

# BTI 2008 | Nigeria Country Report

<b>Status Index</b>	1-10	<b>5.67</b>	# 66 of 125	
Democracy	1-10	6.05	# 63 of 125	➔
Market Economy	1-10	5.29	# 69 of 125	↗
<b>Management Index</b>	1-10	<b>5.53</b>	# 48 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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

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

Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – Nigeria Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

## Key Indicators

Population	mn.	131.5	HDI	0.45	GDP p.c.	\$	1,003
Pop. growth <sup>1</sup>	% p.a.	2.2	HDI rank of 177	159	Gini Index		43.7
Life expectancy	years	44	UN Education Index	0.63	Poverty <sup>3</sup>	%	92.4
Urban population	%	48.2	Gender equality <sup>2</sup>	-	Aid per capita	\$	48.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the review period, Nigeria has made remarkable progress in transformation toward a market-based democracy. But there have also been serious setbacks, as the country suffered an unprecedented wave of political violence and ethnic and religious conflicts that threatened to jeopardize upcoming elections in April 2007. In many respects, Nigeria remains divided between the Muslim north and Christian south, although ethnic-religious tensions extend beyond the north-south cleavage and also include several communal conflicts at the local level throughout the country. In addition, organized crime continued to be an accepted and practiced option for several of the country's political actors. President Olusegun Obasanjo, whose second term will end with the elections, witnessed several governors, many of them members of his own party, face impeachment in the wake of controversial corruption scandals. President Obasanjo also lost his bid for a constitutional amendment that would have allowed him a third term of office.

Nigeria's political system still faces serious problems regarding stateness, the government's institutional efficiency, internal security, patterns of democratic representation and attitudes, the rule of law and economic reform. In short, the country's economic framework and the government's performance still suffer from major shortcomings in all but two areas: economic growth rates associated with huge crude oil export profits and enormous and fast-growing private mobile phone services. Macroeconomic conditions improved during the review period. However, the political leadership failed to proceed with reforming the petroleum and refinery sector. Though some legal obstacles in the energy sector were removed, there were no significant improvements made to the supply of electricity during the period under review. Furthermore, though positive economic indicators bode well for the years to come, the government failed to pursue convincing policies aimed at political transformation, even

taking into account a high level of difficulty this process would entail. Without doubt, the relevant external powers – the United States, Britain, the European Union and to some extent even China – will in future focus primarily on stabilizing Nigeria, as it is the most populous and most important oil and gas producer in Africa. The future prospects for transformation will nevertheless rely to a certain extent on external pressure and incentives to continue democratization and effect changes in the country's internal political dynamics. It is notable that pressure from the aforementioned actors was sufficient to induce a number of macroeconomic reforms, which, until recently, were almost unthinkable. Moreover, these reforms were achieved despite high oil prices and strong domestic opposition. Elections in April 2007 could constitute, for the first time in Nigeria's history, a widely and democratically accepted transfer of power that would induce at least some modest progress toward political transformation, even if oil prices remain high.

## History and Characteristics of Transformation

Since gaining independence in 1960, Nigeria's economic and political transformation has been marked by incremental progress and many setbacks. The current civilian government, which came to power in 1999, follows two earlier abortive attempts – the first from 1960 to 1966 and the second from 1979 to 1983 – to establish a democratic political system in Nigeria. Various military regimes ruled between these two attempts, assuming power through coup d'états and palace coups. Nigeria's first military regime took power in January 1966, triggering a civil war in 1967 that lasted three years. It was not until 1979 that the military was forced to retreat to the barracks. By 1983, the second attempt at democratization had failed, and the military took over again, under Maj. Gen. Muhammadu Buhari. Almost two years later, a palace coup brought Gen. Ibrahim Babangida to power, who initiated a firmly controlled program of economic reform and democratization that stretched out over eight years. At the end of this program in mid-1993, Nigeria experienced the best-organized and most transparent elections in its history, from which the nationally known business tycoon, Moshood Abiola from the south of the country, emerged as the clear victor.

However, massive resistance from within the military and the civil service forced junta head Gen. 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 suffered the worst military dictatorship in its history, prompting the complete loss of legitimacy of military rule. General Abdulsalami Abubakar cleared the way for elections and the transfer of power to an elected president. He also released all political prisoners. Abiola died shortly before his scheduled release. Within a year, the former junta head General (rtd.) Olusegun

Obasanjo (1976 – 1979) 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. However, the elections in 1999 were dogged by numerous shortcomings and logistical problems, albeit none that affected the election results in Obasanjo's favor. He was re-elected in 2003, and the ruling People's Democratic Party (PDP) confirmed its dominant position in the parliamentary elections, though these elections were marred by widespread fraud, violence and open ballot rigging.

Sharply climbing oil prices on the world market following the oil crises of the 1970s and early 1980s set in motion an import substitution strategy, which in practice amounted to huge industrial projects being initiated. This, coupled with a massive boom in petrodollars, led Nigeria directly into the "Dutch Disease" syndrome by the 1980s. Instead of moving toward a market economy, Nigeria became an institutionalized kleptocracy. General Ibrahim Babangida's takeover in 1985 provided an opportunity to develop a market economy. However, Nigeria's kleptocratic powers prevailed, enforcing the sudden termination of the political and economic reform program. The demise of the military dictatorship brought an end to systematic plundering, but the military regimes had left behind a socioeconomic pile of rubble for the current civilian government, which, though elected, is not well-prepared. In the wake of increasing political, religious and ethnic violence, oil prices rose to unprecedented heights in 2006, and the re-elected president accumulated foreign reserves of some \$41 billion. Thus, Nigeria reached a hitherto unprecedented deal with the Paris Club in 2005, in which all of its debts to that organization were forgiven. In addition, the government began negotiating a deal with the London Club in order to pay its debts before the end of the legislative period to create at least some legacy of economic progress. Nevertheless, windfall profits from oil failed to accelerate the deregulation program and fuel prices remained subsidized to the tune of some \$1.4 billion annually. Despite real progress in very few areas such as the private telecommunication sector, there is still uncertainty as to whether the new incoming leadership is willing and able to push the structural reforms needed for liberalization – as was done within the banking and telecommunication sector – in the power and refinery sectors.

# Transformation Status

## I. Democracy

Nigeria has shown only modest progress in the transformation of its political system, and deficiencies still exist, particularly in the areas of political representation, rule of law and stateness. During the review period, Nigeria's democratization process was jeopardized several times, especially in 2006, when several internal conflicts threatened the system.

### 1 | Stateness

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

Monopoly on the use of force

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

State identity

The constitution provides for the separation of religion and state, but secularization suffered a substantial setback through the introduction of Shari'ah, or Islamic law, in 12 of the 36 federal states. These 12 states are in the northern part of Nigeria, where the vast majority of the population is of Muslim faith. Secularization also suffered from the rapid spread of Christian fundamentalism among those of Christian faith. Thus, sentiment from both religions increasingly permeated politics.

No interference of religious dogmas

Constitutionally, the three tiers of the federal system – federal, state and local government – offer a sophisticated administrative structure with a federal government and the two chambers of the National Assembly, 36 governors and state assemblies, and 768 local governments and six councils. While the federal government and the state governors executed real power, the other institutions were weakened by rather low political skills and corruption. Local governments in particular suffered from insufficient funding and administrative capacity.

Basic  
administration

## 2 | Political Participation

Universal suffrage and the right to campaign for elected office exists. However, elections are, in many cases, not properly conducted. The party primaries in 2006, especially within the People’s Democratic Party (PDP), were marred by widespread fraud, intimidation and violence. It is likely that the incumbent government and the ruling PDP will use the means of office and the enormous financial resources available to again win the forthcoming elections.

Free and fair  
elections

Despite controlling most of the country’s security apparatus, the incumbent president and his government possessed limited power to govern. The government’s power at both the federal and state levels was at times undermined and even subverted by its own civil servants and their corrupt practices. The evidently unconstitutional impeachments of some governors in 2006 are proof of this. Moreover, the National Assembly, the states – particularly the state governors– and patronage-based networks of active and retired high-ranking military officers exercised fairly influential veto powers.

Effective power  
to govern

Civic organizations can form and meet freely. However, they remain severely fragmented and are, for the most part, active only locally. Their ability to bridge numerous social cleavages are thus limited. New labor laws have further limited the trade unions’ capability to call for industrial actions and even banned calls for political actions. For example, trade unions are barred from using fuel price increases to call for demonstrations.

Association /  
assembly rights

In general, citizens, organizations and the mass media express opinions rather freely. However, individuals and organizations expressing critical views are occasionally harassed by state security services. State-owned media is strongly influenced by the central government and even more so by the state governments. Private media outlets – in particular the print media – possess a rather high degree of autonomy and often voice sharp criticism. Thus, they have occasionally been subject to harassment and to state repression. The president retains the authority to issue licenses for radio and television – an authority he has used in the government’s favor. Against this background, the Press Freedom Survey 2006 by Freedom House considers Nigeria “partly free,” with a score of 54, ranking of 114th out of 194 countries. Nevertheless, the overall situation has improved somewhat during the period under review.

Freedom of  
expression

### 3 | Rule of Law

The federal system provides for a differentiated system of checks and balances. However, transformation deficiencies exist in controlling and designating jurisdictional boundaries between three completely different legal systems – secular state law, Islamic law and customary law. Numerous conflicts emerged between secular state and customary law, especially with regard to family law and the lease of land. However, concerning civil and minor issues of criminal law, Islamic law has been applied in the north for decades. The new and controversial aspect was the introduction of Shari’ah penal law in 2000. Numerous inconsistencies and contradictions in the 1999 constitution are bringing to the higher courts and the Supreme Court, which also serves as the Constitutional Court, an increasing number of issues concerning the relationship between the three tiers of government and other fundamental principles. While the Supreme Court’s rulings were generally accepted, the rulings of other secular courts were often rejected, and in most cases, appeals were filed at a higher court. As far as Islamic law is concerned, to date, no case has reached the federal courts to question the constitutionality of applying completely different legal systems. All stoning sentences passed down by lower Shari’ah courts for marital infidelity and extramarital sex were either declared null and void by upper Shari’ah courts or the verdicts were pending. Verdicts such as amputation for theft were, however, executed in some cases.

Separation of powers

Corruption and white-collar crime were widespread at every level. Government efforts to master the problem have public support. However, the elite has learned how to use the country’s complicated legal system, drawn-out legal processes and overburdened courts to develop successful defenses against massive accusations of corruption or crime. Recently, however, the situation has changed somewhat, and the courts have applied new and harsh bail conditions to make escaping criminal proceedings more difficult. During the democratic dispensation, the judiciary has won back part of its former independence and continues to strengthen it. Some far-reaching verdicts of the Supreme Court against the federal government and in favor of the state governments confirmed this trend.

Independent judiciary

In contrast to past years, a few prominent public figures, such as the former inspector-general of police and top ranking naval officers, were convicted of fraud or crime. More cases concerning parliamentarians, former as well as active governors and militia leaders are in the pipeline. Some judges, who played dubious roles in the impeachments of some governors, were sacked by the national judicial commission and will possibly face prosecution.

Prosecution of office abuse

The vast majority of Nigeria’s citizens still do not enjoy civil liberties due to the government’s lack of a monopoly on the use of force as well as a lack of political

Civil rights

will and judicial control. As a result, the country's security forces, militias, vigilantes, religious fundamentalists, criminal gangs were able to violate civil liberties during the period under observation regularly. The state lacked the competence to protect women and girls from rape, spousal abuse, female circumcision and abuse executed according to customary law.

#### 4 | Stability of Democratic Institutions

Subject to certain limitations, democratic institutions perform their functions. However, Nigeria's past political and economic troubles combined with long-lasting military rule have destroyed a once-functioning administrative system and massively undermined public safety and order, thereby endangering the coherence of the state. The return to democracy in 1999 has not yet put state institutions on a solid footing yet. Thanks to the extraordinary oil income during the period under review, members of both chambers of the National Assembly pretended at least to abide by the constitution and their own rules of procedure.

Performance of democratic institutions

Democratic institutions remained unstable throughout the period under review, although most influential political, social and economic actors within and beyond the state system generally accepted democratic institutions, regarding them as legitimate. National Assembly members even tried to strengthen the institution by playing a more constructive role in passing laws, which in several cases pushed the government's overdue reform agenda. The leadership of the Catholic Church, the largest Christian denomination in Nigeria, however, has lost confidence and trust in the electoral commission to prepare, coordinate and monitor free and fair elections.

Commitment to democratic institutions

#### 5 | Political and Social Integration

Institutional inefficiency was closely related to the lack of stable patterns of organization for political representation. No organizationally stable, socially embedded party system was established during the evaluation period, which coincides with the transition from the second legislative period to the third and the transfer of power to a new president. Some 50 parties were registered to take part in the forthcoming elections in April 2007. Not more than half a dozen parties are expected to win in the elections for the Senate, House of Representatives, and state assemblies. The two most influential parties, the ruling People's Democratic Party (PDP) and the All Nigeria People's Party (ANPP), are the only relevant parties. Under different names, the parties have their roots, respectively, in the late 1980s in the late 1970s. While the PDP was oriented along social democratic lines toward representing the entire nation, the ANPP was a reincarnation of the former ruling northern establishment. After the short-

Party system



lived Second Republic (1979 – 1983) and the abrupt end in 1993 of the guided democratization project, however, the party networks, to which many so-called “money bag politicians” belonged, went into hiding. But the networks re-appeared in 1998/99. Lacking strong partisan objectives, they were again dominated by the same group of politicians who manipulated the primaries and the party conventions. Interestingly, one of the most powerful of these “money bag politicians,” former junta leader Ibrahim Babangida, was politically and strategically outmaneuvered within the ruling PDP towards the end of 2006. Widespread violence and the massive distribution of money during the party primaries and conventions, particularly within the PDP, is attributed to the fact that political power provides direct access to huge state funds generated by unprecedented oil and gas revenues.

Nigeria’s civil society is still weak and highly fragmented. The majority of civil society groups are so-called one-man-shows, with little positive impact on the political system. Weakened by federal legislation, the trade unions lost ground politically, which gave the state apparatus, state-run companies and parastatals greater room to redistribute income from the bottom-up. The private sector, particularly multinational companies, also benefited from the unions’ weakened status. Nigeria’s labor movement can, for the foreseeable future, serve only marginally as a channel through which societal interests will be articulated. To a certain extent, however, the small group of technocrats in the presidency and in the National Assembly listened to the small but well-organized private sector. For several years and with increasing success, it advocated economic reforms, particularly the privatization of loss-making companies like the state-owned telecom NITEL and potentially revenue-generating businesses like the refineries.

Despite the slow pace of civic development, serious setbacks and many shortcomings, public faith in democratization prevailed. However, following the party primaries and conventions, skepticism about the country’s capacity to hold proper elections is on the rise. According to Afrobarometer, approximately 65% of all Nigerians prefer democracy to any other kind of government, down from 81% in 2000.

Several years of military rule, oppression, and mismanagement led to impoverishment and the immense growth of the informal sector. Nigerians were to a large extent forced – and able – to organize themselves at the local level. On the one hand, Nigerians are notorious for not having much interpersonal trust. On the other hand, almost all citizens are members of a denomination of either the Christian or Muslim faith, both of which have become the most important sources of social and economic security for the common people.

Interest groups

Consent to democratic norms

Associational activities

## II. Market Economy

Nigeria has made some progress in transforming its economic framework. Although positive macroeconomic developments were strongly tied to surging oil prices, the continuous boom in the private mobile phone sector and the long-overdue reform of the banking sector in 2005 contributed significantly to the progress. Nevertheless, considerable transformation problems still exist in the deregulation of state-owned and partially state-owned companies and the organization of competition.

### 6 | Level of Socioeconomic Development

Key indicators still show a low level of development, as illustrated by Nigeria's HDI ranking of 159th out of 177 countries. There is widespread and deep-seated social exclusion due to poverty, as evinced by the fact that the country is ranked 76th out of 102 in the Human Poverty Index, with 50% of the population living below the \$1 per day poverty line. Additionally, the country scores very low in terms of education – with only 0.61 on the UN Education Index in 2006 – and gender-specific discrimination, notable by the fact that it ranks 120th out of 136 on the GDI. Nigeria has not succeeded in lessening its extreme social inequalities and income disparities during the observation period. The few reform programs implemented since 2005 have not improved conditions for lower- and middle-income classes, despite targeted programs to fight poverty like National Economic Empowerment and Development Strategy (NEEDS) and State Economic Empowerment and Development Strategies (SEEDS). Extreme regional imbalances of development remain unchanged, particularly between the north and south. There are indications that in the recent past the imbalances even within the six so-called geopolitical zones increased.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	46,711	58,294	72,053	<b>98,951</b>
Growth of GDP	%	1.5	10.7	6.0	<b>6.9</b>
Inflation (CPI)	%	13	14	19.4	<b>13.5</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	4.0	3.4	2.6	<b>2.0</b>

		2002	2003	2004	2005
Export growth	%	-10.9	31.6	3.1	<b>-1.8</b>
Import growth	%	20.6	10.2	2	<b>21.3</b>
Current account balance	\$ mn.	1083.1	3390.7	16840.3	<b>24202.0</b>
Public debt	\$ mn.	28,057.1	31,350.2	32,637.3	<b>20,342.2</b>
External debt	\$ mn.	30,476.0	34,700.2	37,883.1	<b>22,178.3</b>
External debt service	% of GNI	3.7	3.3	2.9	<b>10.2</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	24.2	23.7	22.2	<b>21.1</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.3	1.3	1.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.9	1.1	1.0	<b>0.7</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

The foundations of market-based competition exist. The state sector however, which still has a monopolistic structure in key segments (electricity production, petroleum refining, import and production of highly subsidized fuel), has been deregulated to some extent. Completing privatization of the heavy loss-making telecom NITEL in 2006 and the revenue-generating NICON Hilton in 2005 were very positive moves. Despite the fact that initial progress in establishing a relevant private power generation industry has slowed down, at the time of writing new efforts were underway to reverse this trend and turn the ailing sector around.

Market-based competition

There has been no anti-cartel legislation as such. However, slow but steady privatization and legislation designed to promote competition have, to a certain extent, broken state monopolies and state cartels. This was particularly true for the highly competitive and biggest telecom market in Africa. Administrative incompetence in conjunction with bureaucratic corruption still takes its toll, undermining a competitive environment.

Anti-monopoly policy

Foreign trade was deregulated further during the period under observation, such that no fundamental state intervention in free trade remains. This applies in particular to fast-growing foreign investment in the oil, gas and telecom sectors. There are no longer any real restrictions on transactions, transfers or repatriation of profits.

Liberalization of foreign trade

Notwithstanding strong and long-lasting resistance from actors both within and outside government and financial circles, long-overdue banking and finance sector reforms were finally carried out by the end of 2005. These reforms, which reduced the number of banks from 76 to 25 and thereby restructured the under-capitalized banking and finance sector, have already yielded positive results. In addition, the successful exit from the Paris Club and the expected exit from the London Club later in 2007 has further strengthened the banking and financial system, as have initial moves to pay back huge levels of domestic debt.

Banking system

## 8 | Currency and Price Stability

Inflation and exchange rate policy have been rather consistent during the assessment period. But the central bank's high level of dependence on the federal government remained unchanged. Despite soaring oil prices, the government drafted their budgets on a modest benchmark of \$30 and \$35 per barrel of oil in 2005 and 2006 respectively, thereby demonstrating remarkable fiscal restraint and discipline. The inflation rate fell to some 10% and the exchange rate vis-à-vis the U.S. dollar was kept stable in recent years.

Anti-inflation / forex policy

Thanks to soaring crude oil prices, Nigeria's foreign currency reserves reached an unprecedented \$41 billion towards the end of the period under review. Despite this windfall profit, the government kept its commitment to a course of fiscal stability. With a growth rate of around 7% per annum, the actual deficit spending has been kept at 2.6% of GDP, assuming that the projected 2.9% in 2007 can be financed by sale of government property and domestic borrowing.

Macrostability

## 9 | Private Property

Property rights and the acquisition of property are adequately defined. All land belongs to the federal states with the exception of the coastal strips and certain riverbanks, which belong to the federal government. Thus, land is granted only as a hereditary lease. Private property ownership reaches its limits when raw materials are found underground, which in principle belong to the federal government. In the case of such a discovery, the land is typically expropriated and the owner compensated. However, very often the change of ownership of a hereditary lease is difficult because in many cases, the evidence of title is

Property rights

questioned and can thus take a long time to be settled in court. In addition, local chiefs or communities often sell land, resulting in an unsecured title status for this land. This also hinders investments of private companies. Moreover, privatization serves to a great extent as an instrument of money laundering, in which illegally accumulated wealth and income from international drug trafficking is legalized.

In general, private companies were permitted during the period under observation. The authority in charge of privatization sought to maintain transparent procedures by auctioning those state-owned or partially state-owned companies that were short-listed. However, in several cases, this procedure did not produce the desired results. Either the successful bidder turned out to be incapable of paying the balance or of handling the takeover, or the amount offered did not meet expectations, such as in the infamous case of NITEL. In this case, the privatization authority eventually reached a negotiated deal with an investor.

Private  
enterprise

## 10 | Welfare Regime

In general, the burdens of aging, illness, underemployment and unemployment are carried mostly by extended-family networks and the informal sector. In practice, this has meant that only civil servants and employees of the higher education system, state-owned and partially state-owned companies and large international companies have enjoyed a certain level of social security. However, the pension reform act of 2004 gave the private sector the authority to administer a new program. Initiated by the federal government in 2004, adopted by the state governments in 2006, and to be introduced to the local governments in the near future, this program functions according to a system whereby the federal government makes a monthly payment into a fund equaling 5% of the total monthly wage bill payable to all employees of the federal government and the Federal Capital Territory Abuja. Private sector pension boards in existence before the Pension Reform Act 2004 will continue to administer the pensions of the existing pensioners, and the National Pension Commission will supervise such boards. Pension departments have been created to carry out the functions of the relevant pension boards or offices in the public service of the federation and Abuja to ensure that regular and prompt payments of pensions are made to existing pensioners. The pension funds contributed to the Nigerian Social Insurance Fund (NSITF), into which employees from companies with more than five employees paid 3.5% of the gross salary and their employer 6.5%, will remain with the NSITF for a minimum period of five years from the commencement of the Pension Reform Act 2004.

Social safety nets

The distribution of income in Nigeria is highly unequal. More than 70 million people live in absolute poverty. However, the Obasanjo administration tried to create jobs and reduce widespread poverty with the SEEDS program and the Millennium Development Goals, albeit with very limited success. There are no mechanisms to promote persons with disabilities or the socially disadvantaged. However, women with secondary or even tertiary education have access to state and public institutions and more and more well-educated women are active in the expanding private sector, particularly banking, insurance, and private media. Gender-based discrimination against women in the legal system has also been diminished, despite some archaic sentences handed down by the Shari'ah Courts. Despite the fact that women are well-represented in positions of power – at the top of the finance ministry and governorship in Anambra State – Nigeria's GDI poverty ranking evinces proof that women are still disproportionately disadvantaged.

Equal opportunity

## 11 | Economic Performance

Thanks to soaring oil and gas prices, Nigeria has shown sufficiently positive macroeconomic figures since 2002, prompting remarkable macroeconomic stabilization. Growth rates increased from 3.7% in 2002 to an unprecedented 7.5% in 2006, in marked contrast to unstable and even volatile policy areas. Along with a reasonable growth rate, the inflation rate is approaching single-digit figures. Currency reserves grew significantly, short-term external debts were close to zero after the exit from the Paris Club, granting state coffers a degree of independence from financial markets and rendering budget and current accounts balance deficits manageable. Despite this generally positive picture, some negative aspects remain, particularly huge domestic debts, the enduring weakness of the formal sector, the prevailing low levels of development and correspondingly high levels of poverty.

Output strength

## 12 | Sustainability

While environmental awareness has grown in recent years within government circles and among lawmakers and society, no progressive measures have been implemented as yet. Deforestation, overgrazing, desertification, lack of garbage collection, air and water pollution and industrial pollution, particularly in the oil sector, accounted for the nation's primary environmental problems. Environmental concerns tended to take a back seat to growth considerations, and environmentally sustainable growth received only scant attention. It was not reflected in the institutional framework even as worsening environmental problems affected the whole country.

Environmental policy

Education and training facilities were available in important segments, but they hardly meet internationally accepted standards. Overall, the level of education has sunk further in recent years despite the existence of some 70 tertiary institutions. Nevertheless, necessary reforms were initiated and the government licensed some 30 private universities in an effort to reverse the generally negative trend. In some indicators, such as school attendance, the record was even worse. Interestingly, many schools formerly run by missionaries and churches were handed back to their previous owners with the intention of encourage the revamping of at least parts of the ailing school system. There are clear shortcomings in the area of research and development. Quantitatively and qualitatively, investment in education, training, research and development was rather low. In 2006, the state's expenditures for education were less than 10% of the federal budget.

Education policy  
/ R&D

## Transformation Management

### I. Level of Difficulty

The level of difficulty for transformation in Nigeria remains especially high. The country's rather weak civil society and its limited experience with democracy and the rule of law have hindered the stabilization and expansion of democratic transformation. Low levels of economic and social development, widespread poverty, inefficient state administration and rule-of-law institutions, as well as the country's significant ethnic and social heterogeneity have exacerbated the level of difficulty faced by the government. In addition, serious problems on the domestic political front defined by the forthcoming and very difficult transition from one legislative period to another and an expected new leadership compounded the level of difficulty during the evaluation period.

Structural  
constraints

Traditions of civil society are weak. Notwithstanding an increase in NGO activity, the landscape of voluntary organizations remains sparse and plagued by scarce organizational resources (see political participation). However, there is a positive general trend in the development of civic interest groups, though they do not arouse broad citizen participation. This also holds true for the development of a civic culture supporting democracy.

Civil society  
traditions

Cleavages between the predominantly Muslim north and Christian south, revealed again during the bloody cartoon crisis in early 2006, as well as politically-induced ethnic conflicts seriously jeopardized political stability at times. Additionally, a deep and virtually nationwide split between the political elite and the society at large often spurred political violence with ethnic and religious undertones, compounding the volatile environment.

Conflict intensity



## II. Management Performance

### 14 | Steering Capability

Due to structural problems in both the political and economic system, only selected medium-term goals like the successful debt settlement with the Paris Club could be pursued. While the government's ultimate objectives were to keep the country together as a nation-state and maintain power, the incumbent leadership sought to build democratic structures and promote a market economy to a certain extent, though an overall reform strategy has been pursued only tentatively. However, despite the ruling PDP's clear majority, the consistency and coherence of reform policies was limited. Nevertheless, the IMF and the World Bank acknowledged a generally positive trend in the gradual implementation of homegrown reform programs, privatization policies and licensing of private institutions such as universities. As far as public security and the rule of law is concerned, the government still lacks the necessary capability to assure the safety of its citizens. However, the leadership has been rather flexible in handling serious threats targeted at undermining national security and the status quo power structure. However, the vast majority of citizens do not have the opportunity to seek redress in court.

Prioritization

During the period of review, the government remained committed in principle to democracy and a market economy. Despite this commitment, it was only partially successful in implementing its intended reforms, as the government and the public administration had neither the organizational capability nor the capacity to establish, enforce, or consistently execute the required political reforms. Apart from banking sector reform and the further deregulation of the telecom sector, the government was able to engage international finance managers and experts in international law, who then provided advice, and managed and monitored the complicated debt settlement and the re-transfer of huge amounts of looted money stashed away in foreign bank accounts.

Implementation

Nigeria's political leadership has clearly learned how to deal successfully with the international community, donor countries and the relevant international financial institutions as evinced by the country's negotiations with Switzerland, Britain and the Paris Club. The Obasanjo administration and Nigeria's parliamentarians demonstrated acumen in budgeting and fiscal discipline, taking into account the international financial and raw material markets. Moreover, the

Policy learning

government demonstrated its capability to significantly diversify its foreign economic policies, mainly by intensifying cooperation with China in oil, gas, power generation and telecoms. In addition, it eventually abided by international law and withdrew from the Bakassi peninsula, thereby paving the way for a peaceful solution with its neighbor Cameroon. As far as domestic politics are concerned, the federal government has learned to counter the many serious social, ethnic and religious crises with a stick and carrot approach. Combining a wait-and-see attitude with a harsh and robust military or paramilitary, the federal government was never in danger of losing its legitimacy and power. Yet it failed to address the roots of these crises, even though they have remained constant over time. The government has thus learned to cope with, but not solve ethnic and religious crises. As far as the government apparatus is concerned, the fact that the government was able to retain actors in key positions over an unprecedented length of time was considered to have demonstrated real progress. The federal secretary, Ufot Ekaette, who in functional terms was the general manager of the government, served two legislative periods, while the current finance minister and her predecessor were a team for the entire second period. The former foreign minister, career diplomat Oluyemi Adeniji, and his successor, Mrs. Joy Ogwu, both recognized experts on international relations, were in charge during the second legislative period while the justice ministry was led by only two ministers during the same period. The head of the state security service kept his position from the day the incumbent president took over power in 1999. The president openly showed respect for the elected parliament's decision to reject a possible third-term bid for the presidency, thereby strengthening the institution of the National Assembly for the forthcoming transfer of power.

## 15 | Resource Efficiency

The government does not make effective use of available human and organizational resources for its transformation policy, although ministers in key positions, particularly in finance and foreign affairs departments, have improved the overall picture. The misallocation of economic resources has decreased significantly in comparison to previous years. There remains the consensus that all 36 federal states and the federal territory must be represented in government, which results in a bloated cabinet and the installation of several ministers with questionable qualifications. However, several ministries were restructured and merged at the end of 2006, indicating a potential increase in human resource efficiency within the ministries. In addition, several thousand public servants were sacked or retired from the grossly overstaffed civil service and the privatized national telecom company NITEL. Significant amounts of the budget surplus during the evaluation period were used to pay external debts, rebuild the

Efficient use of assets

run-down national infrastructure, finance preparations for the 2007 elections, rebuild the nearly destroyed national police force and to fight endemic corruption through two rather competent anti-graft agencies. Furthermore, the government began to repay domestic debts to pensioners and contractors.

During the evaluation period, the government was able to overcome conflicting objectives within and outside government and within parliament, particularly as far as the debt settlement with the Paris and London Clubs was concerned. These achievements expanded the government's room for political maneuvering, and will have in the medium- to long-term a positive effect on politicians and political institutions. The third-term bid by the incumbent president was a political blunder, which was successfully turned into a political tool by forces outside the government to strengthen their capabilities in overcoming conflicting objectives.

Policy coordination

A broad alliance composed of the government, the two anti-graft commissions, NGOs and international actors, namely the IMF, World Bank, Transparency International, and the International Finance Task Force, has made inroads into the country's endemic corruption. For the first time, some prominent figures—such as the former Inspector-General of Police – were sentenced on corruption charges, and their stolen money was confiscated. In an increasing number of cases, national as well as international companies that have fallen victim to corrupt practices were compensated. The anti-graft commissions targeted in particular most of the state governors who were alleged to have massively enriched themselves by looting the federal statutory allocation to their respective states. However, the governors, who enjoy immunity while in office, can be taken to court only after leaving office. Some governors who had only served one term came under severe scrutiny. Since the impeachment of five governors during the evaluation period, one has been charged while others may soon face prosecution. It should be noted, however, that of these five cases, two appear to have been completed in accordance with the constitution.

Anti-corruption policy

## 16 | Consensus-Building

While the government, the small but organized private sector and business-oriented Nigerians abroad were in principle committed to democracy and a market economy as strategic, long-term objectives, there was still considerable conflict amongst Nigeria's political class and the political and social elite over the substance of a market-based democracy. This conflict was found within all three tiers of government, in democratic institutions, within parties inside and outside parliament — particularly in radical and militant “self-help organizations” – and in trade unions and fundamentalist groups affiliated with Christian and Muslim faiths. In addition, most political actors have very different

Consensus on goals

views and little political theory regarding the contents of the concepts of “market” and “democracy.” At the same time, they represent fundamentally dissenting opinions about the best path to further development. Thus, the reform towards a market economy is erratic and often suffers setbacks.

Currently, there are no outwardly anti-democratic power brokers on the political scene. However, against the background of the forthcoming litmus test (i.e., the democratic transfer of power) speculation and rumors are growing that in the case of political deadlock in conjunction with violent clashes, the military may return to power. However, the military has a poor reputation as far as political leadership is concerned. Although it has regularly emphasized its commitment to democratic and constitutional rule since it relinquished the reigns of government in 1999, it is still seen as the main actor which in the past almost destroyed Nigeria’s then-infant civil society, and administrative, legal and democratic structures.

Anti-democratic veto actors

The political leadership’s record is mixed regarding the management of social cleavages. While conflicts escalated in some areas (for example in the Niger Delta) over some topics like the cartoon crisis, overall, the government and other political actors were able to contain such conflicts and prevent them from engulfing the entire country. However, the fragmented administrative structure of 36 federal states, 768 local governments and six councils did not contribute to overcoming social cleavages. To a large extent, this fragmentation even exacerbated deep-rooted local and regional grievances, thus compounding existing cleavages. A government study identified six geopolitical zones in Nigeria that are based on linguistic affinity, contiguity and cultural affiliation (not just north-south). If the sharing of political and other resources would be carefully balanced along these lines, it may help the emergence of a sustainable accommodation of communities within the country. Indeed, political commitment to this concept could help Nigeria pave its way out of the dilemma by easing the destructive effects of ethnic fragmentation.

Cleavage / conflict management

The political leadership tends to ignore civil society actors. However, if it suits the leadership, particularly in times of crisis, actors are successfully co-opted by being given special positions within the state apparatus, with the expectation that doing so will ease tensions. This strategy was rather successful, despite the low level of organization within civil society itself.

Civil society participation

After the end of military dictatorship in 1999, the elected government attempted to address past acts of serious injustice. However, in the end, the political leadership and influential elites silently agreed to bury the official findings of human rights violations and abuses by past governments in 2004. Remarkably, a report detailing these violations was finally made public by the Civil Society Forum, a Nigerian NGO, in cooperation with the Washington-based Nigerian

Reconciliation

Democratic Movement (NDM). This report held three of Nigeria's former military rulers – Buhari, Babangida and Abdulsalami – personally responsible for extra-judicial killings perpetrated while each was in power. After several cases of violent ethnic and religious clashes, the federal government appointed commissions to investigate the causes of conflicts. Despite the fact that most of the reports were accurate, the findings were hardly utilized to compensate the victims, let alone to bring the alleged culprits to justice. In addition, there is a general tendency for official reports on serious social cleavages with religious and ethnic undertones not to be made public. However, the incumbent leadership eventually revoked the dismissal of Biafran soldiers and policemen during the 1967 – 1970 civil war, making them entitled to pension payments.

## 17 | International Cooperation

Progress in transformation toward a market-based democracy was strongly related to outside actors, including the IMF, World Bank, Paris Club, London Club, African Development Bank, and high-profile foreign consultants from privately run finance organizations. Collaboration with these actors underlined the government's increasing willingness to fulfill agreed conditions and effectively use resources provided by others. The debt agreement with the Paris Club was a striking example. The role of outside actors such as the European Union and United States in the democratic transformation process was more moderate. During the period under investigation, Nigeria maintained and strengthened its political, economic and military cooperation with the United States, particularly in the oil- and gas-producing Niger Delta, which, in turn, reflects the importance of crude oil and gas exports in economic cooperation. It is too early to tell whether the recent deepening of economic (and to some extent political) ties with China will serve Nigeria's transformation goals. However, this cooperation was definitely utilized to create alternate economic and political choices close cooperation with the United States was concerned.

Effective use of support

In general, Nigeria collaborated reliably and credibly with international organizations, especially in UN peacekeeping operations. Foreign policy was predictable at global levels and remained focused on easing tensions. Against this background, Nigeria also increased its efforts to deepen its relationships with Latin American countries.

Credibility

Nigeria tried to act as a credible leader and partner in the African Union, as a respected moderator in Darfur, Côte d'Ivoire and Liberia and as a stabilizing force in the ECOWAS region and on the continental level at large. Despite strong internal opposition, the leadership finally put to rest the difficult and complicated Bakassi and border conflict with Cameroon in 2006, thereby re-establishing normal relationships with its neighbor and proving its compliance with international law.

Regional cooperation

## Strategic Outlook

The overall state of transformation in Nigeria is rather uncertain. Both the rule of law and the institutional efficiency of governance remain weak, and the pattern of democratic representation and attitudes is unstable. Some progress has been made in market reforms regarding competition. However, the path forward will largely be determined by the crucial transition to a newly elected president and parliament in April 2007, which is the most important political and democratic litmus test in the history of modern Nigeria. Having taken place after the end of the review period, the elections are not considered in Nigeria's BTI assessment; however, it should be noted that the conduct of these elections and the violence surrounding them proved to be a major setback to transformation.

The role of the United States and the European Union is more crucial than ever in supporting Africa's most populous country in its bid to overcome the vicious circle of coup d'états, annulled elections, election fraud, and organized violence occurring both prior to and during elections. The European Union – in collaboration with the United Nations, IMF and World Bank – must encourage and push democratization to stabilize the country by all means available. This includes encouraging the Nigeria leadership to tackle the deep-rooted crises in the Niger Delta and the Middle Belt via a political – as opposed to a military – solution.

Within this context, deregulating key sectors like refineries, power generation and large parts of the education system represents a *sine qua non*. The telecommunication sector and the nascent private universities, although they have yet to prove their mettle, have provided preliminary indications that private initiative and capital can deliver key services. This does not mean that the state must forfeit its responsibility for infrastructure like roads, transport, water, security, primary education and other basic social services. Clearly, strengthening the police force and the judiciary to protect citizens against crime and thereby improve the security forces' prevailing bad reputation form the most important tasks and challenges for the short to medium term. Achieving this goal is far more important than the war on terrorism for Nigeria.

The performance of government officials and parliamentarians has improved at the federal level. Some ministers, particularly those dealing with finance, foreign affairs and the presidency, performed beyond expectations. The same applies to some committee members in the National Assembly responsible for finance and budget affairs. It is also important to give strong support to

democratically oriented moderate and enlightened groups within civil society, particularly within both faith-based and business communities. Nigeria's civil society is lively and creative, but institutionally weak. The party system is still underdeveloped, inflated and thus weak; it will take some time before the list of parties is narrowed and a few have gained relevance and solid political platforms. Therefore, it is worth investing funds and manpower into conflict management and conflict prevention at the local level, particularly in the country's troubled areas, to further stabilize a still-fragile federal system within all three of its tiers.