation to agricultural research in the budget was increased from \$3.2 million to \$8.9 million.

2) Macroeconomic and Interest Rate Management

One of the most important challenges facing Nigeria is how to develop a competitive private sector. How to use macroeconomic management to achieve this was discussed throughout the dialogues, and was a main theme in the Abuja and Lagos forums.

The IPD team stressed the importance of not confusing ends with means. For example, a stable exchange rate and low inflation should be viewed as tools to achieve long-term goals of sustainable growth and an increase in living standards, not end targets in themselves. Excessively high interest rates can hinder new investment, which in the long run is crucial for growth. There are trade-offs inherent in most economic policy choices, and macroeconomic policy should look to a set of policies that lead to long-term sustainable growth.

Joseph Stiglitz emphasized that no nation can create a competitive private sector when interest rates are excessively high. Notably, two weeks after the dialogue the Central Bank lowered interest rates and the “Daily Trust” newspaper reported this was a direct result of IPD’s involvement.⁵

3) Privatization Policy

The Abuja discussion on privatization also influenced the Nigerian policy debate. Privatization, like macroeconomic targets, should not be an end goal in itself but rather a means to achieve a more efficient allocation of resources. Other countries’ experiences have shown that unless a privatization policy is well constructed it can have the opposite effect, leading to corruption and asset stripping. On the other hand, a well-constructed privatization program can reduce inefficiencies and monopolies, and have a significant positive impact on economic development.

The Aviation Minister, Kema Chikwe, quoted the country dialogue on national television as the basis for the privatization of Nigeria Airways.⁶ She referred to the country dialogue and “renowned American Professor, Joseph Stiglitz” as support for a policy of well-constructed, slow, and efficient privatization.

4) Developing the Small and Medium Sized Enterprise (SME) Private Sector

Building a small and medium sized enterprise (SME) private sector and diversifying the economy is crucial for sustainable economic development. Macroeconomic policy can be used to encourage more investment, but improved institutional structures are necessary for real investment in this sector.

Other countries’ experiences provide ample examples of effective and ineffective SME development policies. For example, an important factor for new enterprise development

⁵ “Central Bank Bows to Pressure over Interest Rates.” Daily Trust. February 5, 2002.

⁶ Nigeria National Television Authority. May 19, 2002.

is the rule of law. SMEs in Poland and Hungary are more successful than those in Russia, primarily because of the weak rule of law in Russia. Property rights must be protected from arbitrariness of bureaucrats, and a functional court system is an important piece of this.

Other reforms discussed included customs clearance, increased stability and enforcement of laws, improved infrastructure to facilitate the movement of goods, trained human capital, and increasing the availability of capital.

Access to credit is also essential for enterprise development. One idea is for Nigeria to use a policy similar to the Community Reinvestment Act (CRA) in the US. This Act requires financial institutions in the US to lend to disadvantaged sectors of the economy. Both foreign and domestic banks can be required to reorient their lending to SMEs.

Nigeria should try to mobilize resources of nationals living abroad. In Poland, for example, the diaspora has helped fund development. The countries that have been most successful in development have not necessarily been those with the most enormous resources. Some of the countries that have been most successful have been those with few resources other than human resources. In the case of Nigeria, many of the most-educated professionals have left the country. One American university has over 25 Nigerian professors. The challenge is to create a Nigeria that will attract these human resources back to Nigeria. The challenge is to create manufacturing, agricultural, and private sector-led growth; one in which the government will play an important role in areas like education and technology.

The Enugu Forum: Focus on Decentralization, resource management, transparency and growth

The event in Enugu in southwestern Nigeria was held in conjunction with the Okigbo Memorial lecture.

The event was chaired by Governor David Duke of Cross Rivers State, and opened by Executive Governor Chimaroke Nnamani of Enugu State. Chief Olusegun Obasanjo, President of the Federal Republic of Nigeria, gave the keynote address. Nobel Laureate Joseph Stiglitz, Executive Director of IPD, presented the guest lecture on "Fiscal Decentralization, Resource Management and Growth."

The lecture was followed by panel presentations and on open discussion, focusing on issues of decentralization and resource management. The event brought together over 400 participants, including policymakers, private sector representatives, academics, development specialists, and members of civil society.

Decentralization and Transparency

The topic of decentralization and resource management is central to Nigeria's growth and development process. Nigeria's resources are centrally controlled. The oil sector, which provides 85% of the foreign exchange, is controlled by the government and generates

70% of its revenues.⁷ The government is the dominant player in the economy, with government spending comprising 50% of GDP.⁸ Problems of military intervention in politics and corruption have frustrated the equitable distribution of national resources in the past.

Professor Stiglitz opened the forum by discussing the delicate balance between decision-making at the central, state, and local levels. He stressed two principals with regard to the broad issue of the appropriate balance between centralized and decentralized authority: the importance of competition and the importance of information, incentives, and accountability.

Decentralization is an integral part of an efficient market economy, as most economic decisions are made on a microeconomic decentralized level by firms and households. Centralization works against these market forces. There is the danger of excessive centralization not only undermining the efficient allocation of resources, but also suppressing minority interests of various segments of society. In many ways local government has better information about how best to reallocate resources. It has better information about preferences. It has better information about how well money is spent. It can lead to improved governance.

Decentralization is also linked to better governance because it can enhance systems of accountability and responsibility. In designing policy it is important to develop an appropriate framework for providing information that leads to greater accountability. For example, without a good accounting framework policymakers won't have the necessary information to judge whether money is being spent well or not. Information is absolutely central.

One way of increasing government accountability at all levels is by increasing transparency. The IPD team discussed the United States' Freedom of Information Act, which gives citizens potential access to information. Following the IPD dialogue two Presidential candidates, Olisa Agbakoba and Christ Okotie, announced that they are favorably disposed to making Freedom of Information Act (FOIA) part of their campaign platform. Although Mr. Agbakoba did not attend the IPD country dialogue in Nigeria, he stated that Ayo Obe, a member of IPD's Transparency task force, greatly influenced his position. Furthermore, after the dialogue the National University Commission began to regularly publish its monthly allocations in local newspapers.

For competition to be fully effective there also has to be mobility and the ability for people to move from one community to another. In some sense, this is one of the bases for the concept of nationhood. On the other hand, excessive decentralization can undermine a sense of national unity, and can lead to fragmentation of the state. Problems of this nature have manifested themselves in countries around the world, as seen in Russia in the 1990s.

⁷ World Bank. www.worldbank.org/afr/ng2.htm

⁸ Soludo, Charles. "Nigeria: Country Economic Report." African Institute for Applied Economics. December 2001.

Experiences in China and Russia provide divergent examples of the balance between the state and local level. China experimented with decentralization and delegated a significant amount of responsibility to the local level, while maintaining macroeconomic responsibility at the central government level. It was able to use decentralization effectively as a tool to limit corruption and contribute to successful economic growth. Russia has been unable to resolve problems of fiscal federalism in an efficient way.

Policy Implications

Professor Stiglitz presented five specific recommendations based on a general perspective of a balance between centralization and decentralization; one that recognizes the importance of competition, incentives, accountability and delegation of responsibilities, equity, and the distinction between local and national public growth.

The first has to do with the macroeconomic framework. One of the problems of maintaining macroeconomic stability can come from the lack of fiscal controls. There is a need to place constraints on the level of state borrowing. The case of Argentina demonstrates the risks associated with excessive borrowing, on both the government and provincial levels.

Second, stabilization funds can be used to smooth development activity associated with oil price volatility. Such funds can manage exchange rate risk by keeping the local currency from becoming overvalued during times of high oil prices. An overvalued exchange rate can hamper exports of non-commodity goods and the development of new industries. Commodity exports bring foreign exchange into the country, but don't directly create jobs. One has to manage this balance of natural resources and employment creation very carefully, to encourage the development of domestic industries outside of the oil sector, and help diversify the economy.

Third, solutions need to be specific to each country's environment. For example, Nigeria has a tremendous deficit in investment that is the result of 20 years of weak investment in a whole variety of areas. The general principle of decentralization is useful in analyzing how money is spent over time, and how to improve the allocation of investment. This is critical to moving the country forward at this juncture.

Fourth, one needs to have the right framework to provide information. There has to be information on patterns of expenditures. For example, appropriate accounting frameworks need to be designed that recognize the distinction between capital and current expenditures. There also needs to be some form of state tax revenue. And, there needs to be expenditure responsibilities assigned to reflect the nature of different categories of expenditures. It is the responsibility of the central government to develop a framework to ensure that money is well spent.

The fifth point is in the area of duplication of responsibilities. The fear of duplication is often misguided, especially in insuring that money is well spent. In a market economy

duplication is not necessarily wrong; if many people are trying to do something important it can bring vibrancy to society. The same theory can be applied to the public sector. There is a higher level of creativity with duplication, and the possibility of corruption is reduced in projects with dual responsibility.

Determining the level at which the local government can play that role is crucial for effective development. There is considerable room to bring government closer to the people, but no one set formula exists. Those who have tried to apply a set formula for development have almost always failed.

As Nigeria discusses the issue of decentralization, it should look for ways to achieve the balance between the center and the locality while maintaining natural unity and respecting local diversity. This should result in better resource management necessary for economic growth. This, in turn, should not be an end in itself but a means to an end: an end that should reflect the larger aspirations of the Nigerian people.

Future Steps

The IPD Country Dialogue led to specific policy implications and broadened the policy debate in Nigeria to include new ideas and promote an intellectual exchange.

The forums generated significant discussion in the areas of institutional reforms to stimulate investment and on the question of decentralization and resource management.

The country dialogue was widely covered by the Nigerian media. Coverage included editorials in the “Guardian,” considered to be the leading daily, and “This Day” as well as op-ed pieces in several national newspapers. There was a significant amount of discussion generated throughout the policy community by the IPD Dialogue.

There are now plans to institutionalize the dialogue format and continue the forums on an ongoing basis. The IPD Country Dialogue highlighted the need for additional research and the benefit of a continuation of similar policy forums. The Senate President, Pius Anyim suggested institutionalizing country dialogues through the creation of the Nnamdi Azikiwe Center. Since IPD’s visit, efforts at fundraising for this center have begun.

The Presidency has been discussing holding monthly seminars in Enugu, Abuja and Lagos to continue the dialogue process, in conjunction with our local partner AIAE. Ultimately, these discussions should create a proposal of policy alternatives appropriate for Nigeria as a reference for the next government. IPD has discussed providing contributors, consultants, and editors as part of this proposal.

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