

# BTI 2010 | Nigeria Country Report

<b>Status Index</b>	1-10	<b>4.90</b>	# 82 of 128	
Democracy	1-10	4.77	# 79 of 128	↓
Market Economy	1-10	5.04	# 80 of 128	→
<b>Management Index</b>	1-10	<b>5.00</b>	# 63 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

Please cite as follows: Bertelsmann Stiftung, *BTI 2010 – Nigeria Country Report*. Gütersloh: Bertelsmann Stiftung, 2009.

**Key Indicators**

Population	mn.	<b>148.0</b>	HDI	<b>0.51</b>	GDP p.c.	\$	<b>1979</b>
Pop. growth	% p.a.	<b>2.2</b>	HDI rank of 182	<b>158</b>	Gini Index		<b>42.9</b>
Life expectancy	years	<b>47</b>	UN Education Index	<b>0.66</b>	Poverty <sup>2</sup>	%	<b>83.9</b>
Urban population	%	<b>47.6</b>	Gender equality <sup>1</sup>	-	Aid per capita	\$	<b>13.8</b>

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The evaluation period coincides with the first half of President Umaru Yar'Adua's first term in office. President Yar'Adua's inauguration in May 2007 marked the first time in Nigerian history that an elected government had taken over from a previously elected one. However, this report on the status of transformation to democracy and market economy concludes that almost no progress has been made.

In the political arena, a number of serious setbacks occurred in comparison to the previous reporting period. The 2007 elections were seriously flawed and in 2007, and even more so in 2008, Nigeria again experienced a wave of political violence, ethnic and religious conflicts, contentious impeachments of some governors and organized crime, jeopardizing the still nascent democratic system.

The political system still faces serious problems in terms of state coherence, institutional efficiency of the government system, internal security, patterns of democratic representation and attitudes, enforcement of the rule of law, and economic reform. Thus, the economic structure and performance still suffer from major shortcomings in all but two areas: economic growth rates due to the huge profits from crude oil export and the fast growing private mobile phone services.

Macroeconomic conditions remained rather stable during the review period from early 2007 to January 2009, thanks to soaring oil prices and the accumulation of huge foreign reserves. The large decline in crude oil prices in the second half of 2008, however, revealed the over-dependency on the export of crude oil and the structural dilemma of the Nigerian economy. The new political leadership did not move ahead with reforming the petroleum and refinery sectors. And even more seriously, the ailing power sector went from bad to worse during the period under review.

A high level of difficulty and some positive signs of economic growth notwithstanding, the government failed to convincingly pursue political and economic transformation. The Yar'Adua administration actually slowed down the economic reform programs initiated by its predecessor. In addition, political, ethnic and religious violence and organized crime remain accepted and viable options for many political actors.

Major powers, namely the United States, Britain, the EU and to some extent even China and India, will continue to focus on stabilizing the most populous and, alongside Angola, most important oil and gas producer in sub-Saharan Africa. Though external actors' leverage is generally weak, transformation in Nigeria will nevertheless rely to a certain extent on external pressure. Providing incentives for the government to continue democratization and to bring about changes to internal political dynamics will also be needed. Interestingly, externally induced macroeconomic reforms, many of which were almost unthinkable until recent years, were achieved despite high oil prices and strong internal opposition.

## History and Characteristics of Transformation

Since gaining independence in 1960, the economic and political transformation process in Nigeria has been characterized by incremental steps forward and many setbacks. Apart from two brief phases of civilian governments (1960 – 1966 and 1979 – 1983), the current dispensation (since 1999) is the third attempt to establish a lasting democratic political system. Various military regimes have ruled in between these periods after seizing power through coups d'état and palace coups. The first one of these, in January 1966, triggered a civil war (1967 – 1970). The military was first forced to retreat to the barracks in 1979. The second attempt at democratization failed by 1983 and the military took over again, under Major General Muhammadu Buhari. Almost two years later, a palace coup brought General Ibrahim Babangida to power. He initiated a firmly controlled economic reform and democratization program which stretched out over eight years. Nigeria experienced the best organized and most transparent elections in its history at the end of this program in mid-1993. The popular businessman Moshood Abiola from the south of the country emerged as the clear victor.

Massive resistance from within the military and the civil service, however, led junta head Babangida to annul the elections and to step down after he had installed a civilian puppet regime under Ernest Shonekan. After a few weeks, General Sani Abacha brought the military back to power through another coup in November 1993. Until his sudden death in 1998, Nigeria experienced the worst military dictatorship ever, and this experience contributed to the complete loss of legitimacy of military rule. General Abdulsalami Abubakar cleared the way for elections and the transfer of power to an elected president. He also released all political prisoners. Abiola died shortly before his scheduled release. After less than a year, the former junta head General (rtd.) Olusegun Obasanjo (1976 – 1979) took office as president after a clear electoral victory in 1999. This transfer of power was quite unlike that of 1993. While an elected president from the

south of the country was widely accepted in 1999, the same situation had led to the annulment of elections in 1993. While the elections in 1999 were permeated with numerous shortcomings and logistical problems, these did not, in the view of many observers, affect the election results in Obasanjo's favor. He was re-elected in 2003 and the ruling People's Democratic Party (PDP) confirmed its dominant position in the parliamentary elections. The elections were again marred by widespread fraud, violence and open ballot rigging. This also took place during the election marathon in April 2007, when presidential, gubernatorial, national assembly and state assembly elections took place. Most national and international observers pointed out that the polls lacked any credibility. Umaru Yar'Adua, the two-term governor of Katsina state in the far north, however, won a landslide victory and was sworn in as the first president to take over power from a previously elected one through elections. The two runners-up in the presidential election, Buhari and Atiku, rejected the results and pursued the matter in court. The presidential election tribunal as well as the Supreme Court eventually upheld Yar'Adua's election victory, although the latter was by a narrow margin of four to three judges in favor of the incumbent.

Sharply rising oil prices on the world market after the oil crisis of the 1970s and early 1980s set an import substitution strategy in motion, which in fact was a strategy of embarking on large-scale industrial projects coupled with an extreme petrodollar fuelled import boom. All this directly led into the Dutch Disease phenomenon in the 1980s. Instead of moving towards a market economy, Nigeria developed into an institutionalized kleptocracy. General Ibrahim Babangida's takeover in 1985 first offered the opportunity for a transformation towards a market economy. The kleptocratic elites, however, prevailed by enforcing the sudden termination of the political and economic reform program. The end of the military dictatorship in 1999 brought an end to the systematic plundering, but the military regimes had left behind a socioeconomic pile of rubble for the elected government which was not well-prepared for the task ahead.

Against the backdrop of increasing political, religious and ethnic violence, oil prices rose to unprecedented heights in 2007 and 2008, and the newly elected president inherited the healthiest balance sheet of any new head of state since independence with some \$41 billion of foreign reserves. By mid 2008, this figure had climbed to more than \$60 billion. Towards year's end, however, this huge amount had fallen to some \$53 billion. Nigeria managed to reach a hitherto unprecedented deal with the Paris Club in 2005, clearing all debts with it (through a mix of repayment and cancellation). In addition, Nigeria was able to settle its debts with the London Club in 2007. Nevertheless, the windfall profit from oil did not accelerate the deregulation program, and the fuel price was still subsidized in the amount of some \$1.4 billion annually. Despite real progress in a very small number of fields such as the privately owned mobile telecommunication sector, there are indications that the new leadership is neither willing nor capable of pushing forward the necessary structural reforms, initiated under the previous leadership, within the banking and telecommunication sectors and particularly within the power and refinery sectors, towards real and tangible improvements.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force is limited. In several parts of the country, the state can only exercise this monopoly to a very narrow degree. In addition to well-established militant vigilante groups composed mostly of young people, new militant groups erratically emerge in almost all regions of the country. They are most active in the oil and gas producing Niger Delta, in the Igbo and Yoruba heartlands in the south and southwest, in the Middle Belt and in the Lake Chad region in the northeast.

Monopoly on the use of force

All Nigerians are considered Nigerian citizens, and the nation state is widely accepted as legitimate. Sub-national identities, however, are strong and prevalent. Despite the fact that all citizens possess equal civic rights, the federal quota system — which to a large extent determines access to offices and institutions — by and large has a strong discriminatory effect. Furthermore, the very concept of “indigeneity” is discriminatory against “non-indigenes,” that is, immigrants from other federal states.

State identity

Constitutionally, the separation of religion and state exists. Secularization, however, suffered a substantial set back through the introduction of Shari'ah, or Islamic law, in 12 northern states (out of the 36 federal states) where the vast majority of the population is of Muslim faith, and through the rapid spread of Christian fundamentalism within the Christian faith. Fundamentalism in both denominations is on the increase, and both religions are increasingly permeating politics, indicated by the fact that daily life and socioeconomic and political processes and events are currently interpreted by most people in religious terms.

No interference of religious dogmas

The steady political and economic decline combined with long-lasting military rule have destroyed a once functioning administrative system and massively undermined public safety and order, thereby endangering state coherence. Constitutionally, the three tiers of the federal system – federal, state and local governments – offer a sophisticated administrative structure with a federal government and the two chambers of the National Assembly, 36 governors and state assemblies and 768

Basic administration

local governments and six councils. The federal government and the state governors execute real power. However, most institutions within the administrative system suffer from rather low political skills and corruption, and, especially on the level of the local governments and also the state assemblies, from insufficient funding and very poor administrative capacity.

## 2 | Political Participation

Universal suffrage and the right to campaign for elected office exist de jure. Elections are, however, not properly conducted in almost all cases. The primaries as well as the general elections in 2007 were marred by widespread fraud, intimidation and violence. Balloting was virtually impossible in some states (although results were announced). The incumbent government and the ruling PDP in particular used all means of office and the enormous financial resources available to manipulate and again win the elections at federal and state levels with a wide margin.

Free and fair elections

The incumbent president and his government possess the power to govern in principle and control most of the security apparatus. The power of the state on the federal as well as on the state level is undermined at times and even subverted by the state's own civil servants and their corrupt practices. Patronage-based networks of active and retired high-ranking military officers enjoy fairly influential veto powers, although the likelihood of a military coup d'état – of which Nigeria has experienced at least five since independence – seem reduced compared to other periods in the country's history.

Effective power to govern

Civic organizations can form and meet freely. However, they are still severely fragmented and mostly only locally active. Thus, their abilities to bridge numerous social cleavages are limited. New labor laws have further limited the trade unions' capability to call for industrial actions and even banned calls for political actions. For example, an increase of fuel prices can no longer be used the trade unions to call for demonstrations.

Association / assembly rights

In general, citizens, organizations and the mass media express opinions rather freely. Notwithstanding this, individuals and organizations expressing critical views have been harassed at times by state security services. State-owned media are strongly influenced by the central government and, in particular, the state governments. The private media, however, particularly the print media, possess a rather high degree of autonomy and often voice sharp criticism. This significantly contrasts with the fact that the private media is increasingly adopting an attitude of being deliberately biased and of becoming more of a public relations agency for different interest groups than an independent voice. It is now common that owners and publishers often intervene to determine what is going to be published or broadcast. Nevertheless, publishers and editors are at times subject to harassment

Freedom of expression

and occasionally to state repression. The power of issuing licenses for radio and television is still with the president, and he used that power in the government's favor. Against this backdrop, the Press Freedom Survey 2008 by Freedom House considers Nigeria "partly free" (it scored 53, which is rank 111th out of 195 countries).

### 3 | Rule of Law

Constitutionally, the separation of powers between the executive, the legislature and the judiciary exists. Moreover, additional checks and balances are present due to the federal system (state and local governments). In fact, however, the extraordinary power of the executive determines the political system despite the participation of key players in several federal institutions like the National Council of State and the National Police Council, which inter alia include all governors. At times, the National Assembly pretends to fulfill its role as the decisive institution in terms of checks and balances, especially when it comes to budget issues. However, in reality, only the Supreme Court has the power, authority and, to a large extent, the credibility to play this role.

Separation of  
powers

The judiciary is generally under-resourced, lacks adequate training and is liable to corruption. Specifically, transformation deficiencies exist in controlling and designating jurisdictional boundaries between three completely different legal systems – secular state law, Islamic law and customary law. Numerous conflicts have emerged between secular state and customary law, especially with regard to family law and lease of land. Islamic law has been applied in the north for decades concerning civil and minor issues of criminal law. Numerous inconsistencies and contradictions in the 1999 constitution are bringing an increasing number of issues concerning the relationship between the three tiers of government and other fundamental principles to the higher courts and the Supreme Court. The latter also serves as the constitutional court, and any verdict concerning constitutional issues automatically becomes constitutional law. Because of the legal, constitutional and political complexity, the government has not yet been able to amend the 1999 constitution, despite the Joint Committee on Constitution Review established by the National Assembly. The Supreme Court is the only institution able to do so. In addition, the highest court in the country is in charge of any petition concerning elections on the federal level, while the Court of Appeal is in charge of petitions concerning elections on the state level. The Supreme Court's and the Court of Appeal's rulings have generally been abided by, but the rulings of other secular courts are barely accepted and in most cases appeals have been filed at a higher court. As far as Islamic law is concerned, no case has yet reached federal courts to question the constitutionality of applying completely different legal systems. All stoning sentences passed down by lower Shari'ah courts for marital infidelity and extramarital sex were either declared null and void by upper Shari'ah courts or the

Independent  
judiciary

verdicts were still pending at the end of the reporting period. Verdicts like amputation for theft were, however, executed in some cases. In such cases, the culprit was given a few thousand nairas by the state government, declared as “social welfare,” to reintegrate the culprit into the socioeconomic system.

Corruption and white-collar crime is widespread at every level. Government efforts to combat the problem enjoy public support. Under the incumbent president, however, the fight against corruption has lost momentum. Moreover, the elite has learned how to use the complicated legal system, the drawn-out legal processes and overburdened courts to develop successful defenses against massive accusations of corruption or crime. Meanwhile, however, the situation is changing slightly and the courts have applied new and harsher bail conditions to make it more difficult to escape criminal proceedings. During the democratic dispensation, the judiciary has partly won back its former independence and continues to strengthen it. Some far-reaching verdicts of the Supreme Court against the federal government and in favor of the state governments confirm this trend. In 2007, a prominent public figure, Diepreye Alamieyeseigha, former governor of Bayelsa state, was found guilty of money laundering and sentenced to two years imprisonment and also required to forfeit property in Nigeria and abroad. He was released from prison the day after the verdict, having already spent his term in detention. More cases concerning former governors and militia leaders are in the pipeline. Despite the fact that several former governors have been arrested and charged, all of them were eventually freed on bail and the cases were still pending at the end of the period under review.

Prosecution of  
office abuse

The vast majority of the citizens still do not enjoy full civil rights. This is because the government lacks a general monopoly on the use of force as well as political will and judicial control. This means that security forces, militias, vigilantes, religious fundamentalists, criminal gangs regularly violate civil liberties. Concerning women and girls, the state lacks the competence to protect them against violence including rape, spousal abuse, female circumcision and abuse through customary law. Consequently, the Freedom House Index considered Nigeria only “partly free.” The rights of women, however, have slightly improved, indicated by the fact that women no longer require their husband’s approval to be issued a passport.

Civil rights



#### 4 | Stability of Democratic Institutions

The return to formal democracy in 1999 has not yet put the democratic institutions on a solid footing. All of the elections, for example, have been highly manipulated, flawed and marred by violence and intimidation. Most institutions within the three tiers of the federal system suffered from rather low political skills and corruption, and there is some friction between the federal level and the states (particularly with state governors). Local governments and state assemblies particularly suffer from insufficient funding and very poor administrative capacity. Members of both chambers of the National Assembly, however, at least pretend to abide by the constitution and their own rules of procedure in order to demonstrate to the international community its willingness to foster the still fragile democratic system. Within the period under review, notwithstanding these facts, the National Assembly again tried only half-heartedly to review the 1999 constitution, thereby leaving some far-reaching amendments to be enforced by Supreme Court verdicts, which automatically become constitutional law. Under the current complex Nigerian federal system, it is almost impossible for the political institutions (the National Assembly and the 36 state assemblies) to amend the constitution. It requires a two-thirds majority of all members of the National Assembly and approval by resolution of no less than two-thirds of all the federal states.

Performance of  
democratic  
institutions

Democratic institutions are still unstable, although most influential political, social and economic actors within and outside of the state system generally accept democratic institutions and regard them as legitimate. The National Assembly members have even tried to strengthen this institution by playing a somewhat more constructive role in passing laws. The majority of the people and several state and civic organizations like the Catholic Church, however, have lost confidence and trust in the electoral commission INEC to prepare, execute, coordinate and monitor free and fair elections. As a result, while the newly elected president swiftly inaugurated the electoral reforms committee comprising 22 eminent Nigerians, it took them almost one and a half years to submit their report with recommendations which, if implemented, would only slightly modify the current electoral law.

Commitment to  
democratic  
institutions

## 5 | Political and Social Integration

Institutional inefficiency is closely related to the lack of stable patterns of organization for political representation. No organizationally stable, socially embedded party system was established during the period under review, which coincides with the run-up to the general election and the mid-term of the incumbent president. Some 50 parties were registered to take part in the elections in April 2007. The two most influential parties, the ruling People's Democratic Party (PDP) – which now has become the dominant party on the national level – and the All Nigeria People's Party (ANPP), which, under different names in the late 1980s and in the late 1970s, respectively, dominated the elections on federal and state levels. Only two smaller parties, the Progressive People's Alliance (PPA) (Abia and Imo states) and the Action Congress (AC) (Lagos and Edo states), were able to win two governors each. While the PDP was oriented along social democratic lines nationwide, the ANPP was a reincarnation of the formerly ruling northern establishment. After the short-lived Second Republic (1979 – 1983) and the abrupt end of the guided democratization project in 1993, however, the party networks, to which many so-called money bag politicians belonged, went into hiding. The networks re-emerged in 1998 – 1999. They had almost no partisan objectives and were again mostly dominated by the same group of politicians who have manipulated all the primaries, the party conventions and the general elections since 1999. The widespread violence and the massive distribution of money during the party primaries and conventions, particularly within the PDP, was caused by the fact that any mandate would be equal to the direct access to the huge state funds, generated by unprecedented oil and gas revenues. The state election petition tribunals and the Court of Appeals, however, declared several gubernatorial and state assembly results null and void. In almost all of these cases, the affected candidates were not banned from taking part in a new election and thus getting a second chance to win a mandate, which the vast majority successfully did.

Party system

Several fairly well-organized religious organizations, the small but well-organized private sector, labor unions, the guild of editors and a number of NGOs are well established and well known. Nevertheless, as far as political and social interests, processes and transformation are concerned, they are underrepresented and barely cross-linked. Therefore, their capacity and capability to serve as intermediaries between state and society is rather limited. On the other hand, the many "Godfathers" in the country represent influential local power groups, which tend to undermine democratic and civil society approaches. To a certain extent, this also applies to the big multi-national companies in the oil and gas producing Niger Delta.

Interest groups

Despite the slow pace of civic development, the serious setbacks and many shortcomings, public faith in the democratization process prevails, although after the 2007 elections skepticism about the capability of holding decent elections is increasing. Against this backdrop, the majority of the Nigerian electorate still considers elections either as free and fair with major problems, or as not free and fair. According to the 2005 Afrobarometer survey, 65% of all Nigerians still prefer to democracy to any other kind of government. This is a sharp decline, however, from the 2000 survey and it is expected that the latest data, which has yet not been published (i.e., when this report was written), will indicate a further decline of support for the Nigerian democracy.

Consent to  
democratic norms

The long years of military rule, oppression, and mismanagement have led to impoverishment and the immense growth of the informal sector. Nigerians have been to a large extent forced and able to organize themselves on the local level. On the one hand, Nigerians are well-known for not having much interpersonal trust. On the other hand, almost all citizens are members of some denomination of Christianity or Islam, which has become the most important social and economic security institution for the common people.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Key indicators still show a low level of development and the low level of 0.470 measured by the HDI ranking (ranked 158th out of 179 on the Human Development Index) shows that many Nigerians lack adequate freedom of choice. There is widespread and deep-seated social exclusion on the basis of poverty (ranked 80th out of 108 in the Human Poverty Index), inadequate education with very poor scores of just 0.648 and gender-specific discrimination, which is underlined by a rank of 138 out of 156 in the Gender Development Index. Nigeria did not succeed in reducing the extreme inequalities and income differences during the period under review. The few reform programs implemented since 2005 have not improved conditions for lower and middle-income classes despite targeted programs to fight poverty like NEEDS and SEEDS. Extreme regional imbalances of development remain unchanged, particularly between north and south. However, there are indications that the imbalances even within the six so-called geo-political zones have increased.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	87845.4	112248.6	146869	<b>165920.9</b>
Growth of GDP	%	10.6	5.4	6.2	<b>6.4</b>
Inflation (CPI)	%	15.0	17.9	8.2	<b>5.4</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.1	1.8	3.7	<b>3.7</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	16840.3	24202.1	-	<b>21971.6</b>
Public debt	\$ mn.	32637.3	20342.2	3908.7	<b>3814.7</b>
External debt	\$ mn.	37883.1	22178.3	7798.7	<b>8933.7</b>
Total debt service	% of GNI	2.2	9.0	4.9	<b>0.8</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.3	1.2	1.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.0	0.0	0.0	<b>0.0</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The foundations of market economy based competition basically exist. The state sector has only been partially deregulated and still has a monopolistic structure in key segments of the economy (power generation, petroleum refining, import and production of highly subsidized fuel). The planned privatization of the heavy loss-making telecom utility NITEL, which was supposed to take place in 2006, could not be concluded and has instead suffered several setbacks. The initial progress made in establishing a relevant private power generation industry has significantly slowed down, and the vast majority of Nigerians no longer have access to electricity. Despite official announcements that new efforts are under way to reverse this trend and turn the ailing sector around, the reality on the ground is bleak for the years to come.

Market-based competition

There is no anti-cartel legislation as such. However, the slow but steady privatization trend and legislation promoting competition have, to a certain extent, broken state monopolies and state cartels. This is particularly true for the highly competitive and biggest mobile telecom market in Africa. Administrative incompetence in conjunction with bureaucratic corruption still takes its toll to the disadvantage of a competitive and enabling environment.

Anti-monopoly policy

Foreign trade has been deregulated further and there is no fundamental state intervention in free trade. This particularly applies to the treatment of the significantly growing foreign investment in the oil-, gas- and telecom-sectors. There are no longer direct restrictions on transactions, transfers or repatriation of profits. However, some non-tariff barriers such as corruption, inefficiency in the customs administration as well as an inadequate transport infrastructure persist.

Liberalization of foreign trade

Against strong and long lasting resistance from within and outside government and financial circles, the long overdue banking and finance sector reform was eventually carried out by the end of 2005. By reducing the number of banks from 76 to 25 and thereby restructuring the under-capitalized banking and finance sector, this decision has produced positive results. In addition, the national banking and financial systems have been strengthened by the fact that Nigeria was able to successfully pay off its debt to the Paris and London Clubs and begin paying back its huge domestic debts. Few banks, though, have successfully opened branches abroad. The international financial turmoil towards the end of 2008 and the recent big decline in oil prices have again revealed the serious structural weaknesses of the Nigerian economic system.

Banking system

## 8 | Currency and Price Stability

Inflation and exchange rate policy were rather consistent in the period under review. The central bank's high level of dependence on the federal government remained unchanged. Despite soaring oil prices, the government drafted their budgets on a benchmark of \$40 and \$59 for the barrel of oil in 2007 and 2008 respectively, thereby demonstrating a certain fiscal restraint and discipline. Although the government was able to keep the inflation rate at a one digit rate for most of the period under review, it reached approximately 14% in the last quarter of 2008. The exchange rate to the dollar was kept fairly stable during recent years, but lost some 20% during the last two months of the period under review.

Anti-inflation /  
forex policy

Thanks to soaring crude oil prices, the foreign currency reserves reached \$53 billion towards the end of the period under review. Notwithstanding this windfall profit, the government kept its commitment to a fiscal stability-oriented course. With a growth rate of around 6.5% per annum, the actual deficit spending was kept at 3.0% of GDP.

Macrostability

## 9 | Private Property

Property rights and acquisition of property are adequately defined in principle. All land belongs to the federal states with the exception of the coastal strips and certain riverbanks that belong to the federal government. Thus, land is granted only as a hereditary lease. Property ownership reaches its limits when raw materials are found under the ground. In principle, these belong to the federal government. In such a case, the land is usually expropriated and the owner compensated. However, very often the change of ownership of a hereditary lease is difficult because in many cases the evidence of title is questioned and can take a long time to be settled in court. In addition, local chiefs or communities often sell land that afterwards has an unsecured title status. This also restricts investments of private companies. Moreover, privatization also serves as a money-laundering instrument to a great extent, in order to legalize illegally accumulated wealth, such as income from international drug trafficking.

Property rights

In general, private companies can act freely with some of the limitations under the rule of law. The authority in charge of privatization attempted to adhere to transparent procedures by auctioning those state-owned or partially state-owned companies which were short-listed. This procedure did not produce the desired results in several cases. Either the successful bidder turned out to be incapable of paying the balance or of handling the takeover, or the amount offered did not meet the expectations. In this case, the privatization authority eventually reached a negotiated deal with an investor, as in the case of the contentious privatization of Nigerian Telecommunications Ltd (NITEL).

Private enterprise

## 10 | Welfare Regime

In general, the burdens of aging, illness, underemployment and unemployment are carried mostly by extended-family-networks and the informal sector. This means that only civil servants and employees of the higher education system, state-owned and partially state-owned companies and large international companies enjoy a certain level of social security. However, the 2004 Pension Reform Act empowered the private sector to wholly run a new scheme, introduced by the federal government in 2004 and adopted by the state governments in 2006. The federal government makes a monthly payment into the fund of an amount equal to 5% of the total monthly wage bill payable to all employees of the federal government and the Federal Capital Territory Abuja. Pension boards in the private sector existing before the coming into force of the Pension Reform Act 2004 will continue to administer the pensions of the existing pensioners, and the National Pension Commission will supervise such boards. Pension departments have been created to carry out the functions of the relevant pension boards or offices in the public service of the federation and Abuja with a view to making regular and prompt payments of pensions to existing pensioners. The pension funds contributed to the Nigerian Social Insurance Fund (NSITF) into which employees of companies with more than five employees paid 3.5% and their employers 6.5% of the gross salary and will remain with the NSITF for a minimum period of five years from the commencement of the Pension Reform Act 2004. The fund has not yet proved its operational capability and, in light of the global financial crisis, there is a real danger that significant parts of the fund might be lost, having been invested in now almost worthless international financial certificates.

Social safety nets

More than 70 million Nigerians live in absolute poverty. The previous administration attempted to create jobs and reduce the widespread poverty with the programs NEEDS and SEEDS (home-grown poverty reduction programs on the national and state levels) and with its efforts to achieve the Millennium Development Goals, but with very limited success. The incumbent president has not yet indicated a strong willingness to seriously pursue poverty reduction programs. Nevertheless, women with secondary or even tertiary education have access to state and public institutions, an increasing number of well-educated women are entering the expanding private sector (banking, insurance, private media, etc.). Gender-based discrimination against women in the legal system has also been reduced despite some archaic sentences in Shari'ah courts. Despite the fact that women from within the elite can reach the top of ministries and state agencies (the anti-corruption agency EFCC is chaired by a woman, for example), women hardly play any political role in state and local government, let alone at the grassroots level. The poor ranking in the Gender Development Index gives proof of this.

Equal opportunity

## 11 | Economic Performance

Nigeria indicated positive macroeconomic figures since 2002, thanks to the rising oil and gas prices until late in 2008, leading to macroeconomic stabilization. Growth rates averaged between 3.7% and 6.5%. This is in sharp contrast to instable and even volatile policy areas. Along with a reasonable growth rate, the inflation rate was reduced to almost one digit, although the inflation rate increased towards the end of 2008 to some 14%. Currency reserves grew significantly, short-term external debts were close to zero after the exit from the Paris and London Clubs, and the mid- and long-term external debts amounted to some \$3.3 billion. State coffers were thus hardly dependent on financial markets and budget and current account balance deficits became manageable. There were some negative aspects as well, particularly the huge domestic debts of some \$12 billion, the still very weak formal sector, the prevailing low development level and the prevailing high poverty level.

Output strength

## 12 | Sustainability

Environmental awareness has grown modestly within government circles and among lawmakers and society; however, no progressive measures have yet been implemented despite President Yar'Adua's commitment to address the threatening impact of climate change. Deforestation, overgrazing, desertification, lack of garbage collection, air and water pollution, industrial pollution, particularly in the oil and gas sector, and the pollution caused by several million diesel generators all over the country are the nation's primary environmental problems. Environmental concerns have tended to take a back seat to growth considerations. Ecologically sustainable growth only receives scant attention and was not reflected in the institutional framework. In fact, worsening environmental problems affect the whole country.

Environmental policy

Education and training facilities were available in important segments, but they hardly met internationally accepted standards. Overall, the level of education has sunk further in recent years despite more than 90 public and private tertiary institutions. By some indicators, such as school attendance, the record was even worse. Definite shortcomings existed in research and development. Although, the state's expenditures for education were 10% of the federal budget in 2007, investment in education, training, research and development is rather low, both quantitatively and qualitatively.

Education policy / R&D



## Transformation Management

### I. Level of Difficulty

The level of difficulty of transformation in Nigeria must still be considered high. The country's rather fragmented civil society and its limited experience with democracy and the rule of law have hindered the stabilization and expansion of democratic transformation. The low level of economic and social development, widespread poverty, inefficient state administration and rule of law institutions, significant ethnic and social heterogeneity and social cleavages increased the level of difficulty. In addition, serious problems on the domestic political front brought about by the manipulated transition from one legislative period to another and the inefficiency of the new leadership compounded the level of difficulty during the period under review.

Structural  
constraints

Though traditions of civil society are relatively strong in sub-Saharan terms, they must be considered relatively weak in absolute terms. Notwithstanding an increase in NGO activity, the landscape of voluntary organizations is still meager and plagued by scarce organizational resources. However, there is a positive general trend in the development of civic interest groups, but they do not yet arouse broad citizen participation. This also holds true for the development of a civic culture supporting democracy.

Civil society  
traditions

A still threatening north-south and Christianity-Islam dichotomy was revealed again during the bloody crisis in December 2008 in the urban center of Jos in the Middle Belt when some 400 people died after a contested local election. Moreover, politically induced ethnic and resource conflicts in multi-ethnic Nigeria, particularly in the Niger Delta, at times jeopardize the political system. Additionally, a nationwide split between the political elite and the society often turn into political violence with ethnic and religious undertones, compounding the volatile environment.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The government is committed to democracy and market economy in principle, although substantial limitations remain. The structural, political and economic problems only allow the pursuit of selected medium-term goals like the successful debt settlement with the Paris and London Clubs. The ultimate objectives of President Yar'Adua were holding his predecessor and former "Godfather" at bay. Consequently, under the incumbent president, popularly called "Baba-Go-Slow," the rather modest reform agenda of his predecessor was virtually put on hold. Despite a clear majority for the ruling party PDP on federal and state levels, the consistency and coherence of any reform policies is very limited. Nevertheless, the IMF and the World Bank somehow accepted the general positive trend in slowly implementing home-grown reform programs, privatization policies and licensing private institutions such as universities. As far as public security and rule of law was concerned, the new government has not placed the improvement of the poor internal security situation, inherited from the previous government, high on the agenda.

Prioritization

Notwithstanding this, the new government and the public administration have neither the political will nor the organizational capability to establish, enforce and implement necessary political reforms. The president has even reversed modest reform projects initiated by the previous government, claiming that many projects did not follow the rules of procedure. In fact, though, this approach was used first and foremost to humiliate the former President Obasanjo and to firmly establish the new president's own power base.

Implementation

Nigeria's political leadership has definitely learned how to successfully deal with the international community, the donor countries and the relevant international finance institutions. Moreover, the Yar'Adua administration demonstrated its capability in sticking to the foreign policy of his predecessor who already significantly diversified Nigeria's foreign policies, mainly by intensifying the cooperation with China, India and, to some degree, with South Korea in the fields of oil, gas, power generation and telecommunications. In addition, it abided by international law and finally withdrew from the Bakassi peninsula in 2008, thereby opting for a peaceful solution with its neighbor Cameroon. As far as domestic politics is concerned, the federal government under Yar'Adua's leadership has tried to counter the many serious social, ethnic and religious crises with a stick and carrot

Policy learning

approach. Using this strategy, alternating between a wait-and-see attitude and a harsh and robust military or paramilitary approach, the federal government has dealt with crises like the previous example, but has equally failed to solve them. Moreover, it has still not managed to address the roots of the various crises, even though their causes have not changed over time. As far as the government apparatus is concerned, the incumbent president has used his executive power to establish a new series of safeguards within the presidency, the military and central agencies like the anti-corruption agency EFCC. It did take several months before the first big cabinet reshuffle in 2008 could be completed, which indicated a long lasting and fierce power struggle behind closed doors. Interestingly, old hands like the former secretary of OPEC, Rilwanu Lukman, and former federal secretary Ufot Ekaette eventually emerged as minister for petroleum and as head of the new ministry of Niger Delta Affairs, respectively. With the appointment of Mukthar Mansur as minister of finance and the retention of Charles Saludo as governor of the central bank, the government made it clear to the international community that the most central portfolios were kept in the hands of experienced technocrats.

## 15 | Resource Efficiency

The government does not make effective use of available human and organizational resources for its transformation policy. There is still a consensus that all 36 federal states and the federal capital territory must somehow be represented in government, at least via the six geo-political zones, which resulted in an inflated cabinet and in the installation of several ministers whose qualifications are more than questionable. In 2008, President Yar'Adua partly reversed Obasanjo's restructuring and merger of several ministries, thereby increasing the number of portfolios in order to expand the platform for new loyalists. In addition, although with a certain delay, he appointed the members of the numerous boards of parastatals, which in most cases are very inefficient but lucrative by providing the opportunity for massive personal enrichment within a rather short period of time. However, despite the huge amount of federal reserves and several declarations of intent, no real progress has been made in rebuilding the run-down national infrastructure, and only modest progress has been achieved in restoring the almost destroyed national police force.

During the period under review, the government was not able to overcome conflicting objectives within and outside the government and within parliament, particularly as far as the volatile Niger Delta, the conflict resolution in the Middle Belt, the revenue allocation formula, the use of the revenues and the anti-corruption drive were concerned. These issues limited the government's political space to maneuver, and they also have a negative impact on politicians and political institutions in overcoming conflicting objectives in the medium- to long-term.

Efficient use of assets

Policy coordination

A broad alliance made up of the government, the two anti-corruption commissions, NGOs and international actors, namely the IMF, World Bank, Transparency International, and the International Finance Task Force, has made at least some progress into the endemically corrupt society. For the first time, a prominent figure like the former governor of Bayelsa state Diepreye Alamieyeseigha was sentenced and the stolen money and private property confiscated. The anti-graft commissions especially targeted several other former state governors who have allegedly massively enriched themselves by looting the federal statutory allocation for the respective states. These governors were temporarily arrested and charged but soon freed on bail after the arrest. None of the accused has yet been convicted. In addition to that, the chairman of the anti-corruption agency EFCC, police officer Nuhu Ribadu, whose appointment term had been approved for another four-year term by the outgoing President Obasanjo, was removed by the new government towards the end of 2007 and eventually fired from the police force. The “Ribadu affair” indicated that strong and influential forces in government circles were able to put the anti-corruption campaign on hold or at least to slow it down to a negligible level.

Anti-corruption  
policy

## 16 | Consensus-Building

While the government, the small but organized private sector and business-oriented Nigerians abroad were in principle committed to democracy and market economy as strategic, long-term objectives, there is still considerable conflict amongst the political and social elite in Nigeria on the substance of these aims. This was found within all three tiers of government, in democratic institutions, in parties inside and outside the realm of parliament – particularly in radical and militant “self-help organizations” – in trade unions and in fundamentalist groups affiliated with the Christian and Muslim faiths. In addition, most political actors have very different views and little political theory regarding the contents of the concepts of market and democracy. At the same time, they represent fundamentally dissenting opinions about the best path to further development. Thus, the reform towards a market economy is erratic.

Consensus on goals

Currently, there are no openly anti-democratic power brokers on the political scene. However, the increase in violent, sectarian clashes in different parts of the country which the Yar’Adua administration appears unable to control combined with intensified political struggles over the control and distribution of resources have at times fueled speculation that the military may again seize power. The military, however, has a poor reputation as far as political leadership is concerned. Since relinquishing the reins of government in 1999, it has regularly emphasized its commitment to democratic and constitutional rule. It is still seen as the main actor which in the past almost destroyed the then infant civil society and the administrative, legal and democratic structures.

Anti-democratic  
veto actors

The record of the political leadership is mixed regarding the management of social cleavages. Conflicts escalated in some areas and at times descended into open warfare (for example in the Niger Delta and to some extent in the Middle Belt) around topics like rigged local government elections (which triggered the bloody riots in Jos), while overall, the government and other political actors were able to contain them from engulfing the entire country. The fragmented administrative structure of 36 federal states, 768 local governments and six councils did not really contribute to overcoming social cleavages. To a large extent, this fragmentation even exacerbated deep rooted local and regional grievances, thus compounding the existing cleavages. A way out of the dilemma could be by politically maintaining and further developing the concept of the six geo-political zones, which might be able to ease the destructive effects of a seemingly unending ethnic fragmentation and permanent reliance upon ethnic identities.

Cleavage /  
conflict  
management

The political leadership still tends to ignore civil society actors. Actors have been successfully co-opted, however, when it suits the leadership, particularly in times of crisis. In the case of the Technical Committee on the Niger Delta, well-known members of civil society like Ledum Mitee and Mrs. Nkoyo Toyo served the committee in leading positions to write a report for the presidency on how to resolve the Niger Delta crisis. The report was submitted towards the end of 2008. Mrs. Toyo, however, has now been appointed as a non-career ambassador.

Civil society  
participation

After the end of military dictatorship in 1999, the elected government attempted to address past acts of serious injustice. However, in the end the political leadership and influential elites silently agreed to bury the official findings on human rights violations and abuses by past governments in 2004. Remarkably, the report was finally made public by the Civil Society Forum, a Nigerian NGO, in cooperation with the Washington-based Nigerian Democratic Movement (NDM), pointing at three of Nigeria's former military rulers, namely Buhari, Babangida and Abdulsalami, who were personally responsible for extra-judicial killings perpetrated while they were in power. After almost every serious case of violent ethnic and religious clashes, the federal government appointed commissions to investigate the causes of conflicts. Despite the fact that most of the reports were well researched and accurate, the findings were barely utilized to compensate the victims, let alone to take the alleged culprits to court to get them convicted. Besides, there is a deliberate tendency of official reports on serious social cleavages with religious and ethnic undertones rarely being made public.

Reconciliation

## 17 | International Cooperation

Progress in the transformation process towards a market economy and – to a substantially lesser degree – a democracy under the rule of law was strongly related to outside actors (the IMF, World Bank, Paris Club, London Club, African Development Bank and foreign high-profile consultants from privately run finance organizations). Collaboration with these actors underlined the government's increasing willingness to fulfill agreed conditions and effectively use resources provided by others. The role of outside actors in the democratic transformation process (European Union, United States) must be rated at a medium level at most. Nigeria kept and strengthened the political, economic (crude oil and gas export) and military cooperation with the United States and, to a limited extent, with the United Kingdom, particularly in the oil and gas producing Niger Delta. There is an ongoing learning process created by deepening the economic and, to some extent, the political cooperation with China and India. This cooperation, however, was definitely utilized to create an economic and political alternative to the close cooperation with and influence by the United States.

Effective use of support

In general, Nigeria collaborated reliably and credibly with international organizations, especially in UN peacekeeping operations with the main focus on Darfur where Nigerian troops and police play a central part within UNMIS. Foreign policy was predictable at global levels and remained aimed fundamentally at easing tensions. Against this backdrop, Nigeria even increased its efforts to further expand its international relations to the Latin American hemisphere. In this context, Nigeria opened a cultural center in Salvador da Bahia in Brazil in 2008.

Credibility

Nigeria tried to act as a credible leader and partner in the African Union, as a respected moderator in Darfur, Côte d'Ivoire and Liberia and as a stabilizing force in the ECOWAS region and on the continental level at large. Despite strong internal opposition, the leadership finally put to rest the difficult and complicated Bakassi border conflict with Cameroon in 2008, thereby re-establishing normal relationships with its neighbor and abiding by international law.

Regional cooperation

## Strategic Outlook

The rather poor overall transformation picture underscores the assessment that Nigeria's transformation is not yet sustainable. The institutional efficiency of the government system, the pattern of democratic representation and attitudes and the rule of law are still weak. Some progress has been achieved as far as market reform in favor of competition is concerned. However, the way forward towards democracy and market economy will to a large extent be determined by the next general election in 2011. There are indications that the currently discredited election commission INEC has already begun activities concerning the election exercise in order to brush up its poor reputation.

The roles played by the United States and the European Union are more crucial than ever before in supporting Africa's most populous country to overcome the vicious circle of coup d'états, election annulments, orchestrating election fraud and organizing violence before and during elections. The European Union, in collaboration with the UN, IMF and World Bank, must by all means encourage and push the democratization to stabilize the country, among others by encouraging the Nigerian leadership to politically engage the deep rooted crises in the Niger Delta and the Middle Belt. However, the leverage of outside actors, including the European Union and the United States, is very weak. Nevertheless, it is a sine qua non condition to keep the pressure for deregulating key sectors like refineries, power generation and large parts of the school and education system. The telecommunications sector and the still infant private universities, which have not yet proven their efficiency, have indicated that private initiative and capital can deliver key services. That does not mean that the state must give up its responsibility as far as infrastructure like roads, transport, water, security, primary education and basic social amenities offered by the civil service are concerned. Without a doubt, the strengthening of the police force and the judiciary is the most important task and challenge, at least in the short- and medium-term, in order to protect the citizens against crime and abuse of the powers of the state and its organs. This is even far more important than giving priority to the war on terrorism. Encouragingly, there has been some progress in increasing the performance of government officials and parliamentarians at the federal level. Some ministers, particularly those dealing with finance and the presidency, have performed well.

It is also pertinent to strongly support democratically oriented moderate groups within civil society, particular within the business community as well as religious communities committed to inter-religious dialogue. Nigerian civil society is lively and creative but nevertheless institutionally weak. The party system is still underdeveloped, inflated and thus weak. It will take years before more than a few parties will become relevant and establish solid political platforms. Therefore, it is worthwhile to use funds and manpower in the field of conflict management and conflict prevention on the local level, particularly in the real hotspot areas, to further stabilize the still fragile federal system.