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The successes and failures of economic reform in Nigeria's post-military political settlement

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The Successes and Failures of Economic Reform in Nigeria’s Post-Military Political Settlement

Zainab Usman
The Successes and Failures of Economic Reform in Nigeria’s Post-Military Political Settlement

Zainab Usman

Abstract

This paper employs the political settlements framework to address a gap in our understanding of variation in the growth of industries within resource-rich economies. It puts forward the proposition that the political settlement within which specific economic reforms are formulated and implemented accounts for the variation in the growth and decline of economic sectors. As a framework for analysis, the political settlement enables us identify a society’s sources of instability, which could be horizontal (elite competition), vertical (societal redistribution demands) or external (oil shocks and donor pressures), the pressures they exert on a ruling elite, and the growth-enhancing or growth-retarding policy responses to address these pressures. Focusing on the telecommunications and oil sectors in Nigeria, the paper finds that, the external pressure operating through oil shocks and fiscal constraints on the ruling coalition at the end of military rule from 1999 generated growth-orientated policy responses in non-oil sectors such as telecommunications. Concurrently, the oil sector was insulated by successive ruling coalitions from reform, leading to its stagnation and decline. Three causal mechanisms are identified:

1. The nature of threats to the ruling elite explain the relative success of telecommunications liberalisation while the oil sector, insulated from reform, remained an instrument for dispensing patronage.
2. The capacity and resources of the ruling coalition in assembling a technocratic economic team and selectively empowering a domestic business class had a differential impact on the telecommunications and oil sectors.
3. The inequities in the distribution of benefits: of a growing telecommunications and broader service economy which responded to reforms, horizontally to a few elites and vertically to a small labour force heightened elite- and wider societal-distributional pressures on oil rents, which fostered inefficiencies in the oil sector, but also undermined the reforms’ legitimacy.

It is hoped that this paper contributes to our understanding of the political underpinnings of the on-going economic transformation in sub-Saharan Africa and generally, the mechanisms of variation in the growth and decline of economic sectors in resource-rich countries.
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Introduction

Like other resource-rich emerging markets, Nigeria has witnessed rapid growth of a service economy including telecommunications, financial services and trade since the early 2000s. Like most African economies, this growth has not been accompanied by industrialisation. In Nigeria’s case, while oil remains the central source of exports and government revenue, it has not been the main driver of growth. ‘Resource-curse’ theories which have for long predicted slow growth and the evisceration of non-oil sectors in oil-rich countries are insufficient to explain this pattern of economic performance. Similarly, ‘Neopatrimonialism’ which attributes the failure of Africa’s economic transformation to the prevalence of informal and clientelistic institutions is unable to explain variation in economic performance among African countries but also among sectors within a single economy. Large-N cross-case studies on which ‘ethnic pluralism’ theories are built do not sufficiently explain the precise causal mechanisms by which ethnic fragmentation affect economic performance.

This paper employs the political settlements framework to address these theoretical gaps. It puts forward the proposition that Nigeria’s political settlement, that is, the underlying institutional framework, within which specific economic reforms were formulated and implemented accounts for this pattern of economic performance. The political settlement is the underlying distribution of power in a society negotiated among a society’s elite and other contending societal groups, and the encapsulation of this power distribution in formal institutions. As a framework for analysis, the political settlement approach enables us identify a society’s sources of instability, which could be horizontal (elite competition), vertical (societal redistribution demands) or external (oil shocks and donor pressures), the pressures they exert on a ruling coalition at any point in time, and the growth-enhancing or growth-retarding policy responses to address these pressures.

Drawing on fieldwork in Nigeria, interviews with senior government officials, private sector executives, civil society and western diplomats, economic data, speeches, government documents, memoirs, reports and secondary sources, I analyse the telecommunications and oil sectors in Nigeria. I find that the external pressure operating through oil shocks and fiscal constraints on the ruling coalition generates policy responses to focus on non-oil growth. In the early 2000s, budgetary pressures during a period of low oil prices and heavy debt servicing were the impetus for growth-enhancing economic reforms in non-oil sectors such as telecommunications. Concurrently, the oil sector was insulated from reform by successive ruling coalitions leading to its stagnation and decline.

I conclude by highlighting the following causal mechanisms. First, the nature of threats to the ruling coalition determines what economic sectors are targeted for reform. Since the impetus for economic reform within the period were the fiscal constraints of dwindling government revenue rather than political constraints of elite competition and threat of social unrest, the oil sector was insulated from reform as it remained an instrument for dispensing patronage by the ruling elite. Second, the capacity and resources available to the ruling elite had a differential impact on the telecommunications and oil sectors. The assembly of a technocratic economic team, and the selective empowerment of a largely domestic private sector, which responded to the stimulus of reform, contributed to successful telecoms liberalisation whilst translating into cronyism and predation in the oil sector. Third, the inequities in the distribution of a benefits: of a growing service economy which responded to reforms horizontally to a few elites and vertically to a small labour force heightened elite- and wider
societal distributional pressures on oil rents, which fostered inefficiencies in the oil sector. Critically, distributional concerns undermined the reforms’ legitimacy among competing elites and wider society and by implication the long-term effectiveness of new governance systems and processes. It is hoped that this paper contributes to our understanding of the political underpinnings of the on-going economic transformation in sub-Saharan Africa and generally, the mechanisms of variation in the growth and decline of economic sectors in resource-rich countries.
Nigeria’s Recent Patterns of Growth

Nigeria’s sustained economic growth over the past decade has no doubt been one of the drivers of the ‘Africa Rising’ narrative. Along with a number of other rapidly growing African countries, since the early 2000s, there was sustained annual economic growth averaging 7% until late 2014 (AfDB et al., 2012; IMF, 2012; Litwack et al., 2013) and 5% from 2010 to 2013 (World Bank, 2014). As Figure 1 illustrates, this economic performance offset years of economic stagnation averaging 1.5% from 1983 to 1999. As a confirmation of the upward trajectory of growth, in April 2014, Nigeria became Africa’s largest economy, and the 26th largest economy in the world after a review of baseline GDP figures².

Figure 1: GDP Growth (%) 1980-2014


There are three features of this contemporary growth that are of interest to this study. Firstly, the performance of the oil and the emerging growth drivers is linked to economic policies by successive governments within this period. Secondly, growth was initially driven by a commodity boom³ (ECA and AUC, 2013) and increasingly by emerging services sectors (World Bank, 2013) such as information and telecommunications (ICT), trade, banking and financial services, entertainment and the informal economy. Thirdly, these specific growth-driving sectors have led to significant structural shifts in the composition of GDP, but not so much in fiscal revenue and exports. These are analysed in greater detail below.

² Rebasing is a statistical upgrade of the base year of national account series (GDP) with a more recent base year or price structure (NBS 2014a). For the period, 1999 to 2010, data from the pre-revision figures will be used, while the revised figures cover five years; 2010 to 2014, because each series measures data differently.

³ Other factors accounting for this growth include rising domestic demand associated with rising incomes and urbanization, increasing public spending, trade and investment ties with emerging economies (ECA and AUC, 2013).
Economic Policies Targeting Growth

Since independence in 1960, successive regimes have sought to ‘diversify’ the economy by catalysing industrialisation, notably since the first oil boom and bust cycle from 1973 and especially since the transition to democracy in 1999. Economic diversification has thus been equated with economic development, evolving parallel to Nigeria’s revenue sources and development priorities. It means the transformation of the economy away from dependence on all forms of primary production especially crude oil extraction, but also agriculture and mining, as key revenue and foreign exchange earners, to higher-value productive activity such as, manufacturing, resource-based industry and agro-industry.

With the return to some form of development planning from 2004 after the Structural Adjustment Programme (SAP) disruption of the 1980s and 1990s, there was a renewed emphasis on economic diversification as a pivotal policy priority. This is documented in the Nigeria Vision 20:2020, the overarching framework for successive governments’ development priorities including Olusegun Obasanjo’s National Economic Empowerment and Development Strategy (NEEDS) from 2003 to 2007, Umaru Yar’adua’s Seven-Point Agenda (2007-2010) and Goodluck Jonathan’s Transformation Agenda (2011-2015) (NPC, 2004; 2013a; 2013b). The NV20:2020 outlines the promotion of “...private sector-led non-oil growth to build the foundation for economic diversification” as a critical policy priority (NPC, 2009:10; 2010:7). The broad policy focus since 1999 are:

- **Macro-economic reform:** debt reduction, budget, taxation and public financial management reforms, and counter-cyclical policies such as the Excess Crude Account (ECA) and the Sovereign Wealth Fund (SWF).
- **Economic Liberalisation and Private Sector Development:** deregulation and liberalisation of the telecommunications sector, the downstream petroleum sector and the power sector; privatisation of state-owned corporations; reforming the banking sector and reform of trade, tariff and customs regimes.
- **Economic Growth:** focus on growth drivers such as crude oil, agriculture, natural resources, industry (including Small and Medium-Scale Enterprises), trade and services.
- **Public-Sector Reform and Transparency:** civil service reform, transparency in public procurement and anti-corruption, with the establishment of the Nigeria Extractive Industries Transparency Initiative (NEITI), Economic and Financial Crimes Commission (EFCC) and other regulatory bodies.
- **Social Development:** health, education and the Niger-Delta.

Since the early 2000s, the production structure has been increasingly diversifying towards a service-oriented economy. However, exports and government finances remain dominated by

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5 Unless necessary, this study does not cover the Muhammadu Buhari administration, which, less than a year old at the time of writing, provides insufficient material for comprehensive analysis.
oil rents. An assessment of the economic data below provides a better picture of the growth of these sectors, which reforms have targeted, including trade, telecommunications, and the centrality of the oil sector to the Nigerian economy.

**Growth Drivers: Commodity Boom and Services**

Since Nigeria’s transition to electoral rule, the main drivers of growth have shifted from oil and agriculture to a range of services. Available data suggests that between 1999 and 2009, the sectors with the fastest average growth rate of at least 10% were the non-oil sectors. These include services (12.2%) especially ICT whose average growth rate was 122%, trade (11.3 %) and agriculture (10.4 %) as Figure 2 below shows.

**Figure 2: Average Sectoral Growth Rate (%) 1999-2009**

![Average Sectoral Growth Rate (%) 1999-2009](source: Nigerian National Bureau of Statistics Data)

Within this period, the oil and gas sector’s average growth rate was only 1.3% although this masks its extremely volatile performance. For instance, it grew by 11.1% in 2000, contracted by 5.7% in 2002, growing again by 23.9% in 2003 as global oil prices rose, but generally contracted afterwards. However, in actual contribution to GDP growth, as Figure 3 shows, from 2000 to 2009, agriculture accounted for an average of 40.4% of GDP growth per annum, services was 22.5%, trade was 21.8% and the oil and gas sector was 8.5%.
Within this ten-year period, the non-oil sectors were the largest contributors to growth, while the oil sector was the fourth largest contributor to growth. These changes in the source and pattern of growth were more evident after the revision of GDP figures in 2014. As Figure 4 shows, the fastest growing sectors with an average growth rate of at least 10% between 2011 and 2014 are manufacturing (16.9%), solid minerals (16.4%) and building and construction (13.1%). Agriculture grew by 4.2%, trade by 5.4% and oil contracted by an average of 4.2%.

The change in the sources of growth is even more evident when the sectoral contributions to GDP growth are assessed. As Figure 5 shows, the largest contributors to growth on average between 2011 and 2014 are services (41.9%), manufacturing (24.7%), agriculture (19.8%) and trade (16.7%). Crude oil declined as a share of growth by an average of 11.4%.

**Figure 5: Average Sectoral Contribution to GDP Growth (%), 2011-2014**


There is an evident shift in the centres of growth, from agriculture and oil to a range of services. Although manufacturing is witnessing a recent surge, a further disaggregation shows the food and beverage sub-sector accounts for 50.4% of manufacturing output, especially Sugar at 27.6% (NBS, 2014b:9), and the sector constitutes less than 10% of GDP. The implication of services-driven growth without industrialisation as is evident in Nigeria is part of an on-going debate. The oil and agriculture sectors, which were growth drivers in the old series, are declining while trade and services are increasingly accounting for growth. Despite high global oil prices between 2003 and 2014, both the oil sector’s growth rate and share of GDP have been declining. Consequently, the oil sector contracted between 2012 and 2014 compared with growth of 6.8% for the non-oil economy. The emergence of services amidst the oil sector’s decline has implications for the broader processes of structural change as is discussed below.

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7 Some scholars argue that sub-Saharan African countries would need to industrialise to attain shared prosperity and broader social change. Others argue that like India, African countries can leap-frog the industrialisation phase of development to focus on services. Others still debate whether industrial policy should target countries’ comparative or competitive advantages. A comprehensive interrogation of these debates goes beyond the scope of this paper. However, see: debate between Rick Rowden and Wolfgang Fengler in 2013, and between Ha-Joon Chang and Justin Yifu Lin (2009)
The Extent of Structural Shifts in GDP, Exports and Revenue

Nigeria’s economic structure has changed significantly since 1999. This is most evident in the production structure (GDP) but less so in exports and government revenue. There are three phases of these changes reflected in the economic data: the immediate post-military economic data in 1999, the pre-rebasing data in 2009 and post-rebasing data in 2014.

In 1999, three activity sectors, agriculture, oil and trade accounted for over 80% of GDP as Figure 6 shows. The agriculture sector accounted for about 36.7% followed closely by oil at 30.8% and trade at 13.6%.

Figure 6: Sectoral Disaggregation of GDP (%) 1999 and 2009 (in 1990 Prices)

![Figure 6: Sectoral Disaggregation of GDP (%) 1999 and 2009 (in 1990 Prices)](chart)


By 2009, there were some evident changes in the production structure. As Figure 6 above shows, the oil sector’s share of GDP declined to 16% in 2009 from 30.8% in 1999, while agriculture (41.8%), services (17.5%) and trade (18.2%) had all increased, and manufacturing (4.2%), building and construction (1.9%) and solid minerals (0.3%) stagnated. Although those three sectors – agriculture, oil and trade – still accounted for almost 80% of economic activity, their share of GDP was changing.
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Figure 7: Sectoral Disaggregation of 2010 & 2014 GDP (%) (in 2010 prices)

![Sectoral Disaggregation of 2010 & 2014 GDP (%) (in 2010 prices)](image_url)

*Provisional Figures


The rebased GDP figures covering 2010 onwards captured more of this changing economic structure. As Figure 7 above shows, the oil sector declined from 15.4% in the first post-rebasing year in 2010 to 11.2% in 2014, agriculture also declined, from 23.9% in 2010 to 23.3% in 2014. The sectors, which expanded, include manufacturing, building and construction, trade and services. The number of economic activities accounting for almost 80% of GDP increased to six, including agriculture (23.3%), oil (11.2%), trade (16.6%), ICT (10.7%), manufacturing (9.2%) and real estate (7.7%) in 2014. Services, including trade expanded the most, collectively accounting for 52.7% of GDP. There are evident structural shifts in progress. Although some of this change is clearly the result of the GDP revisions that captured economic sectors previously not included, from 33 to 46 economic sectors (NBS, 2014a).

However, there is very limited expansion beyond oil in export earnings. The oil sector accounts for 92.6% of exports, barely declining from 98.4% in 1999 as Figure 8 shows. This indicates a weak translation of the increasingly diversified economic activity driving GDP growth into international trade.
There is a limited and volatile change in the composition of government revenue. As Figure 9 above shows, the share of non-oil revenue has been on the increase – from 23.7% (1999) to 26.1% (2010) and 32.5% (2014). This indicates some diversification towards non-oil sources of fiscal revenue. The rise in non-oil revenue reflected improved economic activities and enhanced tax collection (CBN, 2013:155). Although a further disaggregation shows that tax
revenues were just 2% of GDP in 2012, down from 5% in 2009 pre-rebased figures (WDI figures, 2015). While non-oil revenue increased in absolute terms, its relative increase as a share of government revenue was a consequence of the decline in oil receipts, by 15.2% in 2012 (CBN, 2013:154).

With oil accounting for up to 70% of government revenues at both national and sub-national levels, Nigeria remains a rentier state as defined by Beblawi (1987:51-52) in which more than 40% of fiscal revenue is largely derived from external rents, and in which the state is the main recipient of these rents. However, since oil constitutes just 11.2% of GDP it does not have a rentier economy using the Beblawi (1987:53) criteria of about 60% of GDP. So far, I have presented the broad direction of economic policy in the post-military period, and the variation in growth, stagnation and decline of sectors, which these reforms targeted. Using the political settlements framework, the next section unveils the political conditions, which enabled the formulation and governed the implementation of these reforms, thereby accounting for the variation in the growth of these sectors.
To understand this pattern of sectoral variation in economic performance in Nigeria, it is necessary to understand the underlying institutional framework within which the economic policies engendering this growth were formulated and implemented. As Kang (2004:9) posits, understanding policy decisions requires an understanding of the political incentive structure within which actors make economic decisions. Of the vast bodies of literature explaining the institutional underpinnings of the challenges of the economic development of African countries, I critique three, which are most relevant to this study. I then explain how the political settlements approach provides a more encompassing explanation of the limitations of economic transformation in African countries taking into account their recent growth trajectories.

First, the robust literature on the ‘resource curse’ has sought to explain why resource- and in particular, oil-rich countries suffer from lower than expected economic growth rates. The Dutch Disease strand focuses on how oil crowds out tradable non-oil sectors, especially agriculture, manufacturing and industry, while services, retail, construction and other non-tradable sectors grow faster (the Economist, 1977; Corden and Neary, 1982; Auty, 1993; Sachs and Warner, 1995; Collier, 2008). Other resource curse theories identified oil and other minerals as undermining good governance, political stability and democracy by inducing violent political competition and corruption to access resource rents (Auty, 1995; Karl, 1997; Sala-i-Martin and Subramanian, 2003; Ahmad and Singh, 2003; Ross, 2001, 2003 & 2012; Collier, 2008; Ross, 2012). However, the rapid growth of resource-rich countries during the commodities super cycle from the early 2000s, contradicts the slow-growth claims of resource-curse theories. Besides, with the exception of studies like Karl (1997), they hardly acknowledged the underlying institutional underpinnings of this economic performance beyond the qualities of specific commodities, and that often, this scramble for political power predates the onset of a resource windfall.

The second school posits that plural societies are vulnerable to poor economic development outcomes. Specifically, high ethnic fragmentation explains why countries choose public policies, which are inimical to growth (Easterly and Levine, 1997; 1204; Alesina and Ferrara, 2004). The mechanism operates through the indirect effect of political rights and sub-optimal public policy choices, which are more redistributive, and consumption orientated, they decrease investment, foster rent-seeking and increase the likelihood of civil war (Mauro, 1995; Collier, 2000:225; Montalvo and Reynal-Querol, 2005:318). To be more precise, certain types of diversity make it more difficult to form a consensus for growth-promoting public goods (Bangura, 2006:300; Easterly and Levine, 1997:1204&1207). However, most of these large-N cross-country studies did not explain the precise causal relationships between diversity and economic performance and the broader institutional context within which this occurs.

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8 Karl (1997:41) notes that oil booms coincide with the initial stages of state building, spending becomes the primary mechanism of “stateness” as money is substituted for authority. She adds further that unsuccessful outcomes of oil-exporting states cannot be fully understood separate from their institutional development.
The third is the Neopatrimonialism approach. It emphasises on the inherently particularistic nature of African societies, especially the prevalence of informal institutions as the main obstacle to economic transformation (see: Callaghy, 1987; Clapham, 1996; Chabal & Daloz, 1999; Van de Walle, 2001; Sandbrook, 2005). It regards these informal institutions and the informal political and economic relations they engender as aberrations. The neopatrimonialism approach thus characterises the patron-client relations that occur outside formal Weberian administrative systems as hybridizations of formal rational-legal authority and as pathologies of Africa’s inherently retrogressive culture, which undermines political stability, democratic consolidation, and the smooth operation of market activity to drive economic transformation. The ‘neopatrimonial logic’ in African countries operates through bad governance, low savings, obstruction of a capitalist class, expansionary monetary policy, and trade and industrial policies which encourage rent-seeking (summarised in Mkandawire, 2015).

However, neopatrimonialism’s explanatory power is severely limited because both Weberian notions of formal authority and clientelism are outcomes of capitalist development and its distortion respectively, rather than its precondition (Gray and Whitfield, 2014:3). It is the different economic structures between developing and advanced capitalist countries that lead to the relative dominance of clientelist politics in the former, and their diminished role in the latter (ibid). Consequently, neopatrimonialism is unable to correctly assess the role of clientelism as a form of political mobilisation in developing countries with weak formal institutions, but especially to explain the variation in political stability and economic outcomes among these ‘neopatrimonial’ African countries (Khan, 2010:28; Mkandawire, 2015 and Gray & Whitfield, 2014:2-3). In particular, neopatrimonialism is unable to explain variation in sectoral growth even within one economy as the case in Nigeria above illustrates.

To address this gap this inability to explain variation in economic performance among and within sectors of resource-rich, plural and ‘neopatrimonial’ societies, the Political Settlements is put forward as a framework to understanding the distribution, mediation and mobilisation of political power, how political power informs the organisation of economic structures and activity, and their economic and development outcomes. As a concept, the political settlement enables us understand the institutional configuration within which informal institutions predominate and how they inform the operation of formal laws and institutions. As a phenomenon, the political settlement is the underlying distribution of power in a society negotiated among a society’s elite and other contending societal groups. A political settlement is a social order and an institutional structure, which determines how a society achieves a minimum level of political stability and economic performance for it to operate as a society (Khan, 2010:20). Political settlements are at the core of the political processes in, building formal political and economic institutions of governance, in solving or exacerbating
collective action problems and in building effective or dysfunctional states (Dijohn and Putzel, 2009:4; Leftwich, 2009; Khan, 2010; DFID, 2010:12).

To employ the political settlement as an analytical concept requires a disaggregation of its constituent elements. I identify these components which determine a political settlement’s developmental or transactional orientation as: (1) elite bargains, (2) wider coalitions with societal groups, (3) economic agenda or consensus around an economic policy regime and, (4) institutionalisation or enforcement.

Elite bargains are discrete events and agreements over the horizontal distribution of power established among society’s most powerful actors or elites. They are a particular feature rather than the sum total of political settlements (Laws, 2012:29). Since elite bargains are consensus crafted by a range of state, political, economic, professional, traditional and bureaucratic elite, these actors involved are collectively referred to as a ruling or governing coalition.

The nature of a political settlement is also determined by the manner it incorporates and manages competing group interests vertically. These could be any of non-elite or non-governing elite groups such as civil society, youth associations, labour and trade unions, traditional and religious groups, professional associations and the media. A wider coalition with societal groups is the second component of the political settlement.

The political and economic viability necessary to keep that institutional structure together requires the political settlement to achieve sufficient economic performance to avoid economic crisis and social unrest. Therefore, a governing coalition is sustained by an economic policy regime determining the strategies of accumulation in society, the management of external or internal sources of rent, the growth-enhancing or extractive nature of the ensuing property rights regime, commitment guarantees to the business class, and investment strategies in productive sectors. An economic agenda is thus the third element of the political settlement.

Importantly, this framework for reconciling competing interests sets the ‘rules of the game’ and the enforcement mechanisms. These rules are institutionalised when they are widely accepted or formally codified in a legal text (i.e. a constitution) and enforced. This also determines the stability and endurance of the political settlement. Institutionalisation is the fourth element. These elements of the political settlement enable us to identify the sources of instability in a society, the constraints of these instabilities on the ruling coalition and the policy responses these constraints generate. This is explained in the Nigerian case below.

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11 This requires an identification of actors and their interests which constitute institutions, how these interests are expressed, an examination of the relations within and between them, and the historical processes of colonial and post-colonial class formation all of which I have done elsewhere but which go beyond the scope of this paper.

12 The political viability is the context-specific minimum threshold of political stability needed to ensure that dissent or conflict do not reach a level where they unravel the core institutional arrangements which define the political settlement (Khan, 2010:21).
Unveiling Nigeria’s Post-Military Political Settlement

As a multi-ethnic and multi-religious country, as Africa’s largest oil producer, its most populous country and its largest economy, Nigeria is vulnerable to numerous instabilities, the conceptualisation of which could facilitate our understanding of similar resource-rich economies in Africa and beyond. Using the political settlements framework, this paper identifies Nigeria’s three main sources of instabilities as – horizontal elite competition, vertical societal redistribution demands and external oil shocks. As explained below, attempts to manage historic tensions of horizontal elite competition provided the political basis of the electoral transition in 1999, external oil shocks constrained the ruling elite to embark on economic reforms in the 2000s, while vertical societal pressures remained largely unaddressed.

With regard to the first source of instability, horizontal elite competition, has been a decisive influence on Nigeria’s political stability. Attaining a stable political foundation for economic transformation has been the defining feature of Nigeria’s political settlement since its independence from colonial rule in 1960. Nigeria’s leaders recognised the imperative of managing the tensions of competitive ethnicity, regionalism and to an increasing extent religion, for political stability (Mustapha, 2006). The tensions of ethnic mobilization and contestation generated by Nigeria’s tripolar ethnic and bicommunal religious structure resulted in a perennial ‘fear of domination’ among its regions, religions and ethnic groups which clouded any sense of national unity even before the attainment of independence in 1960 (Coleman, 1958; Falola and Heaton, 2008:165). This ‘fear’ was driven by the political and socio-economic inequalities among the regions. In the early post-independence years, the ruling elites in the predominantly Hausa and Fulani northern region feared domination of the educationally advanced southerners in the civil service, the army and educational institutions. The southern regions on the other hand feared the North’s political domination in parliament, the federal cabinet and the army, which it was able to secure using its higher population numbers (Dudley, 1982: 61-73; Falola and Heaton, 2008:202). The crises created by these tensions are regarded as the causes of the first military incursion into politics and the 1967-1970 Civil War, which disrupted Nigeria’s fledgling state-led industrialisation trajectory.

There have been various efforts to manage these persistent tensions of tripodal horizontal ethnic mobilisation and their pernicious effects on political stability and economic development. These include formal institutions of government policy to achieve ethno-regional representation through federalism and a bicameral legislature; the Federal Character affirmative action in public education, the civil service and the federal cabinet; and pan-ethnic majoritarian rules in the electoral system (Dudley, 1982; Oyovbaire, 1983:24; Adamolekun and Kincaid, 1991; Mustapha, 2006: 169-174).

13 Out of over 400 ethnic groups, the Hausa and Fulani of the north, the Yoruba of the south-west and the Igbo of the south-east are the numerically and politically majority groups. The tripodal regional administrative set-up of the colonial period and the tendency of many minority groups to cluster – politically, linguistically and culturally – around the big three reinforced their dominance. This has given Nigeria a tripolar ethnic structure, and it forms the main context for ethnic mobilization and contestation (Mustapha, 2006:160 and Oyovbaire, 1983:8). This tripolar structure also overlaps with its bicommmunal religious structure consisting of a predominantly Christian population in the South and a predominantly Muslim population in the North. See: Adamolekun and Kincaid (1991:177) & Mustapha (2006).
Critically, informal elite bargains and power-sharing agreements among regional political elites sought to expediently manage horizontal elite competition in the pursuit of national power. In the most recent reincarnation of democratic rule from 1999, the ‘zoning’ principle of power rotation within the PDP (the ruling party from 1999 until 2015), signified a seminal elite consensus at reconciling competing regional elite interests. This power-sharing consensus entailed the periodic rotation of party and public elective offices, particularly the presidential seat between the North and the South (PDP Constitution, 2012:8). Across the presidencies of Olusegun Obasanjo, Umaru Yar’adua and Goodluck Jonathan, zoning sought to complement formal policies for managing these historic tensions and to provide the requisite political stability that had eluded Nigeria for so long and undermined its economic development. Since it’s unravelling at the executive-presidential level, first with Obasanjo’s unsuccessful attempt at running for a third term in 2006, Yar’adua’s death in his third year in office in 2010, Jonathan’s defiance of power-rotation to the North to run for office in 2011 and finally with the PDP’s defeat in the March 2015 presidential elections, zoning is yet to be replaced with a comparable overarching framework for accommodating competing elites’ interests over presidential power.

While the zoning elite bargain and its formal institutional-policy counterparts such as Federal Character affirmative action in the public service aimed to address horizontal elite competition, they did not comprehensively address underlying vertical societal redistribution demands and external oil shocks as is explained below.

After independence, rising incomes, population growth and political developments empowered various societal groups with vertical distributional demands from the government. These include trade and labour unions under the umbrella organisations the Nigerian Labour Congress (NLC) and the Trade Union Congress (TUC), student associations especially the National Association of Nigerian Students (NANS), the media, professional associations and civil society advocating for employment, increased wages and social welfare. From the 1980s, these groups became more vocal and politicised in challenging austerity and declining living standards of the structural adjustment period, and in the pro-democracy movement against the military regimes of the 1990s. Since the transition in 1999, their distributional demands have remained largely unaddressed and vested in wage increases, government employment and in particular, the contentious and expensive fuel subsidies. Within this period as well, religious groups such as the Jama’atul Nasril Islam (JNI) and the Christian Association of Nigeria (CAN); ethnic associations, Islamist movements, regional militias and militant groups such as Oodua People’s Congress (OPC), militant groups in the oil-producing Niger Delta and others have emerged as vocal and politicised actors with distributional demands expressed in contesting political appointments, direct distribution of oil revenue or challenging the state’s authority. In the absence of comprehensive social welfare services, these distributional pressures have neither been comprehensively addressed nor placated despite huge inflows oil revenue.

The external pressures of oil shocks predates the first oil boom of the 1970s, to the time when the country first became reliant on agriculture and mineral commodity exports after

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14 Owen and Usman (2015) analyse how the gradual fragmentation of the PDP across these three presidencies majorly contributed to its defeat in the 2015 elections.
15 See Forrest (1995:110) and Falola and Heaton (2008)
World War II. These commodity exports were the main source of foreign exchange and government revenue, which supported a nascent import substitution industrialisation strategy, which were then substituted for oil exports in the 1970s. Since the first oil crunch of the 1980s, the policy responses, such as structural adjustment from 1986, have unsuccessfuully aimed to diversify this oil-dependent exports and revenue base. Global oil boom and bust cycles have often led to fiscal, debt and economic crises, such as in the 1980s which preceded the structural adjustment, in the 1990s which preceded the accumulation of odious debt under the military, in the early 2000s which preceded significant economic reforms, and since mid-2014 collapsing global oil prices have engendered yet another fiscal crisis. Therefore, in the context of this dependence, volatility in the global oil market has destabilising effects on the balance of trade, government revenue, fiscal expenditure, the local economy, but crucially the horizontal-elite and vertical-societal groups whose agenda is largely informed by the distribution of these oil rents.

Therefore, within this institutional framework, Nigeria’s three main fault-lines of instability have each necessitated specific types of economic policy responses, which in turn produce different development outcomes. These policy responses and their varying economic outcomes is what this paper assesses.

To be precise, using the political settlements framework enables us identify Nigeria’s three main sources of instability, and the policy responses to the ensuing instabilities as I illustrate in Figure 10 below. These are: (1) Horizontal elite competition by the political elite along ethnic, religious and regional lines over the distribution of economic rent and access to state power which supervises this distribution, moderated by elite bargains; (2) Vertical agitation by wider societal groups for redistribution of the economic rent; (3) The impact of a volatile external economic rent (because oil is the main source of export and government revenue) on both elite competition and societal redistribution demands, and the resulting economic agenda to mitigate these economic crises.

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Nigeria’s evolving political settlements have historically produced formal and informal institutions (*institutionalisation*) to mediate new horizontal distribution of state power for new allocation formulas of state-controlled oil rent. Since the 1980s, vertical-societal pressures have led to distributional policies such as subsidies on fuel and higher education. By contrast, there have been inadequate effective and sustainable strategies efforts to address the external dimension of instability; to diversify away from volatile oil rents. Thus, oil shocks, which are exogenous to the political settlement, have destabilising consequences on this *horizontal* elite competition and *vertical* societal demands for redistribution of oil rents. The following propositions are put forward to explain these causal mechanisms:

1. **Diversifying the economy becomes an ad-hoc priority only when the external environment threatens both the ruling coalition’s and society's access to oil rents.** What this means is that economic reforms for effective economic diversification to generate non-oil economic wealth are a reaction to an external constraint, while horizontal and vertical constraints result in new revenue allocation formulas, inclusive political reforms (e.g. affirmative action, power rotation and ‘zoning’), social welfare and other policies which simply redistribute existing rent.

2. **The effectiveness of ruling elites’ response to these threats is determined by first the nature of specific threats these crises pose to them, and second, their capacity to respond based on their degree of cohesion/fragmentation, technical competence** and their financial resources** and.** This is summarised as the

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18 There’s a robust literature based on evidence from East Asia on the capacity of bureaucracies to operate on rational-legal rules of meritocratic recruitment, internal cohesion, political autonomy and embeddedness in wider society as prerequisite of state-led economic transformation. See early writers on the developmental state: Amsden (1989), Wade (1990), and Evans (1995); and on the political underpinnings of technocratic bureaucracies, see: Doner (1992), Kohli (2004) and Kang (2004)
balance between the state elite, the bureaucrats and the business elite, collectively referred to as the *ruling coalition*\(^\text{19}\).

3. **Since 1999, specific economic policy responses to this external constraint have engendered an expansion of Nigeria's GDP towards non-oil sectors such as telecommunications while unresolved *horizontal* and *vertical* constraints generated distributional pressures which stagnated the oil sector.**

The rest of the paper elaborates on these causal mechanisms by assessing the post-military economic reforms from 1999 in the telecommunications and the oil sectors.

\(^{19}\) On threats to ruling elites, their capacity to respond, the composition of the coalition, resources available and technical competence see: Kang (2004:7), Lewis (2007:15), (Whitfield and Therkildsen, 2011:17-19), (Gray and Whitfield, 2014) and (Whitfield et al., 2015)
Constraints for Economic Reform in Nigeria’s Post-Military Political Settlement

In his first term in office (1999-2003), President Olusegun Obasanjo took a decidedly reform-orientation. Instituting transparency in public procurement known as “Due Process”, the privatisation of 127 public enterprises, anti-corruption, and the telecoms liberalisation were the foundation for growth-orientated governance and economic reforms as one of the ministers who spearheaded them explained to me. Obasanjo’s reform-mindedness was partly borne out of a personal desire to leave a legacy by laying the foundation for economic rejuvenation; he wanted to recreate the East Asian model especially Singapore because, according to Nasir el-Rufai, a member of his economic team “…Obasanjo and Lee Kuan Yew are friends… whenever he spoke about a great, visionary leader it was always Lee whose name he brought up.” Mainly, it was a pragmatic response to severe economic problems. The decisive motivation for a paradigm shift towards growth-enhancing reform was the external constraint of low global oil prices, operating through the following mechanisms:

1. The necessity of generating new sources of wealth in the economy in a period of low oil prices, at $17 per barrel in 1999;
2. The necessity of freeing up resources that were committed to debt servicing, up to $3 billion per annum by 2004 or 41% of the annual budget;
3. The necessity of articulating a comprehensive economic reform blueprint for public financial management and market liberalisation as a condition by donors for debt relief;

The need to secure debt relief to have some fiscal space in a period of low global oil prices by 1999 generated subsequent economic and governance reforms. The new administration inherited a huge external debt portfolio, reaching $36 billion by 2004 equivalent to 51.4% of GDP, 412% of annual fiscal revenue and 151.9% of exports as estimated by Nigeria’s Debt Management Office (2005:44). Obasanjo launched a campaign for debt relief from the Paris Club group of creditors, to which Nigeria owed almost 90% of its external debt. According to Oby Ezekwesili, the Senior Special Assistant to Obasanjo on Budgets, Due Process and Price Monitoring, while “the U.S. Treasury and Congress supported Nigeria… in its quest for debt relief, they felt… the institutions of corruption… were still intact, and that any debt relief for Nigeria would amount to moral hazard… giving us more money to burn because there are no consequences to our bad behaviour.” She adds, “there was need for a game-changer, to demonstrate to the world with evidence that Nigeria had changed its past ways of profligacy, that Nigeria would make judicious use of revenues that would give it fiscal space.

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20 Interview, March 2015.
21 El-Rufai (2013: 355). This was reiterated by another member of the economic management team who confirmed to me that Obasanjo was “Besotted to the ideals of Lee Kuan Yew” who was “his friend” and he (Obasanjo) “used to take Young Africans to study at the Lee Kuan Yew School of Public Policy”. Interview, London United Kingdom, 08 March 2015.
22 Okonjo-Iweala (2012:147).
23 Interview with former minister and core member of Obasanjo’s economic team. London United Kingdom, 08 March 2015.
24 Interview with former minister and core member of Obasanjo’s economic team. London United Kingdom, 08 March 2015.
to ensure debt relief would not just be squandered."

The requirement was to reform public contracting, privatise enterprises, pursue economic liberalisation, demonstrate commitment to anti-corruption and finally unveil an economic reform blueprint. NEEDS was subsequently unveiled in 2004 as a framework for other public sector, macro-economic and market reforms with varying outcomes\(^{25}\). It is within this context that the telecoms sector was liberalised while the oil sector in particular eluded the radar of reform, as is discussed below.

The one sector where liberalisation was pursued with relative success is telecommunications or ICT, one of the main recent growth drivers. The notorious inefficiency\(^26\) of the Nigerian Telecommunications Limited (NITEL) prompted Ibrahim Babangida’s military government to pencil the utility alongside several public enterprises for privatisation during structural adjustment\(^27\) between 1988 and 1993. Under Obasanjo’s watch from 1999, the Bureau for Public Enterprises (BPE) pencilled 74 public enterprises for privatisation, including NITEL (Adejumobi, 2011:9). This paper suggest three main constraints, generation of non-oil wealth for ruling elites, pressures from the private sector allied to the ruling elites and donor and regional-external pressures, which enabled a pro-reform mind-set in Obasanjo’s administration in the telecommunications sector.

The first constraint was the need to generate non-oil wealth. Despite professing a nominal commitment to liberalising the telecoms sector in his early days, Obasanjo wasn’t really interested until he realised how liberalisation could generate new resources. He revoked most of the 27 mobile operation licenses provided by the previous military regime\(^28\) to domestic and foreign private sector operators including some powerful military generals. This revocation of a process, which had started in the 1990s, aimed to unravel Sani Abacha’s legacy, the maximum military ruler who had placed Obasanjo on death row for an attempted coup\(^29\). Therefore, the first attempt at GSM licensing failed in 2000 due to the power tussle among Obasanjo, former military ruler, General Babangida and other military elite. It was only when Obasanjo’s government realised the money that could be made from the sector on the prodding of the private sector, that a second bid round was conducted in the UK in 2001\(^30\).

Specifically, Obasanjo’s ruling coalition was encouraged by the high bids made for the three licenses auctioned at $285 million each by the local group, Communication Investments, South African-backed Econet Wireless Nigeria and a group headed by South Africa’s Mobile Telecommunications Network (MTN). This amount far outstripped the $100m quoted for each licence – it was the most expensive license issued in Africa at the time according to the Econet CEO Strive Masiyiwa\(^31\) – and $1 billion for the state-owned NITEL. Although most of the funds realised from the sale of GSM licenses were unaccounted for\(^32\), Obasanjo’s administration became more committed to pursuing liberalisation further upon realising how

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\(^26\) For instance, between 1985 and 2000, the government spent more than $5 billion digitalising a landline telephone network that ended up with just 300,000 connected users. At the time, Germany’s Siemens had a dominant share of contracts from NITEL (Wallis, 2013).

\(^27\) By 1988-89, 24 major state-owned enterprises were to be commercialised (Yahaya, 1993:19).


\(^29\) Interview with a technical adviser for several reforms embarked on by Obasanjo. Abuja, 13 May 2014.

\(^30\) Interview with a technical adviser for several reforms embarked on by Obasanjo. Abuja, 13 May 2014.

\(^31\) Masiyiwa narrates in detail his experience with the telecoms liberalisation in an article titled: “It’s time to play by a different (ethical) set of rules (Part 7) Nigeria 1”. See also BBC (2001) Nigeria Awards Telecom Licenses.

\(^32\) Interviews, Abuja, April to June 2014.
much more could be made and appropriated, by key military and business elites allied to the ruling PDP as is explained below.

The second critical constraint is the involvement of the private sector allied to the ruling coalition. Individuals who had served or who were business partners of previous military regimes owned shares in these first wave of telecoms firms. For instance Colonel Sani Bello (rtd), a former military governor and a one-time ambassador to Zimbabwe, is a tycoon in oil and telecoms, listed as one of Africa’s richest by Forbes, owned a minority stake in MTN Nigeria, one of the three beneficiaries of the 2001 auction. Econet Wireless Nigeria, the first telecoms firm to set up operation in Nigeria, had a consortium of 22 all-Nigerian financiers including leading banks, the Lagos and Delta state governments, military generals who were founding members of the ruling PDP and had paved way for the emergence of Obasanjo as PDP’s presidential candidate straight from prison, high net-worth individuals such as Oba Otudeko, a Lagos-based industrialist who made his fortune in the 1980s and owns a 14% stake in Econet Wireless Nigeria (now known as Airtel Nigeria)33. What was happening in the telecoms sector was a watershed for market reforms in the economy. “It all started there” as an advisor34 who was part of the process mentioned, because for the first time, the private sector was allowed to drive things:

It was the private sector… it is MTN saying to the President (because Obasanjo promised South African President, Thabo Mbeki…) ‘we’ll have a way of taking care of you but we want to operate in a competitive market, with some advantages over our competitors’. Obasanjo had no idea how markets work, as a military man, so the private sector starts educating him on this… he might have mentioned ‘diversification’ [in speeches] then but had no idea what it meant – but now every government, in every speech mentions ‘diversification’, PPP, private-sector-led growth, and all these stuff, but this is recent stuff. They weren’t talking about this before, but they love it because it means that it’s this whole thing about growing the pie...

Whereas in the past, economic reforms were fully led by the government and consequently beholden to regional elite patron-client networks35 with growth-retarding outcomes, this time around, the private sector within the ruling coalition was allowed to steer the direction of reform with growth-orientated outcomes. They demonstrated their capacity to generate new sources of rent for the ruling elite and to ease budgetary restraints, which although one-off, both allowed key elites to position themselves in emergent economic sectors, and also meant this model could potentially be replicated in other sectors36. Nigeria earned about $2 billion between 1999 and 2011 as proceeds of privatisation, while another $10 billion in annual transfers to public enterprises was saved according to the former minister of finance, Okonjo-Iweala37. The private sector and the ruling elite were in a sense “mutual hostages” as

34 Interview with a technical adviser for several reforms embarked on by Obasanjo. Abuja, 13 May 2014.
35 According to Lewis (1994: 438), this was because, Nigeria’s fragmented state elites constructed supportive coalitions based upon the strategic distribution of rents, and therefore, could not pursue a coherent project of capital formation and investment.
36 Such as the allocation of monopoly rents through the ‘Backward Integration Policy’ in the cement and fruit juice industry to select firms such as the Dangote conglomerate with growth orientated outcomes. Nigeria transitioned from being a net importer to a net exporter of cement by 2013. See: FMITI (2012) and Osagie (2015)
37 Okonjo-Iweala (2012:80)

The third constraint for the telecoms liberalisation was external, and this was three-fold. As a precondition for debt relief, Nigeria had to develop a comprehensive economic reform strategy approved by the IMF. In addition, conditional assistance by the Bretton Woods institutions, OECD countries and the World Trade Organisation (WTO) facilitated liberalisation. To that effect, in July 2000 the IMF obtained a pledge from the Nigerian government to minimise spending on the public utility, NITEL, as a pre-condition for a $1 billion standby agreement (Opata, 2011:4). Lastly, there was also a neighbourhood-rivalry effect with other West African countries. The realisation that the failure of earlier attempts at awarding licences had left Nigeria's telecoms network several years behind those of neighbouring rivals such as Ghana and the Ivory Coast may have expedited the GSM auctions in 2001.

The full liberalisation, marked by the introduction of GSM in August 2001 engendered the expansion of the sector. Prior to liberalisation, there were just 400,000 phone lines with a tele-density of 0.4; as at July 2015, there were 196 million connected mobile and fixed lines and 93.4 million active internet subscriptions, making it the largest mobile market in Africa. The telecommunications sector has expanded tremendously, from just 0.1% of GDP in 2001 to 10.4% in 2014. The sector grew at an average of 122% over a ten-year period, from 1999 to 2009 as Figure 11 below shows (pre-rebasing figures). The South African mobile firm MTN's biggest market by subscriber base is Nigeria, which has 27.7% or 64.1 million of its 231 million subscribers across 22 countries. Globacom, the Nigerian-owned telecommunications firm is becoming a major player across Africa.

38 According to Dr. Ngozi Okonjo-Iweala, head of the Economic Management Team, the quest for debt relief and for return of public assets stashed in the UK provided the impetus for quick work on the economic reform strategy (Okonjo-Iweala, 2012:27).
39 Opata (2011:3) classifies the influences of donor partners into financial (funding and financial assistance) and legal (the normative rules of international organisations incorporated in the Nigerian legal framework for telecommunications).
40 BBC (2001)
41 Telephone density is the number of phone lines per every 100 people. Figures derived from NCC (2013) and subscriber data from NCC website.
42 Leke et al. (2014:29)
43 Spillane (2015) MTN's Profit Declines as Sales Fall in Nigeria, South Africa. Bloomberg, 5 August; and subscriber data from NCC website.
However, some of the blatantly corrupt and opaque features of the liberalisation process underscored the main motivations for pursuing these reforms in the first place: to generate new sources of wealth for ruling elites confronted with declining oil rents. There were serious cases of under-pricing, insider trading, questionable valuations in the privatisation process (Adejumobi, 2011: 11) and egregious cases of bribery in the licence auctions. For instance, Econet Wireless Nigeria, the first telecom firm to establish operations in Nigeria was asked to pay $9 million in bribes to senior politicians who mobilised financial investments for the licence. According to the CEO of the firm’s technical arm, Strive Masiyiwa, his refusal to authorize the illegal payments led to the cancellation of their management contract by the Nigerian shareholders. In the privatisation, both NITEL and its subsidiary, Mobile Telecommunications (Mtel) were initially sold at an undervalued rate to a Dutch firm, and eventually Transcorp, a conglomerate owned by Obasanjo and his associates, acquired 75% stake under questionable circumstances. Both cases did not pass the basic ‘due process’ requirements the same government ironically promoted such that Yar’adua reversed the sale in 2007 on assumption of office. Yet, this corruption and factionalism did not completely undermine the attempt to promote an independent capitalist telecommunications sector.

With the relative success of the telecoms liberalisation, Obasanjo then proceeded to fully launch market reforms, by appointing a competent economic team to manage the reform process and developing the NEEDS blueprint in 2004. In September 2005, over a year into the implementation of NEEDS and achieving about 70% of its targets, the Paris Club granted Nigeria debt relief of $18 billion (el-Rufai, 2013:189). This translated to annual debt-service savings of $1billion (OSSAP-MDGs, 2006:2) giving Nigeria the fiscal space for other

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44 See: Masiyiwa (2015). A big international operator was invited to replace Masiyiwa’s Econet as technical partner, the name was changed from Econet to V-Mobile, and then to Vodacom, Zain, Celtel and finally to Airtel.

governance priorities. By the same token however, these constraints in the political settlement had a different effect in the oil sector as is assessed below.
Stagnation and Decline of the Oil Sector

In this context of governance and economic reforms, the oil industry stagnated and steadily declined as a share of GDP. It grew at an average of 1.3% between 1999 and 2009, and -4.2% between 2010 and 2014 despite high GDP growth within this period. Despite being Nigeria’s primary export, accounting for 92.6% and 67.5% of government revenue as at 2014, its share of GDP has steadily declined from a peak of 30.8% in 1999, to 11% in 2014 as Figure 12 below illustrates.

Figure 12: GDP and Oil Sector Growth Rates, and Oil Sector’s Share of GDP (%)

![Figure 12: GDP and Oil Sector Growth Rates, and Oil Sector’s Share of GDP (%)](image)


Although the oil sector’s relative decline as a share of GDP could be interpreted as a welcome indication of expansion of non-oil sectors, there is an absolute decline in actual crude oil production. Since 2013, production averaged slightly below 1.9 million bbl/d far below the peak capacity of 2.4 million barrels per day (bbl/d) in 2005, and its target of 4 million bbl/d (EIA, 2013; CBN, 2013). Nigeria’s proven reserves have similarly been stagnant at 37.2 billion barrels despite stated aims of increasing reserves to 40 billion barrels (EIA, 2013). This stagnation is conventionally attributed to oil theft, pipeline sabotage, piracy in the Gulf of Guinea, and investment uncertainties surrounding the long-delayed Petroleum Industry Bill (PIB) meant to harmonise into one law, the 19 separate legislations governing the industry. These are all impeding the attainment of production targets.

However, employing the political settlements framework, this paper argues that these security and investment challenges are manifestations of specific constraints on the ruling

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46 The GDP revisions which included new economic sectors is an important factor. However, even from old GDP series, there was an evident decline in the sector’s contribution to GDP.

47 EIA, 2013; confidential documents from a multi-stakeholder initiative.
coalition, endogenous and exogenous to the country’s political settlement. I therefore attribute the oil sector’s absolute decline to the instability of Nigeria’s political settlement caused by horizontal-elite competition, vertical-societal demands for redistribution and external-oil shocks. Despite GDP diversification, the oil sector remains Nigeria’s foremost foreign exchange earner, and therefore the main source of economic rent for society. Its centrality to economic accumulation places it at the heart of Nigeria’s horizontal-elite competition, vertical-societal agitations for redistribution and economic vulnerabilities to external shocks. These pressures in the political settlement affect the oil sector through the following causal mechanisms: (1) the centralisation of oil rents in a state with a strong centripetal tendency; (2) the volatile centrifugal competition for access to these centralised rents and; (3) competing actors constraining the ruling coalition to pursue a distribution rather than a growth agenda. These three mechanisms are analysed in detail below.

Centralisation of Oil Rents in the State

The centralisation of Nigeria’s oil earnings in a handful of national government agencies provides huge payoffs to the actors or interests controlling these agencies thereby generating an anti-reform impulse. This centralisation is a consequence of both contingent historical factors and the volume of these earnings. Unlike most OECD countries where the extractives sector is entirely privately owned\(^\text{48}\), the Nigerian government as with many oil-rich developing countries owns all mineral rights. In the Nigerian constitution, all “mines and minerals, including oil fields, oil mining, geological surveys and natural gas” activities are located in the Exclusive Legislative List in which only the federal government can preside over\(^\text{49}\). However, actual production is carried out by International Oil Companies (IOCs) through Joint Venture Contracts (JVCs) and Production Sharing Contracts (PSCs) from which the government collects taxes and royalties although recent legislation has been increasing the participation of indigenous firms\(^\text{50}\). Therefore, all mineral rents are centrally collected\(^\text{51}\) in a federal account, distributed, between the federal and sub-national governments. While this consolidation of national control over the oil and gas sector fits the global trend within resource-producing countries (Gelb and Bienen, 1988), in Nigeria, it is also a consequence of both contingent historical factors and the volume of these rents. Historically, the process of centralisation began even before crude oil became the main source of government revenue. The process of centralisation can be traced back to the abrogation of Nigeria’s regional federalism for a unitary one by Aguiyi Ironsi’s military regime in 1966. Although his successor, Yakubu Gowon restored federalism in a counter coup a few months later, revenue derived from the regional component units was centralised in the federal military government both to starve the rebel enclave of Biafra of resources during the

\(^{48}\) The OECD countries operate a concessionary fiscal regime while developing countries have a contractual regime (Nakhle, 2010:91-94)

\(^{49}\) Item 39 of the Exclusive Legislative List, in Part II of the Nigerian Constitution

\(^{50}\) The full name of the legislation is the Nigerian Oil and Gas Industry Content Development Act of 2010. See for instance: Ovadia (2013) for an assessment of the legislation’s implications for indigenous capital accumulation.

\(^{51}\) These revenues are composed of crude oil sales receipts, petroleum profits tax (PPT), royalty, upstream gas sales, Nigeria liquefied natural gas, flared gas and pipeline fines, domestic crude, and signature bonuses (Gboyega et al., 2011:28).
Civil War in 1967-1970 and to facilitate rapid post-war reconstruction\textsuperscript{52}. As a member state, Nigeria followed suit in a wave of nationalisations of the oil sector in OPEC countries in the 1970s. This transfer of ownership from IOCs vested complete control in the Nigerian state thereby consolidating the already existing centripetal orientation. Since then, the federal government has maintained a strong hold on the extractive industry, passing various laws\textsuperscript{53} to give it exclusive rights to mineral resources.

The tendency towards fiscal centralisation in Nigeria as in many oil producing states is also facilitated by the sheer scale of oil rents as Ross (2012) notes. The volume of these earnings therefore may have inspired successive Nigerian military and civilian leaders to permanently retain central control. NEITI audits\textsuperscript{54} estimate that Nigeria earned $416 billion from the oil and gas sector between 1999 and 2011. With this volume of oil wealth, successive military and civilian ruling coalitions realised that the centralisation of the oil industry was accompanied by immense payoffs: it enabled them to enrich themselves or buy political support through the award of oil blocks, crude oil lifting contracts, and import licenses for refined products. The policy implication was that the oil sector was generally insulated from reform, because it was more profitable to do so during oil booms, and even during downturns, it was easier to target other sectors.

**Competition by Countervailing Interests for Access to Centralised Oil Rents**

The volume of petro-dollars accruing to the state engenders intense competition by a range of actors in the political settlement for access to centralised oil wealth. The divergence of interests among these competing actors generates distributional pressures detrimental to the oil industry rather than a growth-orientated policy response. One indication is the scramble for access and control of positions in oil revenue generation or management agencies. In particular, highly coveted appointments to the petroleum ministry and the state oil corporation, the NNPC, are closely monitored to assess which ethnic, religious or regional group is gaining ascendency and at whose expense (Gboyega et al., 2011:17). Although the scramble by competing ethnic, religious and regional groups for access to centralised economic rent, control of government agencies and thus national power, predates the oil boom of the 1970s, the capacity of oil wealth to empower contesting actors in a winner-takes-all context has exacerbated the competition. To understand the nature of this competition it is necessary to identify the actors involved, outline their interests and define their location in the political settlement.

A starting point would be the delineation of the three spheres of constraints in the political settlement – *horizontal*, *vertical* and *external* – and the location of the range of actors involved in the production, management or distribution of oil rents. This enables us to appropriately map these actors, frame their interests and demarcate the fault lines of contestation. As Figure 13 below shows, there are three sets of actors in the *horizontal*
(production, management and distribution of oil rents), *vertical* (distribution of oil rents) and *external* (oil production) spheres of the political settlement.

**Figure 13:** Stakeholder Map of Key Oil-Sector Players and Interests

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                     *Sub-national Executive:* Governors of Oil-Producing States, Governors of Non-Oil Producing States, Nigerian Governors’ Forum (NGF) & Local Government Councils.  
                     *Other Govt. Arms:* National Assembly & Judiciary. |
| **Vertical**   | *Unions:* PENGASSAN & NUPENG in the oil sector, NLC.  
                     *Civil Society:* NGOs, Media & Intelligentsia.  
                     *Oil Communities:* Militant Youth, CBOs, Traditional Councils & Chiefs. |
| **External**   | *IOCs:* Western IOCs (Oil Producers Trade Section) & Eastern SOEs  
                     *Development Partners:* Bilateral & Multilateral Institutions. |

Based on the stakeholder map above, at least four fault lines of contestation are identifiable. The first fault-line exists within the *horizontal* sphere in the multifarious contests involving the three arms of government, the revenue generating and revenue management agencies, the oil producing and non-oil producing sub-national tiers of government and the domestic private sector. One notable case is the tension between state governors and the federal executive agencies especially the Ministers of Finance and Petroleum Resources on oil receipts. In particular, the governors (through the NGF) have historically challenged the federal executive’s dedication of surplus funds to the Excess Crude Account (ECA) and the sovereign wealth fund, the Nigerian Sovereign Investment Authority (NSIA) – both counter-cyclical initiatives to save oil earnings – on the grounds that these initiatives are unilateral and unconstitutional deductions of their share of oil revenue. This is because inter-governmental distribution of oil revenues – or ‘fiscal federalism’—is a central component of formal power sharing in Nigeria. Section 162 of the 1999 constitution requires that all centrally-collected revenues first enter the Federation Account for onward distribution among the federal, state and local governments in a 52:27:21 ratio. While front-line deductions are

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56 See IMF paper by Ahmad and Singh (2003) for a historical analysis of Nigeria’s revenue-sharing formulas.
permitted constitutionally, including the 13% derivation for oil producing states and debt-service among others, this does not cover the ECA or the NSIA whose operation is enabled not by the constitution, but by an informal elite consensus between the federal and state executives.

Another notable instance of this intra-horizontal competition is the tremendous friction between governors, legislators and other state elite of oil producing regions and their non-oil producing counterparts over their share of oil receipts. While elites of oil-producing states advocate for increased oil receipts and even full ‘resource control’, elites from non-oil producing regions argue that the Niger-Delta receives far more revenue to the detriment of other regions. For instance according to governors of oil producing states, the “introduction of fiscal federalism and resource control would encourage each state to control its resources and develop in accordance with its capability”\(^57\). Governors of non-oil producing states however argue it is “unfair” that since 2002, oil extracted offshore in the high seas, is included in the 13% derivation to the Niger-Delta. As a former governor of Kano state explained: “...if you have gold in your land and you are claiming certain percentage to be paid to you, one can understand that. But if you have oil wells 200 nautical miles away from your land and you are claiming that that well is your own, I don't think that is correct”\(^58\). Therefore, poorer states especially in the north have insufficient revenue to address massive economic and human underdevelopment challenges, it is argued. According to former Central Bank Governor, Sanusi Lamido: “those states simply do not have enough money to meet basic needs while some states have too much money”\(^59\).

The second fault-line of contestation occurs between actors in the vertical and horizontal spheres over the distribution of oil rents. This is illustrated by two notable instances. First, there is the vociferous agitation by oil-producing communities for ‘resource control’ to compensate for environmental degradation, economic marginalisation and underdevelopment. This led to a number of pacification measures, including the 13% derivation payment to the governors of the region, creation of Ministry of the Niger-Delta, the Niger-Delta Development Commission (NDDC) and other agencies with dedicated funds; an amnesty to the militants accompanied by monthly payments and training programmes; and under Goodluck Jonathan, the funneling of up to 46% of capital spending in 2014 to the south-south region home to five oil producing states and six out of the country’s 36 states\(^60\). However, the underdevelopment concerns informing redistribution agitations of the Niger-Delta have persisted despite the funneling of resources to the region. A World Bank research paper by Ajakaiye, Collier and Ekpo (2011:252) notes that the disproportionate share of the revenues received by the Niger-Delta has been “insufficient to satisfy their sense of entitlement”, and that the local elite to whom these revenues accrued “deflected frustrations from their failings”. Second, trade unions\(^61\) and civil society vociferously advocate

\(^{57}\) See: Bassey (2012) Nigeria: South-South Governors Renew Call for PIB, Resource Control. Thisday, 17 April


\(^{60}\) According to an analysis, out of N1.386 trillion for capital spending in the regions in 2014, N639.306 billion or 46% was allocated to the South-South; N256 billion, South-West; N193 billion to the Federal Capital Territory; N111.3 billion South-East.; N101 billion, North-Central; N62.151 billion, North-West and N23.767 billion to the conflict-ravaged North-East. See: Daily Trust, 31 December 2014

\(^{61}\) The Petroleum and Natural Gas Senior Staff Association (PENGASSAN) and the Nigerian Union of Petroleum and Natural Gas Workers (NUPENG) are the key unions which represent the white-collar
for wage increases and fuel subsidies. This frequently results in strikes and industrial actions by these unions, the largest of which was Occupy Nigeria in January 2012.

The third fault-line is between actors in the external and horizontal spheres over the oil industry’s fiscal regime, that is, the set of instruments (taxes, royalties, dividends), which determine how the funds generated by oil, gas, and mining projects are shared between the state and IOCs. In particular, since Nigeria has one of the highest fiscal regimes in the world, the IOCs are reluctant to substantively support reforms, which would require them to pay more in taxes and royalties. This is further bolstered by the oil majors’ perception of a difficult operating environment in the Niger-Delta and the Gulf of Guinea. However, the IOCs are also regarded as pursuing an excessive profit maximisation agenda through transfer pricing, tax avoidance and other subversive measures. According to confidential documents from a multi-stakeholder initiative, the IOCs exert considerable influence over oil-related tax administration in Nigeria. As a senior executive of the NNPC explained, “the oil industry is dominated by big multinational companies with the sole aim of reaping huge benefits. It means those of us in the leadership position in the industry have failed... especially in passing the PIB.”

The fourth fault-line exists between the external and vertical spheres over the environmental, socio-economic and security implications of oil production. The degradation of farmlands, flora, fauna and aquatic resources in the Niger-Delta by the process of oil extraction is well-documented—a UN report estimates that environmental restoration from oil spills and oil well fires in Ogoniland, in the region, may take up to 30 years. The decline of livelihoods was a major driver of militancy in the region against IOCs (and the government) from the mid-1990s. The progressively violent nature of this militancy in the destruction of oil facilities, piracy, illicit arms trade and oil theft further destroyed the environment and livelihoods through oil spillages, had severe security implications and affected actual production output, down to 1.9 million barrels/day by 2012 and cost Nigeria up to 10% of daily production according to insiders at the NNPC. Oil producing communities accuse IOCs of impunity and blatant disregard for the region’s people and environment. IOCs on the other hand accuse the communities of sponsoring militants, complicity in sabotage of oil facilities, mismanagement by local councils and culpability in oil spillages.

The volume of petro-dollars accruing to the state engenders intense competition among a range of horizontal, vertical and external stakeholders in the oil industry for access to centralised oil rents, as the four fault-lines of this contestation illustrate. The divergence of interests among these actors generates pressures for a redistribution rather than a growth-orientated policy response with a detrimental impact on the oil sector as is presented below.

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62 On fiscal regimes, see: Nakhleh (2010:89); NRGI (2015) Parliamentary Briefing
63 U.S. Embassy Abuja, WikiLeaks Cables #1365386
64 Interviews with senior government officials in Abuja between February and June 2014
65 Interview NNPC Abuja, 13 June 2014.
67 Interviews in Abuja between April and May 2014; confidential documents.
68 Interviews in Abuja between April and May 2014, and in London February 2015.
Leakages, Reform Inertia and Stagnation of the Oil Sector

As assessed in previous sections, various actors with multifarious interests compete for centralised oil rents. This competition creates distributional pressures, which result in revenue losses, inertia for reform and stagnation of the oil sector that are analysed here. One notable indication is the massive leakages across the entire oil industry value chain. While figures are hard to come by, Nigeria lost $217.7 billion from 1970 to 2008 according to a report by the AU and UNECA (2014:93&99), and $20 billion over a 19 month period, between 2010 and 2012 according to former Central Bank Governor, Lamido Sanusi (2014). These leakages were so severe that they had a ripple effect on monetary stability between 2011 and 2014. Sanusi’s deposition to the Senate on the failure of state-run oil corporation, the NNPC to remit about $20 billion of foreign exchange in a period of rising oil prices pointed out that:

…the failure of NNPC to remit foreign exchange to the Federation Account in a period of rising oil prices has made management of exchange rates and price stability, while keeping reserve buffers adequate, extremely difficult. The economy has had to pay a high price in very high interest rates and tight monetary conditions. The Central Bank of Nigeria is always blamed for high rates of interest as most non-economists do not realize that, given these leakages, the alternative is a devalued currency, low reserves level, high inflation and financial instability (p.3).

These problems are extensive across the entire sector. According to a World Bank policy paper by Gboyega et al. (2011:15) “every institution along the extractive industries value chain that potentially could prevent fraud is weak. Although these weaknesses allow for manipulation… the necessary underlying conditions for… best practice in petroleum governance are not in place. The responsibility is political”. Reforming these weak systems has been difficult. The PIB, the overarching legislative framework for transparency, extensive regulation and competitive investments has stalled for more than 14 years.

I now examine how specific distributive pressures across all three levels of constraints – the horizontal sphere of elite competition, the vertical sphere of societal demands for redistribution and the external sphere of the global oil market – in the political settlement, directly account for the leakages, reform inertia and stagnation of the sector.

Horizontal Elite Competition

Within the horizontal sphere of elite competition, at least three constraints – from the national executive, the ruling party and the business class – impede a growth agenda in the oil industry. First, within the national executive, successive presidencies ring-fenced the petroleum industry, as the main beneficiaries of its opacity. Although such insulation in Saudi Arabia made the state oil corporation Aramco, a rare enclave of bureaucratic efficiency according to Hertog (2010), in Nigeria, the reluctance to reveal the inner workings of the industry perpetuates inefficiencies, cronyism, and predation. The core of this opacity is the state oil corporation, the NNPC, which a senior official in the Ministry of Petroleum Resources says⁶⁹ “is seen as a mystery”. The NNPC’s dysfunction partly stems from a lack of a clear commercial mandate, its practice of operating without detailed rules for collecting, managing or investing its revenues; lack of transparency and accountability; and high levels

⁶⁹ Interview, Ministry of Petroleum Resources, Abuja, 30 April 2014.
of political interference in operational and fiscal decisions, according to confidential documents from a multi-stakeholder initiative. Consequently, according to a senior official at NEITI\textsuperscript{70}, “from the Central Bank to the Finance Ministry, to the Minister of Petroleum Resources, nobody knows how much oil is produced in Nigeria. What they know is what comes out from the export terminals. There is a gap between the well-end and the export terminals… there is a lot of ‘activities’”. Therefore, Nigeria’s oil sector is one of the world’s least transparent when it comes to sales, associated revenues and physical oil flows (Katsouris and Sayne, 2013:9).

Successive Ministers of Petroleum Resources, heads of the NNPC and other national executives actively perpetrate the opacity often subverting transparency and accountability reforms. There was no oil minister during Obasanjo’s administration from 1999 to 2007, a period when it wasn’t clear how much were Nigeria’s oil earnings, as the president personally supervised the ministry\textsuperscript{71}. Despite several recommendations by external auditors, Obasanjo as oil minister refused to install an effective metering system, to measure the actual quantity of oil produced. There was little activity under Yar’adua’s brief two-year administration. From 2010 to 2015, Diezani Alison-Madueke, a key ally of Goodluck Jonathan, obstructed numerous efforts to institute transparency in the sector, particularly in passing the PIB, thereby retaining the immense powers in the Minister and the President\textsuperscript{72} in the sector. As a senior official at NEITI explained: “the big boys are no longer exploring in Nigeria, they are all divesting because of the oil theft, the lack of passing of the PIB, and because institutions are built around persons – where Diezani is now the oil institution rather than the oil person”\textsuperscript{73}. These two instances underscore the anti-reform impulse within the federal executive in perpetrating opacity which has made the oil industry vulnerable to revenue losses.

Second, within the PDP, the ruling party from 2010-2015, the tendency to pacify aggrieved factions with oil import licenses, oil blocs and crude lifting contracts contributed to fraud, revenue leakages and a countervailing agenda to growth. Since his election as president in 2011 was preceded a fracturing of the elite consensus in defiance of the PDP’s power rotation to the North, Goodluck Jonathan had to expend unprecedented amounts of patronage – through the award of import licenses for refined petroleum in particular – beyond historical norms to buy political support in the wake of a fragmenting ruling party. As one of Jonathan’s Special Advisers explained\textsuperscript{74} to me, “the President and his allies have been acting with a siege mentality” within an unstable PDP. Therefore, preoccupied with Jonathan’s political security, the oil sector was a patronage instrument for his ruling coalition, emulating his military and civilian predecessors.

The fraud within the fuel subsidy regime is a notable illustration of the dispensation of patronage for the ruling coalition’s political security. In 2012 alone, the federal government spent an estimated $14.6 billion on fuel subsidy, of which about $6 billion was lost to false claims, fraud and inefficiencies\textsuperscript{75}. A probe by the House of Representatives\textsuperscript{76} revealed that

\textsuperscript{70} Interview, NEITI, Abuja, 05 May 2014; NEITI (2011:29).
\textsuperscript{71} Interviews with senior government officials and diplomats, Abuja, April-May 2014; confidential documents from multi-stakeholder initiatives
\textsuperscript{72} ibid.
\textsuperscript{73} Interview with senior official at NEITI, Abuja, 05 May 2014
\textsuperscript{74} Interview, Abuja, 16 September 2014
\textsuperscript{75} Confidential documents on from a multi-stakeholder oil sector transparency programme.
\textsuperscript{76} House of Representatives (2012) Report of The Ad-Hoc Committee “To Verify And Determine The Actual Subsidy Requirements And Monitor The Implementation Of The Subsidy Regime In Nigeria”. Resolution No. (HR.1/2012), Abuja, Nigeria
oil marketers increased from 45 in 2009 to 128 by 2011, many of whom were political cronies who got paid without supplying a drop of oil. An investigation by the Central Bank revealed that actual expenditure on subsidies had skyrocketed by 800% from an average of N295.5 billion in 2006-2008 to N1.7 trillion in 2011 and N1.5 trillion in 2012-2013 when oil price was at a historic peak (Sanusi, 2014:9-10). The list of oil marketers investigated by the anti-corruption agency the EFCC, reads like a roll call of Nigeria’s ruling elite. In particular, the sons of two former PDP chairmen, Senator Ahmadu Ali and Bamanga Tukur among others were beneficiaries of fraudulent subsidy claims. This came at a time when the northern caucus of the party, most opposed to Jonathan’s candidacy, were becoming vociferous in emphasising he could only run for one term. As a senior executive at the NNPC explained to me, “powerful people are participating… most of the people with private jets, obtained it either from subsidy money or stolen crude. All the money these people are making in government is government money. It is buying them [political] influence.” Evidently, revenue leakages and fraud were deliberately escalated to unprecedented levels since 2010 both for predation but also to attempt to pacify aggrieved members of the PDP for Jonathan’s political security.

Third, the empowerment of a business class allied to the ruling coalition has both positive and negative outcomes on the oil industry’s performance. Within the context of recent local content policies to increase local participation in the oil industry especially from 2010, indigenous operators across the industry’s value chain have been empowered. The recent divestment of onshore oil assets by Shell, Mobil and other IOCs to credible indigenous operators with the technical competence such as Oando Plc and Seplat has been beneficial to the industry. For instance, Oando is Nigeria’s largest indigenous integrated energy group, employs over 1,000 people and is listed on both the Nigerian and Johannesburg stock exchanges, while Seplat is similarly a market leader among indigenous oil production firms. These cases are however the exception rather than the norm. Of the 87 successful bids of upstream licences and oil blocks from the 2000, 2005, 2006, and 2007 rounds, only around half of those offered are currently being developed. In cases where beneficiaries are ‘briefcase companies’ with limited competence such as Atlantic and Seven Energy’s acquisition of Shell’s assets, the outcome has been predatory. One notable instance of this predatory cronyism in the oil industry is the case of Kola Aluko, a close business partner of the former Petroleum Minister, Diezani Allison-Madueke (2010-2015). Aluko, the CEO of Fossil Resources and Atlantic Energy, was a controversial beneficiary of oil assets divested by Shell, mining licenses and crude oil trading opportunities through questionable Strategic Alliance Agreements (SAA) with a subsidiary of the NNPC.

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77 Although some of these allocations of rents to cronies of the former oil minister such as Walter Wagbatsoma, were outright corruption. See: Abonyi, I. and Akintunde, A. (2012) Subsidy Fraud: EFCC to Prosecute 23 Oil Marketers. Thisday, 25 July
78 See Owen and Usman (2015) for an analysis of the fragmentation of the PDP, the defection of key veto players such as the five governors and former vice president Atiku Abubakar despite some attempts at pacification contributed to its defeat in the 2015 elections.
79 Interview, Abuja, 13 June 2014.
81 Confidential documents on from a multi-stakeholder oil sector transparency programme
82 Although Aluko eventually fell out with Allison-Madueke, who enlisted Interpol to arrest him after he was reported to have swindled her. See: The Cable (2014) Interpol to Arrest ‘Oil Magnate’. The Cable [online] 05 June 2014
He was listed as one of Forbes 40 Richest Africans in 2012\textsuperscript{83}, and owns luxury property in exclusive neighbourhoods across New York, Beverly Hills, London, Dubai, Paris, etc. According to an investigation by Nigeria’s Central Bank, up to $7 billion of income was lost between January 2012 and July 2013 by signing SAA’s with Aluko and others who had neither the technical expertise nor the capital to develop the joint venture (Sanusi, 2014:13-14). Therefore, while both local content policies and divestments by oil majors are diversifying ownership from domination by IOCs, empowering indigenous oil companies, Oando, Seplat and a few other firms possess the requisite financial outlay and the technical capacity, as the managing director of an oil major explained to me\textsuperscript{84}. Others who are beneficiaries of cronyism like Seven Energy, directly contribute to fraud and revenue losses in the sector.

These constraints within the horizontal sphere from the national executive, the ruling party and allied business elites discussed so far manifest in inefficiencies and fraud resulting in revenue losses and stagnation of the oil industry. As former central bank governor Sanusi explained to me\textsuperscript{85} “the corruption in the oil sector is not mindless... it is calculated and systematic”. Although these distributional pressures and their deleterious consequences escalated to stratospheric levels under Goodluck Jonathan due to the specific political pressures he faced after defying the PDP’s ‘zoning’ agreement to run for office, these pressures predate his administration by decades. For instance, about $458 million in corruption proceeds stashed by former military ruler, Sani Abacha and his associates in the 1990s in foreign accounts were frozen by the U.S. Department of Justice\textsuperscript{86}. The situation persisted because the power to affect change was also concentrated within this group of actors in the executive heavily vested in the illicit capture of oil revenues both for political ascendancy and personal enrichment.

**Vertical Sphere of Societal Demands for Redistribution**

Within the vertical sphere of societal demands for redistribution, I identify two specific constraints exerting distributional pressures on the ruling coalition and inhibiting a growth agenda for the oil industry. These include pressures by trade unions and civil society on one hand, and oil producing communities on the other.

In the first place, the frequent agitation by oil and non-oil sector unions for improved remuneration and in particular, the retention of subsidies inhibits a growth agenda for the sector. The media, intelligentsia and civil society are also vocal advocates for the retention of fuel subsidies. While this advocacy is driven by legitimate concerns about the centrality of subsidies to the cost of living for ordinary Nigerians, it often translates into hostility to market-reforms. The geometric rise in the amount spent on subsidies by the end of 2011 – by almost 800\% as already discussed – led to advocacy for their removal in January 2012 by the more reform-orientated government officials. Lamido Sanusi, former central bank governor who advocated for subsidy removal explained to me\textsuperscript{87} that it was easier to completely remove the subsidies than to tackle the inherent corruption because “the contractors and the rentier

\textsuperscript{84} Interview, 03 February 2015, and with senior official at NEITI, Abuja, 05 may 2014.
\textsuperscript{85} Interview, Kano, 23 August 2014.
\textsuperscript{87} Interview, Kano, 23 August 2014.
business class which steals crude oil, who fraudulently benefit from... subsidies are aided by [certain people in] the government which now forges documents to cover their tracks". The wave of protests by labour unions, civil society and the Nigerian public tagged Occupy Nigeria in January 2012 was so severe that the subsidies were partially restored several days later.

Within oil-producing communities in the Niger-Delta, the vociferous and often violent advocacy for increased allocation of oil rents and full sub-national resource control contributes to the sector’s stagnation. Although the legitimate agitation by NGOs, CSOs, and traditional councils is distinct from the violent criminal enterprise of some militant groups, the boundaries are often blurred. In the case of the former, advocacy has focused on, among other things, getting direct payments from the oil rents accruing to the government, and seeking compensation for oil spillages from IOCs. It was this advocacy, which led to an inclusion of 13% derivation in the constitution in 1999, originally meant for direct disbursement to the communities but now captured by state governors. Lately, oil producing communities are advocating for a mandatory contribution by IOCs of 10% of monthly net profits to the Petroleum Host Communities Fund (EIA, 2013) to compensate communities where oil equipment is located. Legislators of non-oil producing regions strongly oppose what they regard as one more payment to oil-producing regions already disproportionately benefitting from oil rents at the expense of others, a major reason for the delay in the PIB.

Although militant groups such as MEND and NDPVF emerged from these historic advocacies by the Niger-Delta’s against economic marginalisation, from the mid-2000s, their activities increasingly veered towards criminality – abduction of expatriate oil workers, oil theft, illegal refining, piracy and arms trafficking. When the Amnesty programme was launched from 2008 to militants who renounced violence, many moved to the more lucrative crude oil theft, piracy and other forms of organised crime (Katsouris and Sayne, 2013). The presence of former militant warlords and other collusive interests in Goodluck Jonathan’s ruling coalition and the participation of some government officials and security forces enabled this paradigm shift. Although oil theft was started in the 1970s by top military officers to enrich themselves and to bust tight OPEC quotas, the return to democracy gave civilian officials and political ‘godfathers’ more access to the illegal oil trade (Katsouris and Sayne, 2013:2; interviews).

However, oil theft receives some support from some communities in the Niger-Delta as recompense for years of perceived marginalisation and exploitation by ‘northern’ rulers. According to the head of a multi-stakeholder initiative on the oil sector, in a meeting, Ijaw Chiefs complained “that northerners had been engaging in the theft of ‘our oil’ for years... but all of a sudden, because they [the Ijaws] have started doing it and the northerners have been displaced in national politics, everyone is complaining, oil theft has become ‘an international issue’.” Oil theft reached an industrial scale after the electoral transition due to the wide range of actors involved. Beyond militants, these include powerful interests in the petroleum

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88 Interviews with senior staff at Open Society Initiative for West Africa (OSIWA), Nigeria Extractive Industries Transparency Initiative (NEITI), and with senior executive at the NNPC, Abuja, February-June 2014.
89 Interviews with western diplomats, senior officials at the NNPC, NEITI and Central Bank, Abuja, February to June 2014.
90 The respondent adds further that, “people ask, ‘how did the military generals get to be so massively rich, when oil prices were low, production was low, budgets were small etc.’ and link it to systematic but lower levels of oil theft over time. Interview, Abuja, 13 May 2014.
ministry, politicians, military officers, the security services, local Niger-Delta elite, organised criminal groups in the Gulf of Guinea and even individuals within IOCs who “open their pipelines to the thieves at night on the agreement that only a certain quantity would be stolen”\textsuperscript{91}. One interpretation thus is the existence of legitimate grievances alongside the criminality of oil theft, prevents concerted action by some governors or political elite to effectively address this criminality for the fear of being accused of ‘betrayal’\textsuperscript{92}. This criminal enterprise undermines security in the region by aggravating hostilities among communities, IOCs and the government, affects production targets, leads to revenue losses, is a driver of onshore divestments by IOCs due to the high overhead costs according to the chief executive of an oil major\textsuperscript{93}, and contributes to environmental degradation.

Along with advocacy for redistribution from civil society actors and local oil-producing communities and violent criminal enterprises, some manifestations of these largely-legitimate redistributive pressures undermine the efficient operation of the oil industry

**External Sphere of IOCs and Destination Markets**

Within the external sphere of the global economy, I identify three specific constraints affecting the volume of Nigeria’s oil exports, fiscal revenues and the oil industry’s growth. These include the role of IOCs, the global oil market, and the destination for Nigeria’s crude oil.

On the first constraint, the main area of contention with IOCs is the country’s fiscal regime which determines the benefits accruing to the country from oil production. As discussed already, the government seeks to increase federal revenues from the industry while IOCs push back since the Nigerian government’s take is already one of the highest in the world\textsuperscript{94}. With rising insecurity in the Niger-Delta, oil production shifted to deep offshore wells under PSCs, where the government take is less than under the onshore JVs (Sanusi, 2014:1). The revision of the PSCs terms, defined during low oil prices in the 1990s by General Abacha’s military regime as was the case in many African oil producers, is one area the PIB seeks to address (EIA, 2013; Heilbrunn, 2014:98) and is one of the contentious reasons for the delay in its passage. According to IOCs, the proposals for the new regime in the PIB would increase the take on JVs from 82% to 91% and PSCs to 89% a level that is likely to deter investment in the sector by rendering many new and existing projects uneconomic\textsuperscript{95}. By attaching these fiscal provisions to the PIB, the Nigerian government pitched the IOCs, in opposition to the bill’s passage in its current form (ibid).

Although IOCs ostensibly support reforms, which improve the security situation, there is a perception that their overriding objective is profit maximisation. According to confidential documents from a multi-stakeholder initiative:

…the IOCs will only support regulatory, contracting or restructuring processes that make operating in Nigeria easier and more profitable for them. They seek to retain valuable acreage, minimize contact with the bureaucratic and patronage systems that slow operations, control the security situation, avoid or minimize regulation, and avoid

\textsuperscript{91} Interviews, Abuja, February-June 2014

\textsuperscript{92} Thanks to Jonathan Phillips of Harvard University for this point.

\textsuperscript{93} Interviews, 03 February 2015, and with senior official at NEITI, Abuja, 05 may 2014

\textsuperscript{94} U.S. Embassy Abuja, Wikileaks Cables #1365386

\textsuperscript{95} U.S. Embassy Abuja, Wikileaks Cables #1365386
any increase in fiscal terms. [...] the majors expended significant resources to frustrate progress on the PIB, out of fears that the proposed reforms would strengthen rather than limit government’s control over the industry...

At a benign level, IOCs bargain for neutral tax instruments to ensure they would make profits despite the taxes, and use hedging strategies to offset losses (Heilbrunn, 2014:98; Frestad, 2010:459). Through transfer pricing, deferred revenue from oil theft and direct tax avoidance, some IOCs operating in Nigeria short-change the country of oil earnings. While figures are hard to come by, a report by the African Development Bank and the Global Financial Integrity revealed that Nigeria has the highest volume of illicit financial flows from Africa, losing almost $250 billion between 2000 and 2009 (2013:26) largely in the oil sector, and up to $5 billion in 2011 to transfer pricing (PWC, 2011:5). In the context of the national executive’s inertia to strengthen regulatory and legal frameworks, the IOCs employ these hedging strategies to secure profit from a weak institutional environment. There have been no new investments for over a decade while oil majors are moving offshore where they are liable to less tax under the PSCs. Consequently, growth has stagnated, and the government earns less oil revenue than it should be.

The second external constraint is the international oil market, where the price of oil is decisive to Nigeria’s economic growth, export earnings and fiscal revenue. The global oil boom and bust cycle driven by geopolitical factors – the rise of emerging powers and the commodity super cycle\(^{96}\), the global financial crisis, the Iraq war from 2003 and the shale crude revolution – has a volatile effect on Nigeria’s economic agenda for the oil industry and beyond. During downturns, there is more impetus to pursue a growth agenda. The structural adjustment and NEEDS reforms were pursued during a period of low oil prices in the 1980s and early 2000s respectively. During boom times, efforts are concentrated on managing the intense local scramble for visibly high oil earnings. The most egregious cases of fraud, mismanagement and corruption in the post-military period occurred between 2010 and 2014, when oil prices were at a historic high of over $100 per barrel.

The rapidly evolving destination market for Nigeria’s crude oil is the third external constraint on growth and oil earnings. New oil producers in Africa, the U.S. shale oil and gas revolution and China’s rebalancing from an export-orientated to domestic-consumption-orientated growth, all affect the destination for Nigeria’s oil and the investment decisions of IOCs. In 2010, 26 African countries had proven oil and gas reserves and by 2012, only five of Africa’s 54 countries were not either producing or looking for oil\(^{97}\). The U.S., which used to be the biggest importer of Nigerian crude oil, reduced its imports of Nigerian crude by 95% from a peak of 1 million barrels per day in 2007 to 58,000 in 2014\(^{98}\). India, the EU and China have emerged as the top markets for Nigeria’s crude, although their share of imports is also declining. Angola could overtake Nigeria as Africa’s largest oil producer until the early 2020s (IEA, 2014), unless Nigeria is able to attract sufficient investments to increase both oil

\(^{96}\) Taylor (2015) argues that the growth in African economies has coincided with a boom in commodity prices over the past decade, which in turn is attributed to growing resource demand from China, India and other emerging powers. He notes that the BRIC states’ engagement with Africa essentially reinforces the continent’s historical dependence on resource extraction (p.139-141).


\(^{98}\) EIA (2015) U.S. Imports of Nigeria Crude Oil. EIA Database, 30 September
production and reserves, is able to focus on domestic consumption and resource-based industrialisation, and is generally able to counter the inertia in the sector.

To conclude, the oil industry is stagnating, and its proceeds are mismanaged in a concerted manner because the instabilities of the political settlement are directly projected on the sector. Despite liberalisation, and the emergence of new spheres of economic accumulation, oil rents remain both the principal source of economic accumulation by the elite and the focus for societal agitations for redistribution. These competitive and distributional pressures are thus the key variable which make the centralisation of oil earnings in the state undermine efficiency and reform unlike Saudi Arabia, where, as Hertog’s (2010) study reveals, the centralised oil industry and Aramco are rare enclaves of efficiency. The centrality of oil rents to fiscal revenues and horizontal and vertical competition reinforces the vulnerability of the entire economy to periodic external shocks. This fits Karl’s (1997:15) argument that the high barriers to change from a leading sector produce inertia in which organized interests and bureaucrats fight to maintain the status quo: a rigid framework of decision-making that contains strong disincentives for changing it. Despite professing a commitment to reforming the oil sector, cancelling the questionable crude swap agreements, drafting a new oil industry legislation, and restructuring the NNPC99 it is too early to tell whether the Muhammadu Buhari administration will make a clean break from the past or emulate his predecessors especially if the distributional concerns underlying these competitive pressures remain unaddressed.

Conclusion

This paper sought to address a gap in our understanding of the variation in sectoral economic performance in resource-rich countries, which ‘resource-curse’, ‘neopatrimonialism’ and ‘ethnic pluralism’ theories do not sufficiently explain. It has argued that the distribution of power in the political settlement determines specific economic policies at any period of time and the sectoral variation of economic outcomes in resource-rich economies. Focusing on Nigeria, I have assessed how specific constraints on the ruling coalition in the political settlement at the end of military rule in 1999 generated the initial impetus for the telecoms liberalisation, whilst simultaneously inhibiting a growth agenda in the oil sector. Worth highlighting in this concluding section are the three critical causal mechanisms between the political settlement and economic policies and outcomes.

First, the external nature of threats on the ruling coalition’s access to oil rents provided the impetus for governance and market-reforms. Since the fiscal constraints brought by low oil prices and odious debt by previous military regimes were severe in the early 2000s, Olusegun Obasanjo’s government was constrained to be reform-orientated. The relative ease of reforming telecoms sector globally was a low-hanging fruit enabling a quick generation of rents and for fulfilling preconditions for debt-relief from donors. Obasanjo and his economic team thus made concerted efforts to provide credible commitments to the private sector as a precondition for economic growth, as stated in the wider institutional literature. This was a marked departure from what Kohli (2004) and Lewis (2007:5) describe as an inability by previous Nigerian regimes to furnish credible signals for private investment because social division and political incentives hampered the formation of a stable pact between state elites and private capital. The analysis in this paper suggests there were attempts at providing some consistent commitments to private capital in the ruling coalition, and establishing some stable bureaucratic processes for Nigeria to grow its way out of debt, economic stagnation and generate non-oil wealth.

Second, the relative success of the telecoms liberalisation was largely due to the capacity and resources available: there was a capable economic team to drive reform and a business class allied to the ruling elite to respond to this stimulus. In emulating Singapore, Obasanjo assembled a competent technocratic economic team, with significant autonomy from political interference and sought to foster a set of institutionalized links and credible commitment signals to the private sector. This is because the hallmark of effective economic management is the willingness of senior leaders to delegate policy authority to a cohesive technocratic team and to strengthen the economic bureaucracy (Haggard, 1990:45; Lewis, 2007:16).

100 Thanks to Nemat Bizhan, Oxford-Princeton Global Leaders’ Fellow, for this point.
101 See, Lewis (2007:4) and Keefer’s (2004:13) review of the literature on governance
102 For instance, the finance Minister, Ngozi Okonjo-Iweala threatened to resign when President Obasanjo tried to interfere with some of the actions of the ministry, so did Nasir el-Rufai and Obiageli Ezekwesili heading the privatisation and public procurement agencies respectively. Interviews in Abuja between February and June 2014. See also: Okonjo-Iweala (2012) and el-Rufai (2013)
103 See Evans’ (1989:581) concept of ‘embedded autonomy’
There was a domestic business class within the ruling coalition, which constituted a ‘growth coalition’104 in the telecoms sector. Unlike the situation in regional neighbours such as Togo where telecoms were international firms, this telecoms businesses class in Nigeria was largely domestic partly due to a reluctance of global multinationals to invest in Nigeria. This domestic business class comprised of a diverse range of actors including political and military elites with business holdings (some of whom were shareholders in the telecoms firms which acquired licenses in 2001), bankers and financiers empowered by the financial liberalisation of SAP in the 1980s and old industrial and trading concerns. In addition to people like Colonel Sani Bello and Oba Otudeko, others include Mike Adenuga, a telecoms and oil tycoon who built his fortune under military regimes in the 1980s105 launched the Globacom mobile network in 2006. This business class allied to the ruling coalition, often with ties to former military rulers, responded to the stimulus of market reforms in the few instances where they were effective, such as the telecoms liberalisation.

This ‘empowerment’ however was a highly selective and clientelistic deployment of advantages to the business class allied to the ruling elite. For instance, as one of the members of Obasanjo’s economic team, a former minister explained to me106, “Aliko Dangote [Nigeria’s most well-known industrialist]… got a lot of support from the government. He would not have been able to setup the Obajana cement company if the federal government hadn’t given him a loan guarantee of $1.5 billion. The government gave a loan guarantee for a private project, which is very unusual. But Aliko did not make his money by stealing from the government.” Similarly, shortly after its incorporation, Transcorp benefitted from tremendous presidential waivers including preferential treatment to buy public corporations like NITEL and Nicon Hilton, and an expedited approval to build a $250 million refinery in Lekki Free Zone of Lagos107. This selective and clientelistic empowerment of domestic capital had growth-orientated outcomes in the telecommunications sector.

By contrast in the oil sector, despite the capital and technical capacity of the IOCs, the competitive and distributional pressures for large volumes of centralised oil rents weakened the institutional environment for reform. Consequently, foreign private capital such as the powerful IOCs adopted a risk-averse strategy of instrumentally supporting or undermining reforms depending on how they affected their profits. Concurrently, the clientelistic deployment of favours to domestic private sector allies in the ruling coalition did not have growth-orientated outcomes like the telecoms industry, but largely perpetuated cronyism and outright predation in the oil sector. Consequently, with the exception of a few credible indigenous operators such as Oando and Seplat, private capital in the oil industry such as Seven Energy leaned towards predation, while IOCs remain very risk averse. It would seem the key difference is the competitive and distributional pressures in the oil sector for existing rents as the object of elite capture or societal redistribution agitations108. Whereas in telecoms, which given its capital and skills intensive nature and as an emerging sector was immune from societal redistribution demands. The nature of elite competition was mitigated

106 Interview, Abuja, 24 March 2014.
108 Other studies
by the fact that many telecoms tycoons such as Colonel Sani Bello and Mike Adenuga were already involved in the oil sector, and thus competitive elite pressures were relatively less volatile and less predatory than in the oil sector.

Third, inequities in the distribution of benefits of a diversifying economy deepened horizontal-elite and wider-societal distributional pressures in the political settlement, which all translated into instability, an anti-reform impulse and decline in the oil sector in two ways.

Firstly, the absence of the poverty-reducing component of economic and institutional reforms meant economic reforms did not address vertical inequalities and developmental concerns of wider societal groups. Although Obasanjo’s NEEDS reform document mentioned a ‘social charter’, as former finance minister Okonjo-Iweala herself admitted, the accompanying policies were more geared towards private sector priorities. While up to $1 billion per annum of savings from debt servicing were channelled towards pro-poor social expenditures in health, education, agriculture and water, through the virtual poverty fund (OSSAP-MDGs, 2006:3; Okogu and Osafo-Kwaako, 2008: 197-198), government expenditure priorities were not explicitly poverty reducing in raising incomes and creating jobs. To that effect, while maternal mortality decreased, from 950 per 100,000 births in 2000 to 610 per 100,000 in 2010 (WDI, 2015), poverty increased from 54.4% in 2004 to 69% in 2010 (NBS, 2012) as did unemployment: from 12% in 2006 to 20% by 2009 (WDI, 2015). Unaddressed poverty and human development challenges therefore translated into more vociferous distributional pressures for oil rents by a diversity of societal groups through industrial action against deregulation and militancy in the Niger-Delta.

An explanation for this limited focus on poverty reduction, jobs creation and incomes generation of the reform programme is possibly that manufacturing, agro-allied and resource-based industry with more direct poverty reducing implications are, as described by Gelb (2011:67), transaction intensive. They are more dependent on strong contract enforcement, and generally strong business environment, which take longer than the typical four-year democratic term to enforce compared to the ‘relatively easy’ telecoms reforms. These institutional prerequisites for the take-off of the productive sectors were weak in the early days of Obasanjo’s reforms, and with rising oil prices from the mid-2000s until 2014, there was little incentive by the successive governments of Yar’adua and Jonathan to address these institutional weaknesses. Therefore, the sectors that grew fastest in the first ten years of democratic rule were non-traded sectors like services (12.2%), telecoms (122%), trade (11.3%), and construction (8.1%). The government’s short time-horizon made the reform process very short-lived between 2001 and 2006, and therefore the focus was on quick wins with liberalisation, privatisation and other market reforms rather than the more difficult processes of stimulating the productive sectors. Concurrently, unions, and civil society most affected by deteriorating standards of living, became fiercely opposed to deregulation, and actually antagonised economic reform.

Secondly, the regional concentration of growth dividends of these reforms undermined their horizontal legitimacy among competing elites. Due to historic socio-economic inequalities between the north and the south in private sector performance, capital accumulation and entrepreneurial dynamism, the domestic private sector empowered by liberalisation has been largely southern-based. In the past, the control of the state by a mostly-northern ruling coalition assured northerners – who struggle to compete in an open market against foreign

109 See: Okonjo-Iweala (2012:122-123) and (Adejumobi, 2011:10)
firms or more technologically advanced southerners – of guaranteed state support in indigenous accumulation (Lubeck and Watts, 1994). From 1999, the north’s formal loss of political power at the national level – with the emergence of Obasanjo as President – laid bare its multi-dimensional economic weaknesses. Obasanjo’s market reforms further eroded the north’s ability to capture economic resources through direct access to public office and ensuing patronage networks. This realisation was arguably a major drive for renewed volatile elite competition to ‘return’ power to the north from the controversy over Obasanjo’s third term aspiration. However, Jonathan’s breach of the PDP’s zoning elite consensus, and the overt southern-bias of his administration which threatened to permanently alter this precarious balance of power against the north may have largely informed the unrelenting opposition to Jonathan’s presidency in the PDP until his electoral defeat in March 2015.

Specifically, this volatile horizontal-elite competition undermined the effectiveness of new systems and processes to reduce transaction costs after the expiration of Obasanjo’s administration. As the arbitrary award of oil lifting contracts and fraudulent subsidy claims to private sector and political cronies show, transparency in public procurement was largely disregarded in the oil sector by all governments within this period, including Obasanjo’s. Although, economic liberalisation opened the door to a new way of doing business in many sectors of the economy (Okonjo-Iweala, 2012:80), the benefits were unevenly concentrated, such that under Jonathan, the oil sector was further magnified as an object of elite competition generally, but also as the primary means of dispensing patronage – through discretionary disbursals of crude lifting contracts, crude oil swap deals, etc. – for his political security.
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