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USAID / Nigeria Economic Growth Activities Assessment

TRANSITION PERIOD SUMMARY REPORT

David T. King, Ph.D.

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IBM Business Consulting Services
1616 North Fort Myer Drive
Arlington, VA 22209

Contents

Tables

Acronyms and Abbreviations

Item	Meaning
AGOA	Africa Growth Opportunities Act
AIAE	African Institute for Applied Economics
BPE	Bureau for Public Enterprises (Nigeria)
CBN	Central Bank of Nigeria
CDIE	Center for Development Information and Evaluation (USAID)
CEAP	Chief Economic Advisor to the President (Nigeria)
CLDP	Commercial Law Development Program (US Dept of Commerce)
CSO	Civil Society Organization
DFI	Development Finance Institution
DFID	Department for International Development (U.K.)
DMO	Debt Management Office (Nigeria)
DOC	U.S. Department of Commerce
ECOWAS	Economic Community of West African States
EG	Economic Growth (USAID activities)
EOI	Expression of Interest
EPCC	Economic Policy Coordinating Committee (Nigeria)
FBO	Federal Budget Office
FEC	Federal Executive Council (Nigeria)
FGON	Federal Government of Nigeria
FIAS	Foreign Investment Advisory Service (IFC)
FMC	Federal Ministry of Commerce (Nigeria)
FMI	Federal Ministry of Industry
FOS	Federal Office of Statistics (FGON)
GDP	Gross Domestic Product
GFS	Government Financial Statistics (IMF standards)
IAWG	Interagency Working Group on Nigeria (USA)
ICPC	Independent Corrupt Practices Commission (Nigeria)
ICT	Information and Communications Technology
IDA	International Development Association (World Bank funding)
IDR	Institute for Development Research (Nigeria)
IEC	Information-Education-Communications
IFC	International Finance Corporation (World Bank)
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IR	Intermediate Result (USAID)
IRM	Investor Road Map
ISI	Import Substitution Industrialization
MAN	Manufacturers Association of Nigeria

Item	Meaning
MFI	Microfinance Institution
MOF	Ministry of Finance (Nigeria)
NACCIMA	Nigerian Association of Chambers of Commerce, Industry, Mines & Agriculture
NAPEP	National Poverty Elimination Program (Nigeria)
NCP	National Council on Privatization (Nigeria)
NCS	Nigeria Customs Service
NDDC	Niger Delta Development Commission
NECA	Nigerian Employment Consultative Association
NEPA	National Electric Power Authority (Nigeria)
NEPC	National Export Promotion Council (Nigeria)
NESG	National Economic Summit Group (Nigeria)
NEXIM	Nigerian Export-Import Bank
NITEL	Nigeria Telecommunications Ltd.
NISER	Nigerian Institute for Social and Economic Research
NNPC	Nigeria National Petroleum Corporation
NOTAP	National Office of Technology Acquisition and Promotion (Nigeria)
NPMC	Nigeria Produce Marketing Company
NSC	National Security Council (USA)
ODA	Official Development Assistance
OTA	Office of Technical Assistance (US Treasury)
OTI	Office of Transition Initiatives (USAID)
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper (World Bank)
PSP	Privatization Support Program (World Bank)
RF	Results Framework (USAID)
RMRDC	Raw Materials Research and Development Council (Nigeria)
RPED	Regional Program on Enterprise Development (World Bank)
SO	Strategic Objective (USAID)
SOE	State-Owned Enterprise
TCPC	Technical Committee on Privatization and Commercialization (Nigeria)
TRIPS	Trade-Related Intellectual Property Rights
WTO	World Trade Organization
ZCC	Zero Corruption Coalition (Nigeria)

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Finally, we would like to express our appreciation for the extensive guidance and facilitation willingly provided by the USAID / Nigeria team.

1. Introduction

Nigeria may be the most challenging and important development country in the world today. It is by far the world's most populous extremely poor country – but is its sixth-largest oil exporter. It has the smallest manufacturing sector of any large economy in the world, and the greatest concentration of export and government revenue dependence on a natural resource commodity. It is a country of spectacularly failed economic policies, whose GDP per capita is no higher than it was forty years ago. It is a country of rising poverty and return to subsistence. Its social problems are enormous, with half of the adult population illiterate, gender disparities in education, and league-leading infant, under-five, and maternal mortality rates. Public utility services are among the worst in the world, with at least two-thirds of households not connected to electricity, access to water extremely limited, impossible urban transportation, and an average of fifty households for each telephone land line. It has disturbing ethnic rivalries that regularly flare into communal violence. It is rated as world's most corrupt country.

Nigeria desperately needs "shock therapy", but has a deeply-rooted statist, rent-seeking establishment that makes this type of treatment unlikely, even given a number of reformers in government. Consequently, this assessment of USAID's economic growth activities during the almost four years since the accession of civilian government in Nigeria recommends strategies that work within and around the establishment. Economic development programs for Nigeria must strengthen high-leverage agencies and institutions of economic governance, helping to install procedures and operations that are efficient and difficult to avoid or abuse. Development activities must work outside of government, through the private sector, to encourage its competitiveness so that it becomes a much louder demander of reforms that enable free enterprise. These activities must build a broad democratic reform constituency, fundamentally the only force strong enough to prevail against the powerful vested interests that have for so long prevented change.

This assessment report was commissioned by USAID / Nigeria as input to the preparation of its medium-term Country Development Strategy.[1] In a country like Nigeria, it is important to take a medium-term view. For example, if we achieve a respectable fiscal management system in five years, after forty years of failure, we should be very pleased. Nevertheless, well-designed and well-implemented programs, in collaboration with those of other donors and a well-intentioned Government of Nigeria, can achieve great strides within USAID's five-year horizon.

This assessment was carried out over a three-month period from November 2002 through February 2003. It is based on four field visits to Nigeria by the author and assessment team leader, visits by each of two expat assessment team members, extensive contribution from a prominent local institutional contractor, interviews with over 100 people from a wide variety of donors, government agencies, research institutions, associations, and businesses in Nigeria, and review of over 50 documents totaling at least 1500 pages.[2]

The assessment is organized into three major substantive parts. Part 2, immediately following identifies and prioritizes the critical obstacles to Nigerian economic development. Part 3 then evaluates USAID's development program in economic growth during the transitional period in

[1] MOBIS contract #GS-23F-8004H, issued to IBM Business Consulting Services (formerly PricewaterhouseCoopers Consulting), dated November 1, 2002, Activity Order #1

[2] Team members are noted in the Acknowledgement above. Documents reviewed and interviewees are listed in Appendices 1 and 2, respectively.

Nigeria since 1999, with respect to its design, the performance of its activities, and their impact, both vis-à-vis the USAID Results Framework and the critical obstacles identified previously. Based on this evaluation, Part 4 draws lessons learned, derives preconditions for success, and specifies programmatic recommendations for USAID's medium-term strategy. Part 5 concludes by summarizing the paper's findings in terms of nine key evaluation questions stipulated in the terms of reference to this assignment.

2. Critical Obstacles to Economic Development During Nigeria's Democratic Transition

If they are to be effective, USAID's growth activities must attack the critical obstacles to economic development in Nigeria. These obstacles must be prioritized, so that the relationships among them, and the channels through which they degrade economic growth are clearly understood. We can then readily evaluate development programs in terms of their effect on the critical obstacles, and we can be sure that planned programs are properly targeted.

Nigeria's development challenges are well-known and widely agreed. It is remarkable to note the consistency of major economic development issues identified in the Structural Adjustment Program of 1986, the first Nigerian Economic Summit of 1993, the Vision 2010 exercise of 1997, the Obasanjo Economic Blueprint of 1999, the Poverty Reduction Initiative of 2000, and subsequent National Economic Summits, up to #9 in 2002. All of these were domestically-defined programs, and basically consistent with the development philosophies of the international donor community. Yet despite exhaustive analysis and vocalized commitment, these problems have resisted resolution in Nigeria.

There are three major and related obstacles to economic growth in Nigeria: (1) statism and rent-seeking, (2) an unsupportive business enabling environment, and (3) unstable and unsustainable macroeconomic policies. These fundamental obstacles are made unusually difficult to address by a fourth obstacle: the turbulent nature of Nigeria's transition from military to democratic civilian government.

2.1 Statism and Rent-Seeking

Statism and rent-seeking is by far Nigeria's most serious problem, and to a large degree the other critical obstacles to economic development are outgrowths of it. The Nigerian government dominates the economy, and rent-seeking, legal and corrupt, thoroughly permeates economic activity at all levels.

Statism and rent-seeking are two different things. Statism is a philosophy which considers the government as the most appropriate manager of the economy, and gives individual governmental authorities substantial power over fundamental economic activities such as entrepreneurship and innovation, product design and delivery, employment, and finance. Rent-seeking is the exploiting of a position of unique economic power to extract undue consideration, in excess of a competitive market price, in the provision of an economic benefit. Rent-seeking need not be illegal or even unethical – it accompanies any degree of monopoly position.

Statism in itself is not corrupt and does not involve rent-seeking. But statism breeds "unique economic power", because government functionaries have such extensive authority over so many routine economic activities. Furthermore, since statist governments are extremely overburdened in attempting to manage the economy, the power that authorities have simply to reduce waiting time presents a lucrative rent opportunity. Statism unavoidably gives individual functionaries monopoly economic positions, and in this case, when exercised, rent-seeking is of course illegal. Statism and rent-seeking can best be viewed as two sides of the same coin, and by addressing one we address the other.

The fact is that over the course of the last four decades, Nigeria has built up a highly statist economy that has become thoroughly corrupted by widespread rent-seeking behavior.

2.1.1 Economic Dominance of the State

Statism in Nigeria has risen to thorough dominance of the economy through a particular set of historical developments. First of all, colonialism in Nigeria (and Africa in general) was unusually statist. The colonial state distributed land, determined what should be produced and tightly controlled trade in produce, built large state-owned railroad and utility companies, and exercised military domination. There was no preparation for democracy, because it was not intended. The colonial system demonstrated that for individual, family, or group economic betterment, only the acquisition of exclusive authority, not entrepreneurship, mattered. [3]

Nigeria began its independent history with a British-trained indigenous elite convinced that state management of the economy was the best path to development. This attitude was aggravated by the discovery of oil and its rapid emergence as the country's most easily accessible financial tap. These influences encouraged the predominant trade policy, import substitution industrialization (ISI). Combined, these three factors – the "commanding heights" philosophy, the emergence of oil, and ISI – have bred an economy whose formal, developed part is almost totally dominated by the state.

2.1.1.1 <u>The "Commanding Heights" Philosophy</u>

Nigeria gained its independence during the rise of British postwar socialism. British rule did create a professional public service and working utilities such as railroads in Nigeria, but bequeathed little of a private sector beyond the well-organized agricultural commodity export system. Early Nigerian leaders trained at British universities, and they returned to Nigeria to join the heady independence movement in the late 50s and early 60s, the best and brightest moving into civil service and government.[4]

Soon after independence in 1961, government announced a formal policy of taking over what it called the "commanding heights" of the Nigerian economy, in order to accelerate its growth and address poverty. This involved state ownership of all major industries, state mobilization and direction of investment resources, and state planning and management of business activities. Along with the adoption of the "commanding heights" policy, power was concentrated at the Federal level as a result of the "unitary state" policy of the military governments that overthrew the initial civilian administration. While the unitary state policy was pursued primarily to address political forces threatening to fragment Nigeria along ethnic lines, it also concentrated economic power. This contributed directly to the Biafran civil war in the late sixties. After this war ended, the country was restructured along federal lines, to provide more power to regions and states, a trend that continued in the multiplication of states within the federation – from six regional zones in 1970 to twenty-one states in 1980 to thirty-six states (plus the Federal Capital Territory) currently. This has if anything resulted in more thorough penetration by governments into economic activities.

The "commanding heights" philosophy is still entrenched in government. Senior civil servants who have spent their entire lives in management of the economy display elitism, sometimes

[3] Claude Ake powerfully presents this case in *Democracy and Development in Africa*, 1996.

[4] See Pat Utomi, *Managing Uncertainty*, Lagos Business School, 1998.

princely, and even those without this attitude occupy jobs whose purpose is solely intervention and control. Government is still viewed as the obligatory employer of school-leavers who cannot find jobs elsewhere, especially college graduates, largely the children of the more privileged. The civil service constantly grows, reinforcing statism, feeding rent-seeking, obstructing competitiveness, consuming anti-poverty resources, and aggravating macroeconomic imbalance.[5]

Nigeria remains among the most statist of the world's economies. Consolidated government expenditure represents at least forty-five percent of GDP.[6] Some five hundred major companies are government-owned and managed. Most non-government economic activity is confined to fringe sectors – rural subsistence and trading.

2.1.1.2 The Dutch Disease

"Dutch disease" refers to the dominance in an economy of a particular commodity export, usually oil, to the exclusion of the development of other sectors, resulting ultimately in severe economic imbalance and vulnerability to the price behavior of the commodity. The most common symptom of Dutch disease is a severely overvalued currency, caused by the failure to properly manage and sterilize cash inflows earned on exports of the dominant commodity.

The fact that a country is blessed with a major exportable commodity does not automatically ordain Dutch disease. Properly managed, the commodity can in fact provide the resources for balanced, healthy expansion. Even most of the world's major oil exporters are not normally considered to be afflicted by Dutch disease, because they strive to employ their oil wealth in economic diversification, and have established mandatory policies to save a large share of their oil earnings in long-term investment assets.

Nigeria, however, is seriously afflicted with the malady. Oil accounts for over 95% of total export earnings, and these earnings alone comprise one-fourth of GDP on an expenditure basis. About 75% of consolidated government revenue comes from oil. The following table breaks down Nigerian GDP by sector:

Table 1: **Nigerian GDP by Sector**
at Factor Cost, 2001

Sector	$ billion	% of GDP
Agriculture	11.8	29.2%
Oil	17.2	42.4%
Manufacturing, Mining & Construction	1.7	4.2%
Government-Produced Services	1.8	4.4%
Financial Sector	0.4	1.0%
Trade and Private Services	7.6	18.8%
Total	**$ 40.5**	100.0%

Data sources: Central Bank of Nigeria, IMF

Oil represents by far the largest sector of the economy by this measure, over 42%. In contrast, the non-oil private manufacturing, mining, and construction sector, the real source of potential

[5] "Perhaps nothing else has been as damaging to Nigeria's economic development as the commanding heights philosophy". (Utomi, *ibid.*, page 298)

[6] *2002 Article IV Consultation Report*, IMF, January 2003

economic diversification, represents just four percent of GDP. The financial sector is minimal. Aggregated, at $40 billion, Nigeria's economy is one-fourth the size of Poland's, despite having three times as many people and triple the land area. GDP per capital works out at just under one dollar per day.

The emergence of sizeable oil revenues in Nigeria concealed the damage that the commanding heights policy was doing to the economy, because it provided such a ready source of cash to prop up the bureaucracy, to co-opt opposition, and to subsidize inefficient state-owned enterprises. Indeed, government if anything increased its economic control, to ensure its access to the oil cash tap, passing the indigenization decrees of 1972 and 1977, requiring all enterprises defined as strategic (which included all natural resource companies, utilities, banks, and many others) to become at least 60% owned by the Nigerian state. This policy forced divestiture by major foreign owners and terminated Nigeria's attractiveness for foreign direct investment inflows.

Nigeria has been chronically afflicted by an overvalued currency, a key symptom of Dutch disease. Because oil provided such an easy revenue source, the damage caused by the uncompetitiveness of the Nigerian economy was not so apparent. Indeed, the overvalued currency subsidized intermediate and luxury imports, further benefiting the rentier class. Currency overvaluation has been less severe in recent years, but still has not been eliminated because management of oil earnings is so poor.

Nigeria's failure to address the Dutch disease has left its economy highly imbalanced, uncompetitive, and oil-price dependent. It is scandalous that fewer Nigerians are employed in the non-oil export sector today than were there employed thirty years ago.

2.1.1.3 Misguided Trade Policy

The commanding heights philosophy, fueled by oil cash, bred the most damaging of Nigeria's formal statist policies: import substitution industrialization (ISI) and mandatory "indigenization" programs as the basis for non-oil economic development. By systematically shielding Nigeria from international competition, the ISI policy ensured the progressive degradation of the country's competitiveness in almost all products other than oil.

ISI reflected the statist philosophy that government was better positioned at independence rapidly to industrialize the economy, given the failure of the colonial system to establish a viable private sector. ISI was in vogue at that time, and appeared to have contributed favorably to economic development in India and South America. The original idea was that earnings on exports of Nigeria's agricultural raw materials could finance the importation of machinery and equipment inputs to local industry, which would be protected from foreign competition by high tariff barriers, and mature into competitiveness.

Government subsequently invested enormously in heavy industry, including steel, aluminum, fertilizer, sugar, paper, chemicals, and textiles. Private investment also went into the protected sectors. Eventually, the net effect on the balance of payments was negative, because these industries required growing intermediate inputs that had to be imported, but because of their protected, subsidized, and state-managed character, never had a chance of becoming globally competitive and earn foreign exchange, since competitiveness comes only from competition itself. However, as cash inflows from oil surged, budgetary discipline that might have forced constructive change in SOEs was removed, and ISI was continued, essentially becoming an employment program.

Several analyses have draw attention to the remarkable and instructive contrast between the economic performance of Nigeria and Indonesia over the past forty years.[7] In 1965, both countries were very poor, raw material-based ex-colonial nations, with similar GDPs of $4-5 billion, and very large populations, both in the neighborhood of 100 million. Both were in the early stages of becoming major oil exporters, and over the period since then have earned roughly similar amounts from oil shipments. However, while non-oil exports in 1965 were similar in both countries, at about $500 million, Indonesia's non-oil exports today are some $30 billion, while Nigeria's still have not even reached $1 billion. Meanwhile, Indonesia's total GDP has grown to $225 billion – five times the size of Nigeria's. Indonesia generates seven times more electric power than Nigeria. Nigeria's GDP per capita, the broadest measure of wealth, remains in the same range today as it was forty years ago, at around $300. Indonesia's, which started at about the same level, has in contrast increased three- to fourfold over the period, to over $1100 per capita.

This divergence in performance is attributed to Indonesia's commitment at an early stage to private sector-oriented economic restructuring, better trade policy, much better management of the Dutch disease, and more financially sustainable fiscal policy. Indonesia generally opted to be a participant in the global private competitive economy, in particular encouraging agriculture and light manufacturing such as apparel, which led to subsequent development of a range of industrial products. Meanwhile, with a view to the competitiveness of its non-oil exports, Indonesia more intelligently managed its currency, sterilizing oil inflows so that the exchange rate did not become too overvalued.[8] In contrast to Nigeria, Indonesia's relatively open trade policy has attracted substantial foreign direct investment to the country, to take advantage of low wages and a favorable business regulatory and incentive environment.

The civilian government that acceded in 1999 proclaimed its awareness of this fundamental problem and its intention to liberalize trade as a top priority. Analysis and formal conferences dealing with trade policy followed. Nevertheless, the statement of trade policy that eventually emerged from the FGON displays little understanding of the deep need for radical reform or its implementation. In practice, Nigeria's trade policy remains highly protective, aggressively managed and fine-tuned, inconsistent and arbitrary.

- Tariff and trade policy measures enacted in 2002 actually increased maximum tariffs from 100 to 150%. The simple average tariff rate rose slightly to 34%.
- The tariff regime is becoming more complex, with 15 tariff bands and a variety of special duties imposed with little warning and uncertain duration. More than 150 products have import duties in excess of 100%.
- Arbitrary import restrictions and even outright bans have been applied to poultry, textiles, automobiles, etc. Tariff reductions were applied to selected raw materials and certain capital equipment.
- Regional free trade initiatives, through ECOWAS, have not been respected, particularly for finished goods. Convergence of common external tariffs in line with ECOWAS

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[7] See James W. Fox, "Nigerian Tariff Liberalization and Nigerian Exports: Analysis and Comparative Performance", USAID (Chemonics GBTI), July 2001, and IMF *2002 Article IV Consultation Report* (op. cit.).

[8] For example, the naira's overvaluation made cocoa production, of which Nigeria was the world's leading exporter in 1965, less and less profitable for domestic producers, and export share plummeted. Indonesia, meanwhile, with virtually no cocoa exports in 1965, started an industry and now actually exports 50% more cocoa than Nigeria's.

agreements is constantly planned, but implementation put off. The present target date is 2007.

Nigerian statism has created a large economic management bureaucracy, whose mission is intervention, in theory to encourage development. The function of this establishment is paternalistic regulation. Major agencies[9] are devoted to such tasks as continuously analyzing what raw materials are capable of being produced in Nigeria and in what quantities, and recommending product-by-product import duties and restrictions, of varying levels and timing, to discourage import of materials that a domestic producer might be able to supply. The principal result of these activities is higher cost and lower quality for Nigerian users of these inputs in value-added products.

Nigerian trade policy still fails to recognize that only competitive pressure creates competitiveness, while protection simply accommodates inefficiency. While opening Nigeria to foreign competition may be scary, the alternative is much worse, as the record demonstrates.

More darkly, trade protection creates direct rent-seeking opportunities for officials across the board, which are difficult to give up. Nigeria's complex ISI scheme is technically difficult to manage and extremely easy to corrupt and evade, so in practice it largely fails to have its intended protectionist effect anyway.

2.1.2 Character and Pervasiveness of Rent-Seeking

Government dominance of the economy, the Dutch disease, and misguided trade policy are the key outgrowths of Nigeria's statism, independent of rent-seeking and corruption. But statism encourages rent-seeking, because it places authorities so much in control of economic activities, and thereby provides constant opportunity for enrichment. In Nigeria's case, rent-seeking has become a fundamental attribute of the economy. Nigeria is widely considered the most corrupt major country in the world, and is consistently at or near the top of Transparency International's corruption rankings.

Rent-seeking is pervasive in Nigeria, affecting all businesses in some way.

- Petty bribery ("dash") is encountered in all activities, including the wide range of permitting activities and in road transportation, through various police control points, even within the same city.
- Customs administration is highly corrupt. Most businesspeople regularly involved in international trade have developed relationships with customs clearance officers with whom they routinely work and pay off in order to facilitate shipments. Smuggling and duty evasion is widespread and accommodated by the rent-seeking system.
- Acquisition of civil engineering and public works contracts let by government is highly corrupt. Contracts are "sold" to those willing to pay officials the most for them. Sometimes those obtaining contracts have no intention of executing them, and sell them on to actual operators. Large premiums on bids over normal cost are often requested, in order to finance kickbacks. For civil engineering contractors, the cost of these "public relations operations" can amount to ten percent or more of total annual revenues. Civil engineering and construction projects are of course a mainstay of the Nigerian economy – capital spending amounts to as much as 50% of government spending –so this is the avenue for much of its corruption.

[9] For example, the Raw Materials Development and Research Council, actually a large FGON institution located in Abuja.

- Customers of standard government utility services, such as electricity and telephone, are routinely subjected to rent-seeking in order obtain connections and maintain service, even when normal usage bills are fully current. The police are considered particularly corrupt.[10]
- Harassment by multiple tax, permitting, and licensing fee authorities looking for payoffs is considered by the private business sector a much more negative factor than the tax burden itself.[11]
- Most business borrowings, whether from private or government lending institutions, require additional points paid to directly to officials down the line who are involved in the credit approval process.

Some business areas, such as construction, are affected by rent-seeking more than others, but all business must contend with it to some extent.

2.1.3 Impact on Nigeria's Economic Development

Statism and rent-seeking debases economic development in Nigeria through three fundamental channels: (1) draining of resources from income-enhancing investments in human capital and poverty reduction, (2) limited and low-quality government services, and (3) repression of the entrepreneurial economy.

2.1.3.1 Starvation of Income-Enhancing Investments

Economic development requires at its foundation an environment of equal opportunity. All governments, poor and rich, struggle to provide adequate resources for equal opportunity. Equal opportunity means that individuals have access to good education and health services, that their safety and property have equal protection under the law, and that they have some degree of access to capital to finance sound economic activities. The advancement of equal opportunity is one of the most important roles of government, and it is achieved through a wide variety of programs, all of which require serious and sustained investment of public resources.

In Nigeria, these goals must be advanced through aggressive poverty-reduction / income-enhancement programs, since equal opportunity first and foremost requires that people are free from basic want. Indeed, the World Bank, the IMF, and the major bilateral donors in Nigeria are pressing the FGON to develop a formal Poverty Reduction Strategy Paper (PRSP) as the overarching framework for economic policy. But in Nigeria, public revenues are not spent, or not properly spent, on programs to reduce poverty and promote growth. This traps the economy in stagnation because the majority of people are stuck in subsistence instead of income-producing activities, so aggregate demand cannot broadly expand.

Even setting aside rent-seeking, Nigerian statism starves poverty-reducing programs of funds, because so much of what the state collects in revenue remains inside it, to cover the personnel and overhead costs of its administrative operations. Once the rent-seeking premium is added to the cost of government acquisitions, especially inflating the capital expenditure budget, the

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[10] *Nigeria Governance and Corruption Diagnostic Study – Analysis of Survey Results – Households, Enterprises, and Public Officials*, Casals/IDR, October 2002. For example: "Poor billing practices, which enable NEPA staff to enrich themselves by colluding with customers, have encouraged illegal connections for which the corporation does not receive payment. The police are perceived to be inefficient and to provide poor services, while using the instrument of state power at their command to extract illegal payments from the population."

[11] *An Assessment of the Private Sector in Nigeria*, World Bank, May 2002

amount left over for critical programs is totally inadequate. The following table provides a breakdown of government-sector spending in 2001:

Table 2: **Government Sector Expenditure, by Type** *2001, naira B*				
Level	Personnel & Overhead	Capital & Interest	Programs	Total
Federal	403.1	594.1	20.8	1018.0
State	201.3	235.2	160.5	597.0
Local	106.2	49.8	15.5	171.4
Total	710.6	879.1	196.8	1786.4
Share	39.8%	49.2%	11.0%	100.0%

Data source: Central Bank of Nigeria *Annual Report*, 2002

Based on these data, some forty percent of expenditure is absorbed by personnel and overhead, and fifty percent by capital spending and interest, leaving just one-tenth of government funds available for poverty-reducing (and all other) programs. This probably understates the amount somewhat, because some portion of capital spending in the poorly-organized Nigerian government accounts in fact goes to programs (and indeed to personnel and overhead, which is therefore also understated in the above table). Nevertheless, the conclusion remains valid – far too little of Nigeria's public resources are devoted to reducing poverty, and this fundamentally deprives economic development.[12]

2.1.3.2 Ineffective and Inefficient Government Institutions

Statism and rent-seeking breed mediocrity and inefficiency in the provision of government services and the effectiveness of government institutions. Statism diverts public resources into unproductive control and administrative functions. In a rent-seeking environment, poor service delivery is actually an opportunity for gain by corrupt operatives.

Nigerian public utility and infrastructure services are remarkably weak for a country which is the world's sixth largest oil exporter. Its public electrical generating capacity is less than that of Bosnia, an underdeveloped Balkan country with approximately one twenty-fifth Nigeria's population. Eighty percent of rural households in Nigeria lack an electrical connection, and one-half do not even have running water.[13] Power outages are an everyday occurrence throughout the country, and as a result all significant businesses must purchase backup generators.

The transport infrastructure is extremely poor. The rail system, once good, now barely operates, so that almost all commercial freight must be moved by roads. Nigeria is well-known for expending large sums on infrastructure projects, only to fail to allocate recurring funds for their maintenance. (This is symptomatic of public procurement systems dominated by front-end rent-seeking.) As a result, road quality is poor and inordinate maintenance expenses are

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[12] These data also understate total government expenditure compared to IMF estimates, among other things because they ignore expenditures directly from the Federation Account, into which oil revenues are collected prior to entering government revenue accounts. The IMF estimates apply GFS standards to Nigerian statistics as much as possible.

[13] See *Nigeria Rural Development Sector Strategy*, World Bank and Federal Ministry of Agriculture and Rural Development, October 2001.

transferred to the private sector, in the form of repair costs for road-damaged vehicles. The same goes for waterways, a key transportation mode in the Niger delta. Lagos road traffic congestion is legendary.

Only communications services have improved, entirely due to the government's sale (after an extended delay) of GSM licenses to two private operators. In the past year mobile telephone services have exploded, finally allowing businesses and individuals to bypass the poor state-owned landline operator, at least outside internet-based needs. Nigeria has one of the lowest levels of telephone landlines per capita in the world – one telephone for each 250 people, compared to 60 persons per telephone in Indonesia.

It is common in Nigeria for a new factory to have to cut its own feeder road to the highway, bore its own well for water, and install its own electrical generators, primary and backup. The state is considered an extremely unreliable supplier of these basic utility services.

The significant additional costs that poor public services impose on the Nigerian business sector fundamentally compromise the country's ability to develop. Inordinate expenses for electricity, water, communications, and transport put Nigerian companies at a competitive disadvantage compared to countries that are able to provide these services efficiently. Furthermore, the weakness of utility and other government services is a major reason why the country is avoided by foreign investors.

2.1.3.3 Repression of the Entrepreneurial Economy

It is now beyond debate that economic development arises only from a competitive, free enterprise private sector. But statism, even if it is well-meaning, dominates and represses the entrepreneurial economy, making it impossible to operate freely. Adding the cost-inflating effects of rent-seeking, Nigerian private enterprise has no chance of achieving competitiveness. As we have seen above, this has been empirically demonstrated in the steady attrition of the non-oil private commercial sector in Nigeria, which is probably smaller today than it was thirty years ago.

Nigeria's economy is imploding – "Adam Smith in reverse", according to a recent study.[14] Instead of increased specialization, the economy is experiencing withdrawal from the formal sector and a return to rural subsistence, simply to survive. Markets are collapsing, real effective demand is declining, business opportunities are disappearing.

2.1.3.4 Prevention of Reform

A final and perhaps most destructive characteristic of Nigeria's statist, rent-seeking culture is that it creates an enormous barrier to progressive change. Reform threatens the institutional mission of a large swath of Nigerian government, even if well-meaning. It threatens the access to wealth of thousands of more or less corrupt individual government authorities in rent-extracting positions. There is no upside in change for these agencies or individuals. The statist agencies would be out of business, and the rent-seeking individuals would lose their pipeline to free cash. It is very difficult to achieve reform when those affected by the change process are out to sabotage it. This is an enormous problem for Nigeria, because the culture of rent-seeking statism is so thoroughly entrenched, and so much self-interest is tied up in it. This makes it difficult to attack the problem head on. Programs must be devised that dilute statism and make rent-seeking more difficult, regardless of the resistance of vested interests. Furthermore, and

[14] Duesenberry, Goldsmith, and McPherson, "Restarting and Sustaining Growth and Development in Africa", Harvard Institute for International Development, January 2000

importantly, the countervailing force of popular demand for reform must be mobilized and brought to bear.

Rent-seeking statism is Nigeria's greatest obstacle to economic development. Indeed, beyond that it is a major contributor to Nigeria's sad history of civil unrest and governmental turmoil. The overthrow of a government was always justified by highlighting its corruptness. Military coup was touted as a government cleansing operation, even though much of the time its purpose was simply to install new rent-seekers. Statist rent-seeking must unavoidably be addressed by the development effort. Whether or not a proposed program attacks it must be the first litmus test of its value. Will the program attenuate statism and rent-seeking? How likely is it that these problems will fatally compromise the program, and if so, how could it be redesigned to get around that?

2.2 Unsupportive Business Enabling Environment

After statism and rent-seeking, Nigeria's second major economic obstacle is a very poor business enabling environment. There are three key pillars of a good business enabling environment: (1) a commercial legal regulatory, and judicial structure that efficiently protects property rights and creates a level playing field with respect to the societal obligations of private business, (2) a strong and deep financial system that provides readily accessible funds for sound business needs, and (3) reliable and reasonably-priced energy, water, communications, and public transport utilities. A well-educated and diverse labor force is a fourth key need, but this is somewhat beyond the focus of the present assessment.

We have dealt above with problems under the third heading, noting the deficiencies of the utility and transport infrastructure. We now discuss the first two areas of the business enabling environment.

2.2.1 Commercial Law and the Enforcement Environment

Nigeria shares with most developing and transitional economies a poor commercial legal, regulatory, and judicial environment. This environment can be broken down into three aspects:

- *Inadequacy of laws protecting property rights*. Nigeria has a solid legal tradition and basic contract law is adequate. However, bankruptcy, secured transactions, land titling, and related law is not sufficiently supportive of the bank credit system or even of trade credit. Company law and the permitting and licensing regulatory structure also requires substantial improvement. Business establishment procedures are complex and lengthy.
- *Inefficiency of government administrative and registration services*. Businesses complain about the very poor quality of government administrative services, complicated by rent-seeking. Front line civil servants are poorly trained and unwilling to take responsibility.[15] Registries are often paper-based, fragmented, and inaccessible to the public. Arranging appointments with public officials is difficult and time-consuming.
- *Ineffectiveness of administrative and judicial enforcement.* Implementation and enforcement of laws through the legal and judicial system is entirely inadequate, even when laws are adequate. Nigerian court system practices seem to invite delaying tactics, and even when a judgment is rendered it often means little in practice. Courts are not viewed as accessible and impartial to those without connections. Furthermore, administrative jurisdictions overlap, making compliance and enforcement more complex.

[15] Business survey results reported in the World Bank *Private Sector Assessment*, op. cit.

> The court system lacks capacity, with insufficient judicial staff, poor caseload management, and lack of computerization even for word processing basic documents. Out-of-court settlement through alternative dispute resolution (ADR) is available only to the largest companies.

Improvement of the business regulatory environment is a standard donor-supported activity. Some improvement has already occurred in the intellectual property rights (IPR) area, thanks to an ongoing USAID/DOC project. An assessment of the commercial law, regulation, registry, and enforcement environment needs to be undertaken, in order to properly focus further potential programmatic assistance.

2.2.2 Availability and Cost of Business Finance

Business finance in Nigeria is extremely expensive and provided under highly limited terms. Interest rates currently range from a low of 20-25% ppa for larger businesses to 30-35% ppa for medium-sized companies. The cost of credit in Nigeria more or less entirely offsets the country's labor cost competitiveness, especially when combined with inordinate utility costs caused by government's inability to deliver these services.

Small companies have little access to credit, unless they are willing to pay rapid-turnover moneylender rates of up to 100% per annum. Microcredit programs exist but their coverage is still quite limited vis-à-vis the total need. There are over twenty programs, but the largest reach only about 1000 microenterprises each. Nigeria's community banks have been poorly managed and this sector is being restructured. The new Small Scale Industry Equity Investment Scheme, in which commercial banks are required to set aside ten percent of their pretax profits for SME equity investment, will help address the small business finance problem to some extent.

Credit and capital markets are underdeveloped. Bank credit is typically for short-term inventory finance and import trade L/C's. There is virtually no long-term equipment lending, other than limited programs offered through government development finance institutions (DFIs). However, the historical performance of Nigerian DFIs has been disastrous, replete with corruption, with the vast majority of their loans non-performing. The consolidation of four DFIs into one new one in 2002, the Bank of Industry, may help. An equity market exists but is restricted only to the largest firms, and even then is too shallow to accommodate large issues. The corporate bond market is nonexistent.

Nigeria suffers from an undersupply of loanable funds. The following table provides a very broad view of the country's overall sectoral savings-investment balances.

Table 3: **Sectoral Financial Balances**
Projected, 2003

Sector	**Financial Balance**	
	USD MM	% of GDP
Government	(1,850)	-4.4
Households	800	1.9
Businesses	(790)	-1.9
Total Domestic Financial Balance	**(1,840)**	**-4.4**
Foreign	1,840	4.4
Of which:		
Private capital flight	(1,890)	-4.5
Worker remittances	1,860	4.5
Private foreign investment	1,990	4.8
Foreign debt service	(960)	2.3
Foreign aid (ODA & NGOs)	840	2.0

Data sources: IMF 2002 Article IV Report, World Bank Firm Survey 2002, and IBM estimates. The Financial Balance is a sector's gross saving less its gross borrowing.

These estimates show government, unsurprisingly, as the biggest net user of capital, needing to borrow almost $2 billion in 2003. Nigerian households borrow little, and are net suppliers of a moderate level of funds to other sectors, mostly channeled through informal village credit collectives (the adashis or essusu) to local microenterprises. The Nigerian business sector is estimated to be a much smaller net user of funds than is normal for a more developed economy, because of the relatively low level of domestic household savings, and due to the dominant claim on funds by government, which crowds out business borrowing. In Nigeria, the business sector finances most of its own needs. Combining these domestic sectors, Nigeria is a net user of funds, with the foreign sector necessarily making up this deficit.

However, the foreign sector is affected by varying influences. Nigeria benefits greatly from a high rate of remittances from Nigerians living abroad, $1.9 billion per year, in itself more than covering Nigeria's overall domestic deficit. Private foreign direct investment, almost all of which comes into major oil companies and other multinationals, is also sizeable, but much less than it should be for an economy of Nigeria's size. (Poland, for example, attracted three times as much foreign investment in 2002.) Meanwhile, Nigeria suffers from chronic outflows in the form of capital flight – most Nigerians with excess cash balances prefer to keep them offshore, rather than holding or investing them in Nigeria. Finally, while foreign official and private donor assistance is significant, it is probably more than offset by outflows required to service the high level of outstanding foreign debt.

It can be concluded from these estimates that the supply of loanable funds in Nigeria is indeed quite limited. With GDP per household at about $5 per day (for an average household of 5-6 people), the household sector is simply incapable of generating much of a financial surplus. The business sector is largely self-financing, and government consumes most of the loanable funds that are available (some of which it returns to the flow of funds through DFIs). Foreign private investors, who ultimately must be the main source of financing to Nigeria, are almost entirely unwilling to put money at risk there, outside of major operations such as oil which are already underway, because of the country's reputation for corruption, its poverty, and its uninviting and obstacle-strewn business regulatory environment.

Even if the supply of loanable funds were larger, however, the other side of the equation – the undersupply of attractive loans, i.e., of "good paper" – would be an equally important. Indeed, Nigeria loses over $1.5 billion per year to capital flight. A significant portion of these funds leave not to evade the authorities, but because direct and portfolio investment opportunities are so limited in Nigeria. With better domestic investment opportunities, financial and operating, Nigeria could solve its own loanable funds shortage problem to a significant extent, simply by keeping cash in the country.

The problem of "good paper" can be addressed by (1) deepening credit and financial markets development, covering banks, insurance companies, pension funds, and equity markets, and including associated collateral and enforcement practices, so that the range of securities is broader and more attractive to lenders, and by (2) improving the competitiveness of business itself, by addressing the business enabling environment and enhancing business performance in selective, high leverage ways, so that the paper it issues is of inherently higher quality. Furthermore, the transparency of individual business finance needs to be greatly elevated, through the adoption of international accounting standards.

Especially with the constrained supply of loanable funds, there is little potential for finance to move into longer term, higher risk opportunities. Inventory financing and trade credit needs can easily absorb the available funds supply, and with rapid turnover traders can afford to pay high short-term interest rates. Longer-term productive private sector investment ends up starved of cash.

A financial sector assessment needs to be done in order to target USAID assistance in developing better access to business finance. This assessment can benefit from extensive prior background research, including the World Bank's Financial Sector Review of May 2000, its SME Survey of 2001, and the 2002 World Bank / IMF Financial Sector Stability Assessment.

2.3 Macroeconomic Policy Instability and Financial Unsustainability

The third major obstacle to economic development in Nigeria is the unsustainability and instability of macroeconomic policy. The private sector must operate in an environment of unstable inflation, unreliable currency valuation, and unaffordable business finance caused by excessive government borrowing.

Nigeria's overall financial balance is chronically in unsustainable deficit. For a period in its history this was financed by foreign loans, but this channel is no longer open. This means that excess borrowing can only be addressed by inflation. Meanwhile, by failing to commit itself to a radical, long-term restructuring program, Nigeria denies itself substantial official and private financing that follow reform, allowing larger deficits to be sustainably financed. Ironically, Nigeria's failure to embrace and implement reform condemns it to living within its immediate resources, and to greater financial vulnerability than it need suffer.

2.3.1 Budget Imbalance, Inflation, and Excessive Debt

The Nigerian state is constantly under extreme pressure, with never enough money for poverty reduction and basic social services. This is attributable to the first two major obstacles to development discussed above. Statism and rent-seeking starve poverty-reduction and infrastructure-improvement projects of funds, and the poor business enabling environment inhibits the growth of the private sector and with it normal expansion of government tax revenues. Given its very high recurrent budget, which goes mainly to the oversized civil service and administrative overhead, even with substantial oil receipts Nigeria never has enough money to address the basics.

Given the resulting political pressures, the state constantly tends to overspend. For most of the past twenty years, since the last major oil crisis, Nigeria has run a fiscal deficit, often at a very high 5-10% of GDP. Even when, as now, it earns windfall revenues from oil due to unexpected oil price elevation, it fails to "save for a rainy day". Nigeria is therefore a chronically inflationary country, and domestic transactors and savers have low confidence in the naira's long-term purchasing power. This encourages substitution into hard currencies and real assets, which makes monetary management even more difficult and aggravates the inflation problem.

The limited supply of loanable funds in the face of heavy government borrowing means not only that private borrowers are crowded out, but that substantial amounts of debt must be purchased by the Central Bank. Through the efforts of the USAID-supported Debt Management Office (DMO), a growing amount of government debt is being sold into the market, and to some extent sales to the CBN do end up indirectly held by commercial banks, due to artificially high reserve requirements.[16] Nevertheless, the government's excessive borrowing places the CBN in the familiar vise of allowing interest rates to rise if it sterilizes its government debt purchases, or allowing inflation to rise if it does not. In practice, it comes out somewhere in between, with both interest rates and inflation unsatisfactorily high.

The steady rise in the outstanding stock of Nigerian government domestic debt is a cause for alarm. Domestic public sector debt has approximately doubled over the four years of the civilian administration, to approximately $10 billion, growing from 14% to 25% of GDP. Even with expert debt management, this trend makes it harder and harder to place new debt from any source with the general public without significant interest rate increases. The rapid absolute and relative expansion of public sector debt stock is a fundamental threat to private sector competitiveness as it fundamentally elevates the cost of business finance.

2.3.2 Balance of Payments Instability and the Exchange Rate

Macroeconomic financial management in Nigeria is complicated further by balance of payments instability attributable to its oil-dominated export earnings.

Nigeria's fundamental or underlying current account balance is a function of three major determinants: (i) its oil exports, priced at a sustainable long-term trend value, (ii) the competitiveness of its non-oil exports, and (iii) the pace of remittances from Nigerians living abroad. In a long-term sense, these factors generate relatively stable and predictable financial flows. But over the short-term, Nigeria's balance of payments is subject to a high degree of variability, caused by:

- Variability in government spending, which often creates surges in import payments for capital projects
- Variability in the price of oil
- Variability in capital flight caused by periodic exchange rate uncertainty.

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[16] If reserve requirements were lower, the banks would be able to purchase government debt directly. As it is, the CBN purchases government debt partly with funds extracted from the commercial banks in the form of required reserves. Furthermore, the CBN on-sells to the banking system, in open market operations, large portions of the Treasury bills it is forced to purchase, to mop up excess liquidity so created. The CBN has been urged to get off this merry-go-round by simply reducing reserve requirements substantially so that most, if not all government debt can be sold directly to the banking system, and the central bank can restrict itself to secondary intervention to manage the interest rate effects.

These swings are difficult to predict, but they can have a substantial impact on monetary expansion and the exchange rate. Currently, for example, due to the high price of oil, Nigeria is experiencing a positive surge in its current account in the form of elevated dollar earnings on oil exports. If these excess foreign earnings are simply sterilized, by placing them in foreign earning assets, then the current account inflow is wholly offset by a capital account outflow and there is no exchange rate or monetary effect. However, if the government chooses to spend this money, then it must convert it to naira, which has the effect of driving up naira's price, artificially damaging Nigeria's non-oil competitiveness, both of exports and import-competing products. If the CBN tries to limit the naira's appreciation by selling naira into the market, this has the effect of expanding the money supply, just as if it were purchasing government debt. So again, the CBN is faced with a dilemma, and again excessive government spending is the problem.

The best way to deal with these pressures is to target an exchange rate range that is broadly consistent with fundamental current account balance, and a government spending path that is consistent with fundamental budget balance. Both of these balances must be evaluated using a reference oil price that reflects its long-term trend. Balance of payments variability around this reference level must be sterilized, and not allowed to enter government spending.

Macroeconomic policy stability is generally the purview of the IMF. However, given the great importance of macroeconomic stability to private sector economic development, particularly as regards access to affordable business finance and the maintenance of a competitive exchange rate, USAID must be concerned for its own area of specialization. Through its activities in support of improved budget formulation and planning at the Federal Budget Office (FBO), USAID can help address this obstacle to development.

2.4 Democratic Transition Obstacles to Adopting the Reform Program

The final obstacle to economic development in Nigeria is political, not directly economic. The three economic obstacles to development described above can only be addressed through the adoption of a vigorous reform program. Nigeria needs "shock therapy", but this requires the adoption of the reform program by the legislature. However, the country is struggling with a transition to democracy, after thirty-three years military rule interrupted for only four years by an ineffective civilian government in 1979-83. There are three major areas of political conflict.

- *Ethnicity and Political Parties*. Nigeria has traditionally had a severe north-south rivalry, originally political in nature, arising from the British policy of leaving northern potentates in place and ruling indirectly through them, versus more direct rule in the south. In more recent years the north-south rivalry has taken on more religious trappings, particularly with reference to the extension of Sharia law. Furthermore, the south is split into the western, Yoruba-dominated, and eastern, Igbo-centric regions, and the Niger delta subregion of the east is further fragmented among powerful local tribal identities. Politicians are first and foremost popularly identified by their ethnicity. Perceived unfairness in sharing political power across ethnic groups has repeatedly justified the overthrow of an administration.

  Politics is extremely competitive because so much economic benefit accompanies office in Nigeria's statist, rent-seeking system. The runup to Spring 2003 elections has brought most reform activity to hiatus. However, if successful it will mark the first consecutive civilian election in Nigeria's history and should have a positive effect on the country's international image.

- *Executive-Legislative Conflict*. Nigeria's two-chamber federal legislature is combative and tumultuous. While the President's party appears to have control, in fact the PDP is itself internally split into multiple factions. The body does not efficiently evaluate and pass legislation. Despite its large size and staffing, it has virtually no permanent analytical capacities or research support resources.
- *Constitutional Federal-State Issues*. Nigeria is a federation of states, and if anything state and local government power has grown over time. This is due to a political imperative to accommodate ethnic autonomy, and to the seizure of power by communities ecologically and economically damaged by oil extraction in their back yards, from which they received no benefit. The federal government has been required to transfer an increasing percentage of oil revenues back to the states.

  Local "political" power also manifests itself more crudely in "community action" targeted directly at operating companies. All businesses of any size which operate in the Niger delta face frequent work stoppages by community worker groups demanding various payments. Companies are forced to comply in order for work to continue. Road travel is routinely interrupted by checkpoint tollgates erected at each community, which feels it has the political jurisdiction to do so, and feels it deserves some way of recovering wealth taken away from it in the form of oil.

Having said this, the fact is that except for the Biafran war of the late 60s, Nigeria has managed to preserve its federal cohesion, and Nigerians seem to be committed to a unified Nigeria. While eruptions of ethnic conflict are common, there is no movement for breaking the country along ethnic lines, as has been seen in other countries afflicted by ethnic-nationalistic strife. Ethnicity and even religion seem more to be attributes of realpolitik, usefully exploited in the battle for political power and the rents that it brings, than deep-seated creeds that justify any act.

Nigerians' elevated political interest and activism is a two-sided coin. Though political battling delays the adoption of reforms, political awareness also presents an opportunity to harness power behind the reform program. One of the most important avenues of advancing Nigerian economic development is through broad public awareness of the need for reform, and an understanding of how its benefits far outweigh its costs. Particularly given the stubbornness of the statist rent-seeking establishment, which will continue to resist change on its own, it is essential that the force of democratic political will be brought to bear. Especially in Nigeria, an aggressive public awareness activity must be a fundamental pillar of USAID's economic growth program.

3. The USAID Transition Period Economic Growth Program: Design, Execution, and Impact

Having identified the critical obstacles to economic development in Nigeria in the preceding Part 2, we now examine USAID's program during the "transition period" since the accession of civilian government in 1999. In 1994, USAID had greatly scaled back its operations in Nigeria as a result of actions of the Abacha regime which prompted international sanctions. After Abacha's sudden death in 1998, the moderate general Atiku Abubakar (Nigeria's present Vice President), became interim head of state and firmly committed to early elections. Immediately following this pledge, USAID formed the Nigeria Task Force, consisting of representatives from its Aftrica Bureau, OTI, and the Democracy & Governance Center of its Global Bureau, to coordinate program planning. In Nigeria, elections proceeded, in December 1998 for state and local governments, in January 1999 for national legislature representatives, and in February

1999 for president. USAID, in collaboration with the State Department, supported the election process through OTI. The importance of Nigeria to U.S. national interests, and the "catalytic event" of the elections, outweighed the considerable risk to a successful project outcome, and OTI established operations in Nigeria in four field offices in March 1999, prior to the inauguration of President Olesegun Obasanjo in late May.[17]

A National Security Council (NSC) Inter-Agency Working Group (IAWG) was subsequently established to coordinate all U.S. assistance to Nigeria. The IAWG fielded an assessment team within a month of the Obasanjo inauguration, whose report led to the development of USAID's Transition Strategy,[18] beginning in September 1999, initially set for 27 months, but eventually extended to December 2003. This Transition Strategy re-engaged the FGON in the development process, providing for USAID support in five sectors, including economic management and agriculture, to which the present assessment applies.

In the following, we look first at USAID's economic growth (EG) objectives, including how they were expressed in the Mission's Results Framework (RF) and the overall design of the economic growth activities. We then examine the structure and performance of the activities individually. Finally, we assess the impact of the EG activities on USAID goals, both vis-à-vis the results framework and in terms of the extent to which the critical obstacles to Nigeria's development identified in Part 2 were addressed.

3.1 USAID Economic Growth Objectives and Program Design: the Transition Period Results Framework

From USAID's Transition Strategy for Nigeria, an initial Results Framework was developed. The long-range overarching goal for the Transition Strategy was expressed as *broad-based sustainable economic growth and agricultural development.* The RF encompassed four Strategic Objectives, of which SO2 is the subject of the present assessment. The framework for the SO was revised and refined at a Performance Management Plan workshop in Dakar in June 2001.[19]

The overall objective of the transition period economic growth program, as expressed in SO2, was to *strengthen institutional capacity for economic reform and enhance capacity to revive agricultural growth*. The EG activities covered by the present assessment focus mainly on the first half of this SO, institutional capacity for economic reform.[20] The Results Framework developed for SO2 consisted of one intermediate result and a number of primary results for institutional capacity for reform. The following table extracts from the RF the items that relate to the transition period EG portfolio.

[17] See "The Role of Transition Assistance: The Case of Nigeria", USAID / CDIE, January 2002

[18] "Supporting a New Path to Democracy, Prosperity, and Leadership in Nigeria", USAID, July 1999

[19] *SO2 Performance Management Plan*, USAID, 2001

[20] SO2 team activities promoting the capacity to revive agricultural growth are assessed in a separate report.

Table 4: **Results Framework Applicable to Economic Growth Activities**

Objectives	**Indicators**
LONG RANGE GOAL: Broad-based sustainable economic growth and agricultural development	
STRATEGIC OBJECTIVE #2: Strengthened institutional capacity for economic reform	1. Key USAID-assisted policy reform papers presented to Presidential Cabinet 2. Implementation of key approved policies, management systems and procedures
Intermediate Result #2.1 GON policy performance improved	1. Expert opinion of budget function improvement 2. "X" value of GON debt held by GP 3. Investor survey / interviews 4. Subsidy of GON productive capital 5. Percentage of Nigerian imports through major ports 6. Energy quality / cost / availability 7. # companies privatized (total / priority) 8. Tariffs (max rate, consistency, trendlines)
Primary Results	
2.1.1 GON information base and technical analysis resources increased	▪ Opinion of policymakers ▪ Content analysis of written products within policymaking process
2.1.1.1 Nigerian awareness of corruption costs increased	▪ Content analysis of corruption coverage in the media
2.1.1.2 Trade policy TA delivered	
2.1.2 Private sector influence on GON policy performance increased	▪ Indicators in IR2.1 with auditable private sector influence on movement
2.1.3 Key economic institutions' staff performance improved	▪ Pre- and post-training tests of performance ▪ CEO opinion of results
2.1.4 IPR better protected	
2.1.5 NIPC services to investors improved	▪ Investor survey / interview
2.1.6 Legislative understanding of budget issues improved	▪ Response consistency to budget process, roles, and responsibilities questions of Budget Committee members ▪ Pre- and post-test scores of content of LBRO training
2.1.7 Transparent privatization process established	▪ Expert opinion on transparency of companies privatized
2.1.8 EPCC strengthened	

This revised framework reflected activities that were already established and others that were being planned, which were expected to produce the results identified, measurable in terms of the qualitative and quantitative indicators shown in the table. If achieved, these results were expected to represent reasonable return on the investment to advance the overall strategic objective: improved institutional capacity for economic reform.

Analysis of the extent to which the EG activities achieved these RF objectives is contained in Section 3.3 below, following review of each of the activities separately in the following section.

3.2 Program Execution and Activity-Specific Results

The SO2 team informally organized its activities in pursuit of economic growth objectives into three areas, as follows:

Area	Activities
I. Economic Policy Reform	1. Support of the EPCC
	2. Support to the FMC in trade policy reform
	3. Support to the DMO in domestic government debt management
	4. Support to the MOF / FBO in budget planning and preparation
	5. Support to the NIPC in identifying obstacles to foreign investment and strategies to address them
II. Competitiveness	6. Support for the BPE in privatization operations
	7. Support to private sector in evaluating and improving the competitiveness of selected Nigerian export sectors
	8. Cooperation with the World Bank in assessing private sector development prospects and needs
III. Economic Governance	9. Support for survey of corruption in Nigeria
	10. Support to develop the legal and regulatory structure for intellectual property rights
	11. Capacity-building for government sector economists

These eleven activities were undertaken by ten projects, contractually awarded to various implementing partners. The following table summarizes the implementing partner contracts that applied to the ten activities.

Table 5: **Economic Growth Activities Contracts**

#	Activity	Contractor	Begin Date	End Date	Amount $ MM
1	Economic policy coordination	Nathan / MSI	Jun-01	Jun-03	2.000
2	Privatization	IBTCI	Jun-01	Mar-03	8.200
3	Foreign investment	FIAS; PwC / TSG	Jul-00	Oct-02	0.469
4	Tariffs and trade policy	Chemonics	May-00	Nov-01	1.200
5	Commercial law development	DOC	Jul-00	Sep-03	1.200
6	Anti-corruption	Casals	Sep-00	Jul-02	1.530
7	Domestic debt management	UST	Oct-00	Dec-01	0.420
8	Sectoral export competitiveness	Chemonics	Jun-01	Jul-02	2.000
9	Government economists training	Chemonics	May-00	Nov-01	0.300
10	FBO budget planning	DAI	Nov-02	Oct-04	2.000
				Total	**$19.319**

These projects are now reviewed, in turn. Each of these reviews is organized as follows: (i) USAID objectives for the activity, (ii) contract performance, and (iii) evaluation of impact.

3.2.1 Economic Policy Coordination

In pursuit of SO2 and its “improved policy performance” IR, economic policy coordination in Nigeria was perceived as a key institutional capacity strengthening need. The FGON, at the urging of the IMF and USAID, created the Economic Policy Coordinating Committee (EPCC) in mid-2000 as an executive-level body whose mission was to bring order out of the policymaking chaos that characterized the first year of the civilian government, and to provide a central counterpart for IFI’s in their consultations on macroeconomic policy. The President personally launched the EPCC, the Vice President was named its Chairman, and its members included the highest economic policy officials of the government: the Minister of Finance, the Governor of the Central Bank, and the Chief Economic Advisor to the President. An EPCC Secretariat was formed, to organize and facilitate EPCC meetings, to serve the policy research and analysis needs of the EPCC, and in general to drive the policy coordination process.

(i) Contract Objectives

Against this promising background a two-year, $2.0 million contract was awarded to Nathan/MSI in June 2001 to support to the EPCC Secretariat. The overall objective of the activity was to improve the quality of national economic policy formulation and the effectiveness of its implementation. In close cooperation with other donors USAID hoped that the EPCC would serve effectively as the central policy coordination body of the FGON, from which economic policy priorities and implementation plans would be submitted for adoption by the Federal Executive Council under the President, the supreme executive body of the Administration.

The Contractor’s work was to be focused on developing a professional and capable EPCC Secretariat, which could:

- Research and analyze the FGON’s economic policy needs and initiatives across the entire economic policy spectrum, advise on prioritization and improvement, and promote consensus around coordinated policies
- Monitor and report macroeconomic developments and progress in reform programs
- Expertly facilitate monthly meetings of the EPCC.

Specific expectations and tasks of the Contractor were:

- To engage qualified Nigerians as senior full-time advisors to the EPCC Secretariat
- To provide short-term expatriate technical assistance as necessary to work with the local Secretariat staff to develop technical notes, briefings, and in-depth studies for the EPCC on priority economic policy issues, which would form the basis of EPCC advice to the Federal Executive Council
- To support the Secretariat in organizing broadly inclusive workshops and seminars on the important national economic policy priorities
- To develop operational links with other research institutes in Nigeria, in order to call on the best expertise, reduce duplication of work, and speed consensus on policy priorities. This included developing an inventory of research activities of the major Nigerian institutes.
- To enhance the technical skills of Secretariat staff through capacity-building.

In addition, computer and office equipment for the EPCC Secretariat was budgeted.

The principal performance indicator metric contained in the RF for this activity was *the number of key policy reform papers presented for adoption by the Federal Executive Council* (FEC).

The activity was expected to be "demand driven". That is, the FEC, EPCC and its Secretariat would originate needed areas of support in policy development, and the contractor would respond to this by fielding experts to work with the Secretariat in developing policy studies and supporting related workshops / seminars. Operationally, the contractor was not required to post a full-time project manager in Nigeria, but was expected to manage the project through communication with the EPCC Secretary from its home office and through periodic visits to Nigeria.

(ii) Contract Performance

The EPCC got off to a reasonably promising start. Its first meeting was held in July 2000, and a regular monthly meeting schedule was pursued. The Secretariat was staffed with five economists seconded from the National Planning Commission. Dr. Festus Osunsade, a Nigerian who had been employed by the IMF in Kenya, was recruited through the activity and seconded to the Secretariat as the Economic Policy Advisor to the Vice President, and in fact he functioned as the Secretariat's leader. Dr. Osunsade formed and led a Technical Subcommittee of the EPCC, consisting of senior technical officials from the institutions whose leaders formed the EPCC, plus the other key ministries and agencies whose work related to economic reform priorities (such as transportation and infrastructure, tourism, privatization, accounting, and auditing). The Technical Committee met regularly, generally prior to EPCC principals meetings.

In addition to the support provided via Dr. Osunsade, the contractor provided technical assistance to the EPCC Secretariat through periodic visits of expatriate advisors to Nigeria, and through offsite research. Contributions were made in research on the natural gas sector, the stock market, and on the links between macroeconomic policy and poverty reduction. The contract also funded EPCC participation in ten widely-attended public seminars, the first covering budget implementation, and the rest, all in 2002, the PRSP process. The contractor also contributed to the operational improvement of the EPCC through developing a website and securing some computer and office equipment. The EPCC Secretariat organized and facilitated some fifteen meetings of the EPCC and a like number for its Technical Subcommittee.

With respect to the RF quantitative indicator, the EPCC Secretariat provided for this assessment a comprehensive listing of all papers it produced since inception. Of these forty papers, ten were delivered to the FEC or an FEC member. Eleven other papers were presented at EPCC meetings, whose senior principals are also members of the FEC. Most of the papers were background in nature, helping the FEC or its members better understand donor concerns, the effects of macroeconomic policy, sources of economic growth, and the PRSP process. Only two of the studies were invited by the FEC and dealt with matters of immediate policy concern – one analyzing the arrears of the parastatals, and the other investment incentives for gas exporters.

(iii) Evaluation of Impact

Overall, the EPCC support activity has fallen far short of its original expectations. Within a few months of its launching, it became apparent that the FGON really was not committed to the EPCC as a policy coordinating institution. In practice the originally intended role of the EPCC overlapped greatly with the function of the FEC itself, which meets regularly under the chairmanship of the President. Senior EPCC members, who were also members of the FEC, did not find value in attending a secondary meeting to discuss the same issues. The powerful centers of economic policymaking in Nigeria – the NPC, the MOF, and the CBN – even though they were represented on the EPCC, did not desire to turn over significant policymaking influence to the EPCC Secretariat. Eventually, the EPCC simply ceased to meet – its last meeting was in June 2002.

Furthermore, the technical role of the EPCC Secretariat, which might have had value serving the FEC directly, overlapped with the role of the Office of the Chief Economic Advisor to the President (CEAP). Even though the latter institution is greatly in need of strengthening, it does have titular responsibility for areas of research shared by the EPCC Secretariat, and is generally regarded as the senior body.[21] This confusion of authority and role severely compromised the EPCC Secretariat's effectiveness.

As it lost its original mandate, the EPCC Secretariat seized on the PRSP process as a defining mission. However, to date its performance in this area has also proved disappointing. The leadership of the EPCC Secretariat has not been able to mobilize a widely participatory process, but instead has pursued a "top-down" approach focused on delivery of a government-produced IPRSP that would be acceptable to donors. So far, this has not been productive. Conferences, though numerous, have been generally criticized as speaker-fests with little meaningful audience participation. Three IPRSP drafts have been produced by the EPCC Secretariat, and so far they have not come close to the standard the World Bank seeks. Despite frequent government lip service to it, the PRSP process is presently moribund, and the EPCC Secretariat is widely seen as incapable of leading it effectively.

The weak capabilities of the EPCC Secretariat itself certainly contributed to its undoing. The quality of Its research and analytical output was consistently mediocre. If it had been able to inspire and provide intellectual leadership, it is conceivable that it would have been able to champion and retain its originally-intended role.

In conclusion, the following reasons can be cited for the failure of this activity to produce its intended results:

- The failure of the FGON to clearly assign to the EPCC its originally planned leadership role in economic policy coordination – to give it its mandate.
- The lack of competence of the EPCC Secretariat. Since the Secretariat's seconded director was recruited by the contractor, this could be viewed as a contractor failure. However, the director was specifically approved by the FGON, and would have been difficult to replace. Judging by the poor quality of EPCC Secretariat output, the contractor proved unable significantly to build the capacities of its staff.
- The design of the project. Given better understanding of the structure of economic policymaking within the FGON, and the problem of functional overlap and confusion, the substantial risk to success might have been anticipated and the project focused differently.

3.2.2 Privatization

Given the heavy hand of the Nigerian state in economic activity, and the small size of the Nigerian private sector, privatization of the hundreds of important businesses owned and managed by government was essential to the achievement of USAID's long-term development goals in Nigeria. Indeed, the new government's priority adoption of a best-practices privatization strategy was seen as a positive indication of its commitment to reform. Within months of taking office in 1999, the Bureau for Public Enterprises (BPE) was statutorily authorized to serve as the Secretariat of the National Council on Privatization (NCP) for

[21] DFID has recently engaged a macroeconomic advisor for the CEAP.

implementation of the National Privatization Program.[22] Strengthening the capacity of the BPE was therefore an unambiguous SO2 priority activity.

(i) Contract Objectives

USAID/N awarded a two-year, $8.2 million contract to IBTCI, beginning in June 2001, to support the BPE. This contract in fact succeeded an earlier, $1.0 million preparatory assessment contract. Thus the total outlay for BPE strengthening has been $9.2 million. This is by far the largest individual investment that the SO2 team has made in Nigerian economic growth-promoting activities.

The main objectives of this project were to:

- Strengthen the institutional capacity of the BPE – organizational, administrative, and technical
- Facilitate the privatization process itself by providing technical assistance for the preparation of enterprises to be privatized and guidance in privatization means and methods
- Support the development of a legal and regulatory environment that would enable rapid and effective privatization
- Develop and implement a pubic awareness and education campaign related to the privatization program.

USAID's program specifically anticipated the establishment of a large World Bank credit in support of privatization in Nigeria. During the lengthy process of program development and credit approval by the Bank, USAID's assistance allowed the BPE to get up and running quickly and develop the administrative qualifications for the credit. This Privatization Support Program (PSP) loan was eventually approved in mid-2002, in the amount of $114 million, for disbursement over five years under favorable IDA terms.

The SO2 team USAID established two measures within the RF to indicate success in achieving these objectives:

- The number of companies readied for privatization, where readiness was defined as the BPE's public emission of a request for expressions of interest (EOI) in a privatizing company
- The degree of completion of the privatization process for each firm slated for privatization, where completion was defined as the selection of a commercial privatization advisor or core private investor.

These indicators overlapped somewhat, in that the emission of a request for EOIs, the metric for the first quantitative indicator, was also a milestone in the calculation of the second quantitative indicator. Nevertheless, both are useful in evaluating from different angles the primary objective of speeding privatization.

[22] The BPE was actually established in 1992, to succeed the Technical Committee on Privatization and Commercialization (TCPC) set up under the Babangida government to liquidate individual productive assets of public enterprises and partial stakes in a number of SOE's. However, after accession of the Abacha regime, its activities were effectively suspended.

(ii) Contract Performance

Upon the launch of the BPE support project, USAID and the Contactor together distilled the goals into fifteen specific tasks. In practice, effort ended up focused in the following task areas, for which key accomplishments are indicated:

1. *Strengthening the institutional capacity of the BPE*.
   - *Organizational development*. The activity helped the BPE develop and document, in manuals, a well-defined mission, clear staff roles and responsibilities and management accountability. The agency is dynamic, reform-oriented, and has a well-motivated staff.
   - *Professional staffing* of the agency. The contract enabled recruitment of a “core team” of fifteen Nigerian diaspora professionals, who have led the Nigerian privatization change process.
   - *Equipping* of the agency. The contract provided essential information and communications technology to the BPE.
   - *Procedures*. Transparency in privatization requires open processes for engaging privatization advisors and consultants and for the privatizations that the agency undertakes directly. The activity enabled the BPE to develop formal best-practices, well-publicized operational procedures.
2. *Facilitating the privatization process*. Advisory support was provided in preparing particular privatization packages and assisting in the evaluation of bids and the technical qualifications of bidders.
3. *Developing the enabling legal and regulatory framework*. The activity invested substantially in providing advisors to assist in developing the legal and regulatory framework for areas that always end up involved in privatization, including:
   - *A labor policy framework* for management of employment issues arising during privatization, which was eventually adopted by the FGRN. A frequently-asked questions brochure was produced for distribution to workers through labor unions. Social safety net policies were developed for retraining and re-employment in microenterprises.
   - *Competition / anti-monopoly*: In the absence of any competition regulation in Nigeria, the BPE picked up this area and the Contractor provided advisors to develop a policy framework.
   - *Environmental liabilities*: Environmental regulation is lax in Nigeria, but attention to potential environmental liabilities is critical to privatization. The Contractor provided an advisor who developed a policy framework in this area, including a Privatization Environmental Handbook.
4. *Enhancing public awareness of privatization.* This area of the activity got off to a slow start, but eventually a comprehensive privatization public awareness strategy and program was developed, which will be funded through the World Bank PSP going forward.

This USAID activity is generally credited with contributing strongly to the emergence one of the most professional agencies in the Nigerian government. Indeed, Nigeria’s BPE compares favorably to such agencies in successful Eastern European transition countries.

This institutional strengthening qualified the BPE for the World Bank’s PSP loan. Going forward, this funding will provide sufficient external support for Nigeria’s privatization process.

(iii) Evaluation of Impact

Certainly the activity achieved the broader SO2 objective of strengthening FGON's institutional capacity for economic reform. The BPE is totally committed to rapid privatization, and is capable of administering it. It is important to note that the effectiveness of the activity certainly owes much to the receptiveness and capability of the activity's principal individual FGON counterpart, the Director General of the BPE, Mr. Nasir el-Rufai. A former businessman, Mr. el-Rufai is a radical reformer and has been eager to employ USAID assistance in best-practice improvements.

Given the capabilities of the agency, however, the actual progress of privatization in Nigeria has been particularly disappointing. The Nigerian privatization strategy set out by the BPE in 2000 consisted of three phases. The first phase was in fact underway when the civilian administration took office, covering some fourteen readily disposable enterprises (banks, cement companies, and some oil industry firms) through the Nigeria Stock Exchange (NSE) and to core investors. This phase was well underway when USAID's project was planned and is now largely completed. Phase II of the privatization program covers approximately 100 companies selling commercial products and services (hotels, insurance companies, media companies, transport and aviation, heavy industry and mining, sugar and other large agro-industry combines, others). Phase III covers the monopoly sector utility and natural resource public enterprises (NITEL, NEPA, and NNPC and its major subsidiaries).

The BPE's goal was to sell 23 Phase II companies in 2001 and another 21 in 2002. In the end, no more than 20 companies in all have been privatized. In an effort to achieve a major success early in the program, the decision was made to fast-track the privatization of NITEL, a Phase III company. Despite major investment by the BPE in this privatization, and an apparently successful, publicly-televised auction, it spectacularly failed in the end, and remains unsold. Similarly, the attempted privatization of the Nicon Hilton Hotel in Abuja, the largest hotel in West Africa, was another high-profile deal that cratered after an apparently successful televised auction. Judged by the metric established by the SO2 team – essentially, the number of privatizations – the activity has fallen well short of expectations. Again, however, judged against the objective over which the activity actually had control – the strengthening of the BPE's institutional capacity for economic reform – the activity was successful. And, the agency remains committed to privatization and is working hard to achieve it.

Evaluation of Failed Privatizations

Even though funding of privatization assistance is being picked up by the PSP loan, USAID remains influential in coordinating donor support. The reasons for the shortfall in successful privatizations must be understood and addressed. A long list of factors can be identified, but the big ones are:

- *Excessive focus on the NITEL privatization*. The FGON hoped to provide a high-profile signal of its commitment to change by an early privatization of this prominent SOE. While well-meaning, this proved to be a poor strategy, especially given the poor market conditions for privatizing a telephone company as weak as NITEL. The NITEL privatization absorbed a great deal of BPE person-hours in 2001-02, diverting them from the privatization of less glamorous Phase II companies.
- *The privatization auction process.* The auctions of the two most prominent privatization failures, NITEL and the Nicon Hilton, shared two characteristics: the auction winners were consortia of domestic investors with little or no experience in the respective industries, and their bids were inflated enormously during the auction process. The Nigerian auction procedure calls for "two envelopes": a technical proposal prequalifies bidders as to operational capability, and the highest bidder among those who pass the technical hurdle wins the company. Because of the small number of bidders, the technical hurdle was not high, so underqualified bidders made it to the second round. Then, at the time of actual public opening of all bids, bidders are given a second chance to revise their bids and make a final offer. In the case of both NITEL and the Nicon, this resulted in an enormous price increase. The winning NITEL bidder went from a first bid of some $800 million (already well above the price BPE expected) to a revised bid of $1.3 billion. The winning Nicon Hilton bidder went from $51 million to $61 million, again well above the reserve price. In both cases, the auction "winners" failed to come up with the money. In the case of NITEL, the second, backup bidder also failed to deliver. In the Nicon case, the well-qualified backup bidder and the BPE agreed in negotiations to a price of $45 million. (This bidder's initial bid had been $41.5 million, revised to $43 million.) However, when the BPE submitted this agreement for approval, the National Council on Privatization (NCP), instead of accepting, decided it wanted $2.5 million more. The bidder refused to go further and the deal failed.
- *Interference in the privatization process.* It appears that interference from more powerful interests have been capable of compromising the privatization process to some extent, despite the capabilities of the BPE. These interests include budgetary pressure on the BPE from the NCP – which is chaired by the Vice President – to obtain excessive prices for properties. It is unfortunate that the NCP, instead of setting policy guidelines for and monitoring the BPE, is the final authority for approving actual privatization transaction sale prices. The NCP also must approve individual enterprises to be privatized, strategic investors, privatization advisors and consultants and their remuneration, and mode of sale. These are all matters that should be the business of the BPE. It is also likely that the privatization process has been indirectly corrupted by rent-seeking, especially in the prominent cases. Investors in winning consortia probably included powerful figures who wished to capture these cash generating properties for their own enrichment. An important reform would be for the NCP to formally give up its transaction-approving authority.
- *Overmanagement of privatization by the BPE.* Ironically, the BPE's institutional professional competency has contributed to its failure. Because its capabilities are so clearly superior to most other Nigerian government agencies, the BPE has developed a somewhat self-absorbed attitude, and gives a sense that only it is capable of executing privatizations and their regulatory framework. In fact, the BPE is doing far too much. Just as the NCP should not be approving transactions prices, neither should the BPE be itself restructuring companies and directly managing their privatizations. Ironically, the BPE itself is conducting activities that would be much better performed if outsourced to the private sector. The BPE should be tendering all major companies out for success fee-based, fully-outsourced privatization mandates to investment banks and accounting and consulting firms. Companies scheduled for privatization should be turned over to these highly capable and focused private sector operators, for restructure and sale according in keeping with BPE-approved procedures. The sale prices that come out of this process must be final. Such a process would also help shield privatization from outside interference. This tendering strategy has been successfully employed under World Bank funding in other transitional economies.

3.2.3 Foreign Investment Promotion

Increased foreign investment accelerates economic development by providing business finance for expansion, and by restructuring businesses to improve their competitiveness. Therefore, the SO2 team sought a channel through which it could encourage the FGON to take the steps necessary to improve the attractiveness of Nigeria to foreign investors. USAID agreed to fund two foundation studies, one an assessment of the obstacles to foreign investment in Nigeria, and the other an “investor roadmap” (IRM) that would document in detail the steps required for a foreign business to register, locate, employ staff, and operate in Nigeria. The primary institutional beneficiary of this work was the National Investment Promotion Commission (NIPC).

(i) Contract Objectives

USAID provided approximately $0.5 million to fund the two studies. It contributed to the cost of producing the first report, by the IFC’s Foreign Investment Advisory Service (FIAS), and contractually engaged PricewaterhouseCoopers / The Services Group (TSG) for the second. Broadly speaking, the SO2 team expected these studies to provide the FGON with a blueprint for reform of the business enabling environment in general, around which policy could be coordinated. The more focused objective, in keeping with the SO, was to strengthen the NIPC’s capacity for economic reform by giving it a clear reform strategy that it could champion, and an action plan that it could lead. The activity was specifically expected to result in an improvement of the services provided to investors by the NIPC.

(ii) Contract Performance

The FIAS study, *Nigeria: Joining the Race for Non-Oil Foreign Investment*, was delivered in December 2000. FIAS has done such studies in a number of developing countries. This study was intended to be a “first cut” at identifying the major obstacles to non-oil private investment environment in Nigeria, and ways of addressing them. It covered the legal and judicial system, intellectual property rights, taxation, employment, location, reporting to government, operating (including corruption), government-private sector relations, and national and subnational government investment promotion assistance.

The report was well done, comparing favorably to similar FIAS studies in other developing economies. It provided many actionable recommendations for policy improvements at strategic and tactical levels of detail, setting out in clear terms for policymakers prioritized key investment environment and enterprise sector reforms. In several focus areas the study analyzed experiences in comparable developing countries, to show how Nigeria could expect to benefit if it followed these examples.

By design, the *Nigeria Investors’ Roadmap and Enabling Environment Strategy*, finalized in October 2002, was to follow the FIAS report and provide a second, deeper assessment of ways of improving the investment environment. (The TSG-led assessment team in fact included a representative from FIAS.) The report focused on actual business operational issues: registration, locating, employing, importing and exporting, resolution of commercial disputes, and taxation. It included a useful appendix on international best practices in each of these areas.

The project team visited forty Federal and subnational government agencies in Nigeria, and some 150 private sector and civil society sources. The IRM was remarkably thorough and detailed, first carefully stipulating the steps that a company needed to go through in each area in order to operate, then analyzing these procedures, then providing exhaustive recommendations on improving the processes to reduce red tape and the time and expense of dealing with administrative requirements.

Both reports described NIPC processes and customer interface as bureaucratic, redundant, inefficient, and discriminatory, with unclear procedural guidelines. Both made the same fundamental recommendations: that the NIPC shift from being a regulatory / control agency to being (1) a service organization, the key *facilitator* for foreign investors and entering companies, to navigate for them the maze of Nigerian government bureaucracy, and (2) the leading advocate, the *champion* in the FGRN for investor environment reform through implementation of the FIAS / IRM blueprint.

(iii) Evaluation of Impact

The NIPC, the principal Nigerian counterpart agency in this activity, was provided through it with two mutually reinforcing, ready-to-use blueprints, from two different sets of international experts, for legal, regulatory, and institutional reform to improve the investment environment and business enabling system in Nigeria. The agency could have taken this strategic action plan and run with it, but as yet it has not. The NIPC remains primarily a regulatory agency rather than an investment facilitator. Remarkably, the NIPC itself still contributes significantly to investor red tape by requiring all foreign companies to re-register with it and obtain a separate permit from it to do business, after they have already registered with the Corporate Affairs Commission. Foreign investors still must have their business plans approved by the NIPC and be monitored by it. These control functions continue two years after the FIAS report strongly recommended they be eliminated, and the IRM strongly re-emphasized these recommendations. Beyond its unfortunate regulatory role, when it comes to investment promotion the NIPC seems to think that it should be marketing Nigeria broadly in the business press. This is always a low-return activity for an investment promotion agency, which instead should be devoted to and known for efficiently responding to individual investor problems. The NIPC still does not seem clearly to understand its mission, or at least has not been able to implement it.

The activity did a good job of analyzing what needs to be done, and presenting this to the NIPC. However, the activity was not structured to go beyond outside advice and exhortation. The activity did not in fact directly support real institutional strengthening, even though the analyses produced were certainly required as a foundation for it.

The NIPC can be usefully contrasted as an institution with the BPE. First, its leadership is not as effective, because it is split between a chairman appointed by the President, Mr. Koledayezi, and a Director General, Yakub Suraj. Unlike the BPE, it seems that the Director General of the NIPC, though considered to be capable, is unable to drive the organization as needed, because of the two-headed leadership structure. The two studies did prompt the NIPC seriously to examine its internal organization, and a good reorganization plan has been produced. However, it has not yet been acted on.

In addition to the contrast in leadership, the NIPC also has not had the benefit of direct support for institutional strengthening as has the BPE: information and communications equipment, in-house advisors, and assistance in marketing and public relations.

There is no question that an investment promotion agency can play a key leverage role in the reform process, if its mission as a service agency for foreign investors is properly defined, and if it is organized to pursue that mission. Because the obstacles to attracting foreign investment are at the same time the key issues of the business enabling environment in general, an investment promotion agency can be the principal champion in the government for reforms to promote private sector growth. Nigeria very much needs an effective NIPC.

3.2.4 Trade Policy

As discussed above in some detail, Nigeria's trade policy – highly controlling, statist, and ISI-oriented on the one hand, but poorly managed and capriciously administered on the other – has been one of the principal reasons for the country's poor economic performance compared to other developing countries over the past four decades. Given this, the SO2 team determined that an activity to improve Nigerian trade policy, and the institutional structure for administering it, was critical. The Federal Ministry of Commerce of Nigeria (FMC), responsible for the country's trade policy, requested this assistance, and USAID engaged Chemonics for an 18-month, $1.2 million project under GBTI to implement it, beginning in May 2000.

(i) Contract Objectives

The objective of the activity was to evaluate Nigerian trade and tariff policy, its institutional structure, and administrative procedures, to assess their effectiveness and economic impact, and to recommend reforms. The FMC had in fact been charged by the new government with the task of developing a comprehensive new trade policy for Nigeria, since the need for its reform was well-known. The FMC, through its Director for External Trade, therefore was the counterpart agency for the activity. The outcomes of the activity were expected to be:

- First, a guiding official trade policy document that committed the FGON to radically reform of its approach in favor of true trade liberalization and drastic structural simplification, and
- An agreed blueprint for the restructuring of FGON trade policy and regulatory institutions to implement the liberalized approach.

(ii) Contract Performance

The contractor fielded an advisory team to engage with the counterpart, and to conduct background research and assessments. The activity produced nine analytical papers by five different authors. The papers:

- Reviewed Nigeria's trade and growth performance in relation to other developing countries
- Broadly assessed Nigeria's status and (overdue) obligations in harmonizing and liberalizing its trade and commercial policies as a WTO member and as a member of ECOWAS
- Broadly examined export promotion policy
- Detailed a recommended overhaul of the institutional structure for implementing Nigerian trade policy
- Generally evaluated early drafts of the government's trade policy document.

This work produced a strong case for trade policy liberalization, produced broad recommendations for export promotion, for areas of trade policy liberalization, and for improvement of the government's trade policy document. It outlined areas needing further analysis and specification – for example, econometric work on the impact of changes in tariffs on the Nigerian trade balance and overall economic growth, Nigeria's positions in upcoming trade negotiations (WTO, ECOWAS, AGOA, and EU), ICT needs, and competition policy.

(iii) Evaluation of Impact

The only really concrete, actionable work of the activity related to the FGON institutional structure for implementing trade policy. A good institutional blueprint was developed. It involved a central Trade and Competitiveness Secretariat, headed by a Senior Advisor on Trade

Policy reporting to the Minister of Commerce, empowered to coordinate and supervise Nigerian trade policy across the government. This secretariat would oversee several committees and activities, including a Nigerian Trade and Competition Commission, an Intellectual Property Rights Commission, a trade information system, the Foreign Commercial Officer Service, and stakeholder consultations. This well-designed, cohesive, coordinative structure was taken fully on board in the government's eventual Trade Policy document.[23]

However, as yet the structure has not been implemented. A Trade Policy Advisor has not been appointed and the Secretariat has not been established. A Competition Commission is in place, but an IPR Commission has not been created. There remains lack of coordination within the FMC itself on trade policy management, much less across the highly fragmented FGON trade-related bureaucracy, including, just to name a few (see acronyms list), the NEPC, NEXIM, NOTAP, FMI, NCS, the Patents, Design, and Trademark Agency, the Nigeria Copyright Commission, the RMRDC, and so on. This fragmentation is of course the reason for establishment of an empowered central Secretariat, which does remain the stated intention of the FGON.

Outside the yet-to-be-implemented institutional structure, though the case for reform was persuasively presented, most of the reform recommendations developed under the activity were broad and not detailed enough to be operative. Beyond a general foundation, additional research, analysis, and strategic action planning were needed in all areas.

Finally, though it did state as its primary objective moving from the complex, protectionist structure inherited by the new civilian administration, to consistency with liberal Multilateral Trading System standards, the FMC's ultimate Trade Policy document itself was highly disappointing, in the following major senses:

- It is not well-enough focused on trade policy, ranging into macroeconomic policy reform, privatization, private sector development and the general business enabling environment, tax policy, external debt, bankruptcy, etc. While in some sense one could approach an entire economic development strategy through trade policy writ large, Nigeria's trade policy issues are first and foremost specific to its statist approach to protectionist micro-management of tariffs and trade barriers. The document is so broad that it actually fails to focus sharply enough on these first priority, necessary conditions. It is so all-encompassing that no individual area is properly treated.
- Its tone throughout was statist, bureaucratic, and even protectionist, rather than showing a convincing reformist commitment to liberal and competitive trade. Consistently in the document, the State is in the position of economic management, of engineering Nigerian competitiveness, rather than really allowing this to be taken over by a free private sector.

The action plan that concludes the Trade Policy document is somewhat useful. Though it contains many too-broad actions ("reach consensus on the way forward", "identify implementing agencies", "set up a committee"), it also includes a number of well-defined recommendations. Again, the problem is that the coverage of the document is so broad, and so many agencies are identified as having responsibility for each action item, that it is not really actionable without an empowered agency – the recommended Secretariat – focused fully on establishing and supporting inter-agency task forces to draw out specified action plans, monitoring their implementation, and facilitating the passage of enabling legislation.

[23] *Trade Policy of Nigeria*, Federal Ministry of Commerce, November 2001.

3.2.5 Commercial Law

Improvement of the business enabling environment always involves addressing the commercial law structure, so this was an essential focus area for SO2. For this purpose, the SO2 team engaged the U.S. Department of Commerce (DOC), under its Commercial Law Development Program (CLDP), under a three-year, $1.2 million contract that began in July 2000.

(i) Contract Objectives

The CLDP covers a number of basic areas of law and regulation that affect private sector business. In a country like Nigeria, where the state is a dominant player in the economy, government-private sector commercial interaction must also be an area of particular attention. The activity provided for support in five focus areas: (1) intellectual property rights (IPR), (2) public procurement, (3) government ethics, (4) project finance, and (5) regulatory reform, particularly in connection with trade policy.

The primary objects of the activity were:

- Development of best-practice laws and regulations and regulatory institutions in IPR and public procurement
- Simplification of business regulatory and administrative procedures in general
- Strengthening of institutional professional staff capacities in the focus areas.

(ii) Contract Performance

Performance to date of this ongoing project is best assessed by focus area:

1. *Intellectual Property Rights.* The activity sought to improve the quality of laws affecting patent, trademark, and copyright, to increase awareness of such laws, and to encourage the efficient settlement of IPR disputes through the court system and through alternative dispute resolution (ADR).
    - A senior official of the US Trademark Service assessed the Nigerian Trademarks, Patents and Designs Registry and created a strategy and plan for essential improvements
    - Three multi-day IPR capacity-development and consensus-building conferences were held for regulators, judges, lawyers, and right-holders[24]
    - The US Patent & Trademark Office and the World Intellectual Property Organization conducted a CLDP-sponsored visiting scholars program in which ten Nigerians participated.
2. *Public Procurement.* This component, critical in the Nigerian context, sought to improve awareness and capacity, and develop the groundwork for enabling public procurement regulatory law and structure. It coordinated with the World Bank Public Procurement Review. Emphasis was on ensuring transparent, value-for-money procurement, equal competitive opportunities for both local and foreign bidders, zero corruption, and reasonable time horizons between bid and award. An on-site international expert in procurement law was provided, who worked with a Nigerian Steering Committee to develop a draft Public Procurement Commission law and develop its organizational design and Public Procurement Procedures Manual. A major three-day public

[24] Key participants included the Nigeria Copyright Commission, the Nigeria Association of Recording Industries, the Intellectual Property Law Association of Nigeria (IPLAN), the FMC's Patent and Trademarks Office, and the Nigeria/American Chamber of Commerce.

procurement consensus-building conference was planned and is to be implemented. Follow up capacity-building field trips for Nigerian public procurement officials are also planned.

3. *Government ethics.* The advisor provided to Nigerian Government under this component made significant input into the consultations and processes leading to the successful establishment of the Independent Corrupt Practices Commission (ICPC). CLDP coordinated with the World Bank review of corruption in Nigeria, and with the USAID anti-corruption activity implemented by Casals. Relationships were established with the Federal Ministry of Justice, Lagos State Ministry of Justice, the Inspector General of Police, the House of Representatives, and the Federal Ministry of Transport, exposing them to recent development in laws, policies, and procedures that would serve to promote ethics and transparency in government. Government ethics workshops were planned but not yet implanted.
4. *Project Finance.* Two International Project Finance Conferences were held in Lagos, in July 2001 and January 2002. The first conference covered the legal framework for asset-based lending as a means of project finance, the credit analysis process, terms and definitions found in typical financing documents, and negotiation strategies. The second conference investigated project finance in three key sectors of the economy – telecommunications, power, and transportation. The relationship between privatization of major utility companies and project financing were discussed extensively, as well as prospects of major transportation infrastructure projects in Nigeria. The activity complemented International Finance Corporation and African Development Bank activities.
5. *Regulatory Reform.* This component overlapped with / complemented USAID's trade policy development activity. A WTO advisor was planned for the Federal Ministry of Commerce, and a WTO conference was envisioned. These have not yet been implemented.

(iii) Evaluation of Impact

This activity has had a limited positive impact.

In IPR, it has stimulated most of the advance in awareness and planning that has occurred in this area during the transition period. Nigeria IPR legislation, compliant with TRIPs standards, is at the final stages. However, it is hung up in bureaucratic disagreement between the two major institutions that are operationally concerned with the implementation of this law – the Copyright Commission and the Patent, Design and Trade Mark Registry at the FMC. Both agencies claim to support the IPR initiative, but seek to operate under separate commissions, while the proposed IPR law has them both operating under a unified IPR commission. The two agencies disagreed throughout the conferences.

In public procurement, the activity facilitated completion of the Public Procurement Commission bill, which was received and approved by the Federal Executive Council, and is now in the National Assembly, but not yet passed. It is likely that the consensus-building activities in public procurement contributed to the government's adoption of its "due process" policy, wherein the Budget Monitoring and Price Intelligence Unit in the Presidency must now review and sign off on all capital procurements of significant size.

In government ethics, the activity contributed significantly to the draft Anti-Corruption Bill and to the successful establishment of the ICPC.

Some criticism was expressed as to a lack of sufficient breadth of inclusion of stakeholders in this activity. For example, the bankers were left out of the project finance conferences, and participation in follow-on workshops was not as consistent as it should have been.

3.2.6 Anti-Corruption

Nigeria's unfortunate ranking as one of the world's most corrupt countries, and the damage that its rent-seeking behavior does to economic development and institutional effectiveness, make this an essential area of SO2 focus. Consequently, Casals was engaged in September 2000 under a two- to three-year, $1.53 million contract to provide support in various ways to Nigeria's anti-corruption institutions.

(i) Contract Objectives

The primary objectives of the contract were (1) to support the World Bank's *Governance and Corruption Survey*, and (2) to follow this with an information-education-communication (IEC) strategy focused on corruption in Nigeria.

- The *corruption survey* was to highlight the magnitude, concept and effects of corruption and corrupt practices in Nigeria from the points of view of three key segments of society: households, enterprises and public officials. The findings were to enable the benchmarking of indicators that would provide a basis for subsequent reviews at two- or three-year intervals.
- The survey was to be followed up by a sustained *IEC strategy*. This would enhance the ability of the non-governmental sector – businesses, NGOs, and individuals – to fight corruption. It would also improve the competence of major Nigerian Government institutions involved in the fight against corruption, including the ICPC, the Federal Ministry of Commerce, the Justice Ministry, the National Orientation Agency, the Ministry of Finance, and the Code of Conduct Bureau.

(ii) Contract Performance

1. *Corruption survey*. The Contractor engaged the Institute for Development Research (IDR), Ahmadu Bello University, Zaria, to lead a team of Nigerian research and development institutions who would execute the survey. The IDR organized a consortium of five other survey implementers, on the basis of their institutional capacity and favorable location for covering each of the six geopolitical zones.[25] An implementation workshop was held in September 2001, and the survey started thereafter. The consortium conducted the Corruption Survey in the six geopolitical zones, polling three groups: households, enterprises, and public officials. There were approximately 5000 respondents in all. The conclusion of the survey was delayed due to logistical problems in coordinating the members of the consortium and to communications technology problems. However, in October 2002 the consortium produced its final report on the survey.[26] The survey confirmed the low opinion held by the majority of Nigerians of the credibility and integrity of public institutions.
2. *Information-Education-Communication Strategy*. The survey was to be followed with an active anti-corruption public awareness program, launched through twenty well-

[25] IDR (North-East and North-West), NISER/NCEMA (Ibadan, South-West), CDS (Jos, Middle Belt), IDS (Enugu, South-East), Dept. of Economics, University of Port Harcourt/University of Uyo (Harcourt, South-South)

[26] *Nigeria Corruption Survey*, October 2002, op. cit.

publicized nationwide workshops to review the results of the survey, out of which would develop a media plan, journalist training, and development of a participatory governance and anti-corruption website.

The post-survey stakeholders workshops series has not gotten underway. However, a relationship has been established with an active NGO, the Zero Corruption Coalition (ZCC), to facilitate workshops. Similarly, the IEC strategy has not begun, but subcontracts have been concluded with several media companies for design and production of anti-corruption broadcast materials (TV and radio vignettes), public service announcements, etc.

The Contractor's Resident Project Manager continues to monitor governance and anti-corruption issues in Nigeria through notes and excerpts of cases and legal developments as they appear in newspapers, court proceedings, including recent developments in the strained relations between the ICPC and the National Assembly.

(iii) Evaluation of Impact

This kind of project is not expected to have a direct impact on diminishing corruption itself. Nor is the impact on awareness of corruption *per se* – people are already quite aware of corruption. Rather, this kind of "building block" anti-corruption activity is expected to have an impact on the *awareness that something can be done* about corruption through popular participation, and to begin to build channels through which people act to reduce corruption. It helps mobilize civil society organizations (CSOs) – indeed, gives them something to mobilize around – and widen constructive national dialogue. Indirectly, this does begin to affect corrupt activity itself, because it starts to elevate the risk of exposure and penalty.

The survey covered a numerous enough sample for it to be noticed that popular attention can be paid to this problem. The survey did establish a benchmark against which future change in the prevalence corruption can be measured. This is important because once progress can be measured, people become more enthusiastic about their anti-corruption participatory efforts. It is notable that though no prior survey had been done, the majority of respondents felt that corruption in Nigeria had gotten worse over the year prior to the survey.

In hindsight, the contract was ambitious in expecting twenty regional workshops to be conducted within the time originally allotted, given logistical difficulties in Nigeria and even civil unrest. However, such workshops can be expected to have a highly favorable impact in developing constructive public anti-corruption awareness and public participation in anti-corruption efforts. They should therefore be vigorously pursued and should be as inclusive as possible of CSOs, private professional bodies (especially accountants and lawyers[27]), shareholders associations, representatives of traditional rulers and political parties, the Anti-Corruption Committees of both the houses of the National Assembly, and state governments. Also, the project needs to work with not just the ICPC in IEC implementation, but with the other anti-corruption related agencies, the Code of Conduct Bureau and the National Orientation Agency

Finally, those institutions of government considered most corrupt (such as the Nigeria Police Force, the NCS, and NEPA) should be full participants in the anti-corruption process.

[27] The Nigerian Bar Association and the Chartered Accountants of Nigeria have both conducted their own workshops and conferences on corruption and related matters.

3.2.7 Domestic Debt Management

In Part 2 above we discussed the problems of macroeconomic policy instability and unsustainability in Nigeria. There are two basic sources of these problems: chronically excessive government spending, and failure to properly manage the Dutch disease (the effects of oil revenue inflows on monetary expansion and the exchange rate). These problems can be abated by institutional strengthening, as for example is occurring through USAID's FBO activity.

Even perfect domestic debt management cannot solve the fundamental problem of excessive government debt. However, it can help address its damaging macroeconomic effects, through (1) improving the independence of the central bank by moving it from a primary to a secondary purchaser of government debt, and (2) broadening and deepening financial markets, to increase the supply of loanable funds, so that government debt does not as extensively crowd out private sector borrowers. Furthermore, it can put pressure on the government to constrain deficit financing, because when government debt is sold directly into the market, it more immediately results in higher market-clearing interest rates. That is, the real consequences of deficit-financing policy are more immediately seen, and are likely to result in greater pressure on the government, especially from the business public, to restrain spending.

These were the SO2 team's overall goals in its activity to support the newly-created Debt Management Office (DMO), an independent agency of the MOF. USAID/N engaged the U.S. Treasury's Office of Technical Assistance (OTA) beginning in October 2000 in a $0.4 million project to build the government's institutional domestic debt issuance and management capacity.

USAID's activity complemented the activities of the World Bank and especially DFID, whose technical assistance in fact provided the original impetus for setting up an independent DMO, and which were concentrated on management of external debt. The USAID activity took over the separate and distinct domestic debt management support need.

(i) Contract Objectives

In Nigeria, when USAID's transition strategy began, the CBN was purchasing virtually 100% of newly-issued FGON debt – directly monetizing budget deficits. It subsequently sold some of this debt through an internal office to mostly state-owned banks and state-owned companies. Its independence was highly constrained. OTA and USAID/N signed an interagency agreement whose operative goals are:

- Build institutional capacity of DMO for domestic debt management.
- Strengthen the legal and regulatory framework supportive of primary and secondary government securities market.
- Develop the primary and secondary government securities market.

In the Results Framework, the most important expected quantitative indicator of success was an increase in the proportion of official domestic debt sold to the public.

(ii) Contract Performance

OTA mobilized in July 2001 a senior resident advisor of Nigerian descent, Francis Odebekun, who had extensive career experience in New York financial markets. The solid results of this activity owe much to establishing the resident advisory position and so filling it.

The following are the major accomplishments of the project so far:

- Facilitation of the critical agreement between the CBN and the MOF through which the CBN gave up its debt management function to the MOF / DMO

- Development of an extensive set of procedures, instruments, and enabling regulations to improve the DMO's ability to sell government debt into the market, expanding the investor base by making domestic currency-denominated debt more attractive to domestic and foreign investors
- Improvement of liquidity and price discovery in the government securities market
- Improvement of the organization and management of the DMO
- Improved organization and reporting of domestic debt data
- Reduction in the average interest expense on the domestic debt, relative to what it would have been otherwise
- Reduction in the percentage of domestic debt which the CBN is required to directly purchase.

(iii) Evaluation of Impact

This activity has had the most unambiguously favorable impact vis-à-vis its objectives of any of SO2's projects during the transitional period. The CBN has been removed from the debt management function, and though it still purchases an average of some 60% of new FGON debt, this is a significant improvement from the starting point.

The activity would have been able to do more if enabling law and regulation could have been adopted more quickly. However, the DMO, a new agency, faces other institutions protecting their bureaucratic turf. Furthermore, the government may not be entirely eager to give the DMO all of the authority it needs, because the result will likely be higher interest rates, albeit lower debt monetization and inflation. On the other hand, to the extent the DMO is empowered to broaden and deepen the government debt market to longer maturities and more innovative securities, this interest rate effect will be moderated.

The DMO support activity has gone beyond its original end date, but it is important that this well-functioning program be extended.

3.2.8 Export Competitiveness

The SO2 team undertook one "real sector" project, to assess Nigeria's competitive export potential in (1) selected agricultural / agribusiness products, because the agricultural sector is such an important part of the Nigerian economy, and (2) textiles and apparel, to determine how Nigeria could benefit from U.S. AGOA legislation.

(i) Contract Objectives

USAID/N engaged Chemonics, beginning in June 2001, for an 18-month, $2.0 million contract to help develop Nigerian export competitiveness in these selected sectors. The contract called for:

- Assessment of the global market for agricultural products that could be produced in Nigeria, in order to produce a prioritized list of products to investigate in more detail
- Conducting an "Nigerian Agricultural Commodity Summit" to develop consensus on priority export product areas
- Developing analyses and business plans for those selected priority agricultural products, to indicate options and actions for export expansion
- Assessment of textile and apparel production capabilities in Nigeria, and mobilization of the industry to take advantage of AGOA
- Support for the World Bank's Nigerian Private Business Sector Survey.

(ii) Contract Performance

The assessment of Nigerian agricultural exports vis-à-vis global market demand was carried out by the project through information-gathering throughout Nigeria. This culminated in the widely-attended Agricultural Commodity Summit in January. From that conference, five product groups were selected for focus. Listed in order of global market size, these were shrimp and prawns, hides and skins, cashews, sesame, and ginger.

Analyses of export opportunities for producers and processors in these areas were then prepared, and conferences were organized in late 2002 at which these findings and recommendations were presented to product-sector producers and stakeholders. All of these products were found to have realistic potential for substantial export revenue growth.

The textiles and apparel sector analysis was carried out by J.A. Austin, a subcontractor to Chemonics. A large proportion of the country's textile and apparel factories were visited by the assessment team. A final report was prepared whose principal recommendation was that Nigeria exploit its textile production capacity, because apparel made from textiles produced in the region qualifies for AGOA treatment, and that it extend into apparel production using these textiles.

(iii) Evaluation of Impact

This activity had little direct impact on Nigerian exports, though some business connections were made through the conferences. Some private sector stakeholders criticized the conferences as short on concrete business substance and action programs. Government participants wished that the recommendations could be taken to the next level, perhaps expecting significant financial support for export promotion to ensue.

The real impact of the project was in bringing together product sector stakeholders that can form public-private partnerships. Such PPPs are the foundation for improving the business enabling environment at the industry cluster level, where pressure is most effective, and are the crucial counterpart institutions to competitiveness-enhancing support activities. The activity made a significant positive start to USAID competitiveness promotion in Nigeria.

The activity's specific recommendations for export opportunities in the selected agricultural product areas area actionable and can be pursued, as will be discussed in Part 4 below.

In the textiles and apparel area, it is disappointing that the activity did not generate a powerful consensus to pass the still-delayed AGOA "visa"-enabling legislation by the National Assembly. However, while this is desirable, the view of industry participants is that apparel production does not in fact offer attractive enough returns due to other cost factors, particularly interest and utilities costs, even given AGOA, to justify the investment needed in plant and equipment (including self-provided utilities). The industry is confident that it could have pushed through the legislation had it really wanted it, but in fact it does not see sufficient profit opportunity in AGOA under present cost conditions in Nigeria. This is something that needs to be addressed by a follow-on competitiveness project, because as has been demonstrated in a number of developing economies, apparel is a reliable starting point for broader manufacturing sector growth.[28]

[28] See James Fox, "Implementing Nigeria's Export Promotion Policy", Chemonics/GBTI, August 2000.

3.2.9 Economic Policy Capacity-Building

The SO2 team sought to develop capacity in Nigerian economic policy institutional staff through some training programs. Nigerian economic analytical capacity had deteriorated markedly under military rule. The FGON requested USAID's help in technical assistance aimed at providing emergency training of staff in the economic reform and agricultural policy arenas. This included staff from the National Planning Commission (NPC) and staff involved in external debt management. USAID/N engaged Chemonics in May 2000 to provide training to economists from several agencies of the FGON.

(i) Contract Objectives

The objective of this engagement was to provide immediate training to a core of government economists coming from the NPC and elsewhere in the FGON, to enhance their policy analysis capability and expand their analytical depth. Training was to cover macroeconomic modeling, debt sustainability analysis and debt management techniques, financial analysis of projects, project appraisal in agriculture and manufacturing, and analysis of poverty and poverty measures. The initial training was to take place for 2-3 weeks in Nigeria, followed by external training in Washington DC and elsewhere for similar duration.

(ii) Contract Performance

Some 15 FGON staff economists coming from several agencies[29] attended training in two phases. The first phase, which lasted three weeks, was held in the World Bank premises in Abuja, in April-May 2000. Participants involved in the preparation of materials for the forthcoming meeting between donors and the FGON were selected. Training focused on macroeconomic techniques and models for economic projections.

The second phase, which involved about the same participants, lasted two weeks and took place in the premises of the World Bank in Washington DC in July-August 2000. Trainers were actual practitioners from the Bank. Training focused on hands-on skills such as the RMSX forecasting tool, the PRSP process, and debt management.

(iii) Evaluation of Impact

Knowledge was gained by key research and analysis personnel, addressing the fundamental problem of shallow institutional capacity. However, the courses were criticized as too short, and the analytical tools learned were not subsequently installed for participants' use in their agencies, limiting sustainability.

3.2.10 Budget Planning and Preparation

This activity was initiated in November 2002 under a two-year contract with DAI. It got off to a somewhat slow start because of a seeming lack of enthusiastic commitment by the key counterpart, the Federal Budget Office (FBO) of the Federal Ministry of Finance (MOF). The goal of the activity is to bring order to the present chaos of budget planning, by installing a permanent procedure for budget planning, formulation, and tracking. The activity is now underway and a cross-agency budget process task force has been formed which will hopefully become a permanent working group. The task force is being trained in best-practices budget procedures and these are expected to begin to be initiated immediately, for the 2004 budget process.

[29] The CBN, the EPCC, the DMO, and the FOS among others.

Given the central importance of vastly improved fiscal management to all other economic reform in Nigeria, this is a critical project. It coordinates closely with IMF and EC/World Bank budget-related donor activities, and would collaborate with key recommended USAID activities during the medium-term strategy period.

3.3 Overall Program Outcomes and Impact

The above individual activity assessments can now be summarized as to their overall impact on USAID's development goals. We look first at their outcomes vis-à-vis the Results Framework, then more broadly at their impact on the key obstacles to economic development in Nigeria identified in Part 2 above.

3.3.1 Program Outcomes vs. the Results Framework

The RF as it applies to the EG activities was presented in section 3.1 above. We can now evaluate the extent to which the activities delivered their desired results against this framework.

Table 6: **Performance of Activities vs. Results Framework**

Objectives	Indicators	Results
STRATEGIC OBJECTIVE #2		
Strengthened institutional capacity for economic reform	Key USAID-assisted policy reform papers presented to Presidential Cabinet	▪ Ten EPCC papers went to FEC or one of its members. Only a few of these directly addressed current policy issues. ▪ Policy papers from BPE, DMO, NIPC, trade policy, commercial law, and FBO activities were presented to FEC members and other ministers and senior officials
	Implementation of key approved policies, management systems and procedures	▪ Most of the activities did have some actual implementation effect, though in general less than originally planned ▪ BPE, DMO, and commercial law activities resulted in clearly positive new law / regulations and procedures ▪ NIPC project produced good recommendations that only began to be acted on ▪ Trade policy project produced good recommendations that were incorporated in government policy document but not yet implemented
Intermediate Result #2.1		
GON policy performance improved	Expert opinion of budget function improvement	▪ Project has not been in place long enough to produce this result.
	"X" value of GON debt held by GP	▪ On average 40% of newly-issued government debt is now sold to market participants outside the CBN, compared to less than 10% when activity began

Table 6: **Performance of Activities vs. Results Framework**

Objectives	**Indicators**	**Results**
	Investor survey / interviews	▪ Based on limited investor interviews, performance of DMO and BPE improved. ▪ However, BPE criticized as over-involved in implementing privatizations instead of outsourcing ▪ Dominance of government borrowing and its effect on private sector credit cost remains the major concern.
	Subsidy of GON productive capital	▪ Significant positive impact unlikely as yet
	Percentage of Nigerian imports through major ports	▪ Significant positive impact unlikely as yet
	Energy quality / cost / availability	▪ Generating capacity has at least doubled during the transition period, increasing availability, but still entirely inadequate ▪ Improvement not attributable to EG activities
	# companies privatized (total / priority)	▪ Approximately 20 of 100 Phase II companies privatized, well below desired outcome ▪ No major priority companies privatized
	Tariffs (max rate, consistency, trendlines)	▪ Significant positive impact unlikely as yet
Primary Results		
2.1.1 GON information base and technical analysis resources increased	Opinion of policymakers	▪ BPE is viewed by other policymakers as receiving lion's share of ICT assistance, with DMO second, while their agencies lack needed technical resources
	Content analysis of written products within policymaking process	▪ Content analysis shows strong expertise in BPE and DMO written products. ▪ EPCC, FMC, and NIPC written output quite weak
2.1.1.1 Nigerian awareness of corruption costs increased	Content analysis of corruption coverage in the media	▪ Formal content analysis not undertaken. However, corruption coverage in the media is common. ▪ Since anti-corruption IEC strategy not yet implemented, little impact here can yet be attributed to the activity
2.1.1.2 Trade policy TA delivered		▪ TA delivered, but impact on trade policy weak
2.1.2 Private sector influence on GON policy performance increased	Indicators in IR2.1 with auditable private sector influence on movement	▪ Not auditable, but very likely to have increased through stakeholder consensus-building activities in most of the projects, especially commercial law, anti-corruption, and export competitiveness ▪ EPCC has had some favorable impact here through public PRSP activities, but in this context much less than it should have been
2.1.3 Key economic institutions' staff performance improved	Pre- and post-training tests of performance	▪ Not formally measured. Moderate positive effect likely, through economists training activities and study tours in commercial law activity
	CEO opinion of results	▪ Not formally measured, but informal feedback positive

Table 6: **Performance of Activities vs. Results Framework**

Objectives	Indicators	Results
2.1.4 IPR better protected		▪ Awareness and consensus on best-practice regulatory processes increased. ▪ Existing law likely better enforced ▪ New law drafted and in discussion
2.1.5 NIPC services to investors improved	Investor survey / interview	▪ Significant positive impact not yet realized due to failure to implement recommendations regarding investor services
2.1.6 Legislative understanding of budget issues improved	Response consistency to budget process, roles, and responsibilities questions of Budget Committee members	▪ Relevant EG activities are too recent to have effect
	Pre- and post-test scores of content of LBRO training	▪ Not formally measured ▪ Relevant EG activities are too recent to have effect
2.1.7 Transparent privatization process established	Expert opinion on transparency of companies privatized	▪ Universal expert agreement that transparency of privatization process itself has achieved best-practice standard ▪ Remaining concern that methodology has resulted in overbidding by untransparent consortia
2.1.8 EPCC strengthened		▪ Weak activity impact

Summarizing broadly, this RF analysis suggests that the SO has been advanced strongly by three of the nine activities that have been operating long enough to have effects. In these activities – BPE, DMO, and commercial law – institutions were clearly strengthened and FGON policy performance was measurably improved, even if less than originally desired. In four other projects – NIPC, trade policy, anti-corruption, and export competitiveness – a strategic, analytical, and /or consensus-building foundation was set for SO2 impact that could be significant and will probably ensue in some measure, especially if effectively followed up. In the other two activities, EPCC and economists training, impact on SO2 objectives was weak.

3.3.2 Program Impact on Nigeria's Key Development Problems

The long-term SO2 goal is "broad-based sustainable economic growth and agricultural development". In this context we can conclude this Part 3, covering the design and performance of EG activities during the transition period, with a brief assessment of their impact "writ large" – i.e., vis-à-vis the four critical obstacles to Nigeria's economic development elaborated in Part 2 above.

Table 7: **Summary of Impact on Key Economic Development Obstacles**	
Critical Obstacle	**Activity Impact**
1. Statism and rent-seeking	▪ Moderate positive impact through anti-corruption, with increased awareness from survey. Needs follow-through. ▪ Moderate positive impact through commercial law activity, with establishment of ICPC and draft Public Procurement Commission law and procedures manual. ▪ Significant positive impact through BPE, with establishment of transparent and publicized privatization process. In addition, privatizations themselves directly diminish statism. ▪ Potential significant impact through FBO project. ▪ EPCC, once it moved into PRSP facilitation, could have had an impact, but proven ineffective
2. Unsupportive business enabling environment	▪ Positive impact from DMO to the extent that it helps discipline budget deficit financing and improves availability of business finance ▪ BPE activities ancillary to privatization have had a positive impact on the regulatory environment in utilities, labor law, environment ▪ The trade policy activity has failed to have the desired impact here as yet. Needs follow-up. ▪ The NIPC activity has the potential for positive impact, if recommendations had been implemented, but not realized. Needs follow-up. ▪ Export competitiveness made only a start in this area. Needs follow-up.
3. Unstable macroeconomic policy	▪ The EPCC activity was expected to be the primary contributor in this area, but failed ▪ The DMO project helps indirectly. Needs extension. ▪ Expected significant impact with FBO project. ▪ Economists training had some minor positive impact
4. Democratic transition	▪ Consensus-building activities in a number of projects have built some popular understanding of the reform process and needs ▪ However, specific public awareness focus has been limited to the BPE project ▪ In general, insufficient attention has been paid to consensus-building in the National Assembly ▪ This obstacle needs greater activity focus

Again we see some significant impact from this overarching point of view, and some disappointments. This framework particularly helps prioritize activities for continuation and follow-up, leading us to the following major part of this assessment.

4. Recommendations for Medium-Term Country Development Strategy

In this Part 4 we take the conclusions of the preceding Part 3 as to the performance and impact of EG activities during the transition period in terms of the Results Framework and the critical obstacles to Nigeria's development, and draw lessons learned, the implied success prerequisites, and programmatic recommendations.

4.1 Lessons Learned from the Transition Period Program

In this section we derive lessons learned from implementation of the EG activities program in Nigeria during the transition period. We look first at what succeeded, and why, then identify impediments to effective impact.

4.1.1 What Worked, and Why

Three activities can be rated as clear successes – BPE, DMO, and commercial law. What lessons can be drawn from these successes?

- The activities were well-focused on the operations of high-leverage agencies. Their goals were not overly broad, but well-defined, operational, agreed across government, and agency-specific: the BPE for privatization, the DMO for debt management, and the ICPC and the to-be-established Public Procurement Commission, to a lesser extent, for anti-corruption.
- Effective leaders of counterpart institutions are important in success. Both BPE (Nasir el-Rafai) and DMO (Akim Arikawe) have capable, reform-oriented leaders who have inspired their agencies with a clear sense of mission, and supported the installation of effective managerial organizations.
- Capable, western-trained, resident advisors were critical to the success of both the BPE and the DMO. Significantly, these advisors were Nigerian in origin.
- Well-focused technical / industry expertise was critical to success in all three of these activities, as well as to what success did come in the export competitiveness, NIPC, and trade policy activities. Industry experts gain local counterpart support because their experience makes them credible and constructive in direct applications.
- ICT support is a clear attribute of the two successful agencies, BPE and DMO.

4.1.2 Impediments to Effective Impact

To some extent the impediments to effective impact are the reverse of the factors just outlined to which success can be attributed. Nevertheless, it helps to review and reinforce them from the negative point of view.

- Weak counterpart leadership compromised success at the EPCC, at the NIPC for business enabling environment improvement, and the FMC for trade policy.
- Weak or overly broad mission and role definition in counterpart agencies. Though the EPCC's mandate seemed clear, it was not, and even at the outset overlapped with that of other senior organs of government, including the FEC and the Office of the Chief Economic Advisor to the President (CEAP). Its responsibility was also quite broad and not well-tied to an operational function. The NIPC's mandate and approach in investment promotion needed was poorly focused, including the need to eliminate its control functions. Substantial inter-bureaucratic conflict over authorities and responsibilities, and too-broad focus, compromised the impact of the trade policy project with the FMC.
- A lack of application of capable focused technical / industry expertise hurt the EPCC activity
- Weak ICT systems characterized the institutions where activity impact was weak, including EPCC, NIPC, and trade policy.

Some impediments are generic and need to be kept in mind during activity design and oversight.

- Insufficiently operative project focus. The trade policy project suffered because while it provided a research foundation, much of the work was too general and recommendations too broad. The only really operative recommendations were with respect to organizational structure. The export competitiveness project also needs to be taken to a deeper level in this sense, but is probably in better shape to do so.
- Overmanagement by the counterpart agency, and under-cooperation with complementary public and private sector institutions. While a strong institution, BPE has ended up trying to do too much. In a sense it has overshot its mission and needs to outsource functions to the private sector . The EPCC was almost entirely ineffective because of its failure to develop means of collaboration with other government and civil society institutions.
- Lack of effective involvement of civil society. Though everyone agrees this is important, and indeed this is the basis for major donor efforts (World Bank / PRSP, EC, DFID), it has not yet yielded substantive results.
- Policy coordination and reform pressure are less effective at the "umbrella" level. The EPCC did not work in part because its focus was too broad. The export competitiveness project was more effective at the product group network level than at the all-agriculture conference. Sector-level task forces and PPPs are more effective.

Other impediments to impact are beyond the direct influence of USAID activities.

- Lack of commitment to reform from senior levels of government.
- Resistance to change, vested interests, poor government organization and mobilization, weak capacity.
- Communication and logistics; civil conflict
- "Birth pangs" of the transitional democracy.

4.2 Success Prerequisites for the Medium-Term Strategy

These lessons learned imply success prerequisites for USAID's medium-term strategy in Nigeria. These are outlined below, first with respect to economic governance, then with respect to private sector business development.

As a general proposition, USAID is most successful in EG activities when it sticks to its comparative advantages – advantages which have emerged organically from the self-interest of the American taxpayer. These are (1) operational efficiency in the "business of government", and (2) enabling a free and vibrant private sector. No other donor approaches USAID in these focus areas.

4.2.1 Success Requirements for Improved Economic Governance

There are three fundamental success requirements for effective economic governance improvement activities, i.e., for the development of capable government agencies that efficiently deliver essential services to the private sector:

(1) The local counterpart agencies must be capable of being effective partners,

(2) The activities must have an operational, business process focus, and

(3) A public constituency for improved economic governance must be contemporaneously built.

4.2.1.1 Effective Local Counterpart Agencies

From the above discussion of lessons learned, we can derive the following requirements for success in working with local counterpart agencies.

- The agencies must have good leaders, and their single leadership authority must be clear. The BPE and DMO have good leaders. The NIPC has not succeeded, despite the presence of one good leader, in part because leadership authority is split, and partly removed from immediate operations.
- The agencies must have clear, focused missions, not duplicated or coveted by other deeply-rooted agencies. Put alternatively, the agencies must have a clear political mandate to carry out their putative responsibilities.

4.2.1.2 Operationally-Focused Activities

Operationally-focused economic governance activities are "high leverage": they are more efficient in delivering impact than those devoted to broad policy development or general capacity-building. They tend to have concrete outcomes – installed, improved government business processes – and they leave behind sustainable tools and directly relevant staff capacities. Furthermore, especially in the Nigerian environment, every improved operational process reduces the scope for corruption in government, because people must work through well-monitored systems. It also reduces the cost of government personnel and overhead, contributing to paramount macroeconomic needs. Attributes of success in operationally-focused activities include:

- Counterpart agencies must have a narrowly-defined and unique operational responsibility. Good examples of such roles are budget planning and execution, public expenditure management, public procurement, foreign investor services, privatization, debt management, tax administration, customs administration, business registration and permitting, and statistics collection.
- Operationally-focused activities need full-time resident experts, if possible returnees, and industry-focused international experts for regular short-term special-purpose assignments.
- If the development of enabling policy or law is needed, as is sometimes unavoidable, the activity's specified goal should be the further specification of implementing regulations and the establishment of operational agencies.

4.2.1.3 Public Constituency-Building for Reform

Public constituency-building for reform is often promised, almost clichéd, but rarely sufficiently delivered. In EG programs, media-related activities capable of building broad public awareness are generally limited to programs supporting the privatization process. Training of economic journalists is also typical. These are effective to a degree. Civil society programs probably do more, but are focused more on democracy-building than economic reform. In Nigeria, however, with poverty reduction the paramount economic goal, and better allocation of government resources a large part of the solution, civil society and economic growth constituency-building converge.

Where statism and rent-seeking are the greatest problem, as in Nigeria, building a strong public constituency is essential to the change process, because there are so many vested interests in the establishment which are against it. Democratic demand for reform must be stimulated so it will be applied. Successful public constituency-building activities must be:

- Broad in reach, so they must be electronic mass media, i.e. mainly TV-based.
- Attention-getting, so they must have high-quality production values.
- Sustained, so they must be properly funded and staffed.

4.2.2 Success Requirements for Non-Oil Private Sector Business Development

Success in non-oil private sector development means in Nigeria addressing the following major areas of the business operating environment. USAID need not take on all of these.

1. *Effective property rights regime*
   - In the Nigerian context, an operational focus, for example in collateral registration and collateral database access, is likely to have greater impact than broader judicial training programs or the drafting of new bankruptcy and secured transactions law.
   - Land use reform is also important and its proper registration is a critical business process
2. *Liberal trade and tariff policy*
   - Though difficult to attack, as seen in the reviewed EG activity, this area is an unavoidable priority for success and must continue to be addressed
3. *Access to affordable business finance*
   - Also a broad but critical success priority. A number of donors are addressing.
4. *Critical Infrastructure Improvement*
   - Access to utility services is a success priority for business competitiveness across the board. A number of donors are addressing.
5. *Real business operations needs*
   - Connections to markets, greater market access
   - Improved product quality

Programmatic priorities in these success areas will now be described.

4.3 Specific Programmatic Priorities and Recommendations

Nigeria has enormous economic growth challenges, and as the above discussion of success prerequisites has shown, many problems that need to be attacked. At the same time, the USAID EG activities budget is limited. In this final intrinsic section, we provide prioritized programmatic recommendations first in the economic governance area, then in the private sector business development area. We then show how these recommended activities address cross-cutting themes in the USAID/N strategic framework, and finally how they coordinate with and support the programs of other donors.

4.3.1 Economic Governance

1. Public Expenditure Management: Single Treasury Account

According to the EC, "The quality of management of public finances in Nigeria represents the principal constraint on development"[30] (EC 2002). The IMF has a similar view. If this is the case, then this must be one of our top priorities for attack.

The establishment of a single treasury account, into which tax revenues will be advanced and out of which all government payments will be made, is a high-leverage business process improvement. Though it is ambitious and requires change in many present budget procedures of the Nigerian government, it has the advantage of a clear, easily understandable end result of unchallengeable value. Shared commitment to this goal will pull in and pull along these many other desired changes in fiscal management. In the Nigerian context, achievement of a single treasury account, and all of its attendant business process improvements, directly addresses priority development problems: rent-seeking, budget balance, and availability of funds for poverty-reduction programs.

This activity would closely complement the present IMF assistance to the Office of the Accountant General, EC and World Bank assistance through the EMCAP project in the Ministry of Finance, and the recently-initiated USAID budget planning project in the Federal Budget Office.

A single treasury account activity would require one full-time expert international advisor who would recruit a local team of 5-10 programmers and support staff, as well as a local professional counterpart responsible for procedures training of system users. Operating costs would be approximately $0.5 million per year, and it would be prudent to expect the project to last three years. For acquisition of computer hardware and software for the operating system, a total of $250,000 should be allocated. The system developed would be an "interim" system, to be replaced eventually by a full-fledged treasury management system, perhaps funded by the EC or World Bank. The USAID activity would design the specifications for the permanent system and hand off to that system at project end.

This costing assumes complementary support from the other mentioned projects in the development of enabling implementing regulations and budget execution rules and procedures to use with the system.

2. Public Procurement Commission Operations

The commercial law project should be extended, or followed up with another activity, to ensure that the Public Procurement Commission, once it is established, is able to operate with competence and effectiveness. Given Nigeria's corruption problem, which is particularly prevalent in government procurements, this is a high-leverage activity in addressing critical obstacles to reform.

Support involves ensuring the development of all the processes, forms and information manuals that government units doing procurements need, training procurement managers on legal requirements, and enabling efficient response to their questions. Internet- and network-based communication is essential, for convenient access to requirements and forms, and filing of procurement process reviews.

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[30] *Nigeria-European Community Country Support Strategy and Indicative Programs for the Period 2001-2007*, July 2002.

Assuming a capable Director of the Public Procurement Commission, such a project could be executed using a single international expert advisor coming in and out on a part-time basis over the course of one to two years. Printing and website costs would be borne. Acquisition of some ICT would be necessary. A reasonable budget would be some $0.3 million per year, plus $100,000 additional in the first year for computer equipment.

3. Public Enterprises Financial Management Assistance

The transparency and credibility of the Nigerian state would be radically improved in the eyes of the public, and political conflict would be abated, if auditable, comprehensive financial reports from major state enterprise entities could be published on a monthly basis. In particular:

- The Federation Account[31]
- NNPC
- NEPA

USAID could offer a business-oriented, public enterprises financial management activity. There is little doubt that the accounting and financial reporting procedures and tools of these entities require substantial improvement. In addition to promoting transparency, this activity would complement ongoing fiscal management activities, help prepare public enterprises or parts of them for privatization, promote collection of their tax arrears, and support their restructuring and price rationalization.

Such a project could be implemented with two international advisors who would train small teams of local financial professionals. Two years could be allocated to the project, at an annual budget of approximately $0.9 million and a first year application computer equipment budget of $150,000 ($50,000 for each entity).

4. Public Constituency-Building for Economic Reform

As discussed above, strong democratic pressure for reform is essential to success in all developing countries, none more than Nigeria. The public must be educated, respecting its intelligence to understand how money is spent and how the benefits of reform outweigh the costs.

The most effective way of investing in this is to catch people where they spend much of their leisure time, even many poorer people – in front of the television set. In order to leverage resources, the campaign need not go for saturation. Rather, it should be designed as if one were selling a particular carefully-targeted product and executed in a highly professional manner. This means avoiding short-term grant-based media activities, and instead engaging local marketing talent to source western-designed art and production materials.

The real issue here is getting the western talent to Nigeria. However, with a strong local counterpart to manage the project on the ground, which can probably be found, a capable international expert could supervise and guide the project effectively on an in-and-out basis. This would also conserve funds for media.

An 18-month project could be considered, extendable if effective. Subject to a rough guess as to the cost of media in Nigeria, such a project could work within a $0.8 million annual budget.

[31] The Federation Account is the account into which all government oil-related revenues are paid. After allocations for NNPC capital projects and cash calls, these revenues are divided among the FGON and the state governments according to a fixed formula.

5. *Trade Policy Development*

The initial trade policy project was disappointing in its results, but did set a foundation by providing an operative blueprint of the policy development and implementation structure. If this governance structure could be implemented, and a strong Senior Trade Policy Advisor appointed by the government, then a follow-on trade policy support activity would be in order. Nigeria's abysmal trade policy is so crucial to its failed economic development that even with the risk of frustration in activity impact, this area must be a priority for SO2.

This activity could also be used to support ECOWAS, which is headquartered in Abuja. As far back as the seminal NESG summit in 1993, business cited size of market as one of five its priority economic issues.[32] In answering "what would cause your company to expand aggressively and undertake major new investments", the first non-macropolicy point was "adequate market for product – make ECOWAS functional." The failure of ECOWAS to conclude planned free trade agreements, promote a common external tariff, and harmonize trade policies (not to mention establish a common currency) is commonly cited as a real obstacle to development of the Nigerian private sector. Regional integration in West Africa into a single economic space is highly desirable for real economic and political reasons.

This project could function with a single full time resident expat advisor and a small local team. An economist, working on a short-term in-and-out basis, could help guide the needed analytical work, which could be coordinated with the DFID support being provided to the CEAP in the form of a macroeconomic advisor. This project could be set for two years and would cost about $0.6 million per year.

The following three activities are recommendable in part because their counterparts are recognized reform-oriented leaders, fulfilling a key activity success prerequisite

6. *National Assembly Budget and Economic Policy Research Capacity*

This activity would establish a Budget and Economic Policy Office in the National Assembly, which presently lacks any institutionalized research and analysis capability. Models are the US Congress' Joint Economic Committee and Congressional Budget Office. This capability would improve legislators' understanding of budget and economic issues and their ability to react in a constructive and efficient way to administration proposals.

The counterpart would be the head of the Senate Budget Committee, Senator Udo Udoma, a committed reformer and popular leader.

This project would require a resident economist as advisor, and short-term support from a consultants with Capitol Hill experience. Congressional staffers can be made available for such assignments. It would also involve some ICT enablement and website development as one-time investments. A field trip to Washington for a selected group of legislators should be part of the project, and creates additional political benefits. An 18-month project would have an average annual budget of about $0.5 million.

7. Tax Administration Reform

Creation of a businesslike, professionally-organized, trained, equipped, and paid tax administration authority is a foundation stone of economic reform. Ballama Manu, head of Inland Revenue, is a reformer and capable leader. The only problem with tax administration reform support is that it is expensive. One full-time resident western-trained advisor would be

[32] See Utomi, op.cit., page 53

needed (it would be excellent if this were a Nigerian returnee), and the equivalent of at least one more full-time advisor is needed in TDY assistance for a variety of capacity-development needs. Training and education media are required. The most costly outlay, however, is for the minimum equipment necessary for an effective tax administration to function. This amounts to several million dollars. It is likely that a proper tax administration support project in Nigeria would cost approximately $10 million over two years.

This activity should therefore be considered optional, depending on the possibility of coordinating with other donors for joint funding, or of obtaining special initiative USAID funds.

8. State Government Financial Management Assistance

Given Nigeria's federal structure, with significant power at the state level, there is a need to engage in better business processes also at the State level. The Lagos State Commissioner of Finance, Wole Edun, came from the private financial sector (IBTC) and is a reformer. An optional financial management improvement project could be considered with his agency. Such a project could develop tools and procedures that could be rolled out to other Nigerian state governments.

9. DMO Support

As discussed above, the valuable and effective DMO support project needs to be extended so that it can continue its impact. A further 18 months should be adequate, and the annual budget should be about $0.4 million.

4.3.2 Private Sector Business Development

10. Business Investment Environment Improvement – NIPC Support

A commercial legal and regulatory environment improvement activity could be housed in the NIPC. USAID could condition this support on NIPC's commitment to adopt a managerial reorganization plan to set the foundation for it to become an effective institution. Since the NIPC should become the chief advocate and champion of reform of the private sector legal and regulatory environment, it makes sense for it to be the counterpart agency. In general the focus of the activity would be on reducing investment barriers, and to institutionally strengthening the NIPC, following on the recommendations of the earlier SO2 activity.

The activity would have an operational focus in improving and streamlining required business registrations for business formation, tax, statistical reporting, and loan collateral, in coordination with other agencies such as the Corporate Affairs Commission and the tax administration.

This project would require one resident expat commercial legal advisor, one foreign investment promotion advisor, and short-term assistance from a commercial registry technical expert. ICT equipment would need to be provided to the NIPC.

Prior to committing to this project a commercial legal and regulatory assessment should be done, to establish that the need is justified and assistance can be effectively employed.

Such a project would cost about $1.0 million per year. An alternative, less expensive option would be to support the NIPC with a single foreign investment promotion advisor, responsible for shifting the agency's focus to investor customer service / facilitation and advocacy of enabling environment reform. This could be done for $0.4 million per year.

11. *Agricultural Commodity Export Promotion*

USAID's Concept Paper identified the poor performance of the agricultural sector as the #1 contributor to the poor state of Nigeria's economy. Our approach must be to rebuild what was once a powerful agricultural economy – to move it from subsistence back to commercial viability and even vibrancy.

To succeed, Nigeria's agriculture sector needs effective cooperative marketing and extension services agencies, and for this it can draw lessons from its own history. During the colonial period, despite its many drawbacks, Nigeria was a highly (though narrowly) export-oriented economy with globally-respected institutions for marketing its exports, in particular the Nigerian Produce Marketing Company (NPMC), a London-based non-profit body owned by the four large commodity-specific Nigeria-based marketing boards. This structure gave Nigeria a considerable degree of market power through the NPMC, while providing extension services for product quality improvement through the marketing boards, which guaranteed farmers seasonally-fixed prices and gathered, stored, and partially processed product.

This well-functioning structure was gutted after independence by public sector takeover and "competitive communalism".[33] Profits that had been plowed back into quality improvement were drawn off to fund government budgets and disappeared in rent-seeking. Eventually the marketing boards gained a reputation as wasteful and corrupt, and were eliminated.

Nigeria needs to recreate the "market solution" that worked before. This time, however, instead of the marketing board structure being owned by a foreign colonial master on the one hand, or rent-seeking Nigerian government on the other, the structure must be cooperatively owned by private producer associations. Assistance would be targeted to strengthening these associations with a goal of setting up the cooperative marketing agency fully for the benefit of the growers.

This agricultural competitiveness project would need to engage a full-time resident agricultural commodity marketing advisor to help establish the reborn NPMC, and several agricultural product area specialists to develop effective commodity-defined marketing cooperatives and their extension service and processing and storage capabilities. The latter would also be expected to facilitate commodity-defined producers' association strengthening.

In a partial sense – purchasing commodity output at pre-agreed prices from large numbers of independent outgrowers – this approach is already at work in Nigeria through the activities of certain major industrial buyers who do not wish to own and manage raw materials production. Michelin currently buys from several hundred small rubber planters, Afprint from 7,000 cotton farmers, Nigerian Tobacco Companies from tobacco growers, and the breweries from graingrowers.

This project would need to be budgeted at perhaps $1.7 million per year, and should be given a life of at least three years, for a total project cost of about $5.6 million. The cost of this project could be properly borne by the agricultural development budget, rather than EG funds.

This is a critical priority project.

12. *Microenterprise Development*

A microenterprise project would attack the problem of the availability of business finance, and of business development services, to the small business sector. In Nigeria it would have a direct positive effect on poverty reduction, support the development of the financial sector, promote private enterprise, and mobilize popular business sector support for enabling environment reform.

[33] See Pat Otomi, *Managing Uncertainty: Competition and Strategy in Emerging Economies*, 1998.

Such a project would leverage experts in microfinance institutional (MFI) development, business association strengthening, and business development services delivery. USAID's approach to microfinance and microenterprise development now has well-established best practices and is effective. Nigeria is a prime candidate for such a project, which could anticipate at least a three-year life and cost perhaps $1.3 million per year, and a total of about $4.0 million, including a grants program for MFI support.

13. *Industry Competitiveness*

A competitiveness project would work through public-private partnerships at the industry cluster level to identify cooperative needs, such as research and development facilities, trade fairs, financial resources development, and regulatory improvement. The activity should certainly build on the AGOA-related work already done in the textile-apparel sector, because apparel can be the forward edge of non-oil manufacturing sector emergence in developing countries. It would also carry forward the agribusiness (as opposed to agricultural commodity) work of the earlier SO2 project. An analytical foundation would be developed for other sectors and further opportunities pursued.

Competitiveness is now a well-defined development field and such a project should be employed in Nigeria. It could be budgeted at about $1.7 million per year, for a total of $2.6 million over 18 months.

The following table summarizes the thirteen recommended activities.

Table 8: **Summary of Recommended Activities**

#	Activity	Length	Project Cost *$MM*		
			Annual Operating	One-Time	Total
Economic Growth - Priority					
1	Single Treasury account	3 yrs	$0.500	$0.250	$1.765
2	Public Procurement Commission	2 yrs	0.230	0.100	0.560
3	Govt enterprises financial mgmt	2 yrs	0.950	0.150	2.040
4	Trade policy	2 yrs	0.570	0.030	1.170
5	Microenterprise development	3 yrs	1.360	0.250	4.340
6	DMO support extension	18 mo	0.420	0.000	0.630
	Subtotal EG Priority		**4.040**	**0.780**	**10.510**
Other Economic Growth					
7	Public reform constituency-building	18 mo	0.810	0.000	1.210
8	Industry competitiveness	18 mo	1.720	0.000	2.580
9	Business investment environment - NIPC	2 yrs	0.960	0.075	2.000
10	National assembly budget office	18 mo	0.520	0.100	0.880
11	State government financial management	18 mo	0.480	0.075	0.800
	Subtotal EG Other		**4.480**	**0.250**	**7.450**
Other Funding					
12	Agricultural commodity exports	3 yrs	1.740	0.400	5.630
13	Tax administration	3 yrs	1.600	5.000	9.790
	Subtotal Other Funding		**3.340**	**5.400**	**15.420**
	Total		**$11.860**	**$6.430**	**$33.380**

Summarizing, the annual budget for the proposed EG-funded priority activities is about $4.0 million, and other desirable activities total $4.5 million annually. Perhaps some of these could be funded out of other sources. It is assumed that other funding sources would accommodate one or both the final two activities, especially the agriculture commodity exports project.

4.3.3 Cross-Cutting Themes and Cross-Sectoral Collaboration within USAID

Cross-cutting approaches within USAID for the EG activities are mostly associated with the D&G sector and gender, and possibly with Health & Education.

4.3.3.1 <u>Democracy and Governance</u>

- Public awareness programs should be coordinated across sectors within USAID.
- The labor movement should be involved as reform stakeholder. Adams Oshomhole is reform-minded and has background in the Vision 2010 PPP.
- The difficult problem of community-level conflict management is closely tied to community group rent-seeking. It can only be addressed through economic / local business development. Good microenterprise development programs can help, as well as improved agricultural commercialization.
- The anti-corruption IEC program, as it rolls out, should be coordinated with D&G civil society efforts

4.3.3.2 <u>Gender</u>

- Microenterprise development programs tend to strongly promote women entrepreneurship and can be coordinated with other USAID/N gender programs.
- Economic governance strengthening programs should work cross-sectorally to address the under-representation presence of women in senior government positions in Nigeria.

4.3.3.3 <u>Health and Education</u>

- If the PRSP process gets off the ground, EG could collaborate with Health and Education in supporting it.

This topic is further addressed in the concluding Part 5 below.

4.3.4 Coordination with Other Donors

An assessment of USAID EG activities coordination with other donors is provided, in answers to three of the major evaluation questions of this study, in the concluding Part 5 below. In the following table we summarize the major donor programs that relate to SO2 goals, identifying whether they complement USAID EG activities or coordinate/collaborate with them.

Table 9: **Summary of Cooperation with Other Donors**

Donor	Coordinating Programs	Complementary Programs
World Bank	▪ Fiscal management ▪ Rural development ▪ Private business development ▪ Better macroeconomic policies through "Policy Notes"	▪ PRSP strategy ▪ BPE/privatization
DFID	▪ Macroeconomic policy (Policy Notes, support to CEAP) ▪ Rural development	▪ PRSP strategy (including "Drivers for Change") ▪ State-level growth programs
EC	▪ Federal fiscal management (through EMCAP)	▪ State-level growth and transparency programs ▪ Statistics improvement ▪ Community-Based Poverty Reduction program
UNDP		▪ Local business development programs
IMF	▪ Fiscal management	

5. Summary: The Evaluation Questions

The following nine comprehensive "evaluation questions" were indicated in the scope of work for this assessment. In most respects they have been addressed above. They form a useful basis for a concluding summary of this report's findings.

1. Have USAID funded activities effectively contributed to economic policy reform, promoted competitiveness and supported anti-corruption efforts?

The Economic Growth activities during the USAID/N transition period have contributed strongly to economic policy reform in the areas of privatization and debt management. They have contributed moderately in certain commercial law-related areas (especially public procurement and intellectual property rights), and to a relatively minor extent in trade policy, foreign investment promotion, economic policy coordination, and policy staff capacity-building. The recently-begun budget planning activity promises to have a strong positive effect on economic policy reform, and an important indirect impact on anti-corruption.

To a moderate degree, the subject EG activities have contributed to anti-corruption. This occurred through the commercial law project, which helped promote the establishment of the anti-corruption commission (the ICPC), and through the anti-corruption survey activity. A significantly greater effect in this area can be expected from the latter activity if it successfully completes the information-education-communication program as planned.

USAID EG activities have contributed relatively less to promoting competitiveness. The trade policy activity had some bearing on this area but was not successful. The agribusiness and textile/apparel export promotion project only had time to establish a foundation for competitiveness promotion.

2. What opportunities are there to enhance the effectiveness of these programs through greater collaboration among implementing partners?

Collaboration among implementing partners in USAID/N's EG activities is reasonably good, at least informally. Implementing partners are aware of each others' activities and have established good channels of communication among themselves for information exchange. However, there is no formal mechanism for collaboration, such as a routine meeting of EG implementer COPs, and a substantive monthly meeting of this type is recommendable.

The EG activities have functionally and institutionally distinct focus areas, so there is presently no obvious area for greater collaboration. Going forward, however, certain activities would need close collaboration, in particular:

- A further trade policy support activity at the FMC would need to closely collaborate with the prospective commercial law / investment environment activity at the NIPC, especially with respect to WTO requirements
- The proposed agriculture commodity export promotion project should collaborate closely with the microenterprise development project, and also with the industry competitiveness activity
- The existing FBO project should collaborate closely with the prospective single treasury account project, and also with the government enterprises financial management, state government financial management, and National Assembly budget office activities

A routine weekly meeting of a cross-implementer collaboration team for each of these three groups should be required.

3. What is the potential for cross-sectoral approaches between economic reform, competitiveness and economic governance with agriculture, microfinance, infrastructure within the EGI Office and other Offices of USAID/Nigeria, including: Health and Education, e.g. around the PRSP and Democracy and Governance, e.g. building support for reform?

Nigeria is clearly a case where USAID's overall economic growth goals demand cross-sectoral collaboration between the EG and D&G teams in particular, because forceful democratic pressure is the only tool powerful enough to transform the statist, rent-seeking establishment. The recommended public constituency-building for reform activity that is so critical to the achievement of SO2 goals should be fully coordinated between EG and D&G, and its funding shared. This is a two-way street, as D&G activities typically under-utilize economic reform as an effective driver of civil society development. The anti-corruption EG activity also should be closely collaborated with D&G, especially as it enters the stage of public awareness-building through the IEC campaign.

The PRSP process, and similar activities being undertaken by DFID and the EC, are in fact a collaborative economic growth-civil society exercise, which by reducing the diversion of poverty program budgetary funds by the rent-seeking state will improve the material, health, and education standards of Nigeria's population. If the PRSP process can be gotten off the ground by the World Bank and the FGON, then the EG and Health & Education sectors of USAID should coordinate their participation in it.

Full cross-team collaboration is necessary within the EGI office:

- Microenterprise development is a recommended priority EG activity, and should be part and parcel of any microfinance project

- The recommended agricultural commodity export promotion activity clearly pursues both economic growth and agriculture sector development goals and should be a unified project
- The recommended government enterprises financial management activity should be integrated with infrastructure team activity in the utilities delivery area, especially as concerns the restructuring of NEPA.

4. How does USAID's economic reform, competitiveness and economic governance strategy fit into similar programs and the agenda of bilateral and multilateral donors, NGOs, and the Government of Nigeria?

Collaboration among donors in Nigeria is unusually good, and the EG activities are generally well-coordinated with those of other donors. A particularly positive example of this is the USAID/US Treasury support to the DMO, which came along after DFID and the World Bank had already been supporting the debt management function in the CBN for some years. By focusing strictly on domestic debt management, the USAID activity complemented the existing donors' activities and allowed them to concentrate their assistance on external debt management.

USAID's new FBO activity fits well with the IMF's assistance to the Office of the Accountant General, and with the World Bank / EC EMCAP initiative. USAID EG activities have contributed directly to the World Bank private sector assessment and anti-corruption survey activities, and with IFC/FIAS in identifying foreign investment obstacles. USAID's BPE support activity critically facilitated the major World Bank assistance program in privatization, and support in this area can now be handed off to the Bank pogram. There is no EG activity which has conflicted with that of another donor.

Most of the major donors are presently engaged, like USAID, in medium-term strategic planning exercises, and all are interested in sharing each others' plans in order to improve complementarity and synergy.

Various donors and NGOs have support activities underway in the real sector, including GTZ, which is working with the Niger Delta Development Commission, and UNDP, in SME incubators in the urban informal sector and in microcredit. These activities are geographically focused and operate autonomously and effectively without much cross-donor coordination. Shell Oil's Community Development Program has active business development, microcredit and construction supplier credit programs in the Niger delta, and USAID can leverage these activities in its own microenterprise development project.

The fulfillment of the anti-corruption activity, in its information-education-communication (IEC) phase, should complement the activities of a number of NGOs working in this area.

Donors in Nigeria were prepared to coordinate macroeconomic policy support activities around the EPCC, and economic growth-related poverty-reduction work around the PRSP process. But both of these unifying initiatives failed. As a result, donors are now independently initiating thematic development efforts that are not closely-coordinated, though this does not necessarily present a problem. For example, DFID's "Drivers of Change" project will surely duplicate some of what a PRSP process should do. The EC is trying to avoid overlap by focusing its economic and institutional development work more at the state level. Meanwhile, the FGON is proceeding with its own NAPEP program, and though this "home-grown" program has its flaws, the World Bank is considering whether engaging with it could be the best operational strategy for attacking the PRSP, or at least pursuing shared poverty-reduction goals.

5. How are USAID/Nigeria's economic reform, competitiveness and economic governance activities viewed by bilateral and multilateral donors, NGOs, and the Government of Nigeria?

All of the major donors view USAID as a leading and critical player in Nigerian development, and cooperate with its activities.

The FGON's attitude appears to be mixed. It is most impressed with USAID support to the BPE and DMO, because of the level of assistance provided in relation to the needs of those agencies, notably including the equipment contributions. Other FGON agencies, such as the Office of the CEAP, EPCC, and NIPC complain that they have received short shift in comparison, and that they could be much more effective if they were provided with the degree of support given the BPE and DMO. (As we have seen, however, there are other serious problems in these agencies that must be addressed to make support effective.) The Ministry of Agriculture and Rural Development expresses frustration that USAID has not yet extended the agribusiness export competitiveness project and deepened its support of this industry. There are indications that USAID's ability to influence the government in high-level economic reform is less than desirable, evidenced for example by the MOF's seeming lack of enthusiasm in embracing the new FBO project.

The anti-corruption activity has seen engagement with several NGOs, and as this activity moves into its IEC campaign, substantial further collaboration is likely. Some business associations were stakeholders in the agribusiness and apparel export promotion activity. Otherwise, EG activities have not yet extensively engaged NGOs or PPPs in Nigeria.

The National Economic Summit Group, probably the country's most prominent PPP for economic policy, has expressed frustration at not gaining major USAID support to promote policy coordination. However, despite its capabilities, we do not recommend major programmatic support to the NESG, because it operates at too broad a level for high-leverage USAID priority investment. It does fulfill a useful and public reform monitoring role, and USAID should participate in and be a sponsor of its major annual meetings.

6. What is USAID's comparative advantage in economic reform, competitiveness and economic governance when viewed in the light of activities initiated by other bilateral and multilateral donors, NGOs, and the Government of Nigeria?

USAID's broad comparative advantages are in government institutional strengthening and promoting private sector-led growth. USAID has the most impact when it targets its activities in these areas at operational levels, where they can have sustainable effects, rather than at broad consensus-building (except in public awareness activities). In a vast bureaucratic environment like Nigeria's, support must be highly selective, focusing on agencies and institutions in key leverage positions.

Most of the transition period activities, and all of the future activities recommended by this assessment, focus on improving the "business of government" in critical areas, and on operationally-oriented private sector development.

These activities complement the comparative advantages of other donors. The IMF will continue to focus on monetary and fiscal policy, and its operational activities in the fiscal area can coordinate with USAID's. The World Bank has advantages in leading major assessments of key economic development issues, as in poverty reduction, private sector business, obstacles to investment, and corruption in Nigeria. USAID's comparative advantage is in developing and implementing programs that actually address key issues outlined in these assessments.

USAID also has an advantage in the way it executes projects – in particular, by installing long-term resident experts closely tied to key counterpart agencies. This allows relationships of confidence to develop, and experts to become involved in the day-to-day work of the agency. USAID can in this way help coordinate the support of other donors in the agency. USAID also is effective at fast and flexible mobilization, allowing it quickly to get programs up and running that set a foundation for sustainability and develop interim solutions that can be handed on as institutional capacity is developed and major systems funding secured.

In private sector development, no other donor has planned comprehensive competitiveness work. This is critical to the agricultural and industrial sectors, and a clear USAID comparative advantage. Such activities got a start under SO2 in the transition period, and we have recommended that they be substantially expanded. They complement institutional strengthening activities by USAID and other donors well, especially in building sustained pressure for legal and regulatory reform of the business enabling environment.

7. What have been the principle impediments to insuring an effective impact for USAID economic reform, competitiveness and economic governance, and how can these be addressed in the future?

and

8. How can USAID's design of a future economic reform, privatization and anti-corruption strategy take into account the political and institutional constraints that may be outside of its sphere of influence?

These two questions are best discussed together. The main impediments to effective impact in USAID EG activities during the transition period have been:

- Lack of concrete operational focus in project design or delivery
- Weak counterpart agencies – poor leadership, unclear mission, absence of enabling ICT, lack of commitment across government to the agency's role
- Failure to apply appropriate capable technical or industry-specific expertise
- Lack of an effective public constituency for reform.

These constraints to impact are addressed in three ways:

First, USAID should strive to ensure, in setting up an activity, that there is shared agreement among stakeholders as to the role and responsibility of the counterpart agency or institution. The initiation of an activity should be conditioned on obtaining this commitment to give the agency its required responsibility and authority. Closely related, the agency should have a capable leader who understands the mission of the agency, and has the clear authority to direct it.

Second, activities should be focused as much as possible on procedural and operational improvement. Professionally-run operations can to some extent compensate for less than outstanding leadership. Well-designed and widely-understood required procedures directly reduce opportunities for rent-seeking.

Third, the public must be effectively engaged in sustained demand for reform – for continuous improvement of the administration, services, and programs of government, and for maximum freedom in responsible private enterprise.

9. What opportunities exist to further engage the private sector a long-term economic reform, privatization and anti-corruption strategy?

A broad public sector awareness program is the most efficient catalyst for general democratic pressure for reform, which will include the private business sector. The planned information-education-communication program for anti-corruption should also be carried out, and will engage the private sector in its community-level activities.

At the level of the "organized private sector", commonly referred to in Nigeria by its acronym (OPS), USAID can engage PPPs. However, the principal focus for engagement should be those business associations that are closer to actual business activities. We discussed above the likely limited effectiveness of deep engagement with the NESG. Similarly, engagement with other "umbrella" PPPs, including the principal organs of the OPS – MAN, NACCIMA, and NECA – is less likely to be effective than working with sector-level associations such as the Nigerian Textile Manufacturers Association. Nigeria has a highly-developed structure of industry associations and local NGOs which can be leveraged in this regard.

Discussions have begun among some of the principals of the 1997 Vision 2010 activity, which produced a reform consensus that still is frequently cited, to reconstitute the broad PPP for Vision 2020. If this moves forward, USAID should be willing to help sponsor it as a "special purpose" activity, because even though broad it will be highly reform-oriented, will involve very wide private and public sector buy-in, including traditional leaders, and will gain a lot of press and therefore contribute to public constituency-building.

Finally, the private sector becomes most powerfully engaged when it is to its direct material benefit to do so. Support for competitiveness itself, by generating real profit opportunities for businesses, will lead them vociferously to demand the changes they need to be able to operate effectively and attack the market.

Appendix 1: Documentary References

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Appendix 2: Interview Sources

The following lists separate interview sessions. Where interviews were held with more than one person at a time, all who were present are listed under a single entry. Some sources were interviewed on more than one occasion.

USAID and Project Personnel

1. Tom Hutcheson, Senior Economist and SO2 Team Member, USAID
2. Ravi Aulakh, Chief Economist and SO2 Team Head, USAID
3. Bill Duncan, Deputy Economist and SO2 Team Member, USAID
4. Roy Nygaard, Acting COP and Public Awareness Specialist, OBTCI (Privatization Project)
5. Andrei Barranik, Environmental Advisor, OBTCI
6. Adelodun Oba Adebayo, Resident Project Manager, Casals (Anti-Corruption Project)
7. Susan Moreira, Project Director, and Leslie Flagg, Chief of Party, Chemonics (Export Promotion Project)
8. George Oligbo, Apparel / Textiles Team Leader, Chemonics
9. Francis Odubekun, Government Debt Issuance & Management Advisor, DMO/US Treasury
10. Peter Griffin, Chief of Party, DAI (Budget Management Project)

Donors

11. Simon Vanden Broeke, Economic Advisor, DFID
12. Victoria Kwakwa, Senior Economist, World Bank
13. Gary Moser, Senior Resident Representative Nigeria, IMF
14. Wendy Hughes, Nigeria Privatization Task Manager, World Bank
15. Darran Newman, Asst. Social. Development Adviser, and Deborah McGurk, Economic Advisor, DFID, Abjuja
16. Kemi Williams, Social Development Advisor, DFID
17. Lucas Akapa, Senior Operations Officer, World Bank / Nigeria
18. Denis Lepage, Financial Management Advisor to Office of the Accountant General, IMF
19. Nicholas Costello, Nigeria Resident Representative, European Commission, Abuja
20. Dr. Andrew Kidd, Rural Livelihoods Advisor, and Patsy Sterling, Health Advisor, DFID
21. Deborah McGurk, Economic Advisor, DFID
22. D.J. Koch, Program Officer, EMCAP, European Commission, Abuja
23. Ujiju Okoru, Program Officer, SME Development, UNDP, Abuja

Government of Nigeria

24. Dr. Festus Osundade, Director, EPCC Secretariat, and Macroeconomic Advisor to the Vice President
25. Babatunde Lawal, Deputy Director, EPCC Secretariat
26. Dr. Joseph Nnanna, Director of Research, Central Bank of Nigeria

27. Oby Ezekwesili, Director, Budget Monitoring and Price Intelligence Unit, Presidency of Nigeria
28. Nasir El-Rufai, Director General, Bureau for Public Enterprises
29. Tijjani Abdullahi, Director, Infrastructure and Networks, BPE
30. Chinelo Anohu, Legal Advisor, BPE
31. Lai Yahaya, Special Assistant to the DG, BPE
32. Dr. Julius Bala, Director, National Investment Promotion Commission
33. Dr. S.A. Ingawa, Head, Project Coordinating Unit, Federal Ministry of Agriculture & Rural Development
34. C.C. Nwali, Asst. General Manager, Nigerian Export-Import Bank (NEXIM)
35. J.C. Nwade, Credit Officer, NEXIM
36. Peter Aikohi, Asst. General Manager, NEXIM
37. Mr. Ogunfemi, Deputy Director External Trade, Ministry of Commerce
38. Hon.Chijioke Edeoga, Federal House of Representatives
39. Yonov Fred Agah Director, Federal Ministry of Commerce, Abuja
40. M. Aliyu, Reglstrar,. Patents, Designs & Trademark, Federal Ministry of Commerce, Abuja
41. S. Yaori, Asst. Registrar, Patents, Designs & Trademarks, Federal Ministry of Commerce, Abuja
42. Dr Tom A Miachi, Special Technical Assistant to the Minister of Power & Steel, Abuja
43. Dr Tonipre Apiribo Governor's Special Representative Government of Bayela State, Abuja
44. Regina Onwudike Director, Finance &. Administration, Nigeria Copyright Commission, Abuja
45. Akim S. Arikawe, Director General, Debt Management Office, Ministry of Finance, Abuja
46. Dr. Mansur Muhtar, Director, Portfolio Management & Strategy, DMO, Abuja
47. D.C. Ojeh, CBN Technical Consultant to DMO, Abuja
48. Yusufu Mohammad, Director of Finance, DMO, Abuja
49. R.N. Ihenacho, Director, Dr. (Mrs.) G.N. Elemo, Deputy Director, U.A. Hassan, Deputy Director, E. Aror, Team Leader, and Dr. Zainab Ahnbakar, Research Evaluation and Monitoring Division, Raw Materials Research and Development Council, Abuja
50. Hassan Muhammedu, Organizational Development Advisor, BPE and NIPC, Abuja
51. Senator Udoma Udo Udoma, Chairman, Budget Committee, Federal Assembly

Nigerian Universities, Research Institutes, NGOs, and Associations

52. Ali Aku, Advisor on Legal Service, ICPC Abuja
53. Musa Adulwahab, Special Assistant, Office of the Chairman, ICPC
54. Edward Aslwekaa, Esq., Board Member, Corporate Affairs Commission, Abuja
55. Dr. Jamila M. Nasir, Lecturer & Legal Consultant, Faculty of Law, University of Jos
56. Dr. Godwill Arnedli Nnaji, Executive Director, Probity & Accountability International, Onitsha
57. Chief Dr. Walter Oji, Institute for Democracy & Good Government, Enugu
58. Prof. Ruth Okediji, Oklahoma School of Law, Norman, OK

59. Prof. E. Oviegara, Executive Director, Nigerian Law Reform Commission, Abuja
60. Bankole Sodipo, President, Intellectual Property Law Association of Nigeria.(IPLAN)
61. Dr. Okongwu David, Chief Executive, Office for Technology Acquisition and Promotion, Abuja
62. Professor Anya Anya, Director General, Chris Onyemenam, Director Operations & Administration, and Dr. Igho Ogbera, Associate Director Research, Nigerian Economic Summit Group, Lagos
63. Professor Patrick Utomi, Lagos Business School, Lagos

Nigerian Private Sector

64. Alistair Campbell, Group Chief Executive, Michelin Nigeria, Lagos
65. Atedo Peterside, CEO, Investment Banking and Trust Company, Lagos
66. Richard Kramer, Chairman, Capital Alliance Nigeria, Lagos
67. Sola Ephraim-Oluwanuga, Ephraim Oluwunuga & Co, Attorneys at Law, Ibadan
68. Chris Udenta, Head, Business Minaj Media Group, Lagos
69. Akin Sowunmi, Editor, Business Day, Lagos
70. Solo Eghobarniem, Esq., Eghobamien Chambers, Benin City
71. Chief Chris Akpukaoji, Managing Director, Total Block Industry, Awka, Anambra State
72. Dr. Bello Ekhaletruo, CEO, EBS Pharmaceuticals / Cipla Ltd
73. Ezinne, Lady Nkechi Nwaoju, Managing Director, Libra Investments Ltd, Abuja
74. Chief Dr. Walter Oji, Director, Oji International, Enugu
75. Lawrence Obeta, Lawpac Investment Ltd., Abuja
76. Chief Raymond Iliembe, MD/CEO, Afrikbank, Lagos
77. Chief Godwin Oboh, MD/CEO, Union Bank, Lagos
78. Chijioke Canice Nevoh, Manager, Summit Finance Co. Ltd
79. Emma E. Kanu, Public Relations Officer, First Bank of Nigeria, Enugu
80. Ime Umo, System Sales Specialist, IBM, Lagos
81. J.L. Frydman, Director, Sumtec Telecommunications U.K.
82. Predrag Jelenkovic, Project Manager, Energoproject, Abuja
83. G. Ravichandran, Operations Director, and N.K. Janardhanan, Technical Director, Afprint Nigeria, Lagos
84. Patrick Idiaghe, President, Simidia Civil and Environmental Engineering, Port Harcourt
85. Rosemary Asiegbu, Team Leader, Energy Group, Corporate Banking, First Bank of Nigeria, Port Harcourt
86. Bob Brenner, Engineering Advisor, Port Harcourt
87. E.E. Huber, Managing Director, and Abel Okoro, Operations Manager, Pan-Sana Nigeria Engineering, Port Harcourt
88. Ngozi Amah, Partnering Advisor, Gloria Udoh, Head, Microcredit and Business Development, and Macauley Olagoke, Program Coordinator, Community Development Dept., Shell Petroleum Development Co., Port Harcourt
89. Zeev Galili, Managing Director, Agropro Industries, Port Harcourt