

Nigeria

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|--|-------|--------------------------------------|-------------|
| Status Index (Democracy: 6.05 / Market economy: 4.71) 5.38 | | Management Index 5.30 | |
| HDI | 0.453 | Population | 125.9 mn |
| GDP per capita (\$, PPP) | 1,050 | Population growth¹ | 2.7 % |
| Unemployment rate | - | Women in Parliament | 5.8 % |
| UN Education Index | 0.66 | Poverty² | 70.2 % |
| | | Gini Index | 50.6 (1996) |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² People living below \$ 1 a day (1990-2003). | | | |

A. Executive summary

Overall, Nigeria has made modest progress toward democracy and a market economy, but there have been serious setbacks as well. Despite immense irregularities, the will of the people to keep the course toward democracy endured. Shortly after President Olusegun Obasanjo's re-election in mid-2003, a wave of previously unknown political violence, organized crime, and ethnic and religious conflicts hit most of the 36 federal states and Abuja. This violence threatened the political system and jeopardized the democratization process in its infancy.

The political system continues to face serious problems with stateness, the institutional efficiency of the government system and stabilizing internal security. Problems persist as well with the patterns of democratic representation and attitudes, enforcing the rule of law, and reforming the economy. Nigeria's economic framework and performance continues to suffer from major shortcomings in all but two areas: economic growth rates due to the extraordinary windfall profits from crude oil exports and the rather fast-growing private telecommunication sector, particularly mobile phone services.

Macroeconomic conditions did not improve substantially during the review period from January 2003 to January 2005. However, increased IMF and World Bank pressure for reforms has resulted in a slight change in attitude within the political leadership. Some reforms in the power, petroleum and refinery sectors might soon produce positive results that could ignite beneficial dynamics.

Despite the level of difficulty and some positive economic indicators for the years to come, the government failed to pursue policies aimed at political transformation. The Obasanjo administration in particular has lacked the capacity to pursue a policy of consensus-building. Thus, political, ethnic and even religious violence and to a certain extent organized crime, remain a strategic consideration and option for several relevant political actors in the country. However, the

government has sought to confront some of these serious problems by initiating a national conference scheduled for early 2005.

Future prospects for transformation will rely largely on external pressure and encouragement. Given Nigeria's strategic and economic value as the largest African country, the largest oil and soon the largest gas producer on the continent, and as a power broker with military competence, substantial progress in transformation in the near future is likely.

B. History and characteristics of transformation

Since gaining independence in 1960, Nigeria's economic and political transformation process has been marked by extreme tensions, small signs of progress and several setbacks. Excepting two brief phases of civilian government (1960-1966 and 1979-1983) and the third attempt (since 1999) to establish a democratic political system, various military regimes have ruled Nigeria through coup d'états and palace coups, which triggered the civil war (1967-1970). The military was finally forced to retreat to its barracks in 1979. However, by 1983, the second attempt at democratization had failed and the military under Maj. Gen. Muhammadu Buhari took over once again. Almost two years later, a palace coup brought Gen. Ibrahim Babangida to power. He initiated a firmly guided economic reform and democratization program, which lasted eight years. At the end of this program in mid-1993, Nigeria experienced the best organized, most free and fair elections in its history. The nationally known business tycoon Moshood Abiola from the South emerged as the clear victor.

However, massive resistance from within military and civil service ranks forced junta head Babangida to annul the elections and step down after he had installed a civilian puppet regime under Ernest Shonekan. After a few weeks, General Sani Abacha led the military back to power through another coup in November 1993. Until his sudden death in 1998, Nigeria experienced the worst military dictatorship ever, which contributed to military rule's complete loss of legitimacy. General Abdulsalami Abubakar cleared the way for elections and the transfer of power to an elected president. He also released all political prisoners. Abiola died shortly before his scheduled release. After less than a year, the former junta head General (rtd.) Olusegun Obasanjo (1976-79) took office as president after a clear election victory in 1999. This transfer of power was quite unlike that of 1993. While in 1999 an elected president from the South of the country was widely accepted, the same situation led to the annulment of elections in 1993. The 1999 elections were fraught with shortcomings and logistical problems, but these did not affect the election results in Obasanjo's favor. He won a clear majority in almost every region of the country and his People's Democratic Party (PDP) won absolute majorities in both chambers of the national parliament. He was re-elected

in 2003, and the PDP confirmed its dominant position in the parliamentary elections, including the long overdue council elections in 2004. However, the elections were marred by widespread fraud, violence and open ballot rigging.

Sharply climbing oil prices on the world market after the oil crisis of the 1970s and early 1980s set an import substitution strategy in motion. Instead of moving toward a market economy, Nigeria became an institutionalized kleptocracy. General Ibrahim Babangida's takeover in 1985 provided the first opportunity for transformation toward a market economy. However, the kleptocratic powers prevailed by enforcing the sudden termination of the political and economic reform program. While the end of military dictatorship brought an end to systematic plundering, the military regimes left behind a socioeconomic pile of rubble for the elected government.

Against the background of increasing political, religious and ethnic violence, oil prices rose to new heights in 2004, and the re-elected president piled up foreign reserves to some \$ 16 bn. However, external debts reached \$ 34 bn because the government accumulated even more debt and did not pay its obligation of some \$ 3 bn. At the same time, it passed an economic and social reform program called NEEDS with the blessing of the IMF, the World Bank and other relevant international institutions. Nevertheless, the windfall profit from oil has slowed further than the already slow deregulation program. At the same time, the increase of fuel prices caused long-lasting and sharp social conflicts although fuel prices remained subsidized. Despite true progress in a few fields such as the private telecommunication sector, uncertainty abounds as to whether the current leadership is willing and capable of entrenching the necessary structural reforms.

C. Assessment

1. Democracy

Nigeria has shown very little progress in the transformation of its political system. Transformation deficiencies still exist, particularly in terms of political representation, rule of law and stateness. The democratization process is continually jeopardized, often to the extent that threatens the entire system.

1.1. Stateness

Steady political and economic decline combined with long-lasting military rule have destroyed a once-functional administrative system and massively undermined public safety and order, thereby endangering stateness. Militant vigilante groups comprised mainly of young people have sprung up in almost all regions of the country, most prominently in the oil-producing Niger Delta, the

Igbo heartland in the South, the Middle Belt, the Lake Chad region in the Northeast, and in the urban center of the ancient city of Kano in the North.

The state's monopoly on the use of force is limited in several parts of the country. The separation of religion and state exists to some degree, but secularization suffered a substantial setback with the introduction of Shariah, or Islamic law, in 12 of the 36 federal states in northern Nigeria, where the vast majority of the population is Muslim. However, the introduction of Shariah is genuinely popular in the North because it generates hope for improving justice and decreasing corruption in the common man.

Although all Nigerians are considered Nigerian citizens, and all citizens possess equal civil rights, the federal quota system that determines access to offices and institutions still seems to be discriminatory. Furthermore, the very concept of 'indigeneity' is discriminatory against non-citizens of a federal state, i.e. immigrants from other federal states.

1.2. Political participation

Universal suffrage and the right to campaign for elected office exist. However, in many cases secret ballots and general elections are conducted improperly or at least problematically. Elections in 2003 were marred by widespread fraud, intimidation and violence, and the incumbent government exploited its power apparatus and enormous financial resources to secure its position. Local government elections in 2004 were simply stage-managed by the ruling party, and popular interest was consequently low.

The current government possesses only limited power to govern, although it controls most of the security apparatus. The power of the state is systematically undermined and even subverted by the state's own employees and their corrupt practices. For example, almost half of all goods on the Nigerian market have been smuggled in, due to corruption in the customs service. Moreover, the trade unions and patronage-based networks of active and retired high-ranking military officers are also influential veto actors, as indicated by an allegedly planned coup d'état in April 2004.

Civic organizations can form and meet freely, but often depend on state institutions for financial support. They are still severely fragmented and most are anchored only locally, so their ability to bridge numerous social cleavages is limited and make them vulnerable to repressive measures.

State-owned and partially state-owned media are strongly influenced by the central government and, in particular, the individual state governments. The private media, however, and particularly the print media, possess a fairly high degree of autonomy and often serve as sharp critics. Therefore, they are

occasionally subject to state repression. Since the power to issue licenses for radio and television belongs to the president, he tries to use that power in government's favor. Against this background, the 2004 Press Freedom Survey by Freedom House considers Nigeria "partly free," with a value of 53 ranking the country 111th.

1.3. Rule of law

Given substantial constitutional veto powers by parliament and federal states vis à vis the central state executive, the separation of powers and checks and balances are present de jure. However, de facto transformation deficiencies exist in controlling and designating jurisdictional boundaries between the executive, legislative and judicial branches, as well as between the three completely different legal systems (secular state law, Islamic law and customary law). Numerous conflicts have emerged between state and customary law, particularly with regard to family law and access to land. In terms of civil law, Islamic law has been applied in the North for decades. A new and controversial decision was the introduction of Shariah penal law in 2000.

Numerous inconsistencies and contradictions in the constitution established in 1999 by the outgoing military regime are resulting in an increasing number of cases regarding fundamental principles brought before the higher courts and the Supreme Court, which also serves as the constitutional court. All but one of the Supreme Court's rulings (statutory funds to local governments in states such as Lagos State) was accepted. As far as Islamic law is concerned, no case has reached the federal courts yet to call into question the constitutionality of applying completely different legal systems. All stoning sentences that have been passed down by lower Shariah courts for marital infidelity and extramarital sex have either been declared null and void by upper Shariah courts or the verdicts remain pending.

Corruption and white-collar crime are widespread at every level. Government efforts to address the problem have public support, but the elite have learned how to use the complicated legal system, the drawn-out legal process, and the overburdened courts to enable successful defenses against massive accusations of corruption. This is also true for the elite involved in other criminal and civil proceedings, in contrast to members of the middle and lower classes who have little or no chance of legal recourse due to lack of finances and legal counsel. Not one prominent figure has been convicted to date of serious fraud or crime.

For the vast majority of citizens, civil liberties only exist de jure because the government lacks a monopoly on the use of force, political will, and judicial control. As a result, security forces, militias and ordinary criminals regularly violate civil liberties. In addition, a Supreme Court ruling that declared the probe conducted by a commission on human rights abuses by past governments

unconstitutional further weakened chances for legal recourse. Consequently, the Freedom House Index considers Nigeria “partly free.”

1.4. Stability of democratic institutions

Democratic institutions remain unstable although many influential political and social actors generally accept democratic institutions and regard them as legitimate.

Democratic institutions fundamentally perform their functions, but a great deal of waste occurs because of friction between basic institutions such as the central government, the bicameral parliament and the federal states and state governors. Deficiencies within the administrative system and the judiciary are particularly culpable for severe constraints.

Most of the relevant actors support and accept democratic institutions. However, the secular order of the state is challenged by Muslim groups and the coup plans mentioned above point to an uncertain democratic commitment within the military and among retired military officers.

1.5. Political and social integration

Institutional inefficiency is closely related to the lack of stable patterns of organization for political representation. No organizationally stable, socially anchored party system was established during the evaluation period, which coincides with the transition from the first legislative period of the new democratization project to the second period. The attempt to anchor a three-party system failed and the Electoral Commission was forced by a Supreme Court judgment pursued by civil rights activists, to permit the creation of 27 additional parties a few months before the end of the first legislative period. However, these parties had little success at the federal level and only marginal success at the council level. Most are only marginally stable at best; their objectives are programmatic only in a limited manner and are dominated by ‘money bag politicians’, most prominently within the ruling party PDP. This has caused regional power struggles within the PDP in 2004 that further undermined efforts to stabilize relevant democratic institutions.

Outside the state system and state sector only a few influential interest groups exist. These include a few Christian and Islamic organizations, a lawyers’ association, media organizations, a small lobby of businessmen, large companies in the construction and beverage industries, a few banks, multinational oil companies, the umbrella organization of trade unions and the various local ethnic militias. Cooperation between the state and civic interest groups remains severely underdeveloped.

Despite the slow pace and shortcomings of civil society development, public faith in the democratization process and democracy-bearing institutions (particularly presidential and gubernatorial offices) increased toward the end of the first legislative period in early 2003. Voter turnout in the last presidential election in 2003 was at 69%, which is very high for Nigeria and much higher than the previous election; participation was boosted by holding presidential and gubernatorial elections on a single day. According to the Afrobarometer, 68% of all respondents prefer democracy to any other kind of government, and large majorities rejected authoritarian alternatives by wide margins.

Self-organization in civil society encounters political and socioeconomic barriers that include violence and lack of funds. Because of ethnic, religious and electoral violence, as well as a long history of repressive military rule, there is relatively little trust among the population that cuts across different segments of society.

2. Market economy

Nigeria has made only limited progress in transforming its economic order. Positive macroeconomic developments have been overwhelmingly dependent on surging oil prices and an early boom in the private mobile phone sector. Considerable transformation problems still exist deregulation of state-owned and partially state-owned companies, organization of competition, and reform of the banking sector and the capital market.

2.1. Level of socioeconomic development

Key indicators show a low level of development; Nigeria was ranked 151st of 177 on the Human Development Index. There is widespread and profound social exclusion because of poverty. Nigeria ranked 57th of 95 in the Human Poverty Index, with relatively high social inequity as indicated by the latest available Gini-coefficient value of 50.6, inadequate education ranked 152nd with a very poor score of 0.59, and gender-specific discrimination underlined by a rank of 122nd of 144 in the Gender Development Index. Nigeria has not succeeded in lessening its extreme inequalities and income differences during the observation period. The few reform programs implemented since 2003 have not improved conditions for the lower- and middle-income classes despite targeted programs to fight poverty. Extreme regional imbalances in development remain unchanged.

2.2. Organization of the market and competition

The foundations of market-economy competition exist to some extent. The state sector, which has a monopolistic structure in key segments of the economy (electricity production, petroleum refining), has been deregulated only slightly.

Significant progress has been made in permitting private companies to enter the telecommunications sector. Initial progress in establishing a relevant private power-generation industry has slowed, but licenses have been issued for construction of private petroleum refineries. In addition, restructuring the undercapitalized banking and finance sector is underway, and some large banks are about to merge.

The World Economic Forum's Growth Competitiveness Index rates Nigeria very low, with a ranking of 93rd of 102 countries, a decline from its 2003 ranking of 87th. Similarly, the Economic Freedom Index describes Nigeria as "mostly unfree," ranking it 141st of 161 countries. Market competition operates within a rather weak institutional framework. The development of market competition is slowed by weak public institutions, widespread corruption, and a very strong informal sector. In addition, economic policy is implemented haphazardly in most cases.

Foreign trade follows non-discrimination principles de jure. According to the Heritage Foundation, however, it remains greatly distorted by high tariff barriers and constraints such as bans on special commodities, uncertain customs procedures, corruption, and high berthing and unloading costs.

The domestic medium-term economic reform program (NEEDS) launched in early 2004 is aimed at addressing deep-rooted macroeconomic and structural problems and reducing poverty. Many Nigerians perceive this program as merely another version of a traditional structural adjustment policy promoted by international finance institutions.

2.3. Currency and price stability

Inflation and exchange rate policies have been more consistent during the assessment period than in previous years, but the central bank's high level of dependence on the federal government remains unchanged. Pressure and encouragement by the IMF and World Bank, indicated by NEEDS, forced fiscal restraint, reduced petroleum subsidies and spurred the introduction of an oil price-based fiscal rule. Thanks to high crude oil prices and a one-sided debt service reduction, foreign currency reserves more than doubled to \$16 billion within the period under review. However, domestic and foreign debts have both increased further. The inflation rate fell to approximately 16% and the exchange rate to the dollar was kept rather stable.

2.4. Private property

Property rights and acquisition of property are adequately defined. All land belongs to the federal states with the exception of coastal strips and certain

riverbanks that belong to the federal government. Thus, land is granted only as a hereditary lease. Property ownership reaches its limits when raw materials are found under the ground. These belong to the federal government in principle and in such cases the land is expropriated and the owner compensated.

Changes in ownership of hereditary leases are often difficult because in many cases, the evidence of title is questioned and court settlement can take a great deal of time. In addition, local chiefs or communities often sell land that is subsequently found to have an unsecured title status. This also hinders investment by private companies.

Moreover, privatization serves largely as a money-laundering instrument for legalizing illegally accumulated wealth and income from international drug trafficking.

2.5. Welfare regime

The Nigerian Social Insurance Fund (NSITF) is independent from the state. Employees from companies with more than five employees pay in 3.5% of their gross salary, and their employer contributes 6.5%. However, because the burdens of aging, illness, underemployment and unemployment are carried primarily by extended family networks and the informal sector, the NSITF has not yet had to prove its efficiency in the payment of pensions.

Only employees of the state system, the higher education system, state-owned and partially state-owned companies, and large international companies enjoy a level of social security. This includes affordable housing, basic health care and access to a modest pension. Labor law standards and employee protection are found only in large or state-owned companies and within public administration, where the federation of trade unions is well represented and active.

Public services are very poor. The failure of public services contributed to the success of private services, including private schools, private hospitals and generators for the rich, and water carriers and traditional healing for the poor.

Although women are still a minority at universities, they are no longer systematically disadvantaged when trying to access tertiary education; female students form the majority in some courses of study. Increasing numbers of women are pursuing careers in banks, insurance companies and similar institutions within the private sector, and a woman reached the top of the Ministry of Finance for the first time. Gender-based discrimination against women in the legal system has also been reduced, despite some archaic sentences in 'Shariah Courts.' However, the low percentage of women in parliament and poor ranking in the Gender Development Index (122nd of 144) indicate that women are still disadvantaged.

2.6. Economic performance

During the democratization process following the start of the second legislative period in 2003, the government began modest structural adjustments and measures for macroeconomic stabilization. However, poor infrastructure (power, roads, water), the high cost of transporting goods within the country, and extortion by police and customs at often illegal roadblocks are still serious impediments to economic growth.

Economic growth has picked up significantly because of the oil bonanza, the growing liquefied gas sector and the telecommunication sector. Solid development in other sectors will depend on effective measures to counter the detrimental effects of crude oil and liquefied gas production. During the review period, growth potential was not fully exploited.

2.7. Sustainability

Environmental awareness has grown in recent years along government circles, lawmakers and society, but no progressive measures have yet been implemented. The state's primary, secondary and tertiary education systems have largely collapsed, as have large portions of the public infrastructure. Institutions for education, training and research exist within significant segments. Despite the existence of numerous universities and training centers, the absolute level of research remains inadequate, as shown by Nigeria's ranking of 82nd of 102 countries in the 2003 Technology Index ranking within the GCI.

3. Management

Nigeria has a high level of difficulty. The government's top priority at the start of the review period was simply to stay in power. Against this background, consensus-building and resource efficiency were considered less important. However, Nigeria has reliably cooperated with the international community.

3.1. Level of difficulty

The level of difficulty of transformation in Nigeria must still be considered particularly high. The country's rather limited experience with civil society, democracy and the rule of law has hindered the stabilization and expansion of democratic transformation. Serious problems on the domestic front during the transition from one legislative period to another have compounded the level of difficulty during the evaluation period.

Massive structural constraints on governance exist. Compounding these constraints are poor infrastructure (highly erratic power supply, poor security, organized crime), a widening poverty gap, widespread corruption throughout the country and at all levels of society, an increase of internally-displaced people, and limited de facto power to govern. Nigeria possesses abundant crude oil, with estimated reserves expected to last at least another 35 years, and its position in gas is even better. These natural resources could lessen the impact of negative factors, such as extreme corruption and violent conflict, on the vast majority of Nigerian society.

Given periods of military rule and widespread violence, traditions of civil society are relatively weak. There has been a positive general trend in the development of civic interest groups, but they do not arouse broad civic participation, a trend that also holds true for the development of a civic culture supporting democracy.

Remaining threats include a North-South division, and a deep, almost-nationwide division between the political elite and society, which is often used to incite political violence with ethnic and religious undertones. In addition, an unstable system of checks and balances and unclear jurisdictional boundaries between the executive, legislative and judicial branches underline the country's level of difficulty.

Profile of the Political System

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|--|--|---|--|
| Regime type: <i>Democracy</i> | Latest parliamentary election: <i>12.04.2003</i> | Effective number of parties: <i>2.3</i> | Electoral system disproportionality: <i>11,2</i> |
| 1. Head of State: <i>Matthew Olusegun F. Obasanjo</i> | Cabinet duration: <i>04/03-present</i> | Parties in government: <i>1</i> | |
| Type of government: <i>single party majority</i> | | Number of ministries: <i>30</i> | Number of ministers: <i>39</i> |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{1/2 \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Number of ministries/ ministers denotes the situation on 1 January 2005.</p> | | | |

3.2. Steering capability

The Nigerian government is able to organize and prioritize in terms of addressing its strategic priority of maintaining power. This also applies to the state governors. In light of its strategic priority and the numerous violent conflicts in the country, the political leadership does not intend substantial democratic reforms, but is quietly focused on the possibility of a third term. According to the current

constitution, the president and governors can only be elected twice. However, the government responds to pressure and encouragement by international organizations, particularly the IMF and World Bank.

After being re-elected in 2003 the president and his new team of economic technocrats formulated a homegrown reform program confined to the macroeconomic field. Western creditors and donors, especially the World Bank and the IMF, advocated the program and offered technical assistance towards finding a sustainable long-term solution to Nigeria's serious debt problems. In addition, Nigeria reiterated its commitment to capacity building and requested IMF staff to monitor program implementation. The World Bank released several hundred millions of dollars in funding in 2004, and was prepared to invest more than \$1 billion over the next two years.

Disparities still exist between IMF and World Bank agreements and their implementation. To a large extent, these disparities also apply to homegrown reform programs because politics infringe on the commitment of decision-makers to the transformation goal of a market-based democracy. However, there has been a great deal of public discussion regarding the lack of economic reform in the past and the urgent necessity of implementing such reforms.

Nigeria's leadership has used a variety of hard-line and softer approaches to handle serious threats targeted at undermining the status quo power structure. Participants in an allegedly planned coup were prosecuted at criminal court, while two prominent warlords in the Niger Delta were invited by the government to engage in a political dialogue. The killing in Plateau (Middle Belt) was dealt with by declaring a six-month state of emergency, while the crisis in Anambra was left to the ruling party PDP to solve. The political leadership has maintained a wait-and-see attitude towards the Shariah issue in the northern part of the country, claiming that this issue was no longer a danger to national unity and security.

3.3. Resource efficiency

The government does not make effective use of available staffing and organizational resources for its transformation policy, though the quality of the new cabinet after the general election in 2003 has been improved. This is particularly true in the areas of finance portfolios and foreign affairs. There is consensus on government representation of all 36 federal states and the federal territory, but this has resulted in an expanded cabinet of questionable competence. Public services were still not prepared for further steps toward economic development because of significant slow-down in the deregulation of key sectors, such as power, refineries, and to a lesser extent banking.

The government frequently fails to coordinate between conflicting objectives and interests. Various parts of the government tend to compete among each other,

mainly spurred by narrow political ambitions with regard to succession after Obasanjo or frictions between parliament, the executive and the federal states.

Nigeria is ranked among the most corrupt countries in the world because corruption prevails not only in government and parliament circles, but also in all walks of life. According to the Corruption Perception Index the country ranks 144th of 145 countries with a value of 1.6. The fight against corruption has proven far more difficult than expected, although the legal prerequisites and necessary institutions do exist. Not a single prominent figure has been convicted during the review period because of the highly complicated legal system combined with structural problems within the judiciary and judicial incompetence. However, the misallocation of economic resources has decreased in comparison to previous regimes.

3.4. Consensus-building

Considerable conflict among the political and social elite on the subject of a market-based democracy is still found within the state system, democratic institutions, and within parties both inside and outside the parliament, particularly in radical and militant “self-help organizations,” trade unions and fundamentalist groups affiliated with Christian and Muslim faiths. Various actors have widely different concerns; while many possess little grasp of political theory around the issues of ‘market’ and ‘democracy,’ they represent fundamentally different opinions regarding the best path to further development. This slows and partially blocks reform toward a market economy.

For many years, the government has been under pressure from civil society, both in and outside Nigeria, to conduct a National Sovereign Conference to pass a treaty concerning the constitutional, political, economic and social structure of the nation to which the vast majority of people could adhere. Despite a committing to hold a conference, albeit one already watered down and manipulated beforehand, the government remains unwilling and to a large extent unable to bring together, let alone overcome, the numerous personality-based and ethno-regional cleavages. As a result, various civil society groups are preparing an ‘Alternative National Conference’ called PRONACO aiming at bridging these many cleavages.

Despite the attempt to address past acts of serious injustice, the political leadership and influential elites have silently agreed to bury the official findings of human rights violations and abuses by past governments. However, this report was finally made public by the Nigerian NGO Civil Society Forum in cooperation with the Washington-based Nigerian Democratic Movement (NDM), and points to three of Nigeria's former military rulers as personally liable for extra-judicial killings perpetrated while they were in power.

Outside government circles and the state machinery, there are only small groups of businessmen calling for reform toward a market economy, and they have only been marginally successful. The overwhelming majority of NGOs lack the economic competence to raise their voices in favor of a market economy. However, an increasing number of organized and business-oriented Nigerians abroad, particularly in Britain and the United States, have begun advocating economic reforms, hoping to invest in a more favorable and supportive environment.

Relevant political actors have not succeeded in bridging the diverse fault lines of social conflict, which still endanger the democratization project and stateness. Widespread religious, ethnic and political violence reveals only modest success of the government in bridging political cleavages and promoting social trust.

3.5. International cooperation

What little progress has been made toward a market economy and market-based democracy during the transformation process has been related to outside actors (IMF, World Bank, Paris Club, London Club, African Development Bank). Collaboration with these actors has been marked by erratic and sometimes contradictory decision-making, but has demonstrated the government's willingness – with reservations greatly dependent on the actual international political climate – to fulfill agreed-upon conditions and effectively use resources provided by others. The visit of the new Managing Director of the IMF to Nigeria as the first country on his 'Africa Tour' compelled Nigeria's government to commit to wide-ranging reforms, a commitment that is also aligned with Nigeria's desire for a permanent seat on the United Nations Security Council.

The role of outside actors, such as the United States and the EU, in the democratic transformation process can be characterized as moderate. While the EU sharply criticized the 2003 elections for widespread fraud, it ultimately accepted their outcome. The United States government initially expressed reservations as well, but recognized the so-called wish of the Nigerian people. Nigeria has maintained and strengthened its political, economic (crude oil and gas export) and military cooperation with the United States, particularly with regard to the oil- and gas-producing Niger Delta.

Nigeria has collaborated reliably with international organizations, especially in the United Nations peacekeeping operations, which it hopes will strengthen its claim for a permanent seat on the United Nations Security Council. Foreign policy was consistent at global levels and remained fundamentally aimed at easing tensions.

These trends applied to regional conflicts as well. As chairman of the African Union (AU) and head of the newly established Peace and Security Council (PSC), Nigeria's President Olusegun Obasanjo tried to act as a credible partner and

moderator in Darfur, Côte d'Ivoire and Liberia, and as a stabilizing force in the ECOWAS region at large. However, the seemingly positive effect of this approach suffered a setback in Nigeria's difficult and complicated relationship with Cameroon over the Bakassi issue. Instead of withdrawing its military and security forces in September 2004 as promised, Nigeria postponed the withdrawal and rescheduled decisive negotiations to early 2005.

4. Trend of development

During the review period, Nigeria has not made substantial progress in terms of democratic and economic transformation. Despite the fact that general elections resulted in the election of the president, governors, national parliament and state parliaments, the exercise was marred by fraud and fraught with deficiencies. This was true for the council election as well. There may even have been a decline of democracy overall, when the serious conflicts in the Middle Belt, Anambra and the Niger Delta are taken into consideration. Economic development improved slightly, largely because of a prolonged oil boom and real progress in the telecommunication sector.

4.1. Democratic development

No real progress was made in terms of democratic transformation despite the transition to the second legislative period. Violence and conflict, measured both quantitatively and qualitatively, have reached an all-time high since the start of the democratization process in 1999. Political decision-makers were not able to qualitatively broaden or consolidate the democratic transformation.

Serious shortcomings persist in stateness, rule of law and, to a lesser extent, in the area of political participation. Internal threats to democracy by local militias and warlords exist, as well as institutional inefficiency within the state system and limited support for the democratic system from citizens. This does not mean that citizens advocate the return of the military, as occurred in previous failed attempts to democratize.

4.2. Market economy development

Despite abundant oil and gas resources, Nigeria is ranked among poor countries, as indicated by an HDI value of 0.466 (151st) in the year 2002. Nevertheless, the level of development has improved slightly since an elected government took power. Although no data are available for 2000, HDI changed by +0.011 between 1995 and 2002.

The institutional framework has not changed significantly in promoting the transformation towards a market economy. Political decision-makers remain incapable of substantially stabilizing macroeconomic development. The reforms most urgent and crucial for the organization of a market economy have been initiated rather reluctantly, but are still not fully implemented. These include establishing a healthy banking system and capital market, deregulating the most important state-owned and partially state-owned sectors like petroleum and power, and encouraging competition. The transformation process continues at a snail's pace.

The crude oil and natural gas bonanza has quantitatively strengthened economic performance. In addition, the exchange rate was kept relatively stable and the inflation rate kept at 15%. The increasing importance of liquefied gas in international markets offers some opportunities to utilize this natural resource for the domestic market and to accelerate the process of added value.

Table: Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|------|------|------|------|------|
| Growth of GDP in % | 5.3 | 4.6 | 3.7 | 5.0 | 5.5 |
| Export fob in US\$ bn | 21,4 | 17,9 | 16,9 | 22,2 | 27,7 |
| Import fob in US\$ bn | 10,1 | 12,3 | 13,1 | 14,4 | 14,8 |
| Inflation in % (CPI) | 6.9 | 18.9 | 16 | 12 | 15 |
| Gross domestic investment in % of GDP (excluding grants) ^c | 17.7 | 20.1 | 23.3 | N/a | N/a |
| Government revenue in % of GDP (excluding grants) ^c | 45.4 | 48.7 | 40.7 | N/a | N/a |
| Unemployment in % | N/a | N/a | N/a | N/a | N/a |
| Budget deficit in % of GDP | -2.5 | -4.9 | -5.0 | -1.3 | -2.2 |
| Current account balance in billion \$ | 3.3 | 0.9 | -0.7 | | |

Source: EIU Country Report August 2004; EIU Country Profile 2004; a. actual; b. estimates; c. African Development Indicators 2004.

D. Strategic perspective

The uncertainty marking Nigeria's transformation underscores its lack of success. Neither institutional efficiency of the government nor market reform in favor of competition have been achieved; Nigeria has yet to establish a stable pattern of democratic representation and acceptance for the rule of law. The path toward democracy and a market economy, no matter how slow, will be determined by presidential and parliamentary elections in 2007, in which "money bag politicians" will once again aim to control the political process in their favor.

The current government of Olusegun Obasanjo delicately balances its aims to maintain power and implement some economic reforms. The government is not threatened, yet it remains to be seen whether Obasanjo, as part of the democratically minded political elite and the military can influence the succession procedure in an acceptable manner.

The conference on constitutional amendment and possible reforms, scheduled for 2005, will set the direction to be taken. This will increase when well-known opposition groups within civil society can successfully call for an alternative conference. A “Sovereign National Conference” is key to facilitating peaceful development and democratization. Both events mirror a power struggle within the elite on how to come to terms with Nigeria’s future.

The role of the United States and to a lesser extent that of the EU is more crucial than ever in stabilizing Africa’s largest country. The United States is primarily interested in exploiting oil and gas in Nigeria and the Gulf of Guinea under calculated political risks and reasonable costs. However, the EU, in cooperation with the United Nations, IMF and World Bank must encourage and push democratization as a means of stabilizing the country and West Africa. Exerting pressure to deregulate key sectors such as refineries and power and strengthening the police force to protect citizens are prerequisites to further transformation; they far exceed the needs of the war against terrorism, at least within this region.

It is also important to support democratically oriented moderate or enlightened groups within civil society, particularly in both faiths and the business community. The party system remains underdeveloped and weak; it will take a long time before some of these parties develop a relevant, solidly democratic platform. Some civil society groups, especially those with religious influence, have a coherent organizational structure capable of absorbing and implementing external input in favor of a democratic process. This hardly applies to the national parliament or the 36 state parliaments. Investing in conflict management and prevention at the local level is needed, particularly in those areas most prone to unrest.