

# **DRIVERS OF CHANGE IN NIGERIA: A PRELIMINARY OVERVIEW**

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*This is a discussion document, for comment. The views expressed are the authors' and do not necessarily reflect those of any other individuals, DFID or any other organisation.*



# Contents

<b>Executive Summary</b>	<b>i</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 Conceptual framework</b>	<b>3</b>
<b>3 Potential Agents of Change</b>	<b>5</b>
3.1 The political landscape is not what it seems .....	5
3.2 Is there a role for the state? .....	6
3.2.1 Paradoxes in the Executive, legislature and parties .....	6
3.2.2 Justice in a trap: few checks and balances and little access to justice .....	9
3.2.3 Closer to the people? States and local governments .....	10
3.2.4 Containing the omnipresent military .....	13
3.3 Facing the challenges of service provision.....	14
3.3.1 An elaborate but weakened public service .....	14
3.3.2 The parastatal network .....	15
3.3.3 In search of a private sector beyond oil .....	17
3.4 Civil Society: agent of accountability and service delivery? .....	19
3.4.1 Past and contemporary undercurrents.....	19
3.4.2 The power of ideas: media and think-tanks as agents of change.....	22
<b>4. Structural Issues</b>	<b>25</b>
4.1 A skewed economy dominated by oil .....	26
4.1.1 The dominance of oil and lack of diversification .....	26
4.1.2 Low or unproductive growth with few benefits to the poor .....	27
4.1.3 Excessive foreign debt levels.....	28
4.1.4 Weakened macro economic and fiscal management .....	28
4.2 A society marked by cleavages and conflict.....	29
4.3 Demographic realities and the impact of HIV/AIDS.....	30
4.3.1 High levels of poverty.....	30
4.3.2 Age structure.....	30
4.3.3 Rural-urban trends .....	31
4.3.4 HIV/AIDS.....	32
4.4 Failure of the social contract has become structural .....	33
<b>5. Institutions</b>	<b>35</b>
<b>6 Strategic observations on the way forward</b>	<b>40</b>
6.1 Core conclusions and implications for CAP .....	40
6.2 An issue based approach.....	42
6.2.1 Selecting appropriate systemic issues.....	42
6.2.2 Issues around economic growth and oil.....	45
6.2.3 Issues of democracy and accountability .....	47
6.2.4 Issues of service delivery.....	49
6.3 Areas for further research and analysis .....	51
<b>7. Conclusion</b>	<b>53</b>
<b>BIBLIOGRAPHY</b>	<b>54</b>

## **Boxes**

Box 1: Structures, Institutions and Agents	3
Box 2: Institutions that assume structural dimensions	33
Box 3: The key challenge of change: bridging the agent-structure gap	38
Box 4: The essence of effective change: building institutions to mediate between structures and agents	39
Box 5: Nigeria's Drivers of Change Initiative and the Country Assistance Programme	41
Box 6: Issues provide incentives for pro-change coalitions	43
Box 7: Deciding issues	45

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- The authors and peer reviewers of Position Papers who made considerable effort – under severe time pressures – to produce papers and comments – based on a methodology which is still being evolved. The products make for interesting perspective and debate, and set the scene for further vibrant exchange over the next few months as we work towards the completed report.
- The participants – mostly from Nigeria – who in a workshop in Abuja in April 2003 discussed important overviews of issues and trends in the Nigerian political economy and commented on methodology and approach.
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- Stephen Jones and his team from Oxford Policy Management for their articulate Component 1 Report<sup>1</sup> and their sharing of ideas.

Ultimately, the Overview is our interpretation of the research, and does not necessarily reflect the views of any of the people mentioned or of DFID or any other institution.

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<sup>1</sup> Oxford Policy Management (2003)

# Abbreviations

AD	Alliance for Democracy
ANPP	All Nigeria Peoples Party
BDM	Bureau of Debt Management
BPE	Bureau for Public Enterprises
CAP	Country Assistance Programme (DFID)
CDD	Centre for Democracy and Development, Lagos
CP	Concerned Professionals
DFID	Department for International Development
DoC	Drivers of Change
FGN	Federal Government of Nigeria
GDP	Gross Domestic Product
GHK	Gilmore, Hankey and Kirke
ICPC	Independent Corrupt Practice Commission
INEC	Independent Electoral Commission
LGA	Local Government Area
N	Naira
NEPA	Nigerian Energy and Power Agency
NEPAD	New Economic Partnership for African Development
NITEL	Nigerian Telecommunications
OAU	Organisations of African Unity
OPM	Oxford Policy Management
PAC	Progressive Action Congress
PDP	Peoples Democratic Party
RMAFC	Revenue Mobilisation Allocation and Fiscal Commission
SAP	Structural Adjustment Programme
SLGP	State and Local Government Programme (DFID-Nigeria)

# Executive Summary

## Introduction

The Drivers of Change initiative (DoC) is an attempt to develop better understanding of Nigeria's political economy, and to use this new information to reassess DFID and the international community's engagement with Nigeria. Initial findings show a need for new assumptions about how pro-poor change will be achieved, and for new approaches to supporting change.

Rather than providing a point-by-point outline of the fuller document, this Executive summary extracts key themes, assumptions and their strategic implications. The document should be seen as a basis for discussion. Although based on an extensive set of Position Papers by Nigerian and international experts, it remains preliminary. Its release is aimed at obtaining critical feedback to inform further research, debate and strategy development. Final reports will be completed only in late 2003. The release of a preliminary Overview aims to make an input into the process of developing DFID's new Country Assistance Plan (CAP) – its medium-term strategy for engagement in Nigeria.

## Key concepts

The Drivers of Change Analysis turns on a distinction between agents, institutions and structures. Drawing on work done under Component 1 of the DoC initiative, the Overview defines structural features as 'natural and human resources, economic and social structure, and other non-institutional facts'; institutions as 'frameworks of rules structuring the behaviour of agents'; and agents as 'individuals and organisations pursuing particular interests'. Systemic change involves the relationships between these drivers, but there is no clear causality in these relationships. Agents often offer entry points for change and structures fundamentally define the scope for change, but institutions mediate between structural features and agents. This makes it particularly important to understand how institutions have evolved, how they interact with political agents and structures, and how agents contest the terrain of institutions. As the discussion below indicates, structure-like traits of Nigerian institutions have influenced the scope for change considerably.

## Assumptions in question

Assumptions made about the nature of change in Nigeria at the time of the transition in 1999 from military to civilian rule were based on information available at the time and on experiences of change and development elsewhere in developing countries. Nigeria, however, presents a complex, and in some ways unique development challenge. Factors like oil wealth, patronage systems, societal cleavages, and the breakdown of institutions and any meaningful social contract between government, civil society and service providers, demand a particular analytical understanding and strategies.

### **Assumption One: 'Democracy' Creates Political Space for Pro-Poor Change**

In Nigeria, the DoC analysis indicates that, although transition to civilian governance has been a significant improvement on military rule, it has not achieved the progress towards pro-poor change initially anticipated. Rigidities within Nigeria's institutional framework that operate as structural constraints fundamentally hamper the room for change.

Three inter-related main structural (or 'quasi-structural') features are highlighted:

- The breakdown and lack of accountability in the institutional relationships between civil society and the state and in the state's capacity to provide an enabling environment for the provision of public and private goods;
- Persistent mismanagement and misallocation (by both civilian and military regimes) of Nigeria's windfall revenue from abundant oil reserves;
- The failure of Nigeria to achieve diversified economic growth in the non-oil sector.

The interconnectivity of these features, the way they interact with more permanent structures (including demography, ethnicity, religion, resource endowment), their impact on institutional arrangements that govern society, and the responses of individual agents and organisations are continually returned to throughout the study.

### **Assumption Two – 'Champions of Change' will Drive Reform**

Out of the first assumption came an expectation that the new political space created by the transition to civilian rule would be occupied by a new generation of politicians, keen to break with the mistakes of the past, and determined to restructure Nigeria's political economy. These politicians would aim at achieving pro-poor growth, human development and poverty reduction. This assumption anticipated that the introduction of 'democracy' would usher in a government more responsive to the demands of its people. Although it was acknowledged that Nigeria's political institutions (after years of neglect under military rule) were fragile, it was expected that, as the capacity of both civil society to demand change and government's ability to respond to change developed, pro-poor reform would accelerate.

The government and civil society do not lack rhetorical commitment to achieving pro-poor outcomes. Furthermore, Nigerian civil society has survived military rule to emerge as a potentially significant force. The pre-conditions for the fulfillment of this assumption therefore appeared to be present in 1999. This led the international community to focus support on pro-poor reform agendas of key 'champions of change', particularly within the Executive, but also within civil society. However, the DoC analysis indicates that the actions of individuals and organisations – including the Executive – however well intentioned, genuine and important in raising political consciousness, are critically constrained by Nigeria's structural environment.

These structural features overlay a status quo that appears immovable and rigid. In reality this status quo is both incredibly flexible and responsive. It is able to respond to, and absorb, both internal and external shocks, as well as to manage and balance diverse interests and cleavages based on ethnicity, religion, regionalism and economic interest. It is apt at using a continually changing combination of coercion (including the political manipulation of conflict) and consent (built upon patronage politics and the misallocation of oil revenue).

Within this structural environment - reinforced by the unearned income from oil - individuals and organisations (including the international community) are relatively powerless. The DoC analysis indicates that a strategy built upon support to individuals and organisations alone will have limited impact, unless it begins to address the underlying institutional problems and structural constraints.

### **Assumption Three – Lack of Capacity is the Problem**

A focus on individuals and organisations as champions of change leads to the next assumption – the inability of individuals and organisations to achieve pro-poor reform is a result of weak capacity within government, civil society and organisations responsible for service delivery. The solution, therefore, would be to build capacity within key organisations – in civil society to demand change, in government to respond appropriately to the demands, and in the public service and private sector to deliver services.

There is little doubt that many organisations within government, civil society and those responsible for service delivery lack the appropriate capacity. This has been confirmed by the DoC research. Yet some developing countries have made significantly more progress towards development than Nigeria. Furthermore, Nigeria has reasonable or even good capacity within some areas of government, as well as in parts of the Executive, the supreme court within the judiciary, and within the media, human rights organisations, faith based groups, and components of the private sector. Closer scrutiny therefore appears to indicate that capacity per se is not necessarily the key constraint to achieving pro-poor development in Nigeria. Rather, the institutional framework within which these organisations operate, created by the structural features of Nigeria's political economy, prevent even organisations with capacity from achieving pro-poor change. Therefore, whilst building capacity is necessary, it is insufficient to achieve the transformational change necessary for Nigeria to eradicate poverty, without addressing constraints.

### **Assumption Four – ‘Gate-Keeper’ Organisations Drive Change**

The fourth and final assumption continues the logic of the third: given lack of capacity within organisations, it is important to focus capacity building on organisations that operate as gatekeepers to reform. In Nigeria, this approach focuses attention on organisations such as the Bureau of Debt Management; the Independent Corrupt Practices Commission; the Federal Ministry of Justice; or the Bureau of Public Enterprise. The Drivers analysis confirms the importance of supporting gate-keeper organisations and acknowledges the key role they play in driving change, but sees longer-term impact as contingent upon transforming the institutional environment in which they operate.

### **The Overview as part of a wider DoC process**

These findings are preliminary and the intention is to undertake more research and engage in extensive consultation with peers and stakeholders before the final reports are produced. More empirical and conceptual clarification is required especially of the mechanics of patronage, the role of the international community in Nigeria and of the critical links between agents, structures and institutions. It is also necessary to explore further the strategic implications of and incentives for those links and their relevance to the assumptions that have informed DFID and other donor strategies in the past. Whereas the concern with pro-poor change inevitably gives the DoC process a normative dimension, the findings ultimately have to reflect accurately and incisively not what the drivers of change *ought* to be, but how they are *likely* to promote or impede pro-poor change. Nonetheless, the paper also emphasises the importance of strengthening relationships and issue-based networks between agents; of targeted capacity building that engages with structural and institutional problems; and of links between key domestic and international interests in support of change.



# 1 Introduction

Initial findings from DFID's Drivers of Change research in Nigeria<sup>2</sup> show a need for new assumptions about how pro-poor change will be achieved, and new approaches from the international community, including DFID, to supporting change. In particular, it raises questions about four major assumptions:

- That 'democracy' creates political space for pro-poor change;
- That change is driven primarily through 'champions' or 'agents' of change;
- That lack of capacity is the primary impediment to pro-poor change and development;
- That 'gatekeeper' organisations drive or impede change.

The analysis confirms that agents may play important roles in processes of change, but argues that Nigeria's lack of reform is intractably linked to dysfunctional institutions and negative structural features. Strategies need to address these constraints while developing the capacity of individuals and organisations to champion change.

Earlier assumptions were based on the information available at the time and on experiences of change and development elsewhere in Africa and other developing countries. In 1999, an assumption existed that Nigeria's transition to civilian government after sixteen years of military rule, and the democracy it heralded, would create new political space for far reaching reform. The transition came at the close of a decade that had seen the end of apartheid and the introduction of democratic government in South Africa, and positive developments towards democracy in Ethiopia, Eritrea, and Uganda. The rhetoric, begun in South Africa but used within the Organisation of African Unity (OAU) and by President Clinton, was of an 'African Renaissance'. The idea of an African renaissance was given meaning and substance through the creation of the New Economic Partnership for African Development (NEPAD), to which Nigeria (along with South Africa and Senegal) was a founding member. The newly formed African Union used NEPAD to set up a peer review mechanism to achieve democracy, good political economic and corporate governance, as well as socio-economic development.

The optimism has since been tempered by several events in Nigeria and elsewhere in Africa. Civil war in the Democratic Republic of the Congo, Liberia, and Sierra Leone, the suspension from the

*New assumptions about democracy and change, the role of 'champions' and capacity building as a key intervention*

*Nigeria needs structural change through institutional intervention beyond the level of agents*

*Optimism in 1999 based on civilian rule and notions of 'African Renaissance'*

*Negative events in Africa and Nigeria tempered optimism*

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<sup>2</sup> DFID-Nigeria decided upon this research in acknowledgement that change is not happening either fast or deeply enough. It moved, hence, to supplement and assist its process of developing a Country Assistance Programme with a Drivers of Change initiative. This report reflects research under Component 3 of the DoC and deals with the political economy. This is one component of the wider DoC initiative, which also entails specific economic research and a process to facilitate debate about obstacles to, and opportunities for, change. A detailed report on Component 3 will be released in late-2003. In order to inform the CAP process and a number of other strategic discussions in the short term, this preliminary overview provides an early glimpse of key findings from more than 20 Position Papers commissioned from Nigerian and international experts between April and June 2003. A few Position Papers are still in the process of being completed.

Commonwealth of Zimbabwe, and renewed ethnic tensions in the Great Lakes demonstrate the fragility of Africa's renaissance.

*Poor information led to problematic assumptions and structural impediments to change proved more powerful than anticipated*

Nigeria itself presents a complex, and in some ways unique development challenge. The long periods of military rule coupled with the international community's effective absence during the latter period of the Abacha regime, meant political analysis, upon which to base intervention, was relatively weak. After 1999, as it became apparent that expectations of reform under the new civilian government would not materialise, the need for new analysis of the constraints imposed by an economy skewed towards oil, powerful demographic pressures, and of a breakdown of institutions, was underlined.

*Drivers of Change is an attempt to understand the political economy and reassess DFID's and the international community's modes of engagement*

The Drivers of Change initiative is an attempt to update an understanding of Nigeria's political economy, and to use this new information to reassess DFID's and the broader international community's engagement with the country. One of the objectives of the DoC analysis is to inform DFID's new medium-term strategy – the Country Assistance Plan ; hence the timing of this Overview.

*Findings are preliminary and subject to further research, extensive debate and testing*

The Overview is based on preliminary findings from analysis commissioned from Nigerian and international experts between April and June 2003. It is important to emphasise that the findings are preliminary. More empirical and conceptual clarification is still required, especially of the critical links between agents, institutions and structures and the strategic implications of those links. While concern with pro-poor change inevitably gives the DoC process a normative dimension, the findings ultimately have to reflect accurately and incisively not what the drivers of change *ought* to be, but how they are *likely* to promote or impede pro-poor change. Therefore, before the final DoC reports are produced in late 2003, existing Position Papers will be refined, remaining ones completed, new research undertaken, and a wide range of experts and stakeholders within and outside Nigeria consulted.

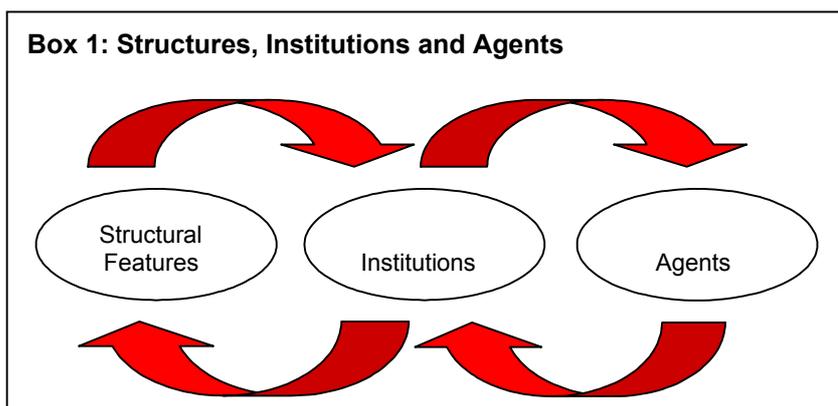
## 2 Conceptual framework

The Drivers of Change approach<sup>3</sup> hinges on the following aspects:

- ‘Pro-poor change’ is taken to mean sustained economic growth; broader access for poor people to services, markets, assets and safety nets; and the state and service providers becoming more accountable to the public, particularly the poor.
- Change processes are driven through or make an impact upon a society’s structural features, its institutions and the behaviour or interests of agents. The OPM Component 1 Report defines structural features as ‘natural and human resources, economic and social structure, and other non-institutional facts’; institutions as ‘frameworks of rules structuring the behaviour of agents’; and agents as ‘individuals and organisations pursuing particular interests’. Figure 1 indicates that there is no clear causality in these relationships. Agents often offer entry points for change and structures fundamentally define the scope for change, but institutions mediate between structural features and agents<sup>4</sup>. It is therefore important to understand how institutions have evolved, how they interact with political agents and structures, and how agents contest the terrain of institutions<sup>5</sup>.

*Growth, access and governance are key to pro-poor change*

*Among definitions of agents, institutions and structures, the notion of institutions is perhaps most complex: it does not refer to organisations, but to rules and relationships that mediate between agents and structures*



- Systemic change involves the relationships between these drivers, and as such the notion of ‘system’ is important. This concept becomes particularly significant in the identification of ‘issues’, described in section 6 as an essential aspect of achieving pro-poor change in Nigeria. The key point is that systemic change would occur across the drivers – agents, institutions and structures.

*Systemic change involves the relationships between the drivers and would therefore occur across agents, institutions and structures*

<sup>3</sup> As defined by Oxford Policy Management (OPM) (2003) under Component 1

<sup>4</sup> The OPM Component 1 Report (2003) defines structural features as ‘natural and human resources, economic and social structure, and other non-institutional facts’; institutions as ‘frameworks of rules structuring the behaviour of agents’; and agents as ‘individuals and organisations pursuing particular interests’. In their provisional reflections on Nigeria, the Component 1 consultants argue that the level of agent is the most evident one for interventions in Nigeria.

<sup>5</sup> Unsworth (2002 a and b) and (2003). It is important to emphasise that the term ‘institutions’ does not refer here to organisations – the latter would for purposes of this analysis be regarded as ‘agents’.

*Some institutions assume structure-like features, becoming self-perpetuating and very difficult to deconstruct*

- One of the new conceptual issues raised specifically by the research in Nigeria concerns aspects of Nigeria's institutional fabric that have come to assume structural-like characteristics. In particular, the dominance of the political elite has become self-perpetuating, rooted in structural realities and institutional patterns like oil wealth, ethnic and other cleavages and traditional systems of patronage. This has emasculated other aspects of the institutional framework related to democracy, free markets and accountable service delivery. This institutional dynamic has assumed characteristics similar to that of the more typical 'structures', and is almost impenetrably manifested in the weakness of the social contract; the way in which revenue from oil is currently managed; and the lack of development within the non-oil sector<sup>6</sup>.

*Institutions have broken down so that the interfaces between state, civil society and service providers have become dysfunctional and non-accountable*

- Drivers of change need to be located within the institutional framework that determines relationships and interaction between the state, public and private service providers and civil society. The dominant orthodoxy portrays a social contract between the state as a guardian of the common good or regulator or provider of services, a civil society able to influence public decision-making and hold state and service providers to account, and a service sector functioning either within the rules of state regulation or responsive to consumer demand. In Nigeria, most aspects of this model are absent, weak or reoriented to serve the interests of a narrow political elite. The return to civilian rule in 1999 that held out the promise of a gradual reconstruction of the social contract has yet to be fulfilled. The point of departure for the Drivers of Change initiative has been to understand how the political economy is structured, identifying dysfunctional elements within the relationships between agents and organisations, and exploring what needs to happen to reconstruct or even construct a 'normalised' political economy.

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<sup>6</sup> See Boxes 3 and 4 in Section 5

## 3 Potential Agents of Change

Although DoC research concludes that long-term sustainable and pro-poor change in Nigeria hinges on reforming institutions and structures, and not agent-orientated initiatives alone<sup>7</sup>, the DoC research confirms that agents are an important point of departure. There are therefore at least two reasons to start the conceptualisation of change at the level of agents. First, it offers tactical opportunities, as the actions of individuals and organisations generate institutional change and structural reform<sup>8</sup>. Second, because of these tangible and practical opportunities, many reformist Nigerians and donors have tended to focus their efforts thus far at agents.

*Agents alone cannot drive change effectively, but they do offer tactical opportunities and have been the focus of donor programmes*

### 3.1 The political landscape is not what it seems

The 1999 elections marked the introduction of a federal constitution and a return to civilian rule that shares many characteristics with liberal democracies elsewhere. However, Nigerian reality is considerably more complex.

*The 'organisational chart' of Nigeria looks like many other federations*

A cursory glance at the agents that inhabit the political and economic space and the state's organisational form would show, first, a federal system with federal, state and local governments, overlaid with separation of powers between the Executive, legislature and judiciary. The Federation displays formal features typical of intergovernmental systems, such as constitutionally defined exclusive and concurrent powers and formula-based block transfers. At all these levels, public sector bureaucracies are nominally accountable to political heads and legislative bodies. The Constitution provides for regular elections, and the number of parties has grown. Second elections were held in April 2003 after four years – without military intervention to overthrow civilian rule. The judiciary functions at different levels, tasked with some checks and balance powers and – alongside the police – with administering justice. Several statutorily independent bodies – including an independent electoral commission – ostensibly look after different aspects of the state's functioning and uphold key values of the Constitution. A wide network of parastatals is responsible for direct service delivery or for regulating service arrangements and standards. Moreover, contrary to many other African societies, many civil society groups are active in advocacy and service delivery and the media is openly critical of government.

*But institutions do not link agents as orthodoxy would have them do and structural constraints are particularly severe on the poor*

In reality however, Nigeria has elections but limited accountability. Incentives for political and administrative accountability are weak as the state's finances are based on oil revenue rather than a sustainable tax system. The political nature of appointments has reinforced bureaucratic inefficiency and costs, as well as lack of accountability and patronage. Elitism and patronage have isolated the broader population, especially poor people, from core processes of policy-

*Incentives for accountability are weakened by the dominance of oil, lack of taxation, weak institutions and patronage*

<sup>7</sup> Also see sections 2, 4 and 5

<sup>8</sup> The OPM report suggests that actor/agent level is the most feasible for engagement as institutional and structural factors are not particularly open to pro-poor change.

making, resource allocation, justice and minimum levels of service. This lack of accountability and patronage-based politics raises important strategic questions about agent-orientated processes of change:

- Does the lack of reform since the return to civilian government in 1999 suggest state bodies can play no role in pro-poor change?
- Which service providers are best suited for dealing with the challenges of service delivery and change?
- How can strategic spaces be opened for civil society groups, and which groups are most likely to optimise such opportunities in the interests of poor people?

### **3.2 Is there a role for the state?**

*State bodies have limited potential as drivers of change, but their power means they cannot be ignored, and some do offer entry points for change*

The lack of reform since 1999 confirms that unaccountability and functional ineffectiveness have become institutionalised in the Nigerian state. This may lead to the conclusion that state bodies hold little potential as drivers of pro-poor change, relative to civil society or private sector agents. The DoC research confirms the state's existing limitations, but also contends that it remains too politically and economically powerful to be ignored.

#### **3.2.1 Paradoxes in the Executive, legislature and parties**

The political arms of government demonstrate the paradoxical potential of the state as an agent of change.

*The Executive has substantial powers, and there is a view that the President may be willing to take bigger risks in his second term, but elitism, patronage and low capacity are major impediments*

The Executive is simultaneously disproportionately powerful yet relatively powerless to achieve pro-poor reform. On the one hand, control of significant resources and a constitutionally pre-eminent role allows a pro-reform President to play a major role in redressing poverty. Some observers contend that despite the lack of significant pro-poor reform during President Olusegun Obasanjo's first term, his re-election in April 2003 may make the President more assertive during his second term as he feels free of the pressures of seeking re-election and seeks to leave a positive legacy. This seems to indicate that effective pressure from coalitions of agents and organisations may move the current administration to support institutional transformation and structural change.

However, the Executive's power base is firmly located within the dominant elites in the wider political economy and through key appointments in the public sector. Any president will face powerful resistance when challenging these interests. Furthermore, low capacity within the administration to implement policies is a disincentive to change as it increases the risks of politically costly failure. Driving change is further complicated because of the delicate political compromises made to contain the risks of ethnic, religious and regional conflict. By their very nature, many of these compromises tend to favour the status quo and prevent bold reform.

The prospects of Executive-led change must also be viewed in the context of its wider relationship with the National Assembly. During the 1999-2003 session the Assembly became more assertive, showing potential to develop into a more effective counter to the dominance of the Executive. In two notable efforts, the Assembly – perhaps with a degree of tactical overkill – attempted to impeach the President in 2002 for allegedly not implementing the federal budget, and challenged the Executive’s efforts to alter the electoral law. Whilst this has raised tensions between the two branches of government, it may also represent an important development in the consolidation of democracy and a new political terrain for engagement around pro-poor issues.

*The Assembly has become more assertive*

The DoC analysis thus far has brought to the fore two contradictory perspectives on whether the new Assembly membership will add further momentum to this role. One view is that with some 80 percent of new members, there may be fresh enthusiasm for holding the Executive accountable, making the Assembly more transparent and developing reformist legislation. However another perspective is that the nomination of candidates during the 2003 elections was even more tightly controlled by the dominant elite than before, so that new members are more likely to toe the patronage line.

*It is still unclear whether the new membership will continue this more assertive momentum*

Were the reformist momentum to accelerate, the Assembly's committees would seem to hold the greatest potential as vehicles for in-depth policy engagement. However this requires that the quality of information and supportive analytical capacity is developed to address key issues like resource management (especially oil), economic policy, specific areas of service delivery, the military and other security agencies and budget monitoring. In addition, stronger constituency links and greater transparency of Assembly activities will help build effective accountability<sup>9</sup>.

*Committees have potential to focus on key structural and institutional issues*

But even if members were willing to support pro-poor change, the National Assembly would still have to overcome several constraints. The first is its legacy. Conflicts with the Executive have diverted attention from pro-poor legislation and oversight, and the Assembly has not been able to fully define its role and character in the post-1999 era. It still suffers in part from a legacy dating back to the Second Republic (1979-83), when the then Congress proved incapable of escaping patronage politics or focusing on development issues. The new Assembly took office in 1999 with a military-driven culture of limited knowledge base, no institutional memory and extreme challenges imposed by endemic patronage. Its first three years witnessed two different Speakers and three Senate Presidents; controversies over the suitability of presiding officers have repeatedly overwhelmed Assembly proceedings and shifted the focus away from pro-poor legislation.. In several constituencies, members’ links to constituents remain weak and not particularly effective as means to foster accountable government.

*The legacy of previous legislatures and political fluidity in the first post-1999 Assembly casts doubts over the Legislature’s potential as driver of pro-poor reform and as a counter to Executive power*

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<sup>9</sup> National Democratic Institute (2003)

*Lack of information and capacity, patronage, and the power of the Executive may limit the Assembly's reformist potential*

Moreover, the Assembly remains constrained by a political culture revolving around 'big men' with the influence and control of information to set agendas, prevail in conflict and enjoy privileges. In addition, constitutional, legal and practical constraints have undermined its ability to keep the Executive in check<sup>10</sup>. Although the Constitution grants broad budgetary authority to the Assembly, the legal framework also enables the President to delay submitting budgets. Furthermore, the Constitution allows Executive members and their officials to delay the release of information or even ignore Assembly requests for information<sup>11</sup>. The Executive is able to use its control over disbursements of funds to the Assembly (with amounts disbursed frequently less than approved in the budgets) as a mechanism of political control. Critics assert that Members often support or oppose bills and motions to curry favour with the leadership who are able to confer or deny lucrative committee posts and other material benefits. The Assembly's ability to be a counter to the Executive has been jeopardised by an inferior knowledge base and weak institutional capacity, lack of professional support staff and infrastructure, elaborate and fragmented committee system, high turnover of membership and high incidence of floor crossing. These factors have constrained the Assembly's inability to pass legislation. Although numerous members' motions and bills have been proposed between June 1999 and mid-April 2003, only a limited number other than appropriations and supplementary appropriations were enacted into law.

*Political parties add to the difficulties of the Assembly, as they are made ineffective by personalised and ethnic based politics; and floor-crossing is rife as members often pursue short-term personal benefit rather than long-term policy agendas*

Many of the limitations of the Executive and the Assembly are closely linked to the nature of party politics in Nigeria<sup>12</sup>. Although registration of 30 parties for the April 2003 elections may suggest growing diversity and activity, politics is highly personalised or manipulated by ethnic, religious and regional interests, and debate about public policy issues is limited. Selection of candidates is essentially a market process where many individuals secure financial rewards through patron-client relationships. In the run up to the elections in April 2003, many Assembly members changed parties to obtain re-nomination. This opportunism makes it difficult for parties to mobilise a dependable constituency to influence institutional relationships and structural issues. It favours a stronger Executive and weaker Assembly by creating incentives for Assembly members to act primarily in their own personal interests.

*Party capacity building has to form part of broader electoral reform*

The research shows that few Nigerians or political observers view current parties as major agents of pro-poor change. The challenge is at institutional level, building the electoral system to facilitate free expression of political preferences and for setting and debating reform

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<sup>10</sup> The Revenue Mobilisation Allocation and Fiscal Commission is responsible for proposing to the President formulas for allocating revenue from the Federation Account. The Assembly is responsible for determining the formulas, but both the Assembly and the Executive often lack definitive information.

<sup>11</sup> The draft constitution submitted to the Assembly by its joint constitutional review committee would require submission of the proposed budget four months before the beginning of the year.

<sup>12</sup> Omoruyi (2001); National Democratic Institute (2003a); Sheehy (2003)

agendas. Better regulated party and campaign funding should improve levels of disclosure about party finances and the commitments made when donations are accepted. Clearly these issues are not confined to the immediate organisational capacity of parties but interwoven with reforms of the legislature, the wider state-civil society interface and the structural lack of accountability<sup>13</sup>.

### 3.2.2 Justice in a trap: few checks and balances and little access to justice

The justice system is constrained by similar ambiguities and the legacy of years of misrule. The judiciary has occasionally been prepared to rule against the political leadership, yet lacks capacity and credence either as a check against Executive, legislative or public service abuse or to oversee effective administration of justice to the population. It is still predominantly an instrument of the elite<sup>14</sup>. Throughout the 1980s, the military openly manipulated the system to protect the interests of successive regimes, such as shielding corrupt public officers from exposure while passing decrees professing to combat corruption. Appointment of judges became openly biased, and the judiciary emasculated.

*The justice system is constrained by a legacy of misrule*

The years under military rule undermined civil policing and compromised the independence of courts in the administration of justice. Systematic under-funding during successive military regimes and even since 1999 has left the courts and the emergent civil police unable to process cases swiftly. . Approximately 80 percent of Nigeria's prison population is awaiting trial, and crime levels are high. Citizens have sought alternative protection, vigilantism is on the increase and some states have engaged ethnic militias for internal security duties, traffic management and to counter armed robbery. The introduction of the Shari'a criminal code in the North has offered a seemingly quick, efficient, and clear alternative. Despite controversy over the severity of penalties and what critics view as political manipulation of sentences, large numbers of poor people view Shari'a as a route to justice.

*Military rule undermined the judiciary and administration of justice*

The demise of commercial and contract law has had a negative impact on economic growth. The Congress of the Second Republic passed a Land Use Act purported to redistribute land, but abuse by military governments subsequently, effectively disowned landowners, advantaged the elite and undermined property rights and commercial law, without benefiting poor people. As a result, many investors opted to leave Nigeria and those who stayed, mostly confine themselves to low capital and short term investments, protected through institutions outside the formal system, such as kin, ethnicity, and localised relations. Apart from directly inhibiting investment, the need to rely on an informal system curtails economic growth because it introduces insecurity and hinders the development of an entrepreneurial and risk-taking middle class. The National Assembly has not given priority to

*The demise of commercial and contract law has had a negative impact on economic growth*

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<sup>13</sup> Fayemi (2003a)

<sup>14</sup> Nweze (2003)

*Justice reform needs to form part of a wider institutional agenda*

legislative reform so that many of these legal distortions continue to impede pro-poor change and economic growth.

Both the willingness of some courts to challenge government on matters of constitutional principle and donor-supported reforms to broaden access to justice, offer important entry points for reform in the justice sector. However, there is as yet no systematic approach to link institutional reform across the justice system – the police, correctional services, and the judiciary and prosecution services – and in relation to the Executive, the Assembly, civil society and the private sector. This makes it difficult to address comprehensively the challenges around accountability, oversight, access, due process, effectiveness, efficiency and representation in the justice and security sectors within the broader Nigerian political economy<sup>15</sup>.

### **3.2.3 Closer to the people? States and local governments**

*Return to civilian rule raised the prospect of government becoming more powerful and accountable*

Sub-national government has been part of the institutional landscape, even under military rule when Nigeria was de facto a unitary state. However, whereas military governments tended to treat sub-national levels arbitrarily and opportunistically, return to civilian rule was seen by many as an opportunity to shape a well-designed system of devolution in federal-state-local relations. However, states and local governments have not met expectations and a number of recent state-level reforms, as well as a Presidential Commission announced in June to review local government, highlight a new interest in change at these levels.

*Concurrent powers and obfuscation hinders the functioning of the intergovernmental system*

Most of the powers accorded to states under the 1999 Constitution are exercised concurrently with the federal government and local government powers can be exercised only in accordance with state legislation. Lack of clarity in the Constitution over functions of government tiers has caused duplication and rivalry in key service sectors like health and education, jeopardising direct delivery through government and preventing effective partnerships with civil society organisations<sup>16</sup>.

*Rivalry about powers is linked to resource competition*

The rivalry about powers is closely tied to the allocation of revenues, fixed mainly by the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) and approved by the National Assembly for five years. The current allocation formula assigns 48.5 percent to the federal government, 24 percent to the states and 20 percent to local government, with 7.5 percent retained for ‘special’ federally determined projects<sup>17</sup>. Once set, the revenue sharing formula provides limited room for manoeuvre on fiscal policy<sup>18</sup>. The horizontal

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<sup>15</sup> The Access to Justice Initiative by DFID has started some work in this regard, but investigations in the course of this study still suggest a need for greater coherence and ‘buy in’ by the key institutions.

<sup>16</sup> Bossert and Gomez (2003); Pearson (2003) ; Tayler (2003)

<sup>17</sup> The present formula is similar to the 1982 formula in terms of the total flow to the center, but the states now receive less than during the last civilian government, while the local governments receive more.

<sup>18</sup> World Bank (2003)

distribution formula is constitutionally fixed and allocates 40 percent to each state in equal amounts and 60 percent based on six variables<sup>19</sup>.

While states and local governments continue to campaign for more resources given their responsibilities, fiscal decentralisation is limited. Over 90 percent of lower tier revenues come from the Federation Account. Well over two-thirds of this revenue is derived from oil – a factor seen by many as a primary impediment to accountability. State governments have little control over the size of their revenues from the Federation Account and revenues under the allocation formula are unstable from year to year. Since 2000, oil-producing states have been able to retain a limited portion of oil revenue for themselves, but they generally remain dissatisfied with the revenue levels they receive relative to other states.

*Fiscal decentralisation is limited*

Despite a number of policy statements promising public sector reform at federal and state level, progress has been fragmented and there is considerable variation in states' governance capacity<sup>20</sup>. All states suffered under military rule, but some maintained core civil service capacity better than others. Most are still overstaffed even though there have been some efforts to reduce bloated bureaucracies and eliminate 'ghost workers' from payrolls. Budgets are generally under strain and state and local government budgets are vulnerable to unilateral federal decisions such as that of May 2000 when the minimum wage for both civil servants and teachers was raised to N6000 per month.

*State reform still limited and most state governments are overstaffed, financially constrained and ineffectually managed*

Nonetheless, some states – such as Bauchi, Cross River, Lagos, Osun and Sokoto – led by a new political generation are beginning to address public sector reform through civil service modernisation, organisational restructuring, right sizing, strengthening financial management and channelling more resources to the capital budget. But Political risks remain high as demonstrated in Osun, where after having reduced the size of the state civil service, the governor was ousted in the recent elections – according to some political science commentators this was because his 'attention to political management was poor'<sup>21</sup>. In another incident, the governor of Anambra state was abducted in July 2003 – allegedly with police co-operation – after he lost the support of his original sponsors during the election. Regardless of the political merits of the campaign to change the governor, the fact that extra-democratic measures were used, points to significant institutional shortcomings<sup>22</sup>.

*A few positive cases of reform have emerged to improve management and service delivery, as well as involving the private sector*

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<sup>19</sup> The variables are population (30 percent), land mass (10 percent), internal revenue generation efforts (10 percent), secondary school enrolment (4 percent), number of hospital beds (3 percent), and rainfall (3 percent). The revenue shares depend positively on the first three variables and negatively on the last three.

<sup>20</sup> World Bank (2003)

<sup>21</sup> Foot (2003b) and World Bank (2003)

<sup>22</sup> *This Day*, 22 July 2003; Concerned Professionals, 28 July 2003

*But constraints on state governments are similar to those at federal level, and sometimes even more severe*

In fact, state level governments face obstacles to reform every bit as significant as at federal level. They too function in a system dominated by elites, are often even closer to ethnic and regional interests and are fully drawn into the politics of oil. Hence, while there have been reforms in some states, DoC research indicates that rightsizing, performance improvement, public expenditure reform and human resources transformation have been limited and often compromised by political gamesmanship. The research refers to cases of governors agreeing to ad hoc appointment of staff regardless of technical need, creating new departments and ministries to circumvent malfunction in existing departments, and signing loan agreements without considering long-term fiscal viability.

*Local governments are in an even more precarious position, and have limited resources and policy authority and lack capacity to support reforms that would make them more accountable. In June 2003, the President announced a new initiative to look at the role of local government*

However local governments seem in an even more precarious position and face even more intense challenges to their legitimacy. They have little policy-making or budgeting power, as a large portion of the funds they derive from the Federation Account is conditional. Budgeting and financial management practices are weak and not planned systematically. A recent World Bank study concluded that many local government leaders do not seem to understand the purpose and details of the budgetary process and financial management, and there have been many accounts of fraud and corruption<sup>23</sup>. There have been calls for the 772 local governments in Nigeria to be increased to up to 2000 as part of a drive to enhance accountability, and some states have begun the process of increase. However this has also invited criticism that states were doing so to manipulate electoral boundaries in their own parties' favour.

The wisdom of expanding the local tier is questionable, as staff and organisational capacity, along with infrastructure are sparsely spread. Although these constraints may undermine the expansion of the number of local governments, local governments may be forced to become more responsive through pressure from the large number of locally financed and elected community development associations active in local communities<sup>24</sup>. However, the research also points out significant limitations to reform at this level, as Local Government Area councils – as currently structured – are mostly devoid of the capacity needed to play a major role in pro-poor change. The Presidential Commission announced in June illustrates a growing awareness of this challenge.

In fact, lower tiers of government suffer similar political and economic constraints as those that prevent the federal government from comprehensively promoting pro-poor change in Nigeria.

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<sup>23</sup> The team visited two LGAs in Bauchi, Rivers, and Nasarawa states, one in Anambra and three in Ogun. In Sokoto we had a joint meeting with the officials of three LGAs

<sup>24</sup> Foot (2003b); Vanden Broek (2003)

### **3.2.4 Containing the omnipresent military**

Ever since the civil war of 1967-70, the military has remained a significant political force. Until 1999, it intermittently intervened in politics, proclaiming itself the nation's guardian against bad administration and lack of service delivery. In reality, however, these interventions consistently saw an elite of senior military leaders in alliance with bureaucrats, politicians and their business associates reinforcing patronage and contesting control over the nation's wealth, especially oil revenues.

*The military has been in the background throughout modern Nigerian history*

While the military's visibility has declined since 1999, its role remains a source of much debate and speculation. Popular concern remains high about its disruptive potential, especially when called upon to police civil disturbances and quell ethnic unrest. There have also been tensions between the Executive and the National Assembly about oversight of military reform, often highlighting disagreements about legislative oversight in general. Given the current President's military knowledge, the legislature has functioned largely as a rubber stamp or an ill-informed oversight body. This has led to new civil society pressures for clearer constitutional guidelines on the role of the Executive, the legislative branch and wider society in civil-military relations and governance in the security sector. There have also been calls for involving more stakeholders – such as Assembly committees on Defence, Security, Police Affairs and Intelligence; the newly created Policy Coordination, Monitoring and Evaluation Unit of the Nigerian Presidency; civil society groups; and even the international community.

*The military's role is still a source of concern and speculation, in general and especially since it has been used to quell civil unrest*

Policy wise, President Obasanjo has established the military's subservience to the Constitution and to the political and strategic goals of the civilian regime, the civilian President as Commander-in-Chief, civilian headship of the Ministry of Defence (MoD), and the right of the civilian judiciary to review any decisions by military judicial officers. He has also carefully balanced ethnic and regional interests in key appointments and announced reforms aimed at professionalisation and reorientation; demilitarisation and civil policing; and aligning defence reform with development.

*The President has set policy direction to subject the military more firmly to civilian control*

However, institutionalising the shift away from a military dominated system is a demanding process that requires extensive negotiations and constitutional change to '...ensure an institutional strategy that will streamline and ensure proper accountability and legislative oversight over security actors'<sup>25</sup>. Achieving this when the basic challenge of holding the state together and fundamentally rewriting the rules of engagement with issues like oil, ethnicity and other structural factors still beckons, transcends the short-term actions of military agents and political negotiators. Moreover, reform of civil-military relations is not an isolated policy issue. It cuts across issues of democratic consolidation and accountability, to the political, military and practical value of building a military able to perform its constitutionally mandated responsibilities, overcome low morale, loss

*Implementing reforms is difficult because the military is embedded in patronage and reform cuts into many aspects of the political economy*

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<sup>25</sup> Fayemi (2003b)

of pride and prestige and ethnic strife, and streamline civil policing. Targeting pro-reform officers and other interests has a place, but the military's contribution to pro-poor reform ultimately hinges on reforming institutional links with other actors and its influence on structural issues in the political economy.

### **3.3 Facing the challenges of service provision**

*Service delivery has been weak because of public sector shortcomings and lack of accountability as well as an under-developed private sector*

The Nigerian state has been incapable of ensuring provision of private and public goods that meet the demands of society. Successive governments since 1960 have not managed to create and regulate conditions for private sector delivery of services; nor have they led the public sector to effectively direct either funding or services at population needs. Access to essential services has declined significantly over the 1990s and is often much worse than in comparable countries. For example, in health, vaccination coverage has declined from 29 percent of children in 1990 to 16.8 percent in 1999<sup>26</sup>. Similar trends occur across all service sectors, lowering the quality of life and curbing economic productivity and growth.

#### **3.3.1 An elaborate but weakened public service**

Several features undermine the capacity of the Nigerian public service to manage the state, regulate or provide services, be held accountable and drive pro-poor reform.

*Oil income has heightened the interests of elites to control the public service*

First, Nigeria's abundance of oil revenue has bolstered the interests of the elite in using the civil service as an instrument to maintain power and has made it possible to obscure bureaucratic inefficiency. Public expenditure has increased rapidly when oil prices and revenues have been high, but increased public employment has made it difficult to reduce expenditures in response to reduced revenues

*The military has subverted public service values*

In addition to this, military rule has subverted traditional values of public administration. The military looted state assets, and tarnished civil servants' career prospects through patronage, arbitrary dismissal, low salaries, disregard for staff rules and by marginalising officials from policy processes. It made under-funding chronic, allowing standards to decline and services to lag.

*Weak oversight and incentives, as well as ethnic and other rivalries also undermine the civil service*

Poor information currently prevents the Assembly and its committees from holding the civil service accountable. Low remuneration and lack of performance management systems provide weak incentives for vigilant service and there are many reports of officials using their positions to enrich themselves through patronage, or pursuing income-generating activities outside their official positions. The service is rife with regional and ethnic rivalry that fuels time-consuming and unproductive competition for resources. Proliferation of states and local governments has added to the expansion of the public service, mostly without capacity enhancement programmes. Cases where systems have been improved, personnel management

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<sup>26</sup> Pearson (2003)

made more vigilant and interesting service delivery innovations introduced – such as in Lagos, Sokoto and Osun – remain isolated.

The relevant DoC research paper argues that structural forces severely limit the prospects for comprehensive pro-poor reform in, and through, the public service. This seems a challenge politicians are reluctant to confront. In the run up to the 2003 elections, debates on public sector reform were notably vague.

### 3.3.2 The parastatal network

The Federal Government of Nigeria (FGN) functions through a network of ministries, departments and statutory corporations (parastatals), regulatory authorities, boards, commissions and other agencies. There are at least 400 federal government parastatals, charged with delivery and regulatory functions across most sectors of the economy and at all federal levels. They are the primary federal functionaries in all aspects of social, political and economic services, although their major investments have tended to be in large-scale capital-intensive sectors and projects. Many are replicated or supplemented by state and local agencies.

*A large network of state agencies are supposed to take care of regulation and service delivery*

New governments have all formed new agencies, often on political rather than functional grounds. Apart from blatant patronage, many senior positions have been created to ensure representation of geo-political areas, states and even local governments in public and private institutions. This has had several implications:

*Problems caused by the proliferation of states include duplication, discontinuity, patronage, blurred accountability, high personnel costs and under-funding of development projects*

- Duplication and lack of co-ordination. Several logically congruent sectors are divorced from each other, creating a large and disjointed bureaucracy. While the geographic spread of agencies may suit certain areas of service delivery, institutional fragmentation has mostly prevented systematic strategy design. Proliferation of parastatals has contributed to fragmentation in a manner similar to the constant addition of new states and local governments. This has tended to benefit elites associated with these institutions, rather than improving service delivery in sectors critical to economic growth and poverty alleviation, such as health, education and infrastructure.
- Discontinuity: Frequent changes often make it difficult for an agency to maintain its programmes, funding and objectives. Many projects are abandoned or indefinitely postponed as governments, ministers and ministries change.
- Patronage: Political appointments have meant that core sector and agent requirements have not always been taken care of. The relationship with government has often remained close so that the management autonomy, presumed to be a strength of arm's length agencies relative to conventional departments, often does not materialise. It is widely acknowledged that these agencies have to return favours to receive resources. This compromises their roles and undermines their efficiency.
- Blurred accountability: Proliferation, politicisation and complex management appointments and control and ownership structures

have obfuscated accountability arrangements. Several agencies incorporate sub-agencies or commercial enterprises with organisational links to ministries other than the controlling agency. As ministries change and merge, the result is confusion over reporting and budgeting and service delivery becoming more intermittent. As with the rest of the public service, these agencies are not managed under clear and robust performance measures, making it difficult to fully assess the quality of services.

- Under-funding of development and high staff costs: While parastatals often offer better incentives for management and staff than the ministries, and should therefore in theory be able to attract better skills, the trend is for salaries and some overhead costs to be met at the expense of projects. The effect of under-funding is widely felt in capital projects and significantly also in social sectors like education and health. This undermines attempts to improve daily living standards, combat HIV/AIDS and empower the population for the challenges of development<sup>27</sup>.

*Slow progress with commercialisation and privatisation, but a few beacons of hope have been emerging*

Although commercialisation and privatisation are proclaimed policy priorities, progress has been limited. Some organisations – like Nigeria Airways – have failed to attract investors, and government has been reluctant to take the political risk associated with possible efficiency measures and loss of control. Nonetheless, there have been some instances of reform since 1999. For example:

- The Bureau for Public Enterprises (BPE) has sought to sell off significant government holdings in public enterprises or at least to advance commercialisation. As a result, some agencies already generate income from service fees and licenses, commercial services and consultancies and through mandatory deductions from certain economic groups, such the insurance services.
- The Lagos state government has introduced the Private Sector Participation Initiative (PSP) in water supply services. Faced with the challenge of having to increase its annual delivery of water to Greater Lagos by some 160 percent by 2020, the state has mobilised support from the International Finance Corporation (IFC) to help the Lagos State Water Corporation (LSWC) prepare for a lease/concession contract<sup>28</sup>.
- The Enugu State Environmental Protection Agency (ENSEPA) – supported by DFID – has embarked on reforms to improve solid waste management through better corporate planning, institutional restructuring and human resource development, and develop partnerships with private and civil society groups<sup>29</sup>.

To build this momentum requires political acceptance in government, agencies and labour, and management skills to understand and drive complex institutional, legal and financial processes and risks. Because top management positions are mainly political appointments, the

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<sup>27</sup> According to the World Bank the public expenditure on health is estimated to be less than \$5 per head: Health Systems Development Project, Project Appraisal Document, 2002, quoted by Pearson (2003)

<sup>28</sup> Kalu (2003)

<sup>29</sup> Asobie and Ogban-Iyan (2003)

leadership of these organisations find it difficult to introduce reforms that challenge political interests. It also subjects management of these organisations to changes when political appointments are made. In addition, ability to change depends on institutional reform of entrenched operational systems and financial mechanisms, and on mobilising the support of workforces reluctant to embrace change. Consumer relations pose another challenge. High levels of mistrust compromises revenue collection from households and it is difficult to convince people that parastatals – whether publicly managed, commercialised or in newly privatised guise – will improve service delivery. Finally, the DoC background study into parastatals contends that e-governance will enhance the work of the parastatals and their transition to the private sector, and improve record-keeping, resource management and client interaction. It must be recognised however that the current levels of information and communications technology (ICT) are particularly low, and its uses confined by poor infrastructure, especially in electricity and telecommunications. It is therefore not a panacea to the problems of parastatals.

### 3.3.3 In search of a private sector beyond oil

The shortcomings of the public sector have inevitably led to calls for private provision. However, unlocking latent private sector potential cannot be done without addressing the factors that have hitherto curtailed private sector activity<sup>30</sup>:

- A constraining context: The dominance of government in the economy, inadequate public service delivery and infrastructure, and a severely bureaucratised regulatory environment make running a business expensive and create incentives for short-term self-interested business practices. Many businesses have had to create alternative infrastructure supply systems to compensate for the unreliability of public energy and other services. Business licences and credit are difficult to obtain and there is little security of tenure. Potential small entrepreneurs find it cumbersome, complex and expensive to either start or expand their business. Many operate in the informal economy, which means they are less open to policy influence and outside any potential tax net.
- Lack of diversification: Away from the oil industry, the Nigerian private sector is limited and undiversified. This tends to slant the benefits of growth away from poor people. Agriculture and oil account for over half of value added and most additional growth potential is in manufacturing, wholesale and retail services, transport, finance and real estate. These sectors are all highly demand driven, often capital-intensive and unable to grow much faster than the economy as a whole.
- Unpredictability: In an unpredictable regulatory and policy environment, private sector participation in areas typically associated with the public sector has been fragmented. There are few structured public-private partnerships (such as for Lagos

*Private sector activity is constrained by the government's large role in the economy, red tape, unpredictable and weak regulation, difficulties with private sector partnerships and privatisation, rent-seeking and inadequate infrastructure*

<sup>30</sup> Lee and Anas (1991); Centre for the Study of African Economies (2003)

water). Government has also been slow in privatising parastatals. Private activity to compensate for delivery failures is largely unregulated, not guided by overarching policy plans for rollout, and often a case of crisis management by firms and households trying to cope with underdeveloped public services.

- The limits of privatisation: Privatisation has not been an unmitigated success. It has often meant the purchase of government-owned businesses by existing political elites, leading to accusations that the government is in effect selling the people's assets to itself.
- Rent-seeking: Pervasive rent-seeking within the private sector has worked in tandem with bad state practices to impede change and growth. This has biased many policy reforms in favour of elites, with private entrepreneurs responding to policy change by seeking new rental havens in finance and other non-tradable sectors. Nigeria's experience reinforces the perception that changes in nominal incentives must be accompanied by broader institutional transformation to make economic reform effective<sup>31</sup>.

*Private sector potential lies in overcoming unproductive public investment, the room for development in key sectors, the prospects of overcoming ethnic division and the potential to become a powerful lobbyist for change*

There is a strong case for greater private sector involvement in the economy at large and in specific areas of service delivery, provided it is not pursued in isolation from the changes taking place in the wider context of state-private sector relations. Positive changes likely to come from private sector activities include:

- Increased non-oil exports are intractably linked to overcoming the unproductiveness of public investment and increases in government consumption.
- Increased productivity in private sector activity would be beneficial from an anti-poverty perspective. For example, after being crowded out by past government policies, agri-businesses and other informal micro and small businesses lack access to finance, information, training and business support services. Private investors could help address these gaps.
- Improved efficiency as the sale of public companies has tended to open operations to the pressures of the competitive market.. There have been positive stories: for example, the issue of four licenses for mobile phone systems created a competitive market.
- Trans ethnic forces are strong in the private sector as its interests lie in profit, the market and employment income, rather than ethnic origin.
- A dynamic private sector may become a lobbyist for change. A growing number of private- sector groups have been concerned about rent seeking, corruption and the constraining regulatory environment. Together with a body like BPE, a stronger private sector with an interest in expanding business opportunities, markets and consumer potential, could build up momentum for policy change.

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<sup>31</sup> World Development (1994) quoted by Centre for the Study of African Economies (Oxford) (2003)

### 3.4 Civil Society: agent of accountability and service delivery?

The argument is often made that development assistance should target civil society organisations as agents of change, to build pressure for change, hold the state accountable, and to supplement the state's lack of capacity in critical areas like health, education and provision of basic services. The DoC research concurs there is potential for such roles, and that Nigerian civil society remains more vibrant and more able to function than in many African countries. However, the research also indicates some weaknesses within civil society organisations and that the government's lack of accountability has diminished the influence of civil society in Nigeria. This section contextualises the potential of civil society to promote change, with reference to a number of specific civil society groupings often touted either as agents or obstacles of change.

#### 3.4.1 Past and contemporary undercurrents<sup>32</sup>

Trade unions, student groups, professional associations and human rights NGOs played an important role in opposition to military rule, but since then have been unable to take full advantage of the return to civilian rule. This was due in part to the transition being managed by the political elite, rather than civil society agents. The advent of civilian rule also removed a principal focus of civil society's opposition, even though the new civilian elite did not alter the fundamental structure of economic or political relations.

*Civil society organisations played a major role in opposing the military, but they have not achieved their full potential since 1999*

The roots of this inability to seize opportunities in the new environment emanate from the evolution of civil society over the past four decades. In fact, it is not entirely dissimilar to the first period of civilian rule after independence in 1960. Then, while the student and labour movements remained vocal critics of a new government struggling to meet its election promises, the impact of many other civil society groups became diluted. Many local-level groups previously active in opposing colonial rule, lost their political focus, found their leaders moving into the new state structures, or failed to cope with unexpected levels of repression imposed by the new regime. Others became too ideological in their approach to engage pragmatically with the challenges of governance in the new independent state.

*These organisations have a chequered history*

Military rule provided a new focus for opposition groups to mobilise against the regimes' inability to create prosperity, their authoritarian nature and their leanings towards patrimonial rule. But opposition was not always uniform. Some groups welcomed the first and third military coups mainly due to widespread disillusionment with their predecessors. On the other hand, the second military regime split civil society along ethnic lines, and the fourth brought considerable political division and disillusionment. Between 1976 and 1986, the student and labour movements, the media and professional

*Opposition to military rule was not uniform*

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<sup>32</sup> Ezeazu (2003); Blench and Dendo (2003)

associations vigorously challenged military rule, and were met by more repression and intensified co-option. However, after 1987, a wide range of human rights NGOs emerged, driven by lawyers, journalists and former student leaders. By 1999, there were 60 such groups, becoming more assertive and wide-ranging as they shifted focus from specific issues like prison conditions, arbitrary arrests and detention to strategies more generally aimed at achieving civilian rule.

*Several divisions exist: urban-rural; international-domestic; unions-NGOs; on religious grounds .*

This period, however, caused division that continues to affect civil society. For example, one of the prominent undercurrents currently concerns the divide between rural and urban groups. Whereas the majority of civil society groups are rurally based, many urban organisations have enjoyed higher profiles and have been better able to access funding and influence policy. Often consisting of professionals like lawyers, business people and health professionals, these urban-based groups are articulate and able to utilise the media such as television more readily. Although not rooted in the poorest communities, they nonetheless often take up causes that form part of the anti-poverty agenda. Yet, critics argue that because they are not ‘from the poor’, their ability to promote the interests of poor people is limited. This criticism is not merely one of whether middle class groups can be advocates of the interests of poor people, but is linked often to a notion that the centre of any pro-poor strategy has to be rural. This tension runs through civil society – among development professionals and among the memberships and leaders of civil society organisations. The research as yet does not provide clear insight into its significance, but notes it as an aspect of contemporary civil society that could have a bearing on policy and strategies.

Another dynamic concerns the increasing number of international NGOs that have established offices in Nigeria after 1999. During the military eras, many NGOs directed their Nigerian operations from outside the country, using domestic groups as entry points. The return to civilian rule created opportunities to establish bases in Nigeria, using their resource bases and international profiles to give prominence to development issues or make an impact where many domestic organisations had been curtailed by lack of resources and exposure. There have also been joint ventures, and as in other countries, international groups sometimes help to resource domestic organisations. However, there have been tensions where international and domestic organisations compete for the same resources or disagree about issues, and some Nigerians believe international groups impose external agendas or are unable to authentically promote pro-poor change suitable to Nigerian conditions.

*Unions have shown some power but have not been particularly effective driving a pro-poor agenda and pressurising government*

The role of trade unions<sup>33</sup> has been one of the most controversial aspects of civil society activity in Nigeria, from the years of military rule to the present. The country has a long history of trade unionism, but it has had relatively limited impact on the pro-poor agenda. Unions – particularly the Nigerian Labour Congress (NLC) – became highly politicised during military years, setting them on an often unproductively confrontational path with government and at times

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<sup>33</sup> Otope (2003)

with NGOs. Ironically, the conflict with government made them less effective, as they became prime targets for infiltration and factionalism. In the 1980's and 1990's this often meant union leaders succumbed to ethnic, regional and religious division that undermined their ability to have a nation-wide impact. In the mid-1990's, major tensions arose with NGOs who accused the NLC in particular of siding with the government. When the latter altered their stance and opposed the Abacha regime more openly, the resistance was crushed, leaders persecuted and on the whole, organised labour emerged considerably weaker. This legacy is still present as high levels of division mark union politics, and like political parties, many divisions have little to do with fundamental values or issues, tending to be more about personalities or ethnicity.

The current union structure also strengthens the hands of leadership to the detriment of workers or union members. This increased bureaucratisation is held up as a mechanism against corruption, but it also works against internal opposition. Union finances are tenuous. For example, hardly any union has a strike fund or investments to provide for difficult times or support members during protracted action. A new emerging issue concerns the gap between an ageing leadership and a youthful membership. This is reported as a growing source of tension that requires shifts in the management and leadership of unions.

*There are also internal weaknesses and tensions within unions*

On recent occasions where unions have mobilised effectively – especially around bread and butter issues like government's attempt to increase fuel prices in 2000 – they have demonstrated their potential influence. However, this has not been sustained. Whereas the general strike mobilised the overwhelming majority of union members to force government to lower the increase in the price of fuel, subsequent efforts on the same issue have failed to have a similar effect. In fact, the government has managed to repress union action and has even detained a number of union leaders in recent years. The unions have been unable to develop an effective counter response.

*There have not been consistently strong shows of labour power*

Faith based organisations<sup>34</sup> are both contentious and influential in a country where 50 percent of the population would describe themselves as Muslim, 45 percent as Christian and 5 percent as 'traditional believers'. In concrete terms, faith-based organisations provide certain services and safety nets, often affecting poor people. Religion has also become a mechanism to overcome exclusion from established patronage networks, protest against them, or create new patronage systems. It has also enhanced polarisation in Nigeria. The collapse of the formal state has created a vacuum increasingly occupied by Islam in the north and evangelical Christian churches in the south, creating opportunity for political elites to exploit religious differences and exacerbate conflict.

*Faith-based organisations have power because of their work on the ground and the role of religion in society, but levels of tension are high and often divisive*

Moreover, religious value systems have a powerful impact on life and politics in Nigeria. At a general level and analogous to the state, many churches are hierarchical and patrimonial, with little accountability.

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<sup>34</sup> Gifford (2003)

Moreover, there have been significant expressions of religious intolerance<sup>35</sup>. Nigeria, for example, is the site of several ‘crusades’ every year, involving millions of Christians in anti-Muslim rallies. Religious violence between Christians and Muslim groupings is not uncommon, and the introduction of the Shari’a criminal code in some states has intensified politico-religious conflict, manipulated by elites for political purposes. The introduction of the criminal code came about as politicians in the north felt they had lost out in the wake of the 1999 power shift to the South and election of a Pentecostal Christian as President.

*Diversity is not yet a sign of pluralist strength*

Although these undercurrents demonstrate high levels of diversity and activity in Nigerian civil society, this has not yet been translated into pluralist strength. Many organisations also are still rebuilding after the repressive military years, and several are inside the web of patronage that permeates the political economy. Nigerian civil society has the potential to promote pro-poor change, but it is not yet an obviously powerful agent of change. However, as the next sub-section indicates, some of the most significant potential exists in civil society groupings beginning to engage at policy level, and therefore shift politics and public debate towards development issues, rather than personalities and ethnic, religious and regional divisions.

### **3.4.2 The power of ideas: media and think-tanks as agents of change**

The military dominance in politics during the past three decades has curbed serious analytical debate on policy issues. Academics tended to be classified as supporters or opponents and were cultivated for their support, not their ideas. They were patronised with appointments into specialised agencies or Presidential advisory councils from where they mostly rationalised the regime’s position. Newspapers and journalists were subject to severe repression and although several continued to challenge the regime, their political space was considerably curtailed by the arbitrariness of military regimes.

*Not all expected opportunities materialised after 1999*

The return to elected government in 1999 was expected to introduce a consultative base of decision-making enriched by analysis and debates. Four years later, however, the policy environment remains ad hoc. Apart from the limitations on effective debate in state institutions, intellectuals from outside government are not consistently engaged in systematic analysis and debate about public policy, and the quality of coverage and analysis in newspapers varies considerably.

*But there are positive policy and institutional developments in government that draw on civil society...*

However, there have been some positive developments. Within government, a new policy framework in 2000 based on an ideal relationship between government as facilitator and communities as implementers of development, set up a National Poverty Alleviation Council headed by the President and Vice-President. A National Poverty Eradication Programme to co-ordinate government

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<sup>35</sup> Gifford (2003); Sarch (2003); Hickson (2003)

interventions and a Technical Advisory Committee of stakeholders to provide technical advice for policy purposes was also set up. A number of external advisers with policy expertise have joined the presidency, other government departments and a few state governments. A group of senior academics provides outside policy advice under the auspices of an Independent Policy Group. A number of government-funded institutes are also active, such as the National Institute for Social and Economic Research, the National Council on Intergovernmental Relations, the Nigeria Institute for Advanced Legal Studies (NIALS) and the Institute for Peace and Conflict Resolution (IPCR). In addition, function-specific agencies like the Central Bank and the Bureau for Public Enterprises have in-house research capability<sup>36</sup>.

In civil society, a Grand Alliance for Poverty Reduction (GAPE) was launched to create capacity in community organisations and NGOs for policy advocacy and understanding of the policy process. Public hearings in the National Assembly are growing in significance and media attention is turning to policy analysis, albeit amid the limitations mentioned earlier. Groups like the Nigeria Economic Summit Group, the Good Governance Group and Concerned Professionals are all possible agents through which critical analysis and debate could emerge. Their particular value lies in networking, providing a potential mechanism to spread debate and exchange across sectors and clusters of agents. Networks move at the interface between agents and institutions, and if effective, could become important drivers of change in a society where institutional breakdown has been severe.

Similarly, the media is a potentially powerful agent of change, but much of this potential is yet to be realised<sup>37</sup>. Its potential lies mainly in the size and receptiveness of the market as well as the growing independence of ownership and editorial policy:

- Nigeria provides the BBC World Service with its biggest single audience through its Hausa and English-language services. Moreover, although newspaper sales are low, people can be seen paying to read newspapers by the page if they are too poor to buy an entire edition.
- In the 1990's liberalisation of radio and television led to the proliferation of privately owned, commercially driven radio and television stations and greater penetration by global broadcasters.
- A small number of newspapers, like *The Guardian* and *This Day*, provide increasing coverage of topics like HIV/AIDS, electoral irregularities, privatisation, corruption and service provision in social and infrastructure sectors. A number of papers also seem prepared to be critical of politicians.

*...and some civil society groups have emerged and become sufficiently organised to engage with government*

*The media has a vast potential market and has shown signs of independence*

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<sup>36</sup> Utomi and Unom (2003)

<sup>37</sup> Cunliffe-Jones (2003)

*But access is limited, quality of journalism inconsistent, editorial control weak and there are too many incentives for undue outside control over content*

On the other hand, outside the cities of Lagos, Abuja and Port Harcourt, newspaper sales are low and few Nigerians are able to access anything other than the state-run media. Despite the entry of more independent and global broadcasters, the state-run National Television Authority (NTA) provides the only nationally networked television service. Most newspapers are privately owned, and rather than leading to pluralist debate, this has tended to promote the interests of the wealthy private individuals or business groups who own them. The content of newspapers varies considerably, and even the issue-orientated papers cannot yet claim to be offering consistently clearly written, incisive and factually reliable coverage. Few editors impose an identifiable house style and quality; financial constraints in the industry has created incentives to place sponsored – and therefore biased – articles; and journalists are paid poorly which makes it difficult to attract quality reporters and to avoid those who do join compromising their independence as they attempt to obtain extra income.

*Media has not been as informative and analytical as required to raise the level of debate*

As a result, the media has not yet been able play the informative and analytical roles needed to influence change on the scale required. The media is however, sufficiently critical and keen to improve to suggest that it could become a powerful agent of pro-poor change, provided its skills are raised and it becomes more able to report and analyse policy issues, rather than conforming to the personalised style of Nigerian politics.

The legacy of authoritarianism, the dominance of competition over oil, the depth of ethnic and other rivalries and the personalised nature of politics remain major constraints, both on think-tanks and the media. In many countries think-tanks, newspapers and electronic media serve vested interests, often justifying what governments do. Nigeria's legacy means this risk is particularly pronounced. However, the emergence of think-tanks and networks is far less orchestrated and more overtly issue-orientated than other dimensions of Nigerian politics, and the media's critical stance shows the potential of a watchdog able to enhance levels of accountability..

## 4. Structural Issues

As reflected in all sections of this Overview, the DoC research reinforces the point that pro-poor change in Nigeria needs to be structural. According to the OPM Component 1 Report<sup>38</sup>, ‘structural features are factors and processes that are potentially causally linked to institutions – though the causal relationship will not typically be one way. These factors are not necessarily constants – some will change over time driven by domestic and/or international developments’. Structural features identified include natural resource endowments; geographical and climatic factors; demographic patterns and changes; ethnic composition; the skills base and human resources; technologies; level of economic development; structures of production, distribution and exchange (including external trade); and distribution of income and wealth.

It is important to note that none of the structural issues that obstruct pro-poor change stand in their own right as the single cause of Nigeria’s poor performance. It is the composite effect of oil wealth, lack of diversification, the global economy, major demographic trends, HIV/AIDS, years of military rule and elitism, and political institutions based on patronage, ethnicity, religious and regional division that have created the seemingly intractable set of structural features.

Perhaps nothing better demonstrates the dynamic interfaces between agents, structures and institutions than the manner in which Nigeria’s institutional irregularity has become so powerful and self-perpetuating that it has assumed quasi-structural characteristics. Those parts of the institutional fabric that reinforce the dominance of the political elite are powerful and those related to democracy, free markets, and service delivery weak and underdeveloped. This means that the institutional framework has been allowed to emerge, and has been manipulated, to perpetuate the interests of a small elite against the interests of the majority. In Nigeria’s case, the most dominant quasi-structural features are the weakness of the social contract and its impact on lack of accountability; the way in which revenue from oil is managed; and the lack of development within the non-oil sector.

Achieving a structural impact is difficult as interventions aimed at structural change rarely make a tangible impact in the short to medium term. On this basis, the OPM report for Component 1 quite reasonably concluded that the level of agents is the most appropriate for interventions, and that prospects for institutional and structural change are poor. The subsequent DoC research findings suggest, in turn, that there are opportunities for engagement at institutional level where the overall interface between structures and agents is mediated. This comes under scrutiny in the section on institutions, but it is important to first have a good grasp of the nature and magnitude of structural features.

*Structural features include natural resource endowments; geographical and climatic factors; demography; ethnic composition; human resources; technology; level of economic development; structures of production, distribution and exchange; and distribution of income and wealth.*

*It is their composite effect that has created seemingly intractable structural features.*

*Institutional irregularity has become self-perpetuating and quasi-structural*

*Because structures are complex, one option often proposed is to focus on agents... as in the Component 1 Report, but subsequent DoC analysis shows institutional options*

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<sup>38</sup> Oxford Policy Management (2003)

*Management of revenues from oil lies at the heart of Nigeria's macroeconomic and service difficulties*

*Oil revenues account for almost half of GDP, over 70 percent of government revenue and 85 percent of foreign exchange earnings*

*From 1970 to 1999, oil generated almost \$231 billion in rents...*

*Nigeria is now the world's most oil-dependent country and in 2002 earned 99.6 percent of exports from oil*

## **4.1 A skewed economy dominated by oil**

The management of revenues from oil has been at the heart of Nigeria's macroeconomic difficulties, with a major negative impact on delivery of services and pro-poor change. However, the impact of fluctuations in the international petroleum market and other aspects of oil's legacy have been amplified by several additional macro-economic, fiscal and political factors, mostly directly or indirectly related to oil.

### **4.1.1 The dominance of oil and lack of diversification**

The growth of the oil industry led to a dramatic shift in the production structure of the economy, the sources of government revenue and foreign exchange. Today, oil revenue accounts for almost half of GDP, over 70 percent of government revenue and 85 percent of foreign exchange earnings<sup>39</sup>.

The dependence on oil has crowded out the manufacturing and agriculture sectors, leaving an undiversified economic structure unable to flexibly generate incomes, jobs and opportunities. In the domestic sector, from 1970 to 1999, oil generated almost \$231 billion in rents for the Nigerian economy<sup>40</sup>, constituting between 21 and 48 percent of GDP.

Since the first oil price shock in 1974, oil has annually produced over 90 percent of Nigeria's export income. In 2000, 99.6 percent of export income came from oil, making it the world's most oil-dependent country. The economy has remained unable to develop any other significant export sector. Despite low labour costs, Nigeria has found it difficult to attract investment other than in oil, mainly because it has neglected institutional arrangements to support agriculture. Nigeria's narrow manufacturing and modern service sector has also placed the country at a disadvantage. Moreover, government efforts to use trade protection to force industrialisation have failed to result in greater productivity. To upgrade productivity, it is imperative to adapt modern techniques of production, forms of organisation and institutions to local realities and increase Nigeria's own control over technology. However, technological and managerial demands for oil production and transportation have been met largely through imported technology, leaving the economy heavily dependent on outside skills<sup>41</sup>.

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<sup>39</sup> Ross (2003)

<sup>40</sup> In 1999 \$ values

<sup>41</sup> Centre for the Study of African Economics (2003); Blench and Dendo (2003a)

#### 4.1.2 Low or unproductive growth with few benefits to the poor

Growth scenarios for the next decade set forecasts between 2.8 and 10.8 percent; all requiring macro economic policy reforms of some sort<sup>42</sup>. Many of these reforms are not considered likely, at least not on the scale economists suggest may be necessary. However, even if such growth occurs, the high levels of foreign dependence, the lack of diversification and the capital intensity of existing investment all militate against pro-poor growth.

*Even positive growth scenarios come in a context of high foreign dependence, lack of diversification and high capital intensity*

However, despite oil, the statistics tell a tale of decline, and inequality has increased. According to research for DoC Component 2<sup>43</sup>, Nigeria's per capita GDP fell from \$1215 to \$706 between 1980 and 2000 – a fall of some 40 per cent. The combination of a very large fall in per capita consumption combined with increasing inequality implies a large rise in poverty. Rents derived from oil have failed to raise Nigerian incomes and done little to reduce poverty. In constant dollars, Nigeria's per capita income has fallen by about four percent since 1970. This lack of improvement is striking, given the size of the oil windfall. Had each year's oil rents been invested in a fund that yielded just five percent real interests, at the end of 1999, the fund would be worth \$454 billion. If divided among the general population, every Nigerian would receive about \$3750, equivalent to about 15 years of wages<sup>44</sup>.

*The oil windfall has brought almost no benefits for the poor, and has in fact heightened inequality, conflict and resource competition*

Failure to make the most of windfalls for poor people comes on top of Nigeria's marked economic dualism. A large, rural, agriculture-based sector includes about two-thirds of the population, living in poverty and making a living through small-scale farming and informal trade. While poverty is extensive in urban areas too, a smaller, urban, capital-intensive sector has benefited from natural resources and services. The formal, capital-intensive sector consists of a few multinational firms, several small local industries, and parastatals. This duality has arisen largely from policies that favoured a few already capital-intensive sectors of the economy, benefiting a relatively narrow section of the population.

*These failures come on top of economic dualism*

The primary reform required is to promote non-oil exports and trade, attracting foreign firms to use Nigeria as an export platform and improving the competitiveness of Nigerian firms in international trade. Currently, an uncertain policy environment and a poor institutional framework and ineffective governance impede prospects for such reform. Severe infrastructure deficiencies exist especially in roads, transport, electricity and telecommunications, the ineffective financial sector is neither geared to assisting small entrepreneurs nor to support international business transactions, the trade regime does not foster competition, and the regulatory and legal framework is not

*Lack of pro-poor investment is due to weak policies and governance, inadequate infrastructure and financial systems not geared to small business*

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<sup>42</sup> McGurk (2003)

<sup>43</sup> Centre for the Study of African Economics (2003)

<sup>44</sup> Ross (2003)

business friendly. There are particularly significant problems relating to land tenure laws and the security of property rights<sup>45</sup>.

#### **4.1.3 Excessive foreign debt levels**

*The UK is the largest creditor*

Most of Nigeria's external debt was accumulated in the 1980-86 period, when debt stock increased from US\$5 billion to US\$25 billion. Today, the United Kingdom is the leading creditor, owed US\$5 billion (including arrears of US\$3 billion), followed by Germany, Japan and France. External debt now stands at over 140% of GDP. The accumulation of arrears is probably the main factor explaining the increase in Nigeria's total debt, and the decline in Nigeria's debt service ratio. An important factor behind debt accumulation has been external borrowing for 'priority projects', but many of these have failed to generate sustainable revenue streams.

*In most respects, including levels of poverty, Nigeria is eligible for HIPC terms, but it has not been offered that status*

Although in most respects, including levels of poverty, Nigeria would be eligible for HIPC, it has not been offered HIPC terms on the grounds that it remains eligible for blend IBRD/IDA funding from the World Bank. Its medium-term balance of payments outlook, in the absence of further debt rescheduling, remains difficult. IMF projections indicate the net present value of external debt will remain broadly unchanged at close to US\$30 billion over the medium term, with financing gaps of around US\$1 billion per year over the period 2003-07<sup>46</sup>.

#### **4.1.4 Weakened macro economic and fiscal management**

*Petroleum price volatility made planning difficult, but the effect has been aggravated by several other factors*

Economic volatility has undermined sound macro-economic policy and fiscal management as government overspent in times of prosperity and did not adequately plan for times of scarcity. For example, the collapse of oil prices in the early 1980s left the economy in crisis. Government revenues collapsed and neglect of the non-oil sectors, amplified by inward-looking industrialisation policy dependent on imported inputs and a highly overvalued exchange rate made it impossible to redress macroeconomic imbalances. External debt rose dramatically from 5 percent of GDP in 1980 to over 20 percent in the mid-1980s.

*The government is largely dependent on oil revenue and this has undermined fiscal planning and management*

The Nigerian government has annually received over half of its revenues – sometimes as much as 85 percent – directly from the oil sector since the 1970s. These oil revenues are not only large, but also volatile and this has made it difficult to plan fiscally in the medium term. The problem was particularly pronounced in the 1970s and 1980s when oil prices fluctuated sharply, but even during other periods the reliance on oil has meant a neglect of critical aspects of fiscal planning and control.

<sup>45</sup> Baxendale (2003); McGurk (2003); Centre for the Study of African Economics (2003); Nweze (2003); Blench and Dendo (2003a)

<sup>46</sup> Martin (2003)

The federal system of revenue sharing and frequent changes to the system has added to this problem. Decentralisation made sound revenue management even more difficult, since much of the oil revenue has been automatically passed on from the federal government to state and local governments. This has spread the risk of weak fiscal management and corruption across a range of agencies, many of which lacked the capacity to cope with the responsibility.

## 4.2 A society marked by cleavages and conflict

Rather than being affected by a single, large conflict as much of Africa has been, Nigeria is the scene of a large number of localised conflicts. This results first from a highly diverse society with more than 300 ethnic groups and deep-rooted religious divisions. These divisions have in turn, made it difficult to create institutions empowered to mitigate those differences sustainably and manage high levels of contestation over the benefits of oil revenue<sup>47</sup>.

*Several localised conflicts*

However the 'objective' realities of ethnic and religious difference do not account fully for the level of conflict. There have also been notable signs that these cleavages have been manipulated politically during elections, times of constitutional review and census. Moreover, different sources of conflict have had a cumulative effect. For example, ethnic differences are often amplified by strong religious dimensions; and there have been many other conflicts feeding into these, such as between nomadic herders and cultivators in the North and Middle Belt. Violent inter-ethnic rioting has been a major factor in rural areas for many years, and has recently become more pronounced in urban areas. The threat of future rioting has become a feature of major urban complexes like Jos, Kaduna, and Kano in the past three years.

*Ethnic and regional differences have been manipulated*

Several conflicts have been exacerbated as the benefits of oil production increase the incentives for privileged access and patronage. Regions became embroiled in contestation and unaccountable governments have plundered the benefits for their own gain. The Igbo effort to secede from Nigeria, which led to the 1967-70 civil war, was deeply rooted in ethnic tensions and Nigeria's colonial past; but the rebellion was encouraged by the presence of oil, and hence the belief that independence would bring greater wealth to the Igbo people. Similarly, the unrest among the Ogoni and Ijaw peoples in the Niger Delta can in part be traced to their desire to win a larger share of the region's economic wealth.

*Oil increased incentives for patronage and conflict*

The current conflict is central to a system that maintains and feeds on extreme inequality and elite control of power and resources. Conflict encourages the majority to identify themselves with exclusive ethnic interests rather than more inclusive issue-based interests. Furthermore, conflict is a tool of elite domination, and, whilst members of the elite may occasionally fall victim to violence, it is the poor majority that suffers most and has the least protection from

*The system maintains and feeds on extreme inequality and elite control*

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<sup>47</sup> Blench and Dendo (2003 b); Hickson (2003); James (no date)

insecurity. Institutional structures have been absorbed into, and reflect, the competition between interests that stimulates conflict in Nigeria. Changes at agent level and in legislative frameworks are unlikely to have much impact if the underlying structural causes and institutionalised patterns of division and resource competition are not addressed – and this link back to oil, the skewed economy and lack of accountability.

### **4.3 Demographic realities and the impact of HIV/AIDS**

*Estimates of a 120-130 million-strong population*

Statistics are notoriously unreliable, which makes planning and implementation of development initiatives very difficult. Available data varies, but it would seem that Nigeria has a population of around 120 to 130 million (2000 estimates), expected to increase to some 200 million by 2025. It is however not the size of the population in its own right that affects the prospects for change and the nature of challenges on the pro-poor agenda. Instead, a number of significant structural challenges exist.

#### **4.3.1 High levels of poverty**

*Households below the poverty line rose from 27 percent in 1980 to close to 66 percent by 1996*

Despite Nigeria's potential in terms of its human capital base, natural resources, and undeveloped economic capacity, it has been ranked amongst the poorest countries in the world according to the UNDP Human Development Index. Poverty is widespread and rising. Recent estimates from the Federal Office of Statistics indicate that the proportion of households living below the poverty line rose steeply nationwide from 27 percent in 1980 to close to 66 percent by 1996. While poverty has tended to be a rural phenomenon, incidence rates in urban areas have been climbing from 17 percent to about 58 percent since the early 1980s<sup>48</sup>.

#### **4.3.2 Age structure**

*The population has become significantly younger*

Significantly, the median age of a Nigerian is less than 18 and only around 30 percent of the population is aged between 15 and 60. This means that many Nigerians are not yet able to be fully economically active, but it could potentially mean less immediate pressure on the health system. Over time, the age structure may gradually become more favourable to growth as this youth becomes integrated into the economy. Improving family planning could also improve health and accelerate the demographic transition. However, benefits would only become realisable during the next couple of generations, if at all.

*This brings many social challenges*

In the medium term, there are significant challenges. First, there is growing evidence of a disenchanting and angry youth, finding it difficult to obtain employment and disillusioned with the lack of accountability and access to services. One manifestation has been

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<sup>48</sup> Pearson (2003)

high crime levels, but this sense of exclusion may also translate into new militant political pressure for change. There currently appears to be no political vehicle to channel this frustration into appropriate political demands. However, as the stress on the system grows, the political leadership may feel compelled to introduce reforms that would mitigate the new pressures. In the current system where education, health and job creation are all deficient, the ability to control or mitigate these pressures seems weak.

#### 4.3.3 Rural-urban trends

There has been a notable blurring of the demarcation between rural and urban areas, and it is difficult to quantify population movements in the light of poor statistics. However, Nigeria's vast cities tell a story of significant urbanisation. For example, Lagos is a mega city of 12 million expected to grow to 25 million by 2015. While a small elite lives comfortably<sup>49</sup>, two thirds of the population of Lagos lives below the poverty line, and seventy percent of them are dependent on the informal sector for a livelihood. Infrastructure is poor and unreliable and access to basic services like water is constrained. It has been estimated that about 54 percent of the population in 1999 had access to improved sources of water, and less than 50 percent to improved sanitation. However, indications have been that access to waterborne sewerage has declined during the 1990s and the city populations in some 50 cities expanded dramatically<sup>50</sup>.

*Nigeria's vast cities tell a story of significant urbanisation, and services are inadequate*

There is little doubt about the severity of poverty in these areas in absolute terms; yet, in relative terms cities are well off. Nigeria remains a predominantly rural country, with perhaps 60-70 percent of the population still living in the countryside and 40 percent of GDP coming from 'agriculture', including livestock but excluding forestry and fisheries. Rural poverty remains chronic and persistent, especially as many of the facilities established in the 1980s, such as schools, clinics and water-sources, are no longer functioning. Indeed, there is evidence that the recession characteristic of the second half of the 1990s has actually driven many weakly established urban groups to reclaim their landholdings for at least part of the year. Similarly, pressure on land, especially near towns, has increased the incidence of land sales, although this is still rare in remoter areas.

*There is considerable urban poverty, but rural poverty has become chronic*

Urban elites are not under greater pressure to resolve rural issues because, paradoxically, many households straddle both zones. When oil began to finance bureaucratic employment, many rural households sent their children to urban areas to be educated in the hope that they would find jobs and begin to send money back home. Similarly, whole households transplanted themselves to the cities in the wake of subsidised housing. The collapse of this artificial economic structure, and the severe urban poverty it has caused has encouraged a partial

*Inter-linkages are extensive and many households straddle urban and rural areas*

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<sup>49</sup> Baxendale quoted one estimate that 2 % of the Lagos population own 90% of the wealth.

<sup>50</sup> Baxendale (2003)

drift back to the villages. Indeed some of the most ferocious rural conflict has been over access to land, as returnees attempt to reclaim their land.<sup>51</sup>

#### **4.3.4 HIV/AIDS**

*Since 1986 there have been almost 850,000 AIDS deaths and over 3.5 million Nigerians are living with the virus*

Since 1986, the reality of HIV/AIDS has also made its mark in Nigeria. Since then the epidemic has grown steadily and it is estimated that there have been almost 850,000 AIDS deaths and that over 3.5 million Nigerians are living with the virus<sup>52</sup>. Adult HIV prevalence rates<sup>53</sup> have increased from 1.8 percent in 1991 to 5.8 percent in 2001.

However, the epidemic is complex, and this average figure masks huge variations between sentinel sites (ranging from 0.8 percent to 16.4 percent) and sub-populations. Current projections suggest that under low and high HIV scenarios the epidemic will peak at about 7 percent prevalence in 2007 (low) or 9.5 percent prevalence in 2012 (high) and then decline.

*HIV/AIDS is estimated to reduce growth by 0.5 percent per annum*

The World Bank estimates that HIV/AIDS is reducing growth by some 0.5 percent per annum in Nigeria. In fact, HIV/AIDS is but one dimension of the challenge, as indications are that malaria continues to have a very costly impact on the quality of life and economic potential of Nigerians. Studies have shown that malaria costs on average 1.3 percent of GDP per annum. Taken together, HIV/AIDS and malaria might be expected to reduce growth by some 1.8 percent per annum. The effect is cumulative and large - over a 40 year period this would result in GDP being less than half the level it would have been without the presence of HIV/AIDS and malaria. Significantly, these projections are based on the current relatively low rate of annual increase and an assumption that an effective response will begin to be put in place to allow the epidemic to stabilise.

*Government is more visible, but lack of capacity and accountability hampers its response*

The government has become more visible in the process of dealing with the problem, but given the institutional problems highlighted in the DoC research, a challenge on this scale is formidable. It requires not only financial and human resources, information and effective communication networks, but also credibility and high levels of commitment. Lack of accountability and the collapse of the social contract makes it more difficult for the government to reach vulnerable parts of the population. The legacy of inadequate pro poor policies as well as poor quality and inefficient public health services and a weakened education sector, make it difficult to develop a coherent and practical response.

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<sup>51</sup> Some texts that discuss these issues are Sada & Oguntoyibo (1981), Sada & Osirike (1984); Blench and Dendo (2003c) and Barbour et al. (1982).

<sup>52</sup> 2001 HIV sentinel survey results, based on standard UNAIDS methodology and reported by NASCP, Federal Ministry of Health.

<sup>53</sup> The HIV prevalence rate is the percentage of the population which exhibits the disease at a particular time (averaged over a period of time).

#### 4.4 Failure of the social contract has become structural

As explained in the beginning of this section, the DoC findings necessitated the establishment of a conceptual device to understand the quasi-structural character of Nigeria's self-perpetuating institutional irregularity and failure of the social contract. This is one of the most interesting issues to be clarified when this report is critiqued, in that it reflects a particularly pronounced dynamic perhaps unique to Nigeria. Box 2 shows that Nigeria is not the only society where this notion has been valid, but the manner in which it manifests may be unique.

*Self-perpetuating institutional irregularity and failure of the social contract reflects a dynamic perhaps unique to Nigeria.*

##### **Box 2: Institutions that assume structural dimensions**

The DoC findings suggest that Nigeria's self-perpetuating institutional irregularity and failure of the social contract has assumed structural characteristic. This is one of the major issues to further debate and clarify as it adds significant nuance to the original conceptual framework. However, while the Nigeria-specific dynamics behind this perspective may be unique to Nigeria, it is not the only society where institutional patterns have become structural.

At least two other examples spring to mind, similar in that they transcend the institution/structure divide, but different in that they have been more overtly managed:

- Apartheid in South Africa between 1948 and 1994: South Africa had a set of 'established' structural characteristics based upon geography, history, ethnicity, race, resource endowment, etc. But there was nothing inherent (or 'structural') about the decisions that were taken to impose apartheid – this was a political development, a human imposed social and political edifice resulting from decisions of an elite, operating through many agents, to impose a dominant political ideology. It was the ability of the National Party to control and restructure the institutional framework of the country – from the Constitution down – that ensured the survival and powerful impact of the apartheid system over more than forty years.

Once all institutions had been restructured to comply with the dominant ideology, the collective impact of this institutional change became structural. The institutional change pervaded every aspect of political, social and economic life, reduced the scope for alternative approaches and actions, and defined the political space of all agents. It became as constraining and as structural as resource endowment, or as the climate. However, the comprehensive institutional change since the early 1990s began to remove the structural-like constraint. But, as South Africa's current post-apartheid democratic government has found out in its arduous road towards creating a new just society, breaking down apartheid structures has required complete reform of all institutions, from the Constitution down, to be effective – and even then, there remain residual elements of the old institutional framework that become engendered in political culture.

- Communism in the Soviet Union: A specific decision was taken, based on ideology, to restructure the country's institutions to support Communism. This was imposed with extreme brutality, as the residual elements of the old institutional framework – largely the 'informal' institutional framework based around peasant production – were difficult for the state to control. It was eventually accomplished, and the Soviet system became a 'structural feature' of Russia and Eastern Europe. Once institutional change happened, the dominant institutional framework collapsed. However, this has yet to be replaced by an alternative dominant institutional framework that can institutionalise democracy and ensure that it becomes the defining structural characteristic of the new Russia.

The South African and Soviet examples represent the aggressive power of institutional manipulation – the conscious restructuring of institutions to impose a specific ideologically motivated structure on society and the political economy. Nigeria is different. Its problem is not institutional strength, but institutional irregularity. But the impact of this institutional framework is no less 'structural' than apartheid was in South Africa or communism in the Soviet Union. It fundamentally confines the room of all agents to manoeuvre socially, politically and economically and operate as a quasi-structural characteristic of the political economy. Undoing this would require institutional overhaul no less than on the scale seen in undoing apartheid in South Africa and communism in Russia.

The South African and Soviet examples demonstrate how conscious institutional manipulation can impose a specific ideologically

motivated structure on society and the political economy. Nigeria is different in that its problem is not institutional strength, but institutional irregularity. Although Nigeria has elections, accountability remains low. Years of military rule and the structural weaknesses within the political economy have caused a significant democratic deficit. Because of this, the country has developed a reputation for mismanagement and patronage permeating through the state and other parts of society. Its formal democratic institutions experience persistent shortcomings in delivering accountable governance: voting, political parties and civil society advocacy have little impact on public policy and elections remain fraught with problems; agents and institutions of government remain largely inept at securing checks and balances; and politics is highly personalised.

*No fiscal contract and weak democratic mechanisms*

The general public, particularly the poor, have neither the power nor incentives to hold the government to account, and for them the government is largely irrelevant. Because the vast oil revenues have negated the need of the state to undertake efficient tax recovery, people do not pay taxes, make few demands, and the state provides few services in return. The lack of a 'fiscal contract' has eroded formal accountability mechanisms. And while constitutional powers exist to hold politicians and officials to account, the constitution and the judiciary that is supposed to protect and enforce it are easily subverted. The values of strongly hierarchical traditional and religious systems have added to this legacy.

The impact of this institutional framework is no less 'structural' than apartheid was in South Africa or communism in the Soviet Union. It fundamentally confines the room of all agents to manoeuvre socially, politically and economically and operate as a quasi-structural characteristic of the political economy. Undoing this would require institutional overhaul no less than on the scale seen in undoing apartheid in South Africa and communism in Russia.

## 5. Institutions

Political and social systems operate according to underlying rules and relationships in the state-provider-civil society nexus. Any strategy for change therefore requires an understanding of these rules and relationships, and the extent to which they create space for agents to either drive or prevent change. This is particularly important in Nigeria where major institutions – as pointed out in the section on structures – have assumed structure-like features.

*Systems turn on rules and relationships*

DFID and other donors tend to view this nexus through the prism of a ‘social contract’ in which the state responds to the legitimate demands of the people, in return for the right to tax to obtain revenue to meet those demands. Members of society express their preferences for leaders and policy options, either through the ballot box or through extra-democratic means such as the use of conflict, political patronage or corruption. They also attempt to influence the state’s policy decisions in their favour, or demand change through various agents, such as civil society pressure groups, political parties and the media. The state has a responsibility to ensure provision of private and public goods that meet the demands of society. It could either create conditions for private sector provision through regulation of the market, or provide services or funding directly through the public sector. The public gains access to goods and services either by purchasing those goods and services from public or private service providers, or through mandated provision by state agencies. If the public is not able to derive what they need from this relationship, they can either purchase tradable services from alternative private or public service providers, or organise pressure on government to change the service provision environment.

*Donors tend to assume a normal social contract or a genuine aspiration to develop one*

Based on this approach, and reflected in Box 3, donors and reformers often target organisations and individuals in the state, within civil society or among private and public service providers as ‘agents of change’. There is a common perspective that such agents could champion change by raising awareness, taking issues on board and mobilising resources in support of change. Often this is correct, and the success or failure of change processes in many societies is determined by the commitment and energy of pro-poor agents of change.

*This assumption leads to a focus on building agents’ capacity*

However, in Nigeria the DoC analysis indicates a need for a different approach, targeted at institutions as a means to change structures (See Box 4). The breakdown in the institutional relationships between civil society and the state and between the state and service providers means democracy does not result in universally accepted majority control over government. The lack of a ‘fiscal contract’ – combined with the political patronage system and failure of the state to deliver services effectively – has eroded formal accountability mechanisms. The elections remain a weak expression of public satisfaction or dissatisfaction in the performance of political leaders. Non-elected Executive personnel, Executive agencies, special advisers and an array of quasi-government organisations govern Nigeria. The legislature has limited power and few incentives to exercise control

*Nigerian realities demand that institutions be targeted to change the rules of power, many of which have assumed structure-like features*

*Many agents remain important, and some argue these are essentially outside the state*

over these agencies and parallel state structures. The Executive's authority is magnified by these unaccountable organisations. Amid such fragmentation and lack of accountability, the state has limited power and incentive to establish an appropriate enabling environment for the provision of either public or private goods.

It could be argued that dysfunctional institutions do not necessarily render an agent-orientated approach irrelevant, and that the real alternative is still at agent level – by focusing on civil society or the private sector, instead of the state. The powerful influence of faith-based organisations, the major influence of religious values on the Nigerian political consciousness, the potential of the media, all may point towards civil society as an appropriate target of development assistance to improve accountable governance and service delivery. Similarly, the private sector provides a resource. Private activity has continued despite the severe limitations imposed by the policy environment, many businesses have provided their own infrastructure, even while the state failed to provide any support. Small enterprises are active, even in the absence of a consistent and coherent state support network. From this perspective, private sector development looks decidedly appropriate, at least as an alternative to a notably ineffective state.

*...but because the state is still powerful and there are few beacons of hope, it cannot be ignored*

These arguments are convincing, and the research certainly confirms that both civil society and private sector agents could positively influence change in Nigeria. Yet, the DoC analysis suggests that the issue is not so much one of state vs. non-state, but rather one of the level of engagement. First, while dysfunctional, the state has direct control over most oil revenues, and the concentration of national wealth within the state is a principle cause of poverty in Nigeria. Achieving pro-poor changes in the behaviour of the state is likely therefore to have impact on poverty reduction as a result of the size and scale of resources controlled by the state. Therefore, the state cannot be ignored and change strategies need to engage state agencies, work through points of entry, and explore and enhance beacons of hope within these agencies. Second, pro-poor change requires institutional reform – changing the rules and relationships that underpin power, resource allocations, conflicts, and social and economic processes in Nigerian society. As much as state-driven pro-poor policy would fail due to the fundamental weakness of the institutions of government, any other agent-focused strategies will achieve only superficial and short-term impact if they do not deal with these underlying relationships. Effective pro-poor change requires change strategies that build the capacity of the state in tandem with that of civil society. There is a need to create enabling linkages to give effective voice to the demands of civil society as well as creating an appropriate environment for private and public service providers to meet the demands and expectations of the population.

*The Assembly is a platform for several linkages inside and outside the state*

An example of such linkages can be found in the points made earlier about the potential of the National Assembly as an agent of change. Structural impact requires institutional reform that links the Assembly to a wider society involving both state and civil society in making policy makers and service providers more accountable. Despite many

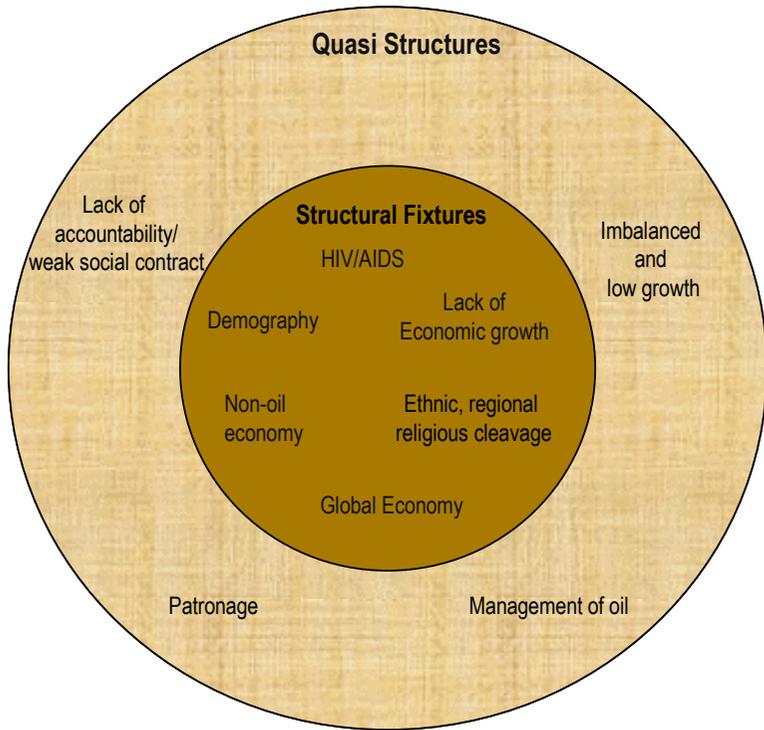
obstacles – as mentioned earlier – the Assembly is one of the most accessible government institutions in Nigeria and interacts with a range of external actors. Although its relationship with the Executive has been troubled and at times counterproductive, it has begun to erode some of the legacy of centralised leadership. Constituency pressure remains fractious, but is sufficiently evident to begin creating incentives for members to work in the interests of constituents, pushing for pro-poor change. And the more the courts show a willingness – as they have done in a few instances – to rule independently of Executive and legislative preferences the more a culture of accountability will take root. There is also room to build up considerable momentum through a more open environment to express dissent, and improved capacity in civil society organisations like trade unions, faith-based organisations, think tanks and the media to engage in advocacy or as the public’s watchdogs over government.

In this context, agreement on a constitutional document that is not merely a legal instrument concerned with restraining government excesses, but that also sets power structures and relations within a broad social contract, is fundamental to deepening democracy and reducing poverty. Military officers wrote the 1999 Constitution before leaving the political arena and its legitimacy has been constantly challenged ever since, among others by members of the National Assembly shortly before the elections. In particular, the research suggests that providing for institutions of horizontal accountability and independent commissions could enhance accountability in the interests of poor people. Although the 1999 Constitution made provisions for federal executive bodies such as Federal Character Commission, Federal Civil Service Commission, Federal Judicial Service Commission, and the Police Service Commission, there is a need for constitutionally entrenched commissions that are more independent of the Executive in terms of direction, appointment and funding.

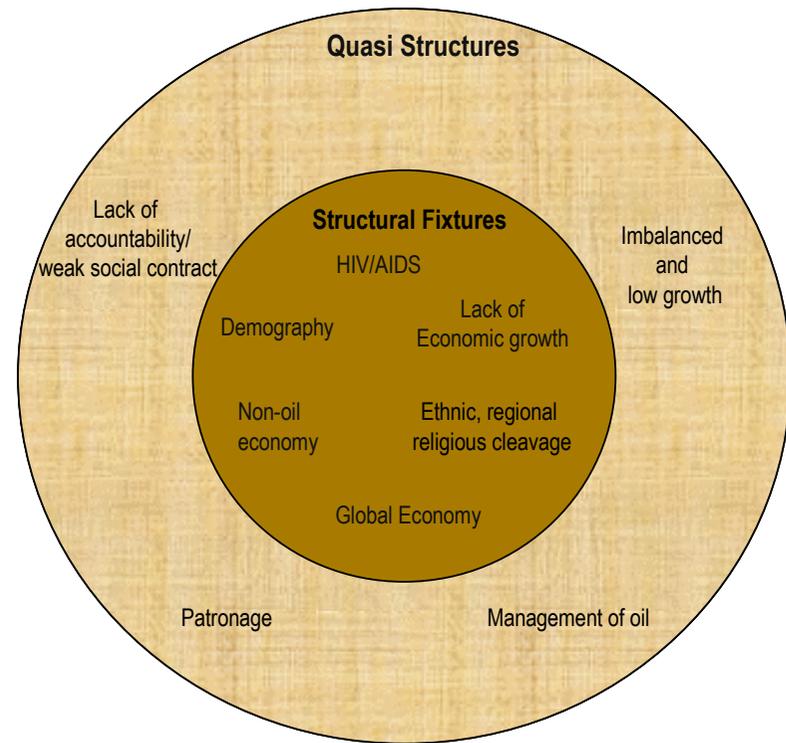
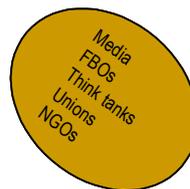
But, the process of reform will be as important as its content. First, an inclusive and credible Review Commission, tasked to use a participatory approach to reforming the Constitution, is essential. Second, the Executive and National Assembly would need to engage with all interest groups, raising and debating issues, and sharing perspectives. This requires, thirdly, strong advocacy groups outside government, able to enter such discussions. Finally, there is the need for a well co-ordinated media campaign, probably in tandem with think-tanks. The institutions of Nigerian society could shift - albeit slowly - through the often less obvious linkages, combined with formal constitutional review. It is necessary to have agents driving initiatives, but in a society so fraught with elaborate counter-change forces, beliefs and interests, it will be the composite effect of institutional change that will mediate engagement with the deep-rooted structural traits that work against the poor.

*Reviewing the Constitution could prove a pivotal institutional reform, both in content and in process*

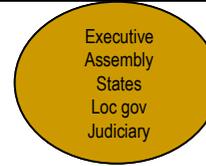
**Box 3: The key challenge of change: bridging the agent-structure gap**



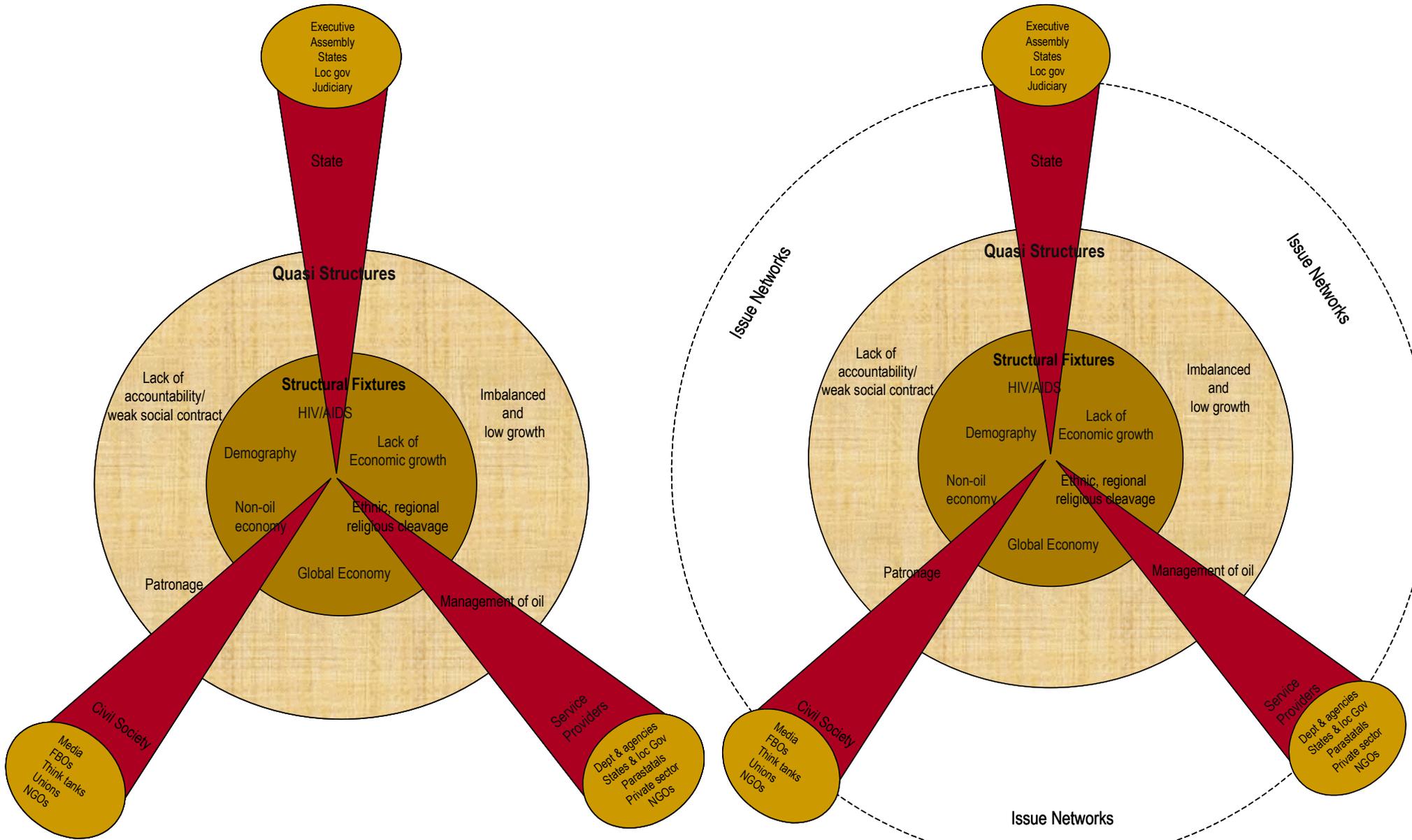
The lack of change in Nigeria is structural, manifested at different structural levels



Yet, donors focus on state, civil society and private sector agents



**Box 4: The essence of effective change: building institutions to mediate between structures and agents**



Challenges lie in institutions across state-civil society provider nexus

Networks among agents is starting point to build institutional strength and ensure structural reform

## 6 Strategic observations on the way forward

### 6.1 Core conclusions and implications for CAP

*DoC links closely with CAP work-streams, but also raises important questions that will be explored further as the DoC process continues*

The DoC research links closely with the work-streams identified in DFID's development of its Country Assistance Programme. The themes are service delivery; pro-poor growth; a state focus; and analysis of past strategies for delivering aid in Nigeria. But the research also raises significant questions about key assumptions in DFID-Nigeria's past strategies. These questions need to be further developed, and more empirical and conceptual clarification is required to adequately inform long-term strategy.

*Agents have a role to play, but this must be linked to institutional rules and relationships that have structural relevance*

The core message from the research is that Nigeria's lack of change is structurally induced and deeply institutionalised. As Box 5 shows, this has important implications for strategies that have targeted agents of change for policy and capacity development. The DoC analysis agrees that it is necessary to assist agents (or 'champions') of change seizing tactical opportunities. However, the analysis sees the key challenge as reforming institutional relationships. The implication is that development partners are chosen according to their potential influence over redressing structural distortions.

*The approach suggested could be complex because it is not always as tangible as agent-orientated initiatives and the variety of processes make it difficult for any one actor to have full information and control*

The multi-pronged approach indicated by these conclusions could become highly complex. First, while agents continue to provide the practical and tangible level of intervention, the required structural and institutional impact is less direct. Second, the variety of processes – including policy and procedural reform, information sharing, lesson learning, advocacy and conflict mitigation – would remain unknown to most stakeholders and would not be controlled by any single agent or institution. This may promote pluralism, but it also poses risks of conflicting agendas, duplication, missed targets and misunderstanding.

*The strategic challenge is to identify systemic issues, around which to mobilise coalitions in support of reform*

Mitigating these risks requires the careful choice of entry points related to issues of systemic significance for structures and institutional relationships. The strategic challenge is to identify such key systemic issues, around which coalitions in support of reform can be mobilised. These coalitions should be able to generate change momentum through practical and time bound analysis and intervention, and moving beyond one specific action, event, problem area or agent.

### Box 5: Nigeria's Drivers of Change Initiative and the Country Assistance Programme

By 2002, two years into DFID's re-engagement in Nigeria, disappointment set in about lack of pro-poor reform – strongly anticipated at the return to civilian government in 1999. DFID-Nigeria fully understands that it is too soon to expect development programmes designed for seven-year periods to have achieved full impact, but the severe lack of reform has raised debate about the fundamental assumption that a return to democracy would drive pro-poor change.

Drawing on DFID's experience elsewhere, particularly in Bangladesh and Zambia, the Nigeria Drivers of Change initiative has implemented a three-phase approach to deepening understanding of Nigeria's political economy:

- The first phase took a broad look at what processes, forces and factors have driven change elsewhere in the developed and developing world, helping to develop a methodology for the second phase of the Drivers initiative. The methodology highlights the importance of inter-linkages between structures, institutions and agents or organisations.
- For the second phase, the methodology was used as the basis for over 20 different Nigeria-specific Position Papers commissioned from Nigerian and international experts. The early findings, distilled in the Preliminary Overview, were shared from an early stage with DFID-Nigeria as inputs into the development of the new medium-term Country Assistance Programme. The Drivers analysis has begun to question some previous assumptions, and has given DFID-Nigeria points for consideration as it develops its views over how existing programmes could be reoriented to maximise their impact, and new programmes designed to assist Nigeria to drive pro-poor change. The assumptions highlighted are summarised in the table below.
- The third phase of the initiative is designed to test the new assumptions through interaction and consultation with partners and peers, including the international community and Nigerian stakeholders. Different techniques, including focus groups, pilot initiatives, case studies and scenario planning will be used to modify, develop and further identify drivers of change in Nigeria, and determine how DFID can maximise the development impact from its resources.

Questioning Assumptions	
Pre-Doc	DoC
The transition to civilian rule ('democracy') would create 'political space' for pro-poor reform.	The structural constraints operating in Nigeria (around social contract, mismanagement of oil revenue, and non-oil sector economic growth) are so profound that the change from military to civilian rule <i>without structural reform</i> is less significant than anticipated.
The identification of 'champions of change', particularly in the Executive, would enable DFID to support a Nigeria-led reform agenda and achieve pro-poor reform.	Due to structural constraints, champions of change are less relevant than in other development contexts. The ability of individuals or pro-reform organisations to achieve change is constrained by the dominance of status quo political arrangements. Institutional change rather than organisational change is required.
Reform-oriented organisations lack capacity to achieve change, therefore capacity building programmes are the answer; and generic capacity building within organisations will facilitate change.	Capacity is not the problem, per se. Well-capacitated organisations struggle to make a difference in an environment where the structural features of the political economy are so profoundly negative for the poor. More attentions should be given to developing strategic alliances around specific issues that capture the imagination of stakeholders and then support these issue networks to achieve sustainable change.
Focusing DFID resources on organisations that act as 'gate-keepers' to reform will drive change.	DFID needs to build broad-based constituencies of support that unite organisations from civil society, the media, private sector, think-tanks, academia, National Assembly, and into the Executive, to create a critical mass of support for change.

## 6.2 An issue based approach

### 6.2.1 Selecting appropriate systemic issues

*Lack of issues' is often raised as a problem of Nigerian politics*

There is no lack of issues in Nigeria. In the rhetoric of political life, the government and other parties, the media, think tanks and others often raise questions about the economy, the Constitution, services and institutions. However, several DoC Position Papers highlighted the 'lack of an issue-based approach' as a concern, and it is regularly referred to anecdotally by Nigeria-observers.

*From a development point of view, issues are NOT personal, and not confined to a specific agency or organisation*

From a development point of view, it is important to clarify what 'issues' are important for the debates and processes to achieve pro-poor change. A starting point is to be clear about what such issues would **not** be. Most obviously, issues intended to achieve pro-poor outcomes would not be articulated to benefit exclusive personal, regional, ethnic or religious interests and deny the majority of Nigerians access to resources and opportunities. An issue also is not confined to one particular sector, problem, agency or organisation.

*...but a tangible area of intervention that motivates stakeholders and holds the prospect of forging powerful coalitions*

Instead, for the purposes of this analysis and donor strategy, an issue is a tangible area of intervention that motivates a range of stakeholders. As Box 6 demonstrates, issues facilitate coalitions, able to drive institutional change, altering the rules of the game and modifying power relations. They become increasingly transformational if linked to broader structural factors and pro-poor outcomes. An issue needs to have a clear end-point, achievable in the short- to medium-term, making it possible to build momentum for achieving demonstrable change in accountability, economic management or public sector reform and service delivery.

Based on the analysis and concepts in the DoC process, the choice of issues and of entry points to engage with issues centre around three considerations:

*Is the issue systemic, i.e. is it likely to have a systemic impact on structures and institutions., helping to shape institutional power relationships?*

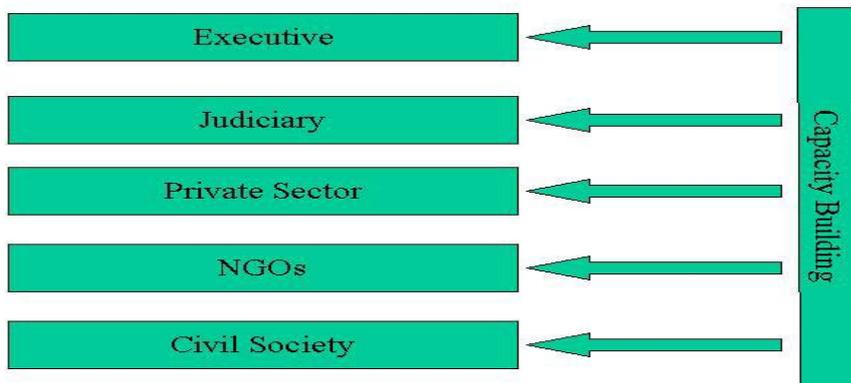
- Is the issue systemic? This is a question of whether issues link different agents, sectors, events and developments to make an impact on the broader system of agents, institutions and structures, and cut across immediate problems and narrow interests. Even if – by practical necessity – development initiatives target specific agents, sectors or projects, a focus on issues would help shape institutional power relationships to make a specific or indirect impact on broader structural realities. For example, a particular department, agency or facility may be experiencing what it perceives as a number of discreet problems, such as lack of resources, poor budgeting and planning, overstaffing, or limited service capacity. It may be necessary to deal specifically with any one of these problems, but focusing on systemic issues would draw through linkages to overarching interconnected issues. In such a scenario, it becomes possible to relate specific problems like poor service quality, inadequate resources and overspending on staff to overall budgeting approaches, systems and practices, including accountability mechanisms. The measure of success is not whether

a particular service has improved, but rather whether systems, policies and structures have been shifted to become more pro-poor.

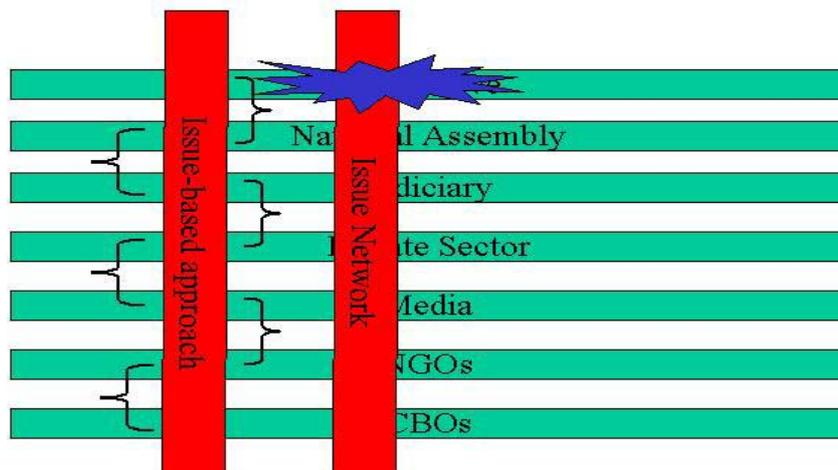
**Box 6: Issues provide incentives for pro-change coalitions**

An issues-based approach fits logically as a response to the observations of the DoC Research thus far. To build a critical mass in support of reform, Drivers of Change suggests that institutional links between agents are pivotal and that this requires coalitions in support of reform able to attract the attention of a range of potential change agents, and prompt them to work together. Such coalitions, it is argued, get formed around systemic issues that transcend the interests of individual agents or initiatives.

The orthodox capacity building approach focuses essentially on agents inside and outside the state:



If issues are linked, however, the common interest of the different agents become more apparent, creating room and incentives for coalition-forming:



*...and pro-poor?*

- Is the issue focused on pro-poor reform? Pro-poor impact may not always be tangible, but it remains important to continuously consider the likely implications for poor people. Not all change will benefit the poor, and even if it does, may only achieve its impact indirectly. Systemic thinking therefore demands nuanced interpretations of issues, but within a framework of pro-poor change – equitable economic growth; greater access to services, markets and safety nets; and consolidating accountable democracy and governance.

*...and responsive to local agendas?*

- Is the issue responsive to local agendas? Ultimately, prospects for change are tied to the existence of a local constituency at least acknowledging the significance of an issue or already attempting to deal with it. As Unsworth argues, dialogue is crucial with elites as well as wider groups of opinion formers in the private sector, traditional authorities and civil society, “...and not just with people being funded”. Discussing DFID’s options in pro-poor development, she contends that there is considerable room for discussion of different broad approaches, but located within locally plausible and understandable timetables, policies, language, concepts, values and perceptions<sup>54</sup>.

On this basis, the diagram in Box 7 provides a decision-tree for the selection of issues, using a typical case of state reform. It shows how an issue-focus would make it possible to identify interventions and points of entry, linked to a wider framework and agenda, and with multiple impact, beyond the immediate point of intervention. The point it makes is that improvement of particular services, or development of organisational capacity, are not the sole aims, but rather means to an end – sustainable institutional reform.

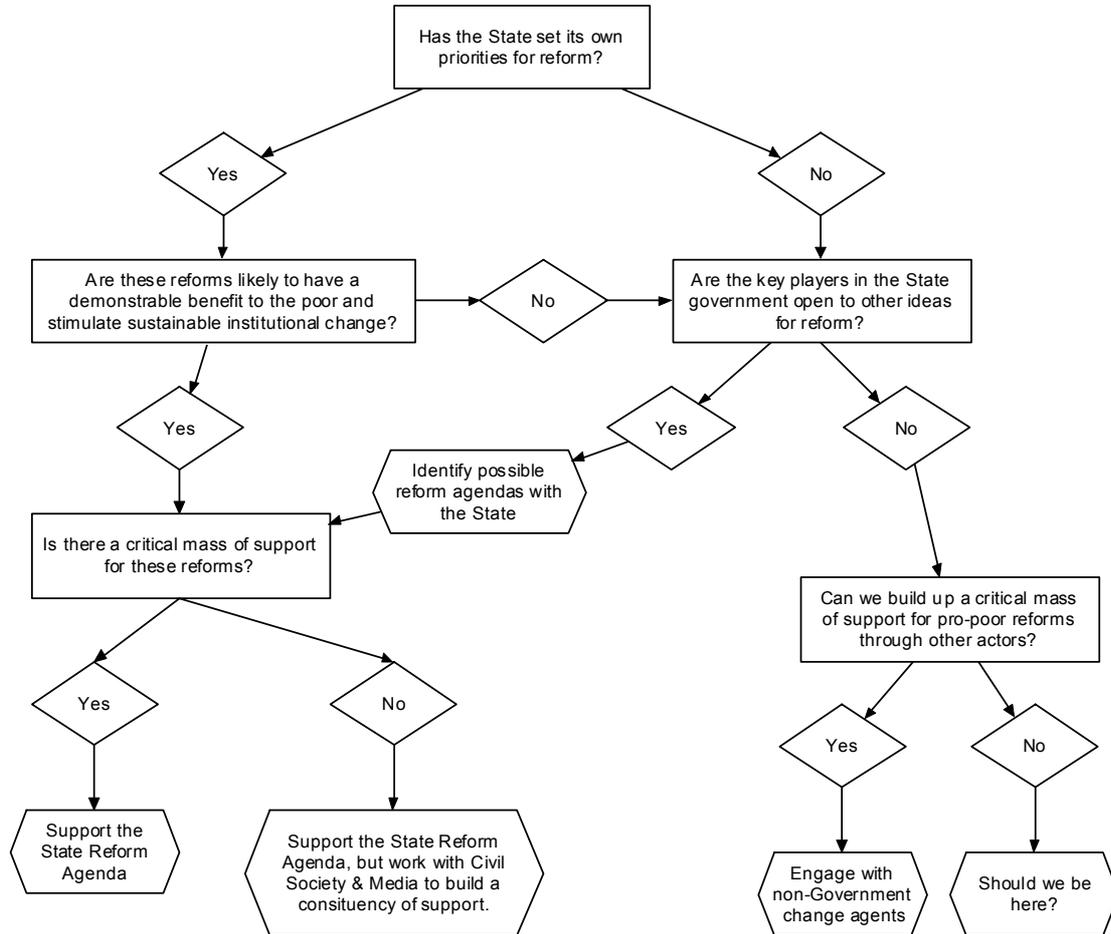
Building on the conclusion in the research thus far about the importance of an issue-based approach, it seems useful to discuss issues and related entry points under three thematic headings related to the definition of pro-poor change used here: economic growth and oil; democracy and accountability; and service delivery.

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<sup>54</sup> Unsworth (2002b)

**Box 7: Deciding issues**

If an issues-based approach is adopted, the key challenge is to select issues most likely to mobilise a wide constituency of support. The DoC analysis contends this revolves around whether issues are systemic, pro-poor and aligned to local agendas. The decision tree below demonstrates in graphic form how these considerations for selection could be applied, using state-level reform as an example:



The key point is that improvement of services is not the sole aim. It is a means to an end, which is sustainable institutional reform.

**6.2.2 Issues around economic growth and oil**

Prospects for change are severely constrained by vested interests and the neglect of the non-oil economy over the past three decades. Nonetheless, a number of latent opportunities may generate reform momentum, especially to create conditions for greater domestic and foreign investment in more sectors with export potential. The DoC research points to opportunities around the following issues:

*Lack of diversification and dominance of oil constrain growth and sound economic policy and management*

*Diversification is not intrinsically against vested interests, could yield political dividends, and there is growing opinion, as well as NEPAD logic, to make it a more prominent issue with potential to mobilise coalitions*

*Debt negotiation has not been viewed as a major instrument for change, yet the size of debt makes it a possible entry point and catalyst for change*

- Economic diversification and improving non-oil exports: A growing body of literature and public opinion shows concern about the lack of diversification and over-reliance on oil. These features of the Nigerian economy constrain the prospects for growth and job creation and have meant that the trade balance – even when positive – has had little effect on the overall standard of living in Nigeria. Volatility in international energy markets has also undermined macro economic and fiscal management. The government’s own Strategic Conflict Assessment of 2002 concurs that poor governance of oil money has had a significant negative impact on Nigeria<sup>55</sup>.

The question at hand is whether there is room for coalition forming around these issues, especially in an interconnected manner that cuts through to structural and institutional levels. There are a number of entry points to this issue:

- Although powerful interests in the Nigerian political economy gain most from oil, diversification would not necessarily threaten them.
- Moreover, there may be political dividends for policy makers under pressure to demonstrate that civilian rule can deliver economic benefits. Such reformers may be able to mobilise presidential support, especially if the President’s recent re-election did give him a greater propensity for risk-taking in his second term. While the DoC analysis indicates the Executive is an unlikely driver of change in most areas of structural importance to pro-poor reform, there exists the potential for small gains if effective pressure can be mobilised. There is also the possibility of broadening the impact of those gains through developing links to wider issues of economic and political management.
- Growing concern about the lack of diversification – including within government – may bolster the prospects of a broad-based reformist coalition made up of the private sector, civil society, National Assembly and public sector interests, pressurising the Executive for change.
- While Nigeria’s leadership role in NEPAD is often dismissed as political grandstanding and a sign of neglected domestic issues, the President’s prominence in an Africa-wide initiative associated with major macroeconomic and governance transformation may create scope for domestic reform.
- The potential of foreign debt negotiations as an instrument of development in Nigeria has been largely absent from the international agenda; yet it has the potential to be an important point of entry to the broader issues of economic reform, governance and service delivery. Nigeria is not classified as a HIPEC country, and as such, international financial institutions have not considered debt relief. However, Nigeria has argued strongly for such relief, and this may open a tactical space for the international community to probe for reform opportunities<sup>56</sup>.

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<sup>55</sup> Lane (2003)

<sup>56</sup> Okonjo-Iweala et al (2003)

- Private sector development: The role of the private sector in the broader economy and especially in areas traditionally associated with the state is currently constrained by a weak policy environment; pervasive political patronage; regulatory practices that constrain access to land, finance and enforcement of commercial contracts; underdevelopment of non-oil sectors; and the over-emphasis of capital-intensive development. These factors militate against all business, but especially against small- and medium-sized enterprises in sectors and locations most likely to affect poor people's living standards and employment opportunities.

*The unfavourable environment is created by weak policy, regulation and institutional support, and its effects are most pronounced in business levels most likely to benefit poor people*

While many vested interests, inappropriate policies and bad practices hinder reform, the following entry points may provide a platform for pro-reform coalitions:

*Early government policy commitments, initiatives and the proven resolve of private sector agents provide potential entry points*

- The government has made broad statements of support for private sector development, including supporting the privatisation and commercialisation of state entities. The government has been unwilling to provoke opposition through the forceful implementation of this policy, but nonetheless, their position provides a basis for engagement.
- Initiatives such as the reform of water provision in Lagos state and of solid waste management in Enugu have the potential to become 'beacons of hope'. Still in their early stages, they have yet to demonstrate the benefits of greater private sector activity, but have already stimulated policy dialogue. This could lead to coalition building and unlock the potential of the domestic private sector and foreign investment.
- The existing private sector has shown notable resolve even under the current unfavourable policy environment. Its potential to become a powerful force of reform in a more enabling environment may be realised through regulatory reform and capacity building.

### **6.2.3 Issues of democracy and accountability**

Normalisation of democratic politics has been an ambition of donors and Nigerian reformers since the return to civilian rule in 1999. The trend has been to concentrate on capacity building within executive agencies, rather than institutional and structural change. The primary challenge remains the strengthening of accountability and oversight mechanisms. Despite significant obstacles, a number of issues could open opportunities to promote change from within both state and civil society:

*Despite problems, the elections seem to have passed without the military trying to stage a comeback, and time may be ripe for substantive work to strengthen electoral institutions as this could have significant wider systematic impact on accountability*

*Open role refocusing carries political risk... but follow-through on functional development challenges may facilitate reform without openly threatening interests*

*The election campaign highlighted key issues*

*Despite its limitations, the Executive may be moved to reform*

*The Assembly, especially its committees, could add significant momentum*

- Electoral reform in the aftermath of the 2003 elections<sup>57</sup>: The elections were supposed to become a watershed event in consolidating Nigeria democracy. It is too soon to make final conclusions, but signs are that despite some conflict, violence and vote rigging, the outcomes will not lead to an overthrow of civilian rule. Consequently, broader issues of accountability and democratic consolidation may come within the reach of reform:
  - Logical entry points for electoral reform are the Independent National Electoral Commission (INEC) and other agents engaged in the institutional reform of the elections. INEC has engaged in controversial activities such as attempting to limit the registration of parties, but it nonetheless remains a potentially independent and vital cog in the system. Enabling the Commission to plan and manage elections more effectively would be a concrete intervention with ramifications far beyond INEC's own immediate capacity needs.
  - If the transition after the elections is consolidated, and the ability of the democratic system to survive the pressures of election credibly demonstrated, it would provide space for reflection on the nature of the broader political process and wider issues of accountability. Challenges would include creating incentives for media engagement with issues, strengthening political parties, civil society monitoring and pressurising government, reform of the Assembly and Executive, and other aspects of governance.
- Institutional role-definition after the elections: Overt attempts to redefine institutional roles and relationships run a significant risk of provoking resistance. Instead, follow-through on major development challenges – may present entry points around which institutional reform could occur with clearer functional and sector goals rather than becoming embroiled in highly politicised conflicts of interest. For example:
  - Using cross-cutting issues of interest to develop links across a range of agents is a key challenge. The election campaign highlighted issues around HIV/AIDS, privatisation, anti-corruption measures, military reform and others.
  - On that basis, Presidential positions taken during the recent election campaign may provide strategic space around these issues, even though the lack of reforms implemented since 1999 has highlighted the Executive's limitations as a reform agent. A key question is whether the President can be persuaded through broad-based pressure to take greater risks during the second term.
  - To build this momentum, in turn, may require issue-based interventions to support the National Assembly. As a broadly representative federal body, the Assembly is a potential platform for organised groups of citizens to access policy channels or provide feedback on the impact of pro-poor initiatives. Work through its committees, procedures and capacity requirements may open opportunities to impact on the

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<sup>57</sup> Sheehy (2003); Fayemi (2003a)

broader system, provided initiatives are chosen on the basis of their likely links to structural features and institutional relationships. For example, instead of undertaking general capacity building, change could be facilitated through committees with specific interest and responsibilities in key policy areas likely to make an impact on growth and poverty reduction.

- Further opportunities to build a system of accountability, in the context of the broader institutional framework, may arise in the judicial system, where conflicts around Shari'a law has heightened weaknesses. These have been made even more evident by court backlogs, overcrowded prisons and a police force finding it difficult to curb crime. DFID and other donors have already identified access to justice as an important development priority, and opportunities exist for working with human rights groups as well as reformist elements in the judiciary and police. This may yield systemic results both in terms of capacity and broader pro-poor governance.
- The analysis thus far would suggest that the media, think tanks and emerging advocacy groups – especially on human rights and accountability issues – provide the most significant opportunities in civil society to promote accountability<sup>58</sup>. The relative independence of the media could be consolidated through engagement on policy issues, presenting material more accessibly and enjoying stronger management and senior editorial support. Moreover, the re-emergence of think tanks within and outside government since 1999 can enrich policy awareness and debate about institutional and structural issues. However high levels of religious, regional and ethnic intolerance still hinders the potential of important elements in civil society, while trade unions have not yet managed to overcome their demise as influential agents after controversial politicisation during military years, and in the context of their internal management weaknesses.
- Constitutional reform: Both the process and content of constitutional reform could be powerful drivers of greater accountability. While there have been many factors behind the call for constitutional reform, the significance of constitutional change lies perhaps more in process than in content. Much of the criticism of the Constitution is that it has not been drafted in a consultative fashion; hence new pressures to involve a wider range of stakeholders in analysis, debate and negotiation. This could contribute to a more open political culture.

*Judicial reform could add momentum*

*Civil society could help enrich information flows, ideas and debate*

*Both the process and content of constitutional reform could be drivers of greater accountability*

#### 6.2.4 Issues of service delivery

The failure of service delivery continues to lower the standard of living of ordinary Nigerians, constrain their access to opportunities and hinder economic competitiveness. Many of these challenges have

*Service delivery failures lower the quality of life and hinder economic growth and opportunities*

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<sup>58</sup> Utomi and Unom (2003); Cunliffe-Jones (2003); Ezeazu (2003)

*Public sector reform may appear unlikely given the many constraints at all levels of government, but the size and power of government makes it a relevant force*

*Reform could be unlocked by political pressure around specific issues like HIV/AIDS, infrastructure deficiencies and others*

*There are beacons of hope where small-scale initiatives have begun to deal with issues and unlock wider process of systemic change. DFID is involved in some of these, i.e. in Ekiti and Enugu*

*States and local governments face many problems similar to the federal government, but they also have some significant incentives for change. A new Presidential Commission places local government under scrutiny*

been raised in political debate since 1999, and are issues around which reformist momentum and coalition forming could develop:

- **Public Sector Reform:** Many may question whether the public sector can provide a point of entry for change. It remains entrapped in the politics of patronage, and has been severely weakened by neglect, co-option and under-resourcing during the military years. The political leadership and top management have been reluctant to fundamentally review departments and parastatals and to introduce crucial efficiency measures. Because of patronage, incentives for lower level officials are biased towards the current system. Distrust between states and vested interests within political structures and the bureaucracy could hamper change. However, the size of government makes state agents important forces, and there have been some – albeit isolated or tentative – developments that may indicate that the scope exists for building a network of learning and for putting in place incentives for change.
- **Sector issues:** Developments within specific sectors may provide important entry points around issues in those sectors. Examples where both Nigerians and international interests face risks and costs caused by the breakdown of institutions include justice and crime; HIV/AIDS; malaria and other health risks that cause distress and loss of economic productivity; the lack of markets for agricultural produce; and poor quality infrastructure<sup>59</sup>. Political pressures, such as those highlighted in the discussion on democracy and accountability related issues, may accelerate the reform of agencies and departments at all three levels of government.
- **Beacons of hope in delivery reform:** A number of beacons of hope have emerged, showing how it is possible to create momentum for change through specific initiatives in the state, civil society and the private sector. DFID is already involved in two projects which point towards the kind of systemic impact required to move Nigeria forward. The reform of solid waste management in Enugu and the project for market rehabilitation in Ekiti both stretch much wider than the immediate service delivery issues. These projects provide a roadmap for identifying problems, engaging stakeholders, organising improved planning, rethinking organisational options, improving revenue generation, and holding politicians and services providers accountable.
- **Intergovernmental relations and roles:** While many of the negative dynamics at federal level are also present within state and local governments, their constitutional mandates for service delivery means reformist state and local government administrations can be points of entry. In the short-term, uncertainty about the exact constitutional powers of states and local government is a negative, but it may also be a pressure point for constitutional change. Similarly, fiscal policy remains stymied by oil-dominated revenue and allocation of resources. States and local governments feel the

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<sup>59</sup> Baxendale (2003); Tayler (2003); Bossert and Gomez (2003); Pearson (2003)

effect of this most directly and have a more immediate incentive to explore additional sources of funding. This may open space for tax reform, and through this creating a more accountable state. Significantly, in June 2003, the President announced the appointment of a commission to review local government, and there has already been international interest in this initiative.

- Building partnerships with private and civil society providers: *Partnerships are emerging*  
While privatisation and commercialisation have progressed slowly and have been hampered by political caution, shifts are occurring. Apart from overall policy commitments to reforms that would see a lesser role for state agencies and greater private sector and civil society participation in service delivery, pressure is mounting to reform parastatals and engage outsiders. Positive shifts, especially at state level – like the Lagos water concession – open the door for learning lessons that could be replicated or avoided elsewhere.

### **6.3 Areas for further research and analysis**

While the research provides pointers for the CAP, several issues require more empirical and conceptual clarification. Apart from additional research and completing still outstanding Position Papers, the early findings will be tested extensively with peers and stakeholders in coming months. Issues to be considered include:

*Analysis and debate must continue on several issues and incentives*

- Linking agents, institutions and structures: Although the analysis has identified the limits of an exclusive agent-focused reform agenda and showed the need for institutional and structural change, it does not as yet fully portray the dynamic links between agents, institutions and structures and the strategic implications of these links. Primary dimensions to elucidate include: Are the definitions of agents, institutions, quasi-structures and structures clear and appropriate and the boundaries between them clear? How do specific agents relate to specific institutions? How do specific agent-institution links shape agents' influence on specific structures? How do institutions become quasi-structures and how can they be reformed? How, if at all, should the points of entry and catalysts of change identified be built into issue-focused agenda for institutional change? What incentives would best respond to, and influence these links and relationships?
- The mechanics of patronage: At this stage, the prevalence of political patronage has been depicted across various dimensions of the political economy. The quasi-structural impact of patronage has however not been unpacked systematically. Further analysis is needed to link values, interests and institutional networks, in order to provide more insight into how patronage arises, becomes entrenched and manages to transcend overt commitments to accountability.
- The role of the international community: The research is currently vague or fragmented on many aspects of the possible influence of international agents and institutions on the Nigerian political economy. While it is clear that the economy is dominated by oil and that this has been allowed to shape structural distortions and

*More insight is needed on how the key links work and which incentives are likely to prompt a response*

*Patronage is multi-faceted and must be analytically deconstructed as a basis for action*

*Development assistance cannot stand alone from trade, investment and diplomacy*

rigidities, several key issues still need to be clarified: What is the weight of donor assistance relative to broader global involvement in the Nigerian economy? More specifically, where, and how, does DFID fit into the broader picture of UK-Nigeria relations? Could foreign debt negotiations realistically become a point of entry for change? Should Nigeria be classified, and thus be engaged with, as a 'Lower Income Country Under Stress' (LICUS).

*Choosing and understanding issues and entry points is crucial*

- Identifying issues, points of entry, catalysts of change and beacons of hope: Most Position Papers intimated that reform needs to focus on issues and start from very specific entry points, and a number of useful examples were provided. However, the conceptual framework for identifying and choosing such issues and entry points, and not others, remains unclear; and the actual cases still somewhat randomly selected. It is not anticipated that major research would be required, but consultations with peers and stakeholders will be used to clarify key concepts and criteria based on the pointers provided in this document.

*Robust debate and more analysis is required on the assumptions highlighted here as well as on the necessary incentives for achieving practical change strategies in the future*

- In the final analysis – and effectively summarising the above points marked for follow up work – the questions raised about key assumptions need to be systematically analysed and discussed, and their strategic and practical implications considered. In reality, development initiatives will continue to work through agents, but viewing the implications of the strategic environment analytically, and systematically weaving links and creating incentives to target institutional and structural issues, will pose significant challenges.

## **7. Conclusion**

This report provides preliminary perspectives based on the first set of Nigeria DoC Position Papers. The observations and suggestions are preliminary, released at this stage mainly to contribute to DFID-Nigeria's CAP, to obtain feedback and to stimulate debate. More research and conceptual development will be undertaken before the final reports are released in late 2003, and peers and stakeholders will be consulted extensively.

Thus far, the analysis has highlighted the importance of key structural factors driving and preventing change in Nigeria. Agent-oriented capacity building programmes may yield short-term gains, but fundamental change requires dealing with major issues of institutional failure, lack of accountability and service delivery, as well as structural features such as demographic realities, the skewed economy and structure-like institutional dysfunctions. The Overview attempts to outline how a more issue-based approach to development could help identify key priorities and entry points for change.

Issue-driven institutional change is necessary because it changes the way agents interact; and it is the means to strengthen accountability mechanisms, erode patronage politics, and encourage the diversification of the economy away from its existing dependence on oil. These institutional changes, if sustained, will gradually transform the structural features of the political economy as new political behaviours become entrenched in a reformed political culture, and as new economic relations drive pro-poor growth.

*The preliminary overview provides a basis for further research and discussion, and feedback will now be actively sought*

*Change must go beyond building agent capacities, altering structures and institutions*

*Issue-driven change provides a way to permeate the whole system of structures, institutions and agents*

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