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P R O C E E D I N G S

DR. BRAINARD: All right, good morning. Welcome to Brookings on maybe the first day of spring, we hope. Very delighted to have you here today and, in particular, to get a chance to talk with the architect of Nigeria's recent economic reforms about her assessment of those reforms -- what worked, what didn't work, what remains undone -- and with an expert panel who perhaps will broaden out the political implications of those reforms for the upcoming transition of government and for Nigeria's future political strength and stability as well.

So, what we're going to do is we're going to start with a presentation by former Nigerian Finance Minister Ngozi Okonjo-Iweala, along with her co-author on this paper, and I think co-conspirator, I think, on some of these reforms, Philip Osopho Kuako, and then I'll open up for a panel discussion and I'll introduce the panelists when we get to that.

Just briefly, for those of you who don't know -- it's probably nobody in the room -- Ngozi was finance minister from 2003 to 2006, during which time she was the architect, the chief negotiator, of Nigeria's debt reduction, which led to, first, cancellation of about 60 percent, and then a buyback of a majority of the remainder -- a huge change in the credit rating of Nigeria and really put Nigeria on a completely different foundation path for reform. She also then served as Minister of Foreign Affairs and headed Nigeria's acclaimed presidential economic team.

Philip is currently in Abuja, Nigeria, and previously served as an economist in the Ministry of Finance in Nigeria.

So, Ngozi, with that, over to you.

(Applause)

DR. OKONJO-IWEALA: Thank you, Lael, very much, and good morning everyone.

I'm probably going to jump down and walk around in the presentation without trying to block my co-panelists, but what we are going to do this morning very quickly is to present the reforms and the results of the economic reforms that we did in Nigeria, and then we'll do the first part of the presentation, and they my coauthor, Philip Osopho Kuako, will do the rest in a roundup.

I'm just going to come present from down here. Can you hear me -- because these reforms were so hard. I think when you are talking about them you need to feel the energy --I'm interacting -- with the people you're talking to.

But basically what happened is that when President Obasenjo won his second term, it gave leadership -- and this is very important. He took the initiative to say look, it's time to turn away from the politics which he focused on in the first term to center on reform of the economy. And, the economy had a lot of problems.

To do this, he assembled an economic team when he approached me to be finance minister, learning lessons from how the Brazilians had done their reforms, the fact that no one person can do this -- but you need to assemble a team of people who will be reformers. So, we talked about it and we accepted this was the way to go, and under my leadership we got together a team, and of course he was the political inspiration, and he gave the commitment that made the team function. So, he deserves credit for having backed us on the reforms. But what we decided to do -- these 12 men and women initially -- excellent colleagues -- and, you know, they deserve all the credit because each person or set of people were responsible for a set of the reforms, and that's what really made it happen -- we focused on trying to identify the key issues in the economy and then what types of reforms would be necessary in order to turn the economy around. Then essentially today we've tried to encapsulate them in three main blocks: macroeconomic reform, structure reforms, and institutional and governance reforms. And I'm going to talk about the macroeconomic and institutional and governance reforms.

Before I start, maybe because the presentation, if you've seen it, sounds very clinical and dry, and a colleague told me, "Wow, this doesn't sort of show all the passion and all the dangers and all the, you know, what went into it and the political economy of it." So, I'll try to intersperse that as I go along.

What you have to know at the outset is that even though it sounds easy, these are some of the most difficult things to deal with -- that there were people who had made gains from a nonreformed Nigeria for so long, people who were rent seekers and in whose interest it was not to do these reforms -- so all along the way there were constant challenges, constant blockages to the team in terms of the way they worked.

Now, prior to the reforms -- I'll just briefly say what many of you may already know, that the economy was characterized by a couple of decades of opaque, nontransparent management under the military. There was poor economic management, hostile environment for the private sector, corruption. The country had become characterized almost by the issue of corruption and a public sector that really did not support service delivery to the people. All this had resulted in Nigeria having social indicators -- next -- that were quite comparable towards the bottom of the least developed countries: maternal mortality rates, infant mortality -- even infrastructural indicators that were abysmal. For years there was no investment in power. The investments in roads were minimal, and so -- if you can flip to the tables -- so, we selected some indicators. You can see, you know, in terms of GMP -- GNI per capita, sanitation, immunization. Immunization is one of the things that are most painful. It shouldn't be that difficult to do, but we had sunk from a level where about 83 percent of our children were immunized in the good ol' days in the '60s and '70s to 35 percent of children, and compared to low-income countries, you know, well -- we are behind, and compared to South Africa also, well -- we are well behind. And so on. All the basic human development indicators have -- you know, it takes years to correct this kind of a thing.

As I said on infrastructure, just one statistic that I'm very -- you know, I like to quote -- is the fact that Nigeria today generates, as a result of the lack of investment, at any good times the rate's about 4,500 megawatts of electricity for 140 million people, whereas South Africa generates 45,000 megawatts for 45 million people. So, just compare that. Our electricity consumption is so low. It's 2 kilowatts hours per capita compared to 3,000 in South Africa and 456 for sub-Saharan Africa. That immediately tells you what type of environment you have in terms of private sector development when your infrastructure is that weak. And so this is a bit of background.

So, you have this background in which economic performance is low. The economy was growing at about 2.3 percent GDP growth rate for the past decade before the reforms and though the indicators went the wrong direction. And so what were we to do? We decided to develop a reform program, homegrown, our own, encapsulated in the national economic environment and developments that (off mike) needs, which had these main strands that I talked about: macroeconomic, institutional, and structural reforms.

Next.

So, on the macroeconomic reforms, what were the main issues and what did we do? The key -- I'm not going to go into it -- the whole thing, because you have this slide. But I just want to mention one or two points that were really important that we worked on.

One of the things that bedeviled the Nigerian economy was a pattern of volatility in the growth of the economy, which was underpinned by volatility in public expenditure management, and there's a graph that really tries to capture this that shows the pattern of expenditure, and -- which follows -- mirrors very closely, if you look at it on the graph, the social pattern of receipts in oil revenue.

What does this mean? In simple terms, when we would have -- when there were high oil prices, Nigeria would spend everything. Budgets -- all the way -- and whatever prices were and spend them, and when prices crashed, expenditures would also crash to a point where we sometimes would not be able to even pay basic salaries. If you -- I'm sorry, I meant to have the GDP growth rate, pattern -- if you superimpose this on there, you see almost a mirroring of the same kind of pattern, you know, maybe not as sharp, because the non-oil sector, you know, mitigated the volatility. But no economy with this kind of volatility can really develop in any steady way. That's not the way that you get sustainable economic growth, so this is fundamental.

One of the key reforms that we did was to say how do we break this pattern and discussing among ourselves and later on with Al Colice from the World Bank and the IMF who gave input, and that's another interesting thing about the way this reform was. When we came up with our reforms, we involved people from the international institutions to take their advice, but we were at the driving force. The Nigerians -- we're the ones. And that's why the reforms were able to be implemented much more so than would have been the case had the Fund or the Bank just come and said here is a set of things you need to do.

But one of the things we came up with was the issue of the fiscal -- we established a fiscal rule which delinked the oil price from the price at which we budgeted -- delinked the budget price from the price of oil. So, if, for instance, in 2004 the average oil price throughout the year was about $38 a barrel, we budgeted at 25 and we were able to save the save the difference. In 2005 we did same, and 2006, and by the time I left we had actually saved several billion dollars from this mechanism alone and contributed substantially to a strong pool of reserves that is now underpinning the economy today.

So, that's one of the changes that we made that was dramatic, and you know it was resisted initially. People felt why do you want to do this? Why do you want to save? You know, we said well, we need to save for a rainy day. You know, looking for a way that we could explain it to legislators that this was important, and even to the state governors who were not really supportive of this. They said look, the constitution says that all monies that come in have to be shared in a particular pattern, so share our money, don't keep it. And it was quite a trick to persuade them to add to this. And when we said we need to save for a rainy day, you know, looking for this, ah, the rainy day's already here. How can you say you're saving when the roof is leaking and you want to save where -- you know -- so that was the kind of reaction, but we succeeded in doing that.

The other thing we did do that I want to touch on briefly is Nigeria's management of these public finances was known as not being very good, and I could spend even the whole day on that particular chapter, so we had to try to reform the way the monies -- the public finances, make it much more transparent, much more steady, much more predictable. We had to put systems and processes in place. We had a pattern in which you would have a budget, you know, under the last military regime, and then the budget would be put aside and the expenditures would -- there is no relationship to that budget. And, in fact, people didn't know what was in the budget.

When I was growing up, you know, my father used to bring home printed budget books. In the '60s and even '70s we had these things. But they completely disappeared. So, people didn't know what was in the budget and so, you know, we ended up with total ad hoc extra budget to expenditures. So, to bring it back and to make people realize that, you know, if you are making capital expenditures, you've got to think well, what about what recurrent expenditures (off mike) agenda. You have to think in a medium-term framework. We established a medium-term expenditure framework as a way of trying to get a handle. We put together processes like a fiscal strategy paper, which we would take to cabinet either to fall -- establishing priorities and making tradeoffs was not something that was very common in managing the budget. So, everything was important, so there were no priorities. So, bringing something to cabinet and saying look, we've got to have a way of making tradeoffs. We've got to decide what the key factors are. So, this was like a revolution, because everybody thought their sector was important. And I remember the Minister of State for Women's Affairs then at the time when we did the budget almost coming over to my side, you know, as if she was going to deliver a big slap because she felt that, you know, their side had been slighted. But this was something we established that puts a pattern around the expenditures.

And we established a cash management committee. Again, when we used to spend not matching the flow of expenditures with the stream of revenues coming in and, you know, since oil is 70 percent on average of our revenues, you know, a lot depended -- even when we had budgeted at 25 percent, you know, you still had to have the thing coming each month in a regular pattern, and we would often spend that. So, a cash management committee enabled us to match our commitment so that we were not constantly finding ourselves with the minus column.

Next.

All this was -- I'm just giving you a snapshot -- all what we were doing on the fiscal side, the transparency, the establishment of certain -- what should I call it -- ways of doing business, and certain things we published to make sure that Nigerians had information, which many of you --I've shown this now so many times, but I don't mind showing it again -- that we began to publish a guide to the budget that made it very simple for people to understand what is in your budget in very simple language naming the priorities, putting the numbers together. We loaded it on the website -- and I'm very proud that WRI here -- the War Resources Institute -- met with me a couple of days ago, and they said, "Oh, we just went to the website of the Budget Office and the Minister of Finance and we got some figures and they are up to date." We published a guide to understanding the budget so that people would know how to decipher them. Very importantly, we published their locations, that every state, government, local government, and federal got in the newspapers each month and a compendium. So, these things began to make the budget and public expenditure monies a much more subtle, understandable process.

Quickly, all this was coupled by, you know, good money tree and prudent money tree policies, because we had problems with inflation as well as with management of our fiscal, and the money tree policy had to accompany the changes in fiscal that we were implementing. With a prudent fiscal policy and a money tree policy that was less accommodating, we were able to achieve some results, which I will show you in a second.

One word on the management of the debt. Lael alluded to it. One of the big problems we had was a huge debt overhang -- 30 billion owed to the Paris Club, 35 billion (off mike) debt overall. And we were supposed to service the debt at the rate of $2.3 billion a year, but we were not able to do that much. We were paying a billion dollars.

But, still, this constituted a heavy load on the economy, and we spent two years of really intense work -- that in itself is a story all by itself -- trying to get a deal with the Paris Club. We had tried it for years and years. We were not successful. But I'm happy to say that with very hard work, political -- the president was working at the top with the heads of state. I was working with the G8 ministers of finance and (off mike) 15 creditors, and there are very dramatic stories of Ngozi skulking in the corridors of hotel rooms. You know, some of the G8 finance ministers were quite accommodating, and others, like the

Italian Sinis Calco, who is now a very good friend of mine, you know? I tried to catch him. His aides would never give me an appointment. I couldn't get him on the phone. And we went to Davos -- I have to tell you this story -- and I found his number. We tried to call him. My assistant tried to call his aides to get an appointment in Davos. They said no, no, no, no, his calendar is booked. And I knew I had to get the UK -- the UK was already on board, a few others, so how do I get to this (off mike). So, I started asking. Luckily in Davos you're kind of locked in one big place where you have to run into each other at one point in time, so I decided I'll position myself somewhere and sooner or later this Italian finance minister would come by. So, I was talking to Peter saying, “Look, this man, you know, I've seen everybody else, I can't touch him.” He said, “Oh, I saw him upstairs, he was about to enter the elevators.” So, I positioned myself by this elevator, and then this man came down surrounded by six aids, and, you know, they blocked him. Oh, you know, six -- I don't know if they were aides but there were six, so I just darted in between, pulled his jacket, and he turned around and I said, “Hi, I'm Ngozi Okonjo-Iweala, Finance Minister of Nigeria. I just need to see you, it's been impossible.” And he turned around and said, “Why?” And I said his aides had said he had no time. Anyway we ended up with 30 minutes' conversation over coffee, and that was how at that point in time I persuaded him to join his colleagues. It resulted in our getting $10 billion written off, and an innovative buyback was included as part of that.

Because of all of that, these reforms on the macro side I can say that we did something, got something really revolutionary. Nobody believed that at the time of high oil prices Nigeria would ever be given debt relief. But it happened. And I think the countries that participated are still pinching themselves about how this got done. And I can only tell you that things just coalesced. That has been followed by the government, after I left, doing the London Club. I was actually in the middle of the London Club deal when I moved from Finance, and now they've repaid the London Club.

All these reforms, of which I've just given you a vignette of three on the macro side, had very good results. You know, GDP growth has been robust since then, almost doubled from the low level that we met, you know, 2.3 percent average the decade before we came up to 6 percent on average by the time we left, and I hasten to say it was not just the oil sector but the non-oil sector -- agriculture -- had very robust growth, which drove part of this.

Inflation -- we were able to bring inflation down from -- you can see about 24, 25 percent when we came in down to about 11 percent before I left, and it's gone slightly below that since.

The level of reserves -- dramatic change, about 7 billion in reserves when we started in 2003. We're now at 40-something, 41 billion I think now, and part of it is due to this savings that we made because of the fiscal rule.

Exchange rate in Nigeria is a very emotive issue. You know, the exchange rate was very volatile when we came; it's now stabilized. A lot of work was also done by the Central Bank, which I won't go into, and to get into a mechanism which enabled us to stabilize it at about 1.29, 1.30, and we brought the official and parallel market rates together, you know, taking away the chance of the banking system for arbitrage in the economy.

As was mentioned, a very interesting thing. We were able to persuade the IMF -- and some of the colleagues are in the audience today. We had a very, very good relationship. We were able to persuade them to support our own program and to work with us, something quite revolutionary, and we -- a new instrument called the policy support instrument was developed around this in which a country puts forward its own program and it is supported by the IMF. Instead of the IMF coming to say here are, you know, benchmarks on targets you should me, you put them forward, you implement them, and it is a much better way to go. Now, this is tremendous -- not carry financing. We didn't need IMF financing. We just needed them to work with us and support us in implementing these reforms and to provide a certificate, if you will, of good performance. Why was that important? Because the rest of the international community needs an objective observer to say that these reforms make sense and that they work. And we managed to have a wonderful relationship. Oh, Rick is here in the audience. It was very difficult at times. Heated arguments, particularly at headquarters, but we managed something pretty revolutionary that people don't -- may not know about. We got good credit ratings for the first time the country has been rated, which gives the private sector some idea about the type of risk that you take in going to Nigeria. We got a BB-minus rating, the same as Vietnam, Philippines, Venezuela, and Brazil. Pretty remarkable for Nigeria. By both Fitch and Standard & Poor, and it's continued. So, these are some of the results.

Well, you know, FDI flows I must say began to be robust in the non-oil sector. You know, we're getting numbers -- 3 billion I think. These figures underestimate. A lot in the -- even the telecom sector alone is getting about a billion a year. And Diaspera -- the World Bank estimates -- show $2.8 billion dollars in remittances. Our own unofficial estimates are about 3 billion. Very, very close. So, you can see that this is yielding results.

And, of course, that enabled us to sort of outline the sectors which would be sources of growth for the economy. So, if you've done these changes you know now where is the supply response going to come from, and, you know, the sector -- Nigeria has great potential in the solid minerals for private sector investment, agriculture, aviation -- you name it -- manufacturing, some sectors, real estate, and so on, and financial services. The CBN governor is trying to develop the country into a financial services (off mike), but plenty, plenty of potential for investment. Solid minerals -- we have so many gemstones and other resources that have not even been looked into yet.

Now, quickly, I will spend a couple of minutes on a very important set of reforms -- institutional and governance reforms. This is where, you know, what I said makes the difference between developed and developing countries. Developed countries may have issues and problems. But they have institutions. They have legislation. They have systems. They have processes. And I'm firmly convinced that once a (off mike) developing from the developed is at a lack of these -- weak institutions, lack of processes, lack of accountability, and prior to the reforms I don't need to go into. You all know what the issue was with Nigeria and corruption. What we decided to do was to take a very analytical approach. You know, just talking about fighting corruption in general doesn't take you anywhere. The issue is what specific measures are you going to take that would make a material difference? And so in doing a diagnostic, there were areas like public contracting that, you know, had significant issues. We had issues on the oil sector where people felt that there was a lot of opaqueness. And we also had issues of impunity, people feeling that no one in Nigeria ever really gets held accountable or punished.

So, just to take two examples. In public procurement, some colleagues of mine in the economic team -- and I see one or two of them here in the audience, that's very nice -- worked very hard to set up a system backed by the presidency of a value-for-money audit that was known popularly as due process in Nigeria and which resulted in competitive bidding. You know, the unit costs of our contracts were sometimes up to four times that of neighboring countries. There was over-invoicing, inflation of contracts, and so we were losing an average of $300 million a year out of the window from this kind of business, and by the time this value-for-money audit and so on and the competitive bidding had been set up, over a four or five-year period a billion to $1.2 billion, roughly, was saved, money would have disappeared out of the window. So, you can actually measure the results.

On the oil sector, the president ruled the country in the (off mike) industry transparency initiative, a sort of publish-what-you-pay initiative, and the Nigerian EITI group took the trouble of ordering the first-ever audit. I don't think any other country enrolled in this has done an audit of five years of its oil sector looking at physical, financial audit of -- and process audit of what happens in the oil sector, and the results are loaded on the website -- www.neiti.org -- and you can go and look at the results of that.

Institutions -- we are also set up to help tackle the corruption, and I would just allude to the work of ESCC, which I think Nuhu Rebadu has done a fantastic job of -- a brave job -- of trying to show that corruption will have consequences and arresting some of the bigwigs who have been involved in corrupt acts like the inspector general of police, like two judges suspended, two sacked former ministers brought to account; and so on. And of course there's always the debate that this instrument is being used to witch hunt, you know, political enemies of the president. I'm not for any instrument like that being used, but I'll tell you one thing. People should also take an objective look at who has been caught and who has not and then judge. But whatever the case may be, whether you are a friend of the president or not a friend, you are an enemy of Nigeria, and that's the bottom line. So, if there's corruption, you know you need -- the consequences need to be felt.

So, these are some of the things that were done, and I'll skip over the rest and go straight to the results.

You can see here the objective indicators of measurement of what has happened. Corruption is still high in the country, so we're not saying it's gone away, but it shows it’s going down. These are Danny Kaufman's graphs from the World Bank. He does a survey of 203 countries to see what is happening in various places. Bribery in trade permits, utilities, taxation and procurement have all gone down. You can see the trend. Yes, it's trending down, and that's a good sign. So, it's not gone away. It's still high compared to other countries, but the trend is in the right direction.

Danny also showed leakage of public funds. Again, Nigeria is high, but you can see the trend is steadily down by 2005, compared to Russia and South Africa. We just picked a couple of countries to compare ourselves with.

Money laundering is also down even though we still have governors who have been caught with resources being taken outside, but at least there's mitigation.

I'll now let Philip talk a bit about the structural reforms.

MR. KUAKO: Thank you very much.

(Applause)

DR. OKONJO-IWEALA: You should hold your applause. I'm coming back.

(Laughter)

MR. KUAKO: Yeah, I'll spend a few minutes to go into some of the structural reforms.

Besides the macroeconomic and institutional and governance reforms, which the economic team actually worked on, there are a few structural reforms which are also needed in a Nigerian economy to help improve the domestic climate for doing business, to deregulate government activity in some economic sectors, and also to address a few constraints here and there which were actually impeding growth in the broad sense, and for a country actually with great potential to be one of the large (off mike) market economies. There were some areas -- if you look at the Nigerian economy, it's really what's lagging behind. And, again, if you look at standard surveys, for examples, which have been done, say, by the IFC doing business surveys or (off mike) investment policy reviews, you'd realize again and again that we pointed to things in the Nigerian economy which are actually inhibiting the private sector.

There were a number of things actually that the economic team worked on, but I just want to flag four areas, which are areas of ongoing research at present that we are looking at in a bit more detail. Each of these would actually take a whole publication of your own. But we just summarized four main ones, actually, in this current paper.

And I want to talk briefly about privatization, about civil service reforms, about banking sector reforms, and also trade policy reform.

Let me begin at privatization and deregulation. The truth is that sometime just after independence in the '60s and '70s, there was just a large group of state-owned enterprises in the country. I mean, imagine (off mike) very nationalist spirit or the end of independence was justified at that time. About two or three decades later, though the evidence actually was stacked in front of everybody that these enterprises were often very poorly managed. And, more than that, they actually provide avenues for rent seeking and corruption. I mean, it is sort of like being the manager of a big prostheto with your little kingdom or fiefdom or such that one could actually get himself and the cronies actually milking money on the side.

Public enterprises impose a very significant financial drain on the national treasury, and we took our time actually assess the magnitude of government subsidy, government support, though we're actually going to these institutions. It's a very emotive issue when you discuss it. People feel, though, it's a national asset, and let's hold onto it. But the truth is when you start looking at the numbers, it just hits you very hard.

For example, in 2001, direct government financial support to a total about 36.2 billion naira or 323 million, 0.68 percent of GDP, just going as support for national railways, for all sorts of things.

Now, when you juxtapose that against constraints in finance and education or health, then people begin to think again now, well, maybe we should think carefully about how much money we are actually sinking into some of these institutions.

Beyond that, also there were a number of large state monopolies, which by themselves being state monopolies and that way they resulted in lack of any competition and poor service delivery, and there was just some need for government regulation out of these economic activities to encourage the private sector to come and participate in these sectors and to support growth in the country.

So very briefly on one slide what was done. Well, as part of the reform program, about 116 enterprises were privatized over the period 1999 to 2006, and (off mike) enterprises in various sectors such as steel, petrol chemicals, aluminum, insurance, and hospitality. The Bureau for Public Enterprises in Nigeria oversees most of this, and if you go online to the website you get a lot more transparent information on how this was done. About $4.5 billion has been obtained just over the past two years in government receipts from this. But more importantly, actually, sort of a lot of the huge outlays which had to go these institutions every year have just now been cut off. You privatize it, the domestic private sector people run in partnership with foreign investors, and it ensures that these things are run more efficiently that creates jobs and that they are also sustainable and not a drain anymore on the treasury.

Let me talk briefly about deregulation also. For example, in telecommunications in power and also in the downstream petroleum sector. If you look at telecoms for example -- and Nigeria currently has one of the fastest growing mobile telecommunications markets in the world after China. I mean, we've gone from almost zero in about 2000 to so many million, actually, subscribers at present.

A second plan of reforms also occurred in the civil service, and also it's very important to look at. For most people who are familiar with a developing country setting such as in Africa and in Nigeria, the civil service was oversized and poorly remunerated. In fact, for a lot of the years, employment in the civil service had just become this route for actually rewarding people or cronies. They would just pack them with a lot of underskilled, underutilized officials, and there were a lot of people often with inappropriate skills in some of these departments and agencies of the government. Take, for example, the Ministry of Finance, where just about 13 percent of (off mike) and economists had university degrees, this is completely unthinkable if you're going to run a large finance ministry in a large country of 140 million, like Nigeria. And only 8 percent had degrees related to economics, finance, or accounting, and a lot of other people were just packed in there either because of relations or cronies or what have you. So, a big part of the reform was actually to rationalize this, to think through this a bit more carefully and see. I mean, who has a skill set appropriate to work in such an institution and which (off mike) do we have to let go and retrain into other sectors and, more importantly, which (off mike) can you bring in, which young, fresh university graduate with the requisite skills in economics and accounting and business management, to actually staff the necessary institutions.

Part of the problem was that, I mean, you had also ghost workers on the payroll so that if you took the standard government payroll, for example, you see all the employees, whoever, but also a number of ghost workers who, at the end of the year, at the end of every month or year, would get their remuneration, which ends up in somebody's pocket. But, in truth, these people actually never existed. And what is talk is that they were just not ghost workers but a state (off mike) and actually (off mike) ghost pensionists, and again also, you know, we'll take the pension allowances in a very ghost form, and that was very, very depressing.

The fundamental problem, though, was there was just a very weak incentive structure in the civil service. I mean, if you have a large civil service which is poorly remunerated, it just distorts the internal incentive structure in such an institution. I mean, everybody's activities are geared towards more rent-seeking things, how to sort of benefit on the margin rather than focusing on the (off mike), which they have to do.

As part of the reform, then, it was important to re-professionalize the civil service and increase the focus on service delivery. This is very difficult (off mike). I mean, in Britain, the British prime minister is also similarly trying to reform the civil service, and it's a very difficult thing, and you run into difficulties here and there. But about 35,000 have been severed from the Civil Service at the total cost of about $200 million now, and after actually severing some of the people, what it meant was there were actually increased resources now to focus on those who were left to raise salaries a bit more, and beginning this year there's been about a 15 percent wage increase in government pay scales, again to be revised upwards in due course. Eight thousand ghost workers have been expunged from the payroll, which is incredible and, more importantly, I think the point I really like is that about a thousand high-flying university graduates, you know -- the young people coming fresh out of university with first-class degrees, very high second-class degrees, people with graduate degrees -- have gone to the UK to study, have gone back home. They now have a chance, now, to be recruited to work in the government civil service and actually deliver much better results.

Let me also talk briefly about the banking sector reforms. Now, if you look again at the Nigerian banking sector prior to the recent economic reform, it was a very, very sad situation. The sector was very weak and very fragmented, and also the activities we engaged in were often geared towards short-term arbitrage roundtrip opportunities rather than actually financing long-term private sector investments. But there's a whole body of literature on this if you just went online, such as economic literature, though you can read on this, Professor Lewis himself having done some work on this in the past.

But that was the case that -- I mean, they were small banks. The minimum capital requirement was very low. A bunch of people with good connections to the political elite or in the military could get together or pull together 10, 20 million dollars and then, hey, we set up a bank. Then as to what you finance, that would become the interesting thing. If you have access to foreign exchange markets, you can just pick that up at very low official rates, roundtrip it, and just sell it out again to the private sector at much higher rates, and just cream it off very quickly that way.

But, again, it was just a very messy thing. And the supervision was also generally very weak. A legacy sometimes coming from the military era.

As part of the reform, what's actually happened was that the minimum capital base for the banks was raised from about $50 million to $192 million and immediately people woke up to it and said hey, look, we have to actually sort ourselves out here. It triggered a lot of consolidations and mergers in the banking sector, and it reduced the number of banks from about 89 to 25. I mean, there was a huge outcry and, again, this was heavily resisted at different stages, but there was a lot of support from the presidency. It was finally done.

What has happened is you have 89 small, weak, fragile, unstable banks consolidating now into 25 strong, good, and generally robust banks that we think actually can make the country a very serious financial sector in Africa. With that said, even the 25 banks pale in comparison to, say South Africa's financial sector.

In the course of the consolidation, we had about $3 billion flowing in from domestic capital markets and also an additional $652 million coming in from FDI flows. Similar reforms are also being done for the insurance sector.

Let me conclude by talking briefly about trade policy reforms. Again, this is a very emotive issue in Nigeria if you look at it. Now, prior to reform, Nigeria's trade regime was viewed as complex. It was viewed as very restrictive. It was viewed as also being very opaque. These are just the standard reports if you read, say, the Trade Policy Review from ECOWAS or from the WTO.

The entire structure was comprised of about 19 banks, about 5,000 (off mike) at HS8 level, and arranged between 2.5 percent and 1.50 percent. That is all fine and good. I mean, the country has its own independence (off mike) policy can do whatever it wants to do. I think the problematic issue with trade policy was that ad hoc manner in which tariff revisions were actually done, but it really reduced the predictability and transparency of the entire structure for the private sector so that you could have one published list of tariffs, and then you get to the port, actually, and be told that no, no, no, no, a new review has come and this has been banned or this has been unbanned and this has been moved. I mean, it also occurred in a very ad hoc, very interventionist way that, you know, people with good lobbies or access to high offices could actually get things banned selectively, not out of some broad strategic plan but just to actually benefit their own private interest -- and I'm going to do this little business here, let's ban this, or let them ban this -- and then actually cream off the rent. So, that really actually was also very bad for the private sector. It had reduced all the predictability and transparency that a good tariff regime is actually intended to give to you.

So, as part of the reform, I mean, pushing this through was going to be very difficult, but when we look at the ECOWAS region, we realize that -- I mean, there was a common (off mike) which ECOWAS countries actually have signed up to -- we're talking about for a long time, and the easiest way to do this was just to tie our hands and say look, let's actually move and adopt this very transparent system which the entire ECOWAS region is going for, albeit some modifications on the margin. If Nigeria has special interests in one or two tariff (off mike) you ask for it. But by tying your hands into such a common (off mike), it reduces a lot of this room for sort of very arbitrary tariff revisions here and there.

So, the (off mike) was adopted for tariffs bans 0, 5, 10, 20, and there are few -- two more tariffs bans exist in the 50 percent tariffs ban and import prohibitions for a few products, but those have to be rationalized very soon. And overall it's meant that a simple average tariff has declined from about 29 percent to 18 percent.

The good thing about this do now -- I mean, I didn't bring the book, but there's a new tariff book now that if you held that tariff book you are very confident that 99 percent of the tariffs there -- you knew them, they were predictable, you could go to the port, and no customs official could tell you that no, this is one duty, this has been banned, no, no, no. It's all transparent and uploaded online for everybody to see.

DR. OKONJO-IWEALA: Okay. Well, let's just try to conclude very rapidly.

So, we've told this story. Each one of these things, as Philip said, could take a whole day just to plum into what happened. But let me conclude by saying we did these reforms. We feel we've established a platform upon which Nigeria can build. Let me tell you that many of these reforms -- the political elite did not buy into them. And even at the beginning, the Nigerian population was very skeptical. You know, it was like well, they've talked of reforms, who are these IMF/World Bank spies in our midst, you know, nothing will happen, you know. But what -- the incredible thing that has happened is towards the end of this process, towards the end of my three years, one began to notice that increasingly Nigerians were really taking ownership of some of these reforms, particularly those that involved transparency in the way that their finances were being managed. People like to know the numbers: What did we get? What is being done with this? Because it was, of course, linked to corruption. But it was a struggle with the political elite, and more on that later.

And challenges remain on the reforms. Of course one of the big challenges is sustainability, but before I say a word on that, let's just say that most of these reforms we had done at the federal government level. Fifty percent of our resources are spent at the state and local government, and it is only in very few states that some of these reforms we adopted -- some, not at all -- so, the huge challenge remains: How do we push these reforms down to the state level? And that would be the next step in the reform. So, having done them and put them in as many (off mike) as possible was big. But that's one very big challenge.

The next is employment generation. I would say that many --

much of the impact of a lot of the reforms has not filtered through yet on service delivery to the population and on creating jobs. Again, that would be the next step. First you have to establish a platform and at least get the economy reinvigorated, and then you need to go sectoral and micro to really tackle the issues there that would lead to job growth. So, focus in on the key sectors that I put up where we can now try to get employment going.

Improving the domestic business climate, a myriad of issues still blocking the private sector. We've created a macroeconomic environment that is conducive and, again, working on the little things that impede people from doing business is a challenge.

I would say that tackling the infrastructure problem is key. We made a lot of investments in power during my time -- 2.3 billion was put in seven new power stations in the Delta and so on. The power situation now is, you know, worse because of issues linked to the repair of a Shell pipeline linked to issues linked to the Niger Delta and some destruction of some of the pipelines that carry gas and oil and so on, but that is we have to find a way out of this, because if we cannot make an appreciable improvement in delivery of these infrastructure services to businesses and to the population, that is going to continue to be a bottleneck. So I think in addition to the investments that are being made and the fact that we expect to add 10,000 megawatts of electricity by early next year, we still have to tackle some of the social issues impeding the use of pipelines and delivery of that.

Domestic institutions are still very weak, but we've managed to begin the strengthening; now we have to continue. The legislation that would back these also is necessary. The work that we've done, the fiscal responsibility bill and the procurement bill -- some of these have now been passed, but others -- for example, the fiscal responsibility bill is awaiting the passage of the house; it's passed the senate. These bills are crucial to keep things going. The EITI bill has passed as well as the procurement bill.

"Tackle the Niger Delta." This is a popular topic out here, a lot of focus on it, what's happening in the Niger Delta. We believe strongly that we have to change our approach to a much more community-based approach. Any increases in resources for the Niger Delta in my opinion should not be done unless we set up a mechanism in which the communities, the civil society private sector, a government structure for the use of these resources that would put much (off mike) transparency and give the communities the power to put out what they want and have that implemented. We have to set in place those. And, finally, we need to pay attention to our social sector improvement of indicators and so on.

And now on sustainability, there are some of the institutions that have been put forward to show that some of these reforms (off mike). The ownership of the Nigerian population I think will play a large role, because people now ask questions. If you want to do away with some of the work that has been done, a lot will depend on how the uncertainty surrounding this coming election is resolved and who comes in, so I'm saying, we've laid a platform. I think some of it will be sustained and endured, and we can move to the next step if we get the right kind of leadership. But certainly the platform is there.

Thank you very much.

(Applause)

DR. BRAINARD: All right, we're now going to open up discussion to our other distinguished panelists and then open up for discussion with the audience as well. I have to say the image of Ngozi trapping the Italian finance minister in the mountain resort of Davos and hanging onto his jacket until he relents is going to stick with me for some time.

(Laughter)

DR. BRAINARD: To my right is Peter Lewis. He was Director of the African Studies program and associate professor of our sister institution across the street, SAIS, who has written extensively on African politics, Nigerian politics, and recently published a book called *Oil, Politics, and Economic Change in Indonesia and Nigeria*, which I think is probably quite relevant to the discussion here.

And on the end is my colleague now here at Brookings, Princeton Lyman, who's also affiliated with the Council on Foreign Relations. He has a very distinguished career as a diplomat in and around Africa but, among other relevant posts, was of course Ambassador to Nigeria, and he has been looking at issues associated with political reform in Africa for many years.

So, just quickly -- turning to you first, Peter. You know, I listen to this list of people whose oxes were getting gored, you know, starting from the state governors and going to the civil servants and the folks who were getting all the contracts and, you know, you go down the list of the trade reforms. How does something like this actually happen? What was it that enabled that fundamental reform to take place, and what's it going to take to sustain it?

MR. LEWIS: Well, it's an incredible story and exceptionally well told by Ngozi and Philip. This was clearly the most significant, the most talented, the most effective economic team in Nigeria's post-colonial history. There just simply has never been an assemblage of talent with the commitment and the focus and the sustained efforts on changing the economy that we've seen in the last three and a half, four years. And they really made remarkable progress and remarkable achievements in a whole range of sectors. We have seen episodic attempts to influence and improve macroeconomic policy in Nigeria, and it's been periodic. It has often faltered, and it hasn't really been accompanied by the kinds of underlying structural and institutional reforms that need to bolster it. And so, you know, the achievements here really are exceptional. They're probably exceptional for Africa in the last two decades, and that should be recognized.

How was it accomplished? I think the short version is a very capable, closely knit economic team with strong backing from the executive and executive branch. Clearly there was a strong political commitment from President Obasenjo. I've seen strong public and private commitment from the vice president. There were other members of the cabinet and the presidency who firmly backed these and gave critical support in the bureaucratic struggles to minister Ngozi and other critical people.

So, that was the short story. Sustainability, however, is -- well, the other element, let me just mention, is I would say the skill of the team -- their exceptional training, their exceptional level of experience, and their ability to embark on a political learning curve. I mean, when we look around the world -- Indonesia, Brazil, Chile, a number of areas, a number of places where there have been successful economic reforms -- we find that technocratic skill is, of course, critical to getting the right policy package in place. But also, just as I think John Williamson has mentioned, technopoles become very important. In other words, the political capacity of technocrats is very important as well and the ability to negotiate in the weeds of politics and bureaucratic infighting in order to get these policies through, and the fact that this political team, particularly Minister Ngozi, was able to scale the learning curve so rapidly and so effectively grab onto the tails of ministers' jackets from Italy and so forth and really make the case internally, make the case internationally is really a critical part of the story.

However, sustainability means that this has to go beyond personalities, and I think if there's a major factor in the Nigerian situation that gives me concern and that analytically I think departs from some of the other success stories we've seen, it's that the minister was in office for just three years and has not finished out the full presidential term. There were some cabinet reshuffles; there's been instability in the assignments of the economic team. When you talk to people who did comparable things in Indonesia, some of them were in their offices for 15 years, and at each presidential election they knew they had another 5-year lease on tenure in order to carry through the next stage of their plan or the next step in their agenda. And so, we look for not only continuity in the team, but I would also say underlying institutional support.

Twelve people can turn around an economy in three years, but they need to build institutions and organizations beneath them in order to carry those reforms on. So what I look for in Nigeria, and what we hope will occur over the medium to long term is to pass the necessary legislation, which has been cited in the paper and which the economic team has helped to put forward and to build the institutional foundations for economic management over the next years to come.

DR. BRAINARD: Princeton, just now looking forward, I think this is the only panel in town on Nigeria that's not focusing squarely on the elections, but I don't think we can avoid it altogether. How much do these reforms figure into the debate right now, and what's at stake in that election for the sustainability question that we were just talking about?

MR. LYMAN: Well, thank you, Lael, and one thing I learned today is I have greater insights as to Madam Ngozi when I realized she grew up reading big Nigerian budget books instead of Winnie the Pooh and things like that.

(Laughter)

MR. LYMAN: This is a crucial question, Lael, because what we see in this situation and in others is the disconnect between macroeconomic reforms and popular benefits from those reforms in the short term and therefore political support for those reforms. So, you would think, listening to the dramatic reforms that have been made in Nigeria in three years, there'd be a public groundswell of support for sustaining it. But if you look at the political debates going on over the election and while there is some reference to maintaining the reform effort, it's also overrun with other kinds of politics, and there is a kind of unhappiness in the population, because it hasn't translated into a lot of jobs. It hasn't translated into a lot of wealth and income at the grassroots level yet, because macroeconomic reforms don't do that right away. South Africa has had 13 years of sound and prudent management, but it hasn't cut into the basic unemployment problem. But South Africa has a $10 billion socio safety net budget, which gives pensions and children grants, etc. Nigeria doesn't have that.

The other thing you don't have is you don't have the constituency that is supportive of these reforms being very politically active. If you talk about the business community -- and the presentation showed how this opened up opportunities, and I'm not talking about the big, big, big, rich influential businessmen, I'm talking about the meat of the entrepreneurial class -- they will tell you (as they were telling me when I was there), “Yes, we like these reforms; they're having an effect; they're making our life better but we're going to keep our head down where politics are concerned because that's a dangerous area. So we're not going to be out there lobbying in this electoral campaign to maintain these reforms.”

So, I think that this is a very critical stage, and politics intervenes in another way. I notice that the reference price for oil -- you know, that discipline sort of began to erode. In 2006 the reference price is $68 a barrel. That's pretty out there in terms of discipline, and it shows pressure in the government -- for overspending perhaps in terms of the election, etc. I think this election is going to be very important if there isn't a groundswell of support and constituencies to maintain the reform effort. You could begin to see that unravel.

On the positive side, I do think that there is enough general recognition and enough constituencies if they organize themselves, etc., that whoever wins this election will be under pressure both domestically and internationally to sustain them. A lot depends on the senate and the house, not just the presidential election, because as Madam Ngozi has mentioned, you've got to institutionalize these reforms by passage of legislation.

There's one other thing. None of these reforms, as important and as central as they are, really get at the problem of the Delta, and as Madam Ngozi said, that problem is not being addressed by any of the institutional mechanisms that now exist, and that could come back to really implode on the country's future if it's not addressed in a major way.

DR. BRAINARD: Let me invite members of audience to ask some questions. If you will, there's a microphone in the back. Just raise your hand and just identify yourself and your institution, then we'll give anybody who would like a chance to comment.

Yeah, right here.

MS. KANINA: Good morning, my name is Nemo Kanina, and I work for United Bank for Africa, one of the 25 strong banks in Nigeria right now. I have a question for Madam Ngozi -- especially given some of the comments that, Princeton, you made -- do you see yourself playing a role in a future administration to kind of keep some of this momentum going or another kind of role from outside government, especially given sort of the lack of the groundswell support, especially given how effective you were in the three years?

Thank you.

DR. OKONJO-IWEALA: That's a very personal question. On the groundswell for support, let me just say something. Princeton is right and wrong. When you talk to Nigerians -- you know, ordinary Nigerians -- many of them have surprised me by how much ownership or how they perceive these reforms as opening up another chapter that they didn't see. However, you're absolutely right that, you know, there's a risk of adverse behavior. Nobody's prepared to come out in the streets and start demonstrating for the reforms, you know, and that may be from years and years of being under military rule and if you come out and demonstrate there's an (off mike). It may also be from what you said. Now, you know, the fact that basic services have not improved measurably, and in one case -- electricity -- we've actually seen a regression. But, you know, I hasten to say that no country has been able to have this kind of dramatic change in growth, in macro, and do tackle of the micro problems. It took two decades to create them, to under-invest and destroy the infrastructure, so we needed what you were saying, and I think what Peter Lewis was alluding to, a long lead time. You need to have sustainability, a 5-, a 10-year horizon. If we go to the next stage, you will see that these problems of infrastructure, of service delivery, a macro will be addressed.

Now, you know you can act from all sides, and I will remain ever committed to the Nigerian cause. You can see to commit changes from the outside, from the inside; and wherever I find myself, as I am now, I'm focused on what can I do. I'm working with the private sector. I'm working from the nongovernmental side, and you can make a full impact from there as well. So, the issue is what can you contribute and how?

MR. MINARI : Thank you very much. My name is Ridalis Minari. I'm with the Organization of African Professionals here in Washington. I think that there's no doubt that Ngozi and the team have a great deal of contribution that they have met, and I think it's better to look at this as a situation where they have installed the infrastructure, and she said the challenge for (off mike) now is to get that (off mike) installed (off mike) economic reforms, macro and micro, and so on, that it (off mike), and here comes the political problem, and I think you have to understand it in the proper context. Whenever a new president is to be elected, there's a lot of political struggle and argument against and for, and a lot of the issues are confused. That's what's going on in Nigeria. But I think that the intelligent leaders are convinced that economic reforms but in governance everything has to proceed.

I think also once the president gets installed, the democratic system again makes it impossible for the president to do much in the first term, and that's exactly what happened here to Obasenjo. His first term was not much.

He didn't do very much, because he needs to be reelected, and to be elected you have to play against the constraints. So, the second term is the only term that can be very productive, and that is really what happened again to Obasenjo. The second term was the term that finally allowed him to do the action, and that's why it was very productive.

(off mike) the incoming president after election would be like that and that there would be weak political support because of, again, the need to play along with the existing political infrastructure. So, it's in the second term that you can see a very dynamic -- and I think we're now looking on the very long term (off mike) just (off mike) one where an interest that -- the first term is not going to be terribly productive in terms of getting the political infrastructure they have put on the ground moving because of these (off mike) constraints. But we hope that by the second term of the incoming presidency this infrastructure will have got moving, and this is probably one of the things that encourages long-term presidency in Africa. But in Nigeria you have to, you know, balance the democracy. The need for the dramatic system to (off mike) and the need for development to grow. They usually conflict with each other.

So, I think, again, I'll congratulate you. You've done a marvelous work, and we hope and pray that this will be continued after the elections. Thank you very much.

DR. BRAINARD: Okay, a question? Yeah, right behind.

MR. O'HANLON: Hello, I'm Brian O'Hanlon. I cover Africa energy issues at the U.S. Department of Commerce.

Madam, the macroeconomic reforms that you have outlined are quite impressive. I'm wondering, though, of the ability for the central government to push the reforms out into the states. I'm curious about the central government's part, vis-à-vis the states. Ultimately, while it's quite impressive, some of the corruption cases that have been prosecuted -- I would think public support rests on whether or not the local police are accepting bribes anymore, the local judge is accepting bribes, so I direct this question to you and to my old professor, Peter Lewis.

DR. BRAINARD: Go ahead.

DR. OKONJO-IWEALA: Very quickly, you're right. You know, I mentioned that one of the challenges is pushing the reforms down to the state. Some state governments began a few, but I would say that, you know, really that is the next level. And it will take a lot of doing. You know, there were many governors who were not really convinced or serious about these reforms, and a few enlightened governors in cross reverse state . We had a governor who was trying to do some serious things and for our state. So, if we can -- the idea is to use those as examples to show the others up. And that was beginning to happen in a sense. And then the economic planning commission was also trying to do benchmarking work of the states, and this became very controversial, the fact that states would be compared, you know? And of course the governors tried to kill it and so on, but we have to find mechanisms that will show Nigerians what their states and local governments are doing. Use that as a means of forcing them. We tried to use the fiscal responsibility bill to corral states into certain transparent behavior. It's been watered down. But, you know, this is out there, these reforms, and I believe that we now need to find a way through this benchmarking and other means to do that.

Now, I have a member of the economic team who is actually in the audience. Binbaw (phonetic), maybe you stand up.

(Applause)

DR. OKONJO-IWEALA: Binbaw and her colleagues continued the work that was done by (off mike) in due process, and the reason I mention -- and some of the states indicated that they would like to adopt this competitive bidding. We identified about eight states we felt would do the reforms. But the rest -- there are 36 states who are still to come along. And so the new government will need to make a concerted push.

Can I just say one thing? We also need nongovernmental organizations. We have to move that way. That can also -- serious ones, not these NGIs, nongovernmental individuals that we see wandering around.

(Laughter)

DR. OKONJO-IWEALA: We need serious NGOs as we have here who will look at budget transparency, monitoring what the government is doing. Without that -- if we only depended on the government, then we have these. We can make an appreciable progress, because they will be exposing the links -- sorry, the gaps in what these states are doing.

DR. BRAINARD: Peter.

MR. LEWIS: Yes. It's a critical issue, and the Niger Delta provides a case in point. By most good estimates, the states of the Niger Delta, the core states of Bielsa Rivers and Delta, are now getting ten times the revenues that they were earning in the year 1999, because the revenue take, the revenue share to those states has gone up in the new constitution, and oil prices have gone up. So, with a ten-fold increase in revenues, one would expect to see some good evidence on the ground, and it's absent. It's simply absent. Schools, roads, electrification, clinics, jobs have not materialized. You see it anecdotally, you see it in the data. And so what's going on here? Where's the disconnect? The disconnect is largely in the crucial domain of state and local government. The revenues are getting to the states, and some of them are getting to the local governments. They are not getting into efficient expenditures. And so that is critical.

And the question is in a federal -- in a democratic federal system, how do you manage that? And there are a number of levers and a number of tactics for doing that. The president can become more active in political leverage and political pressure. The ruling party or the incumbent to that party can be more active in selection of candidates, but also the other critical dimension, which Princeton elaborated very clearly, is this question of growth coalitions, of reform coalitions, and that has to occur not only at the national level, the federal level, but at the state level as well as among communities, among nongovernmental organizations and so forth.

If you look at the United States, how did local governments, state governments tackle problems of corruption in Chicago, Tammany Hall, Louisiana, and so forth. Well, they did it through local activism and local voter coalitions and so forth, and it was a long process, but it was effective because people were able to act in their own interests. I think that's critical. It's also nice to see that there's gainful employment after my classroom, so.

(Laughter)

MR. LYMAN: I want to just touch on another issue that Madam Ngozi mentioned and what worries me about Nigeria, and that's its ability to move fast enough to stay in play in the globalization area.

You've talked about the power objective -- 10,000 megawatts by the end of this year, but that's really minor compared to what Nigeria should have, vis-à-vis any other country competing, and I'm just worried that Nigeria won't catch up fast enough in terms of this infrastructure. We see industrialization in the north. We see lots of people unemployed, unable to compete largely because of power, and what worries me is can the country move fast enough in these areas of vital infrastructure to keep up, if you will, in the globalization process?

DR. OKONJO-IWEALA: You know, there's one thing that bothers me, the politics of the whole thing, and both you and Peter have alluded to that. Why is it that Nigerians aren't more "out on the street", you know, like in the Philippines -- people, power, you know, the Orange Revolution and all that? You know, the shouting that they want a government, you know, and they want people who are responsible and who can make these things happen. I've alluded to some of the reasons, but people will tell you why real brilliant work -- you know, we support you and so on, you know? But I made a speech (off mike) which I said Nigerians are very brave outside and they're cowards inside.

(Laughter)

DR. OKONJO-IWEALA: You know, I'm very outspoken, and I -- and, you know, it arose out of a comment of a Guianan friend who said to me wow, when Nigerians are outside they're the most articulate; when they enter a room, they take it over. You know, they are very strong and so on, but I've been living here in Nigeria, and, you know, I don't see people out in the streets demonstrating about this and so the politics -- you said it: How do we energize people to be able to see beyond their daily struggles?

Secondly, corruption in the country will never be cured as long as we have the kind of political system we have, and this is something that although they support democracy strongly, which I do, out here they don't talk about it. I call it the little hidden secret. To run these political kinds of things, you need money, and where do you think these people get the money from? You know they find ways and means, and this is being done and nobody is saying anything about it, you know? So, again, Nigerians -- you know, they know it's happening. It's common conversation. They will even name names. Some of them are being trapped through the EFCC but not everybody. But why aren't we up there? Until we have that kind of political activism and we have the NGO sector, you know, really rising up through NGOs, I think there will be a muted kind of response, and it would help towards creating the infrastructure -- we need more power, better roads -- if we had more of that nongovernmental type of action.

DR. BRAINARD: Let me take a last round of questions and then let the audience -- have the panelists respond to them. I think we had a question over here.

DR. OKONJO-IWEALA: We have one in the back.

DR. BRAINARD: I have on up here. One in the back as well. We'll have about four and then respond.

MR. (off mike): I'm Yatheme (off mike), International Food Policy Research Institute. Thank you what you did and what you told us, Madam Ngozi.

Your second priority, that list of things yet to be done, addresses employment and the growth in the non-oil sector. Could you elaborate a bit more on especially what needs to be done in the rural economy where most of Nigerians live and eek out a living?

DR. BRAINARD: Have a question right over here.

MS. TINGARA. My name is McConnie Tingara. I'm a Master's student at the Woodrow Wilson School for International Affairs, and I lost today at Georgetown. My question is on regionalization and how regionalization can help in the case of Nigeria. ECOWAS has been involved in establishing a West African power pool to try to have a regionalized electricity system across West Africa. So, my question is will the domestic problems of the individual countries impede progress or its regionalized network, or can the push towards a regionalized network help to lift all the African countries and what that dynamic would be. Thank you.

MR. RIEFFEL: Thank you, I'm Lex Rieffel from the Brookings Institution.

Madam Ngozi, you mentioned at the beginning that your presentation is going to be somewhat clinical. It was. You gave us one anecdote about the Italian finance minister. It would be nice to have anecdote or two about the internal struggle of how you dealt with the vested interest, for example.

But I'd also like to allude to Princeton Lyman's comment about technopoles because it seems to me that part of the magic, part of the mystery here is how the technocrats who came in became politically savvy enough to do what they did, and it seems to me you don't learn this in graduate school. I'm not sure you learn it at graduate school. I'm not sure you learn it at the World Bank. So, how did that -- what are the lessons? What are sort of the takeaways for us? How do you go into a country like this and help people become -- help technocrats become politically savvy enough to make these kinds of changes?

I also had a question about the resource curse in Nigeria, but I'm not sure we have time for that.

DR. BRAINARD: All right, let's take that as the last round of questions and then give the panelists all just a chance to answer the questions but also a minute of reflections if you wish -- and just to recap, we had a question about growth in the rural economy; we had a question about regionalization and whether domestic troubles would impede or whether regionalization could actually assist the countries achieve their goals; and the third is lessons on how technocrats can become politicians. So, let me start with Ngozi and then go around the panel.

DR. OKONJO-IWEALA: You want to start with Philip and then --

DR. BRAINARD: Start with Philip and then we'll go to Ngozi.

MR. KUAKO: Yes. Well, I just want to talk briefly about the regionalization question and how sort of strengthening intra-ECOWAS ties could potentially help sort of lift up the region, broadly speaking.

I think you're absolutely right. There's huge potential over there. In my previous job, actually -- I used to work in Southern Africa also and to some extent, actually, regional integration in the (off mike) region or (off mike) region was a bit stronger than we've seen in ECOWAS now. Nigeria actually accounts for about half the economy of ECOWAS on a GDP basis, yet if you look at the trade flows, actually, it's very interesting. We've got (off mike) in seminar recently where we actually analyzed it in a bit more detail. But less than about 10 percent of -- less than 5 percent of the total trade actually occurs in the region, and in fact if you stripped out oil out of it, the picture is actually a little more depressing if you looked at it. So, a lot of the talk about ECOWAS is very important, about getting the (off mike), about deepening trade integration within the region is all very important. But in keeping (off mike) there are some serious structural bottlenecks to this, particularly infrastructure, which actually impede sort of just (off mike) in the broader region, and things like the West African gas pool, the power pipelines they are trying to put in now are really the way for it to actually integrate the region a bit better and support growth. Nigeria could emerge as a growth pole for the region if all these things are put into order. The likes of Ghana, Mali, Senegal, and all of you could benefit a lot from sort of this neighborhood effect of Nigeria if some of these challenges are addressed. So, yes, I mean, regionalization holds great promise, and let's address the infrastructural sort of constraints within the region (off mike).

DR. OKONJO-IWEALA: Maybe I will address a little with the rural question and then the anecdote, and hopefully Peter and Princeton will also comment on agriculture and rural, because I think that aspect is important.

Agriculture has shown tremendous promise. Of course it's the largest sector by far, you know, in the economy at the moment, about a third or more GDP, and providing employment for the bulk of people in the rural areas. And with some of the initiatives that -- the president personally (off mike) is a great agriculture (off mike), you know, so he has the Cassava initiative, this initiative, that initiative, and focused attention has been brought on sort of a sectoral or subsector basis, the fish initiative and so on. But I think that has led to agriculture growing actually by 7.5 to 8 percent. Tremendous boost. However, I think we need to go beyond that. We actually need some kind of technological change in the sector.

If younger people are to be attracted, you know, there are serious structural problems within agriculture. We are not using enough of technology, you know, improved seeds, inputs get in there on time, so there's room even with this growth for great potential both in traditional crops. Well, we have fallen far behind. Where we used to be leaders in cocoa and palm oil, and so on, we are no longer there. And in nontraditional crops -- you know, like diversified crops in flowers and other things that other African countries are doing well. So, I believe we can only do it if we go about it with changes in technology, and I believe there's room for both commercial farming and subsistence farming. You know, we have this influx of Zimbabwe farmers now who have settled in Bara and Nasara and other states. Nigerian farmers could do the same, and there's more than enough land. We are only using 40 percent of our arable land at the moment. So, we have room for both -- subsistence farming and commercial farming. But we've got to change technology. We've got to improve. And we've got improve the rural areas and make them more habitable and think of coupling that with rural industries, you know, that can process the goods that are being grown. All this will create the employment within the rural sector that we need, but a new model is needed.

Anecdotes. Shall I say one quick -- or maybe I should keep my -- there are so many anecdotes, Lex. You're quite right. I mean, I can tell one on trade. You know, it used to frustrate me -- I mean, I can say this openly. The president knew that bans, you know, the nontariff barriers, that I was against them except in certain areas. Well, we really had kind of an implant industry-type of argument. We had strong comparative advantage but were being totally undermined, for example in textiles. I mean, China had appropriated some of our intellectual property, like what I'm wearing. This tie-dye made in Oshobu -- you know, people are printing it in China and dumping it back into our economy. Now, something has to be done about that. But beyond those issues, you know, we're using a lot of NTBs on bans in sort of a discriminating manner. One nice anecdote is, you know, I'm standing there one morning with the president, and a manufacturer comes in and says I want to tell you, Mr. -- you know, of course he had access and all that. He was a friend of a friend, so he got in into the -- and he says, “Mr. President, you know, I'm manufacturing bottles and nobody's buying them. I'm about to close my factory, jobs will be lost, and they're not buying them because we are importing bottles into this country. You've got to ban these bottles.” And, you know, I was standing there and to my horror the president said, “Yes, you know, we can't lose the jobs, we can't -- we have to ban the bottles.” And I said, “Mr.,” -- and I just happen to be there by chance, you know, early in the morning – “Can you leave this with us or take a look into this and study that?” You know, some of these people come and tell you this but sometimes they're not really making enough. I say to the president, “It's not true, can we look into it?” He says, “No, you know, I know you, you're always against bans. You know (off mike) Steve, dictate to the minister of finance, tell her that you (off mike) that battles are banned.”

(Laughter)

DR. OKONJO-IWEALA: You know? And, that was done, and the bottles were banned. And what happened? With their ban like that, they found that people -- pharmaceutical manufacturers, those who needed bottles for perfumes, all sorts of other things -- that and the beer and soft drink bottles that this man was making were banned. And it took a bloody six months of these people losing productivity and all that before the manufacturers of those other things got the courage to go up as a group and tell the president that their business was actually being, you know, ruined (off mike), because there didn't exist the capacity in the country to make the odd shapes. You know, some of them are small shapes and so on. And so that's an interesting anecdote, and then it was (off mike) and those categories were unbanned and, you know, so that shows you how sometimes a kind of ad hoc policymaking can really be destructive.

DR. BRAINARD: Well, I can assure you having spent many similar meetings in the White House -- those things never happen here.

(Laughter)

DR. OKONJO-IWEALA: Of course.

DR. BRAINARD: Okay, Peter and Princeton.

MR. LYMAN: Well, what Madam Ngozi is talking about in both manufacturing and agriculture speaks to this broader problem. It is a disconnect that's been referred to between what's happening at the center at the macro level and what's really taking place and playing out on the ground; and I think the critical element here is both an institutional problem and a perception problem, and I think we've seen in a lot of places that the question of credibility of economic reforms is really crucial, because if people are going to make risky investments in manufacturing plants, imported machinery, irrigation, and other infrastructural improvements in the rural areas, they want some sense of confidence that they're going to recoup their investment and earn a revenue stream over a three- to five- to ten-year period. And if they feel that the policy regime is going to arbitrarily be changed on them, that their property rights aren't secure, that the currency is going to see-saw, interest rates go out of whack and so forth, they're simply going to stay in currency arbitrage and real estate and currency flight. So this is the challenge in terms of getting the economy moving for most average Nigerians -- is getting in place those feeder roads, storage facilities, small credit institutions, extension services on a day-to-day basis, paying those people. It's very elementary stuff, but it's critical in terms of providing a fill-up, providing a boost to agriculture and securing property rights and getting the legal system in order and also establishing some sense of policy continuity and credibility for manufacturers so that they can calculate on a three- to five-year basis and that they can plan and have some confidence that their business will be there next year. And so I think that's the challenge. It's a challenge that was clearly flagged in the discussion by Madam Ngozi, and it's a challenge that's really essential and woven through this narrative of both coalitions and grassroots perspectives and perspectives from the top.

DR. BRAINARD: Princeton.

MR. LYMAN: Yes, let me just comment quickly on some of this -- on regionalization. I think in addition to the weight that Nigeria's economy has on the region, it's the political leadership that also matters, and that's why the future of Nigerian democracy is very important, because it was Nigeria that played a leading role in getting (off mike) in Togo and Mauritania that said democracy matters in Africa, because it relates to good governance; it relates to long-term stability. It was Nigeria that played a major role in Liberia and Sierra Leone and ECOMOG. You have to have that leadership, because if there is a regression in political development and democracy in Africa, it will impact on the potential of the region, and Nigeria has to play both an economic and a political role for that to happen, and that's why the success of democracy in Nigeria right now is so terribly important.

On agriculture, I couldn't agree more with Madam Ngozi about the need to bring technology into that industry. I've talked to Tony Carroll a lot about the cotton potential that Nigeria ought to be exploiting, because with the African Growth and Opportunity Act, African cotton would kind of cross some of the restrictions on textile imports to the United States, so the cotton industry in Nigeria simply isn't structured to take advantage of technology and modernization, and it's a loss of a great potential. The other areas include processing in other areas that Nigeria could move forward and there really needs to be both entrepreneurial leadership and government incentives for that kind of restructuring and technological improvement.

I might just finish on this question that Madam Ngozi mentioned about the importance of NGOs and public organizations and pressures. It reminds me of an incident that took place when Abacha was the leader of Nigeria -- a very bad dictatorship period. I was in South Africa at the time, and a group of anti-Abacha Nigerian activists came to South Africa to talk to President Mandela and urge him to support their efforts to get sanctions on Nigeria, and Mandela in his wonderful candor said to them look, sanctions were useful in South Africa because we had a strong indigenous anti-apartheid movement; you don't have a strong democracy movement in Nigeria, and until you have one sanctions won't help. It was a sobering response, and I think the Nigerians took that back and you did see a much greater groundswell. Now we need that same kind of strong groundswell in Nigeria on behalf of good economic management, as well as democracy.

DR. OKONJO-IWEALA: Just a final comment on the technopoles, that Lex raised. You know, when we got in there, we were -- I'll start by saying I don't think we were as politically savvy as your analysts seem to think. I actually think that that was one area of big weakness on my part and on the part of the economic team.

We went in -- there's technocrats, and I think the president also had two boxes -- you know, a box of technocrats and a box of politicians.

(Laughter)

DR. OKONJO-IWEALA: You know? And you really didn't -- cross lines, and we had no desire as such, because we felt at the time that we needed to focus very hard on making these very difficult changes. And what I hope is that with what was laid out with you will now take each chapter and really spend time to go into them in detail about what really happened with privatization, what really happened with due process (off mike) injustice. But we could have been more savvy. We learned as we were going. You know, initially interaction with, say, the legislature, and I'll speak for myself, was not maybe as much because there was this fear they would untie the reforms. They were trying to distract you from doing the right thing. They were bringing all the arguments why you shouldn't do this or that. And so there was this feeling that look, if we -- if you interact too much or water down what you want to do, it may be diverted. Then we came to see that look, these guys, you have to do something, they matter. They can actually block you and, as you know, in the first term the president also had issues with the national assembly and things were blocked. So, we began to even convince him and for ourselves to interact with them much more, you know, and to sell our stories, and we found allies within the national assembly, and that's when we began to be a little more politically savvy.

I remember visiting the house of the speaker and the deputy speaker, and the news went all around. I came into a morning prayer with the president the next morning. He said, "Oh, we heard that you were in the house of the speaker and the deputy speaker. Ah, you're now becoming a politician, you know?"

(Laughter)

DR. OKONJO-IWEALA: And I'd gone to commiserate with them on some personal incident, but that also gives you the opportunity to present some of the stuff you are doing. We could have done much more of that. I think the president could have mixed it up a bit more and that would have been maybe not as hard. It (off mike) not taken away all the stress. So, technopoles is a very good term. We've got a little bit of that technopolish but we could have done more.

DR. BRAINARD: All right. Well, there's a terrific paper out there. Please take a copy on your way out.

Philip, Madam Ngozi, Princeton, Peter -- thank you very much for your comments this morning.

(Applause)

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