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Nigeria: Opportunity in Crisis?

No one can block the path of good fortune for someone destined to prosper.

—Nigerian Proverb¹

On January 16th, 2009, the President of Nigeria, Umaru Yar'Adua, gave a speech outlining his response to the global financial crisis. He noted that the crisis posed a distinct challenge to the country, since the government now had to chart an economic course in the face of the "persistent push and pull of both local and global realities." Yet he was adamant that the global crisis presented an opportunity for Nigeria, with "no better moment to rededicate ourselves to the urgent task of repositioning our country."²

There certainly seemed to be grounds for optimism. A Merrill Lynch report released in November 2008 had concluded that Nigeria was the least vulnerable of any of the world's major economies, based in part on its large current account surplus, \$60 billion in reserves, healthy banking sector, and low levels of external debt.³ In July 2008, a Standard & Poor's report noted that Nigeria's macroeconomic position was "among the strongest of all 'BB' rated sovereigns," and that the rating was supported by prospects for "continued robust economic growth."⁴

Between 2003 and 2007, Nigeria's real GDP had grown at more than 6% per annum, with much of the growth driven by the non-oil sector (See **Exhibit 4**). The Lagos stock exchange index peaked in March 2008, having more than doubled in three years. Nigeria's banks had moved into the United Kingdom and were competing aggressively for British savings, offering interest rates of 7.1%.

After decades of crisis and decline, it looked like nearly ten years of political and economic reforms might be paying off. Nigeria's strategy was to leverage its enormous population and vast natural resources to become the leading economy on the continent, and an important player in the global economy. The plan had been heavily influenced by a 2005 Goldman Sachs report which suggested that Nigeria could become one of the 20 largest economies in the world by 2025, enjoying a 12-fold increase in real per capita GDP.⁵ In the report's most optimistic scenario, Nigeria could become the 8th largest economy in the world by 2050—if it successfully implemented key reforms.⁶ Some economists had begun to group Brazil, Russia, India, Nigeria and China together, as the "BRINC" group of the most populous developing countries in each region.⁷ Nigeria already had lower corporate tax rates and a younger population than the other four countries in the group, and outperformed several of them on business environment indicators (**Exhibit 9**).

Now it looked as though the financial crisis might accelerate this catch-up process. Nigeria seemed to be within striking distance of becoming the largest economy in Africa. South Africa's real GDP growth had slowed in 2008, and many economists thought that it was extremely vulnerable to

Professor Catherine S.M. Duggan prepared this case with the support of Research Associate Jonathan Schlefer. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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the global crisis.⁸ If the Merrill Lynch report was right, then Nigeria might not only be in a good position to weather the storm, but to attract investors seeking shelter from more turbulent markets.

Yar'Adua was eager to capitalize on this advantage. In spite of its great promise, in 2008 Nigeria was still a poor country, with only the 43rd largest economy in the world—and the 128th in terms of GDP per capita. As much as 70% of its population lived on less than \$1 per day. The president's development strategy, the "Seven Point Agenda," relied heavily on attracting private investors to help Nigeria achieve its potential. The plan hinged on the idea that firms would be willing to make much-needed investments in infrastructure through "public-private-partnerships" (PPPs), in exchange for the possibility of substantial future profit. Nigeria's recent growth, enormous domestic market, young population, and oil wealth had already drawn interest and some investment in areas such as telecommunications, toll roads, railways, and electricity generation plants.

Yet the past few months had been anything but reassuring. Oil accounted for 95% of the country's exports and 78% of government revenue, and falling oil prices had caused the Nigerian naira (₦) to depreciate sharply against the dollar (**Exhibit 15**). In two months the Central Bank had spent more than 8% of its reserves in an effort to stabilize the exchange rate. Since its March 2008 peak, the stock exchange had lost two-thirds of its value, beginning its decline while oil prices were still high. And Nigeria's troubles were not all economic. In November religious riots had killed hundreds of people in the northern city of Jos. In the south, rebels in the Niger Delta had recently stepped-up their violent activities, reducing oil production and prompting Nigerian oil workers to strike.

As he ended his speech, the President announced the appointment of the Presidential Committee on the Global Economic Crisis (PCGEC), composed of key government ministers and representatives from the Central Bank and private sector. The committee was charged with developing Nigeria's strategy for responding to the global crisis, identifying feasible policies for economic growth in this environment, and suggesting ways to buttress investor confidence.

The stakes were high. Nigeria had never before managed to turn revenues from high oil prices into long-term growth, and previous declines in the price of oil had decimated the economy and spun the country into chaos. A poor policy response could slow or reverse years of progress. A good one might put Nigeria on track to become the leading country in Africa, and a major global economy. The committee had to try to figure out how to prevent history from repeating itself, as well as how to capitalize on the global crisis. As both oil prices and global financial markets continued to decline, was Nigeria on the brink of success, the brink of crisis—or of something else?

Background

The Federal Republic of Nigeria lies on the coast of West Africa, along the Gulf of Guinea, bordered by Chad, Niger, Benin, and Cameroon (See **Exhibit 1**). Nigeria's climate includes near-desert in the north, tropical forest throughout much of the south, mountains in the east, and mangrove swamps in the delta where the Niger River meets the ocean. The country's modern political capital, Abuja, lies in the center of the country. Lagos, its commercial capital and largest city, with a population which may be as large as 18 million, lies on Nigeria's southwestern coast.

Nigerian politics have historically been dominated by tension between three regions: North, West, and East. Of a total population of approximately 140 million, 51% live in the North, 23% in the West (including Lagos), and 25% in the East. Although the country has more than 200 ethnic groups, each of these three regions has a single, numerically dominant ethnic group (See **Exhibit 3a**). Religion is also correlated with ethnicity and geographic region, though the total population is approximately

half Muslim and half Christian. Finally, although there may be as many as 400 languages spoken in the country, English is the country's official language, and is used for all government and most business transactions.

Nigeria before Independence

Centuries before British rule, the area which is now Nigeria had large empires and sophisticated commercial societies. Communities in the North grew wealthy from the trans-Saharan trade in slaves, as well as in goods like salt and ivory, and were consolidated into an enormous Islamic empire in the 19th century. Large centralized kingdoms in the West traded slaves with Europeans for guns, which they used to arm horseback cavalry and monopolize trade along the southwestern coast. Along the eastern coast, a far more decentralized group of communities was organized into a loose commercial network which dominated the trade in slaves and commodities.

British influence increased throughout the 19th century, and the British Empire assumed formal control of Nigeria in 1900. Early colonial policy underscored existing differences between the regions. The British did not consider the different areas of the country to be a natural fit, and initially created two entirely separate political entities, Northern and Southern Nigeria. In the North, they used the existing bureaucracy to govern through indigenous institutions with minimal disruption. They also barred Christian missionaries from most of the area, in deference to the Muslim population. In the South, where the British had a harder time co-opting indigenous structures, they created entirely new institutions of government, and allowed missionaries to open both schools and churches.

These differences in policy had unintended consequences. The early colonial state did not provide public education, and the missionary schools in the South soon gave the region an advantage over the North in English literacy and education. Faced with consistent budget shortfalls in the North and surpluses in the South, the British amalgamated the two areas for administrative convenience in 1914.

After the Second World War the colonial government faced both domestic and international pressure to move toward an independent Nigeria. One of the most serious hurdles to self-government was writing a constitution that would keep the country's regions in balance. After several abandoned constitutions, Nigeria's nascent political parties agreed that the new country would have a federal government and three autonomous state governments. The original Northern region was kept, while the South was split into two—West and East—along the Niger River. Seats in the legislature and cabinet were assigned to the regions largely according to population. The North received half the seats, while the East and West each received about a quarter.⁹ With the institutions of self-government in place, Nigeria gained its independence on October 1, 1960.

The Struggle for Power: 1960 – 1973

Nigeria's future looked bright. It had the largest population in Africa, close ties to Britain, and a highly-educated elite. Its real per capita GDP was substantially higher than either China or India's in 1960 (**Exhibit 9**). Moreover, while these Asian countries were forced to import food, Nigeria's fertile land produced enough to feed its growing population and provide surplus for export.

The newly independent government embarked on a development plan funded, in part, with foreign reserves accumulated during a boom in agricultural commodities in the 1950s. The program specified investments in industry and education, as well as increasing domestic savings to 15% of GDP to underwrite future investment. The plan was largely successful: by 1966, the economy had grown at an average of 5% each year, and real per capita income had increased 12% over 1960

levels.¹⁰ The country's economic base diversified. Though still the largest share overall, agriculture declined to 56% of GDP, while Nigeria's small manufacturing sector doubled in size, to 6.2%, and mining revenues grew to 5% of GDP.¹¹

Yet this development plan exacerbated regional tensions, since the pace of infrastructure investment was faster in the North than in other regions.¹² The North-dominated government argued that it was simply remedying existing disparities, while the Eastern and Western regions feared that the North's larger size would put them at a permanent disadvantage. They sought to even the playing field by rigging the 1962 census. When the census results were released this manipulation was obvious, and another census had to be taken in 1963. Population counts continued to be highly politicized: independent Nigeria had never had a census that was not contested on political grounds (See **Exhibit 3**). The census was not the only count subject to manipulation; the 1964 elections were filled with complaints of vote rigging and voter intimidation.

The government was overthrown on January 15, 1966, when a group of predominantly Eastern junior army officers kidnapped and killed the Prime Minister and several other Northern ministers. After days of violence and uncertainty, the President of the Senate invited the highly-respected and British-trained head of the army, Maj. Gen. Johnson Agui-Ironsi, to assume power (See **Exhibit 2**).¹³ Agui-Ironsi vowed that his government would put a stop to regional tension by suspending the constitution and installing a powerful central government. Many Northerners feared that Agui-Ironsi, an Easterner, was simply trying to shift the regional power balance. The North erupted in deadly riots, with widespread attacks on Easterners living in the area.

In July the army fractured, and a group of mutinous Northern soldiers murdered Agui-Ironsi. Once again, after days of fighting the head of the army stepped in, this time a young Northerner named Lt. Col. Yakubu Gowon. Although Gowon immediately announced a return to a loose federal system, the attacks in the North continued. As many as 100,000 Easterners were killed and 400,000 displaced in a matter of months.¹⁴ The regional government in the East declared the situation untenable, and seceded from Nigeria in May 1967, renaming itself the Republic of Biafra. It took with it nearly two-thirds of Nigeria's oil reserves.

Nigeria plunged into civil war. The Nigerian military set up blockades around Biafra to prevent anything from being imported or exported, including food or medicine. Gowon changed Nigeria's currency to make Biafra's savings worthless, curtailing trade even further. The area suffered massive inflation, disease, and widespread starvation. As many as 3 million people died. Images of starving children were broadcast throughout the world—many circulated by European advertising firms hired by the Biafran government—and international opinion turned against the Nigerian government.¹⁵ But Biafra could not hold out, and it surrendered in January 1970.¹⁶

One of the legacies of the civil war was a stronger federal government. On the eve of the war Gowon had tried to strengthen the federal government by carving the country's existing states into 12 new ones.¹⁷ Ethnic groups which had been in the minority now found themselves in the majority in these new states, and supported the federal government to protect their new-found autonomy. Most significantly, Gowon divided the Eastern region into three new states, ensuring that none of the country's large ethnic groups controlled the country's oil-production (**Exhibit 3b**). Gowon also reallocated the distribution of oil revenues to favor the federal government. Where oil-producing states had previously been entitled to 50% of the mineral wealth extracted from within their borders, under the country's "derivation" principle, Gowon reduced this figure to 10% (**Exhibit 6**). He consolidated the lion's share of the country's revenues under the federal government's "Federation Account," and allocated money to the states based on population and need. Oil and federalism would be central themes in Nigerian politics for the next three decades.

The First Boom and Bust: the Politics of Oil, 1973-1983

International oil companies discovered high-grade “Bonny Light” crude in the Niger Delta in 1956. By 2007, the country was the 11th-largest oil producer in the world, and had proven reserves of nearly 40 billion barrels. Nine Nigerian states produced oil, with the bulk of production clustered in the southern Niger Delta, and approximately one-third of the country’s production located off-shore.¹⁸ Oil exploration and production relies on joint ventures between the Nigerian government and international oil companies, with the government responsible for approximately 55% of the associated costs. In 2007 Shell, Mobil, Chevron, and ELF together accounted for more than two-thirds of the country’s production, 80% of which was exported.¹⁹ Nigeria also had huge natural gas reserves, though as much as 30% of the country’s gas was as an unwanted by-product of oil production, and was “flared,” or burned as it was produced. Inadequate infrastructure in the Delta prevented this gas from being captured and sold at a reasonable cost.²⁰ This flaring generated high levels of carbon dioxide, and contributed to the enormous pollution in the Delta region.

Oil began to dominate Nigerian politics when oil prices quadrupled during the Organization of Petroleum Export Countries (OPEC) embargo in 1973. Where Nigeria had once produced relatively small amounts of oil, production levels doubled between 1970 and 1974, and remained high into 1981 (**Exhibit 11**). As much as \$100 billion in oil revenues poured into the country.²¹ In 1974, oil accounted for 93% of Nigeria’s total exports, and 82% of government revenue.²² By 1980 Nigeria had 5.5 billion dollars in foreign reserves, enough to cover 4 months of imports.

Gowon’s government went on a spending binge, investing in manufacturing, roads, airports, schools, and cultural centers. Much of the money was spent in highly inefficient ways, including \$11 billion on two steel mills which never became internationally competitive.²³ At a time when Nigeria was not active in any conflicts, Gowon increased military expenditures by more than 250%, and maintained a standing army of more than 200,000 troops.²⁴ To ensure support for his regime, he gave both the military and civil service 100% pay raises across-the-board.²⁵

Beyond poor management, the oil boom gave Nigeria an acute case of the “Dutch disease,” a term coined to describe the negative effects of the Netherlands’ natural gas discoveries.²⁶ As oil revenue poured into Nigeria, the naira appreciated nearly 30% between 1973 and 1974, reaching a high of N0.55 per \$1 in 1980. Inflation spiked, increasing from 5% in 1973 to 34% in 1975 (**Exhibit 14**). The combination of high inflation and naira appreciation made Nigeria’s non-oil exports uncompetitive on global markets, and led to a decrease in production—a hallmark of the Dutch disease. Faced with rising prices, the government responded by throwing open the country’s borders to flood the market with cheap imports. Unable to compete at home or abroad, the Nigerian manufacturing and agricultural sectors contracted. Population growth began to outpace agricultural output by 2% per year, and the country began to import staple foods.²⁷

Nigeria had become a *rentier* state. Since the bulk of the government’s revenues no longer depended on economic activity in the country, it no longer had incentives to help create growth in the non-oil sector. Instead, it focused on distributing money as a way to consolidate its power and cement its access to the revenues coming out of the ground. The army, civil service, and public works projects became employment programs and ways to distribute favors. Since the money did not come from their pockets, the Nigerian population had little idea about how much the government was spending, and fewer incentives to monitor it closely. They also had few incentives to pay taxes to a corrupt government flush with oil money. In 2007 the Governor of the Central Bank summed the situation up thusly: “The umbilical cord that ties government and the private sector in most economies...got broken.” Because they were able to depend on oil revenue, “governments in Nigeria

did not need the private sector for revenue, and because of government's expansive nature, it depended very little on the private sector for job-creation."²⁸

In 1954, even before oil was discovered in the Delta region, a prescient Nigerian legislator had warned of this problem. As the country prepared for independence, he noted, it faced a crossroads. On one side "there is that broad, smooth road, with promises of no-taxation, and efforts to get money from other places, leading nowhere but to perdition, poverty, disease and economic enslavement; and there is the other road—people who go therein pay tax. They also have to apply self-help and self-sacrifice to get where they want. But this road...leads to success."²⁹

Attempts at Reform

On July 30, 1975, a group of junior army officers seized power in a peaceful coup d'état while Gowon was out of the country. The coup leaders installed a Northern war hero, Gen. Murtala Mohammed, who promised to put an end to the corruption which had flourished under Gowon, and to return the country to civilian rule. Mohammed moved the political capital from Lagos, on the western coast, to Abuja, a new city that would be built from scratch in the center of the country. Following Gowon's example, he split the country's 12 states into 19 to strengthen the federation. He also purged the civil service, dismissing 11,000 people for malfeasance in two months, and established government inquires into Gowon's wasteful spending.³⁰ Six months after taking office, Mohammed was killed in a coup attempt. His second-in-command, Lt. Gen. Olusegun Obasanjo, a Western war hero, took over, promising to continue implementing Mohammed's agenda.

Obasanjo followed through on Mohammed's promise to yield power. His regime oversaw the drafting of a new constitution establishing a federal system closely modeled on the United States. The executive, legislature, and judiciary were designed to provide checks and balances on one another, and states were given explicit powers and responsibilities. Regionally-based parties were outlawed, with some success, and a national party won the plurality of government seats in the 1979 elections. Obasanjo transferred power to President Shehu Shagari in October. Nigeria had an elected government for the first time in 13 years.

Yet the civilian regime was no better than Gowon's. The government enjoyed high oil prices for the first two years of its tenure, and used this revenue to cement its position with voters and rival parties by undertaking enormous pork-barrel spending projects in politically-important districts. Again, millions of dollars allocated to these projects were stolen or spent on sub-par work. The civilian government was at least as reliant on patronage networks as its predecessors.

The Oil Bust

In 1981 the price of oil began to trend downward, falling 20% by the end of 1982. Rather than adjusting to this loss of revenue by cutting spending, the civilian government turned to borrowing. Between 1977 and 1983, Nigeria's external debt ballooned from \$1 billion to \$18 billion. The country's foreign reserves dropped precipitously: in 1983 the government did not have enough foreign exchange to cover a single month's imports.

Yet this borrowing did the economy little good. Real GDP decreased by nearly 20% between 1980 and 1983, and consumer price inflation rose. The government could no longer afford to pay the salaries of the still-massive civil service, and employees frequently went without pay. Crime increased, violent strikes were common, and people turned to smuggling. At independence, the country's informal economy accounted for 10% of GDP; by 1983 it equaled as much as half of GDP.

In the face of growing unrest, the civilian government sought to hold power by massively increasing the number of police, and equipping them with military-grade weapons. The government rigged the 1983 elections, joking that there were only two parties in Nigeria—their party and the military.³¹ As the economic situation worsened and discontent about the elections grew, the military stepped in and removed President Shagari from power.

Stagnation

The next 15 years brought economic decline, three coups, and increasingly repressive military rule. Gen. Muhammadu Buhari (1984-5) sought to improve the economy by cutting government spending, paying down debt, and strengthening law and order. These efforts were largely in vain, however, and the economy continued to collapse.

Maj. Gen. Ibrahim Babangida (1985-1993) removed Buhari and embarked on a structural adjustment program based on the International Monetary Fund model. Although the plan improved the country's overall macroeconomic position, investment decreased to 9% of GDP in 1985, and the electricity, health, and education infrastructures all eroded. Babangida held elections in 1993, but then refused to relinquish power. The country exploded into violence yet again. Eventually Babangida agreed to cede his office to an interim civilian government, which lasted only three months before it was toppled by another military coup.

Gen. Sani Abacha (1993-1998) proved to be perhaps the most authoritarian and corrupt of all of Nigeria's military leaders. Immediately after taking office, he dissolved political parties and began to relentlessly pursue possible competitors, arresting former members of the government, journalists, and military officers on trumped-up charges. Several splits under Babangida had brought the number of states to 30; Abacha created an additional six states, and yet more opportunities for patronage by new state governments.³² Consumer prices rose by more than 50% annually for several years, and inflation hit 73% in 1995. In November 1995 Abacha executed Ken Saro-Wiwa, the leader of a movement calling for more oil revenue to be invested in the poor, environmentally degraded Delta Region. In June 1998, Abacha died suddenly from an apparent heart attack. The sudden death sparked widespread rumors that he had been poisoned.³³

Nigeria's economy was in tatters. Although the country had made approximately \$350 billion in oil revenues since 1970, real GDP per capita had hardly grown since independence, and PPP adjusted real GDP per capita had fallen nearly 20% since 1960. In three decades, the proportion of the population living in poverty had doubled, to 70%. Labor productivity had fallen, industrial capacity utilization was at 30%, and private investment had averaged less than 15% of GDP for the previous 15 years.³⁴ The railways had fallen into disrepair and disuse, and Nigeria lagged behind the rest of sub-Saharan Africa in electricity consumption and paved roads.³⁵ Once an agricultural exporter, Nigeria had become a net food importer—even though more than 60% of its arable land was not under cultivation.³⁶

Transition to Civilian Rule

In the wake of Abacha's death, the military installed Gen. Abdulsalami Abubakar as the head of a transitional government. Abubakar immediately began to undo a number of Abacha's policies, releasing political prisoners and setting a course for a democratic transition. The interim government drafted a new constitution which preserved the federal system but reserved a substantial amount of revenue and authority at the center. The new constitution maintained the 1979 constitution's "federal character" provision, which had been designed to diminish tension by stipulating that all levels of

government must adhere to ethnic and regional balancing, in spite of complaints that it institutionalized non-merit-based staffing.³⁷

In keeping with the new constitution, the transition government held elections in early 1999. Though marred, the elections were competitive, peaceful, and—most important—generally accepted. On May 29, 1999, Olusegun Obasanjo, former military head of the government, was sworn in as president. Obasanjo's party, the pan-Nigerian People's Democratic Party (PDP), also won majorities in the Senate, House of Representatives, and state assemblies.

A New Dawn?

Obasanjo's inaugural speech outlined the problems facing the country. In previous years, he observed, government officials had become "progressively indifferent to propriety of conduct and showed little commitment to promoting the general welfare of the people and public good." The nation had been "brought to a situation of chaos and near despair," and "the entire Nigerian scene is very bleak indeed; so bleak, people ask me: Where do we begin?" He vowed to begin by eliminating corruption and restoring confidence in government. It would be a "new dawn" for Nigeria.³⁸

Corruption reform Obasanjo's initial efforts were largely aimed at reducing corruption. In 2000, Transparency International's Corruption Perception Index (CPI), based on surveys of risk analysts and international agencies, put Nigeria at the bottom of the rankings. A 2002 survey of Nigerian firms suggested that bribery occurred on a massive scale, with 100% of the firms indicating they thought public funds were being diverted to private groups.³⁹

Although corruption in Nigeria exists in myriad forms, it can roughly be classified into three main categories: extortion, capture, and theft. Scholars have defined extortion as a situation in which bureaucrats require additional payment to do tasks which are part of their job. In Nigeria this type of corruption had long been institutionalized in the "dash" system, which one Nigerian satirist described as the "sweetly quaint custom of expressing gratitude in anticipation of services about to be rendered."⁴⁰ Paying dashes to the police, customs officers, and other civil servants—as well as people in the private sector—was a regular part of life.

In contrast, capture is a form of corruption in which firms make payments in an effort to subvert state rules and institutions. In Nigeria, it was clear that bribes designed to capture the state had seriously undermined its legitimacy. Obasanjo and his advisors estimated that inflated contracts and fake or low-quality projects cost the government more than \$300 million each year, with most of these contracts awarded in a non-transparent way in return for cash payments or promises for political support and other favors. In response, Obasanjo's government instituted a "due process" requirement for public contracts, mandating open, competitive bidding and the inspection of finished projects prior to final payment.

Nigeria also suffered from intra-governmental corruption involving simple theft from the government's coffers. Abacha deposited more than \$3 billion dollars of stolen money into European banks during his five-year regime, and his Central Bank governor owned thirty-seven houses and millions of dollars in foreign currency.⁴¹ Bureaucrats at the lowest levels of the civil service misused allowances and other benefits, and government rolls were full of non-existent "ghostworkers" created to allow someone to collect the salary.

Obasanjo's government introduced two government agencies to investigate and punish corruption in the public and private sectors, the Economic and Financial Crimes Commission (EFCC), and the Independent Corrupt Practices and other Related Offences Commission (ICPC). Together

these commissions investigated firms and government officials, including judges, senators, and ministers. The new bodies investigated and arrested thousands of people, seizing more than \$5 billion of ill-gotten gains within the country. They also began to use the “419” provision of the country’s legal code to identify and prosecute scammers using email to solicit money and financial information from unwitting foreigners. As the head of the EFCC described it in 2003, “this 419 thing has caused a lot of embarrassment for the country. The image of the country had been destroyed. We now have a situation where Nigerians are regarded as common criminals wherever we go all over the world... We want to see these people punished.”⁴²

The EFCC worked with authorities in other countries to punish corruption which stretched beyond Nigeria’s borders. It cooperated with U.S. officials to investigate charges that U.S. firm Halliburton paid \$180 million to Nigerian officers in the late 1990s in exchange for favorable terms on liquefied natural gas contracts, in violation of the U.S. Foreign Corrupt Practices Act (FCPA). Obasanjo’s government also worked with governments in Switzerland, Lichtenstein, and the United Kingdom to compel banks in these countries to begin to return Abacha’s stolen billions.⁴³ In 2008 Transparency International ranked Nigeria 121st out of 180 countries.

Privatization The economic policies of the previous governments had left enormous state-owned enterprises in key sectors, including oil refining, energy, steel production, mining, railroads, ports, and telecommunications. These parastatals were typically highly inefficient and subject to significant corruption. In 2001, government support for parastatals equaled nearly 1% of GDP, with half of the subsidy directed to oil refineries and telecoms.⁴⁴

Obasanjo’s government undertook an aggressive privatization program. By 2006, approximately 116 parastatals had been privatized, and operating concessions had been granted to private companies in key sectors such as the Lagos ports. This privatization was accompanied by deregulation in the telecom, power, and downstream oil sectors. Opening the telecom sector created explosive growth. As late as 2000, analyst estimates had suggested that the maximum size of Nigeria’s mobile phone market was 5 million subscribers. By 2008 there were more than 50 million subscribers in the country, more than 10 million of whom had been added in the first half of the year.⁴⁵ New estimates suggested that there could be more than 100 million mobile subscribers by 2012.⁴⁶ The telecom sector was now the fastest-growing in Africa, and attracted more than \$11 billion in foreign direct investment (FDI) in six years. It was quite common to see street vendors in Lagos sending text messages on mobile phones. One Nigerian investor noted that the surprising levels of expenditure on telecom suggested that Nigerians actually had more disposable income than the available data might suggest.⁴⁷

The National Economic Empowerment and Development Strategy (NEEDS)

Obasanjo was elected to a second four-year term in 2003, in elections that were criticized by international observers as violent and non-transparent.⁴⁸ He had already begun to make strides in diminishing corruption and privatizing Nigeria’s public sector. But the “new dawn” had not yet materialized.

It was Obasanjo’s second term that saw the beginning of comprehensive economic reforms. Shortly after his re-election, Obasanjo created the Presidential Economic Team (PET), a group of a dozen key advisors charged with creating an economic reform agenda to “reinvigorate the economy and put it on the path to sustainable growth, development and poverty reduction.”⁴⁹ These advisors were outcome-oriented technocrats; several of them had come from the private sector, the World Bank, and programs at Harvard Business School.

This team put together a comprehensive economic reform and development policy, the National Economic Empowerment and Development Strategy (NEEDS). The NEEDS plan focused on (1) reforming Nigeria's government and institutions through fiscal reform, civil service reform, and debt restructuring, (2) encouraging the growth of the private sector through privatization, infrastructure investment, monetary policy stability and financial-sector reform, and (3) increasing human development through investments in areas including education, employment, and healthcare.⁵⁰

These reforms coincided with the beginning of Nigeria's second major oil boom. Over the course of Obasanjo's first term oil prices had more than doubled, increasing from \$16 in 1999 to \$33 in 2004. By 2007, the end of his second term, oil was trading at \$65 per barrel. Once again, a relatively new civilian government was shepherding the country through a period of high oil revenue. Yet unlike the early 1980s, Obasanjo and his team developed disciplined policies and were largely faithful to them. Inflation declined even as oil prices rose, government spending and waste were held down, and there were successful efforts to diversify the economy.

Fiscal reform Obasanjo's economic team created a conservative fiscal rule in an attempt to end Nigeria's pro-cyclical pattern of government spending. Each year the government would estimate a conservative benchmark price for oil, and the budget would be drawn-up based on these revenue benchmarks. Oil revenue above the benchmark would be placed into the Excess Crude Reserve Account, to accumulate government savings. Even as oil prices climbed, the government's benchmark remained very low, between \$25-\$35 per barrel in 2003-2007. Nigeria's foreign reserves increased nearly seven-fold, to \$51 billion.

The budgeting process was also improved. The new economic team placed greater emphasis on ensuring that projects were completed, and that government spending was consistent with the administration's strategies. The team began to publish monthly updates on revenue allocations for all levels of government, and began to prepare annual reports to assess the implementation of the previous year's budget. In 2004 it began work on a Fiscal Responsibility Act, which would institutionalize fiscal discipline at federal, state, and local government levels. Nigeria's budget came into balance in 2003, and showed surpluses through 2007. The team also began a thorough restructuring of the government's tax agency, the Federal Internal Revenue Service (FIRS), in an effort to increase tax collections and diversify government revenue.

Civil service reform After years of politically-motivated padding, the civil service was enormous and largely under-skilled. In 2001 the public sector had more than 1 million employees, 200,000 of whom were civil servants. Estimates suggested that as many as one fifth of public sector employees were "ghostworkers." As much as 70% of public sector employees did not have more than a secondary school education. Worse, as much as two-thirds of federal expenditures were devoted to running government. After a series of internal audits, nearly 33,000 civil servants were let go with severance, the number of ghostworkers was substantially reduced, and skilled university graduates were recruited. Wages were increased by 15% in 2007. Non-wage benefits were monetized, allowances were consolidated, and payrolls and personnel records were computerized.⁵¹

External debt restructuring In 2004 Nigeria owed \$36 billion in external debt, 85% of it to the Paris Club, an "informal" group of governments from the developed world which helps developing countries to reschedule their debts. Service on Nigeria's Paris Club debt alone was more than \$1 billion—equal to nearly 25% of the country's current account surplus.⁵² Although the government continued to service the debt, arrears had built up over the years, and the government was technically in default. The Nigerian legislature was mounting an effort to stop payments altogether.⁵³

The country's economic team decided to negotiate a debt relief plan directly with the Paris Club. Nigeria agreed to pay \$6.4 billion in arrears on the debt, and to buy an additional \$8 billion at a 25%

discount. In return, the Paris Club wrote off \$18 billion. It was one of the largest debt write-offs in history, the first time a developing country had ever arranged a debt buy-back, and the first major debt deal which was not based on a restructuring program supervised by the International Monetary Fund—a step that would have been unpopular in Nigeria. After the success with the Paris Club, Nigeria struck a deal to restructure \$2 billion in debts to its London Club creditors, an informal group of commercial banks which hold sovereign debt, and to restructure more than \$10 billion of internal debt through a combination of cash payments and bond issues.⁵⁴

Monetary reform After years of volatility in inflation and exchange rates (see **Exhibits 14 and 15**), the Central Bank of Nigeria (CBN) sought greater certainty and transparency in both sectors. For many years Nigeria had an official exchange rate fixed by the Central Bank, but capital controls which rationed foreign exchange to the private sector. As a result, Nigeria had long had a multi-tiered exchange rate system, in which banks and Bureau de Change traded foreign exchange amongst themselves at much higher rates than the official rate used by the government. The Bank liberalized exchange markets in 2004, adopting a modified auction system to increase the ease with which banks, firms, and individuals could access foreign exchange. In 2005 Nigeria's foreign exchange rates converged for the first time in decades. The bank also adopted an inflation-targeting policy, sterilizing oil revenues above the government's benchmark price, with the goal of bringing inflation into single digits. The plan was highly successful, and Nigeria's inflation dropped to 8.2% in 2006 and 5.4% in 2007, even as oil prices rose past \$70 per barrel.

Financial sector reform After years of lax supervision Nigerian banks were weak and crisis-prone. Although there were 89 banks, 10 held more than 50% of the system's total assets, and overall banking credit to the private sector was extremely low. In 2004, the Central Bank began comprehensive reforms of the sector. Bank capital requirements were raised from \$15 million to \$192 million, and banks which did not meet the requirement by a set deadline had their licenses revoked. This move created a wave of mergers, with the number of banks in the system decreasing from 89 to 24. The remaining banks raised \$3 billion in domestic capital markets. The CBN also adopted a risk-based regulatory system modeled on the Basel II framework, and stricter enforcement of regulations designed to minimize the risk of systemic crisis. The international ratings agencies Fitch and Standard & Poor's rated Nigeria's banks for the first time, and the sector attracted \$652 million in inward foreign direct investment. Spurred by these banking reforms, reforms in the insurance sector, and a thorough restructuring of the pension system, the capital markets exploded. The Nigeria Stock Exchange Index more than doubled between 2004 and 2007 (**Exhibit 13**).

Human development The NEEDS program laid-out specific development targets for the 2004-2007 period, based on the UN's Millennium Development Goals (MDGs). These included increasing per capita consumption by 2% per year, creating 7 million jobs, increasing adult literacy, and ensuring that at least 70% of the population had access to safe drinking water. The results of these efforts were far less encouraging than the economic reforms, however. While there were improvements in education, a government review identified progress in two-thirds of its human development goals as ranging from "slow" to "worsening."⁵⁵

Political Challenges of Reform Many of these reforms were unpopular. The head of Obasanjo's economic team noted that the reforms were "met with enormous resistance, mainly from a selfish political elite" and "entrenched interests who had benefited from the status quo."⁵⁶ Several members of the economic team received death threats. One member suggested that only 5% of the Nigerian elites were in favor of the reforms, and pointed out that there was an entire cadre of contractors, suppliers, and others who lived on padded government contracts. "As you sit down and design what you think is a level playing field," he noted, "it hurts many of the people around you, including your friends. And *you* are the one who did it." On reflection, he said, he often asked himself

“if we were not naïve to think that we could just do this as technocrats. I realize now that politics trumps everything.”⁵⁷

The 2007 Elections

By 2006, as Obasanjo’s second term drew to a close, questions about the upcoming political transition loomed. The most important was whether there would be a transition at all. Although the 1999 constitution limited the president to two terms, many people felt that Obasanjo was trying to amend the constitution to allow him to stand for office again. Rumors spread that the president had entered into an alliance with powerful business interests, trading state resources for funding and support for the third term effort. The *Financial Times* summed up the paradoxes of Obasanjo’s tenure: “On one side, he had a team of technocrats instrumental in reviving Nigeria’s economic fortunes. On the other, he had a cast of tycoons whose fortunes he helped make.”⁵⁸

In the end, the Nigerian Senate struck down the proposed amendment, dashing the possibility of a constitutional third term. Obasanjo stood down, hand-picking a successor to run on his party ticket. Amid much speculation, he bypassed several close lieutenants and chose Yar’Adua, the governor of the northernmost state in the Federation, and the younger brother of Obasanjo’s second-in-command in the 1970s.

The elections themselves were marred with controversy and violence. In a damning report, Human Rights Watch declared them a “violent and fraud-riddled farce” and possibly the worst elections in the country’s history. At least 300 people were killed in election-related violence, much of it in clashes between rival gangs supporting different candidates.⁵⁹ All sides in the election were accused of violence, voter intimidation, and ballot-box stuffing. After Yar’Adua was declared the winner, the opposition filed lawsuits challenging the legitimacy of the election, and the matter languished in the courts for more than a year before the Supreme Court ruled in favor of Yar’Adua in a split decision in December 2008.

Another Crossroads

The pace of reform slowed under Yar’Adua, and people began to complain that momentum had been lost. One observer noted that the president was “not making enemies left, right and centre,” but that “progress has been very slow. He’s not a very vigorous person.”⁶⁰ Persistent questions about the President’s health exacerbated these problems; several trips out of the country for medical treatment had given rise to speculation that the president was seriously ill, though he denied these rumors.⁶¹ One analyst for an international risk-consultancy suggested that “people are just counting the days until the next elections in 2011.”⁶²

After spending nearly a year without a formal cabinet, the president finally installed one, only to reshuffle it months later. Nearly all of Obasanjo’s economic team was out, and the new government put several of them under investigation.⁶³ Yar’Adua’s government began to suspend some of the contracts which foreign investors had signed under Obasanjo, arguing that there had been irregularities in the assignment process. In April 2008 the government suspended a concession that had been awarded to a company owned by the global Mittal Steel conglomerate. A Mittal spokesman said the company was “absolutely dismayed by these decisions from the new Federal Government,” and that they “set alarm bells ringing throughout the global business community.”⁶⁴

The Nigerian government justified its action by saying that the contracts “were largely skewed in favor” of the foreign company, “to the detriment of the Federal Government.”⁶⁵ The government

launched similar investigations and suspensions in the electricity sector, suspending several contracts with foreign investors. One lawmaker noted that “former president Obasanjo did so many monumentally wrong or faulty things that any investigation, no matter how slight, would end up bringing things out that were not done properly.”⁶⁶

Certainly, the Obasanjo government’s reforms were highly controversial. Several observers noted that the NEEDS program had primarily benefited the middle class and wealthiest in the country, and had little real impact on the poorest Nigerians. Some questioned the logic behind building up nearly \$60 billion dollars in foreign exchange reserves instead of allocating that money to help the vast majority of the population that lived on less than \$1 per day.

The Principal Secretary to President Yar’Adua noted that the past decade’s reforms had been “a learning process.” The current administration, he said, was engaged in careful planning to avoid replicating some of the mistakes made in the first round of reforms, particularly in the areas of energy and privatization. The government also encountered some difficulties in the process of implementing Yar’Adua’s agenda due to budget battles with the legislature, a problem which might now resolve itself, since “rapidly declining oil prices have focused everyone’s mind.” Despite these hurdles, the Principal Secretary noted, the current administration was committed to reform: “Reforms are here, and they’re here to stay.”⁶⁷

Indeed, President Yar’Adua had laid out his own development strategy, the Seven Point Agenda. The plan identified seven areas of focus for the new administration, including (1) critical infrastructure, particularly power, transport, and telecommunications, (2) the Niger Delta, (3) food security, (4) human capital development, especially improved education and health, (5) changes in land tenure and home ownership, (6) national security, and (7) wealth creation. The success of the plan depended heavily on attracting foreign investment. “If you critically examine the gap between where we are and where we aspire to be by the year 2020,” the Principal Secretary noted, “there’s no way we’re going to develop this economy without significant amounts of foreign direct investment.”⁶⁸

The Problems Ahead

By February 2009, the Presidential Committee faced several challenges, some of which threatened to undercut or reverse earlier reforms. The 2009 budget had come out in December 2008 with a \$45 dollar per barrel benchmark oil price. Oil prices were now at \$35 per barrel, and the Federal Government’s deficit was increasing with every dollar decline in the price of oil.

Depreciating naira In the past six weeks the naira had declined 34% against the dollar, and the CBN had systematically tightened capital controls. By mid-February the Bank had effectively shut down the foreign exchange market. The Governor of the CBN defended the controls, saying that Nigeria didn’t want to “repeat the Russian experience” of depleting its reserves to defend the currency.⁶⁹ Steady depreciation was, in fact, a deliberate policy on the part of the Central Bank, since it increased the amount of naira the government had at its disposal for each incoming dollar of oil-revenue, partially making-up for the overall reduction in dollars.⁷⁰

The Governor noted that the key difference between 2009 and the oil bust of the 1980s was the fact that Nigeria’s exchange rate was no longer fixed. “The flexibility of the exchange rate is a key shock absorber for the economy when foreign reserves are declining,” he explained, “Hence, today, government can still pay salaries, continue with capital projects, and run the economy as if nothing has happened.”⁷¹

Violence in the Niger Delta The problem of decreasing oil revenues was not only a matter of falling international prices. The situation in the Delta region had deteriorated since 2006, cutting into Nigeria's crude production. Many of these attacks appeared to be motivated by money rather than principle, though the Delta continued to suffer from the severe poverty and environmental damage which had initially sparked the rebellion. For years militant groups in the Delta had been funding their operations by stealing oil and kidnapping for ransom. The problem had become dramatically worse in 2008, with an estimated \$6.3 billion in oil stolen, and another \$28 billion shut in--deliberately not produced (Exhibits 16 and 17). If these figures were correct, then the cost of the conflict in the Delta region could total \$34 billion in lost oil revenues alone, or nearly half the value of the country's exports in 2007.⁷²

Kidnappings and attacks on oil workers increased dramatically at the beginning of 2009, and Nigerian oil workers staged a strike. On February 13, Shell declared force majeure, suspending its commitments. In one area oil output fell to less than 20% of what it had been in 2006, before the most recent spate of attacks.⁷³

Electricity shortages Electricity was one of the major constraints to growth in the country's non-oil sector. The state electricity company had only about six million customers, and it supplied them with electricity only approximately 20% of the time.⁷⁴ Businesses and well-off Nigerians ran private generators nearly 24 hours a day, at an operating cost more than 6 times the tariff per kilowatt hour on the public grid. Local observers estimated that 60 million people owned power generators, spending \$13.4 billion each year to run them.⁷⁵ Though the scope of the crisis was obvious, both governments' responses were controversial. Yar'Adua's government claimed that the previous administration had mis-spent nearly \$10 billion in an effort to increase electricity production, and threatened to revoke licenses which had been granted to private firms.⁷⁶ Obasanjo responded that his government had spent approximately \$4-5 billion on the effort, and that all of the money was sorely needed investment in the country's energy infrastructure.⁷⁷

Financial sector turmoil The banking sector and capital markets had both suffered serious blows since the March 2008 peak in the stock market. Many of their fundamentals still looked good: the banks' median before-tax earnings had increased 141% in 2008, and there was plenty of room for growth. Even in 2007 less than 10% of the country's population had a bank account. Yet the stock market had lost more than two-thirds of its value since March, much of it on perceived weakness in the banking sector. In the previous two years, bank stocks had grown nearly 5-fold in value, and comprised more than half of the capitalization of the stock market.⁷⁸ There were persistent rumors that banks had been artificially inflating the capital market by lending money to people to buy bank stock. Worryingly, the drop in the capital market began while oil prices were at their height, and the underlying cause was not clear. Some observers blamed a series of poorly-executed administrative changes by the CBN, while others suggested that investor confidence had been eroded by a JP Morgan report suggesting that Nigerian banks were overvalued.⁷⁹ Regulators scrambled to restore confidence in the banks and the stock market. The CBN and Nigeria Deposit Insurance Corporation, which jointly supervise the banks, mandated that each bank should have an auditor from one of the two government agencies on premises. The Securities and Exchange Commission commissioned a report to review the operations and supervision of the capital markets, and the EFCC summoned bank managers to investigate allegations of fraudulent market manipulation.

Lagos State The rapidly-growing city of Lagos presented a long-term challenge. The country's business center, Lagos was home to more than 60% of Nigeria's industrial investment and 65% of the country's commercial activity.⁸⁰ In recent years the Lagos State government had undertaken its own development plan, actively reforming state institutions such as courts and tax collection, and attracting several high-profile PPP projects including a toll road being built in one of the city's main

corridors. Lagos was, however, an opposition stronghold, and its independent reforms were not consistent with the president's plans. The Lagos government's imposition of a sales tax had been particularly controversial; the federal government argued that the tax conflicted with federal VAT, and should be rescinded. The Lagos State government countered that it needed the tax revenue to provide basic services, and that its budgetary shortfall was particularly acute because the 2006 census had only put the city's population at 9 million. Lagos State estimates, in contrast, suggested that the city's population was twice that figure—and increasing by as many as 3,000 new residents per day.

Despite the challenges at home and abroad, there was still reason for optimism. On February 19, 2009, a U.K. risk consultancy predicted that Nigeria would continue to be an important destination for international investment. Even with the fall in oil prices, the report suggested, Nigeria's large population and potential returns in sectors like electricity, water, and communications, still made it the best investment opportunity in sub Saharan Africa—a region “much less exposed than many places.”⁸¹ The following day, the *Financial Times* reported that George Soros's hedge fund had been looking at investments in the Nigerian banking sector, as had at least two other U.S. and European funds. “These are sophisticated investors,” said one Nigerian bank officer who met with them. “They understand where to come in. There's plenty of bargains.”⁸²

It was up to the Presidential Committee on the Global Economic Crisis to craft an economic strategy that would preserve Nigeria's progress, facilitate new growth, and attempt to capitalize on the global crisis. While Nigeria's position looked somewhat weaker in 2009 than it had the previous year, in many ways the country was still better-off than many of its emerging-market peers. Obasanjo's team of economic advisors had been the key to wide-ranging reform. Now Yar'Adua's economic team had the opportunity to craft a strategy that would make the best of the global crisis, while preventing Nigeria from falling into a domestic crisis. But first they had to figure out what had gone wrong in the past, and what might improve Nigeria's chances of growth in the future. Could good leadership really help Nigeria become one of the world's largest economies in a matter of decades? What would have to be different this time?

Exhibit 1 Map of Nigeria



Exhibit 2 Nigerian Heads of Government

Head of Government	Term	How installed	Home Region
Sir Abubakar Balewa	1960-1966	Elected	North
Maj. Gen. Johnson Aguiyi-Ironsi	Jan. 1966-July 1966	Coup d'etat	East
Lt. Col. Yakubu Gowon	1966-1975	Coup d'etat	North
Gen. Murtala Muhammed	1975-1976	Coup d'etat	North
Lt. Gen. Olusegun Obasanjo	1976-1979	Attempted Coup	West
Shehu Shagari	1979-1983	Elected	North
Gen. Muhammadu Buhari	1983-1985	Coup d'etat	North
Maj. Gen. Ibrahim Babangida	1985-1993	Coup d'etat	North
Ernest Shonekan	Aug. 1993-Nov. 1993	Interim Gov't	West
Gen. Sani Abacha	1993-1998	Coup d'etat	North
Gen. Abdulsalam Abubakar	1998-1999	Interim Gov't	North
Olusegun Obasanjo	1999-2007	Elected	West
Umaru Yar'Adua	2007-	Elected	North

Source: Compiled from Central Intelligence Agency. www.cia.gov (accessed February 27, 2009)

Source: Compiled by case author. "Home" region is based on ethnicity & 1960 regions.

Exhibit 3 Nigerian Census Returns by Region (millions)

	North	West	East	Lagos	Abuja	Total	Notes
1952	17	6	7	0.3	--	30	
1962	22	11	12	0.5	--	45	Nullified
1963	30	13	12	0.7	--	56	Retake of 1962 census; contested
1973							Figures never released
1991	47	12	24	6	0.4	89	Contested
2006	72	23	35	9	1.4	140	Lagos State claims 18m

Sources: Compiled from Suberu (2001)⁸⁴, 1991 & 2006 from National Bureau of Statistics, www.nigerianstat.gov.ng (accessed February 27, 2009)
Lagos population claim: <http://www.lagosstate.gov.ng> (accessed February 2009)

Exhibit 3a Major Ethnic Groups, by Region and Religion

Ethnic Group	% Total Pop.	Region	% Region Pop.	Religion
Hausa-Fulani	28	North	53	95% Muslim
Yoruba	18	West	84	33% Muslim, 66% Christian
Igbo	18	East	71	99% Christian

Population figures taken from 1953 census; 2006 census does not include ethnicity
Sources: Compiled from Coleman (1960), and Oriakhi (2008)⁸³

Exhibit 3b Number of States and Years of Creation

Year	1960	1963	1967	1975	1987	1991	1996
Number	3	4	12	19	21	30	36

Source: Compiled by case author.

Exhibit 4 National Income Accounts

	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
GDP (billions of constant 2005 USD)	44.7	58.0	65.6	76.2	79.6	82.6	91.1	96.9	103.3	109.5	116.3	123.6
Real annual GDP growth (%)	9.7	8.2	2.5	5.3	4.4	3.8	10.4	6.4	6.5	6.0	6.2	6.3
Oil GDP growth (%)	7.9	26.3	2.4	11.1	5.2	-5.7	23.9	3.3	0.5	-4.5	-5.6	
Non-oil GDP growth (%)	12.7	8.6	2.1	2.9	10	33.8	5.8	13.2	8.6	9.4	9.6	
GDP per capita (constant 2005 USD)	560	627	612	619	631	641	692	720	751	780	811	845
GDP per capita (constant 2005 USD, PPP)	1,168	1,308	1,276	1,290	1,317	1,336	1,443	1,502	1,566	1,626	1,692	1,762
Consumer price inflation (annual %)	5.5	7.5	72.8	6.9	18.9	12.9	14.0	15.0	17.9	8.2	5.4	11.6
Nominal GDP, (billions of Naira)	68	268	1,933	4,538	4,686	5,403	6,948	11,411	14,610	18,565	17,822.5	21,506.0
<i>Structure of nominal GDP (% GDP)</i>												
Private consumption	73.8	55.5	70.5	43.8	41.8	49.4	43.9	38.1	36.4	35.5	36.1	34.0
Government spending	13.5	15.1	11.1	22.8	26.5	24.7	23.7	22.2	19.4	19.0	20.9	22.2
Gross fixed investment	9.0	14.7	16.3	17.7	22.8	26.1	23.8	22.3	20.0	23.1	23.7	21.6
Exports	16.1	43.4	44.3	53.3	43.3	40.8	49.7	54.6	57.8	55.3	53.8	55.2
Imports	12.4	28.8	42.2	37.5	34.4	41.0	41.2	37.2	33.6	32.8	34.5	33.0
Gross savings (% GDP)	12.2	30.1	5.6	35.3	27.9	28.4	29.6	45.7	43.4	48.8	39.2	38.0
<i>Industry of origin (% GDP)</i>												
Agriculture	33.1	23.0	36.3	37.9	37.6	37.4	36.5	36.5	36.7	37.2	42.2	42.1
Manufacturing	4.5	4.6	3.7	3.3	3.3	3.5	3.4	3.5	3.6	3.7	4.0	4.1
Wholesale and retail trade	13.7	14.4	13.9	13.0	12.8	13.0	12.5	12.9	13.75	15.0	16.2	17.3
Financial institutions	1.3	2.4	3.9	4.0	4.0	5.0	4.1	4.0	3.8	3.8	3.8	3.8
Petroleum	28.5	31.7	26.5	25.9	26.0	23.5	26.5	25.7	24.3	21.9	23.7	17.5

Source: Compiled by the author using data from: Economist Intelligence Unit, www.eiu.com (accessed February 24, 2009), Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report and Statement of Accounts (December 2007). IMF Article IV Consultation Staff Report, February 2008; author calculations. (a) 2008 EIU estimate.

Exhibit 5 Productivity Measures

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Total factor productivity growth (%)	-0.2	1.6	1.9	1.2	6.1	1.5	2.5	1.8	3.7
Labor productivity growth (%)	-0.8	2.8	1.9	1.2	7.7	3.8	3.9	3.4	2.4
Real capital stock growth (%)	1.7	5.9	2.5	4.1	9.0	14.1	14.1	14.9	14.4
Manufacturing capacity utilization (%)	29.3	36.1	42.7	54.9	56.5	55.7	54.8	53.3	
Gas production (billion cubic meters)	33.0	47.5	57.5	102.0	53.4	69.7	58.2	57.7	68.4
Oil production (million barrels per day)	1.9	2.0	2.1	1.9	2.2	2.3	2.4	2.2	1.9 ^a
Petroleum reserves (billion barrels)	22.2	28.2	32.2	32.2	33	33.5	35	36.3	36.3

(a) average, through Q3.

Source: Compiled from Economist Intelligence Unit, www.eiu.com (accessed February 24, 2009), Central Bank of Nigeria, Statistical Bulletin (December 2006).

Exhibit 6 Government Revenue Allocation

Year	Allocation of Federation Account (%)			
	Federal Gov't	States Gov'ts	Local Gov'ts	Special Projects
1958	40	60	0	0
1968	80	20	0	0
1977	75	22	3	0
1982	55	32.5	10	2.5
1989	50	24	15	11
1995	48.5	24	20	7.5
2001	48.5	24	20	7.5

Source: Compiled from Coventry Cathedral⁸⁵ "Derivation" money from oil and gas revenue is distributed among oil and gas producing states. "Special projects" include Abuja, and are currently administered by the FG.

Exhibit 7 Government Fiscal Data (billions of current Naira)

	1999	2000	2001	2002	2003	2004	2005	2006	2007 ^a
Total revenue	987	1,927	2,227	2,053	2,795	4,127	5,621	6,376	5,886
Of which oil and gas (%)	76.3	83.5	76.5	71.1	80.5	85.5	85.8	88.6	78.1
Of which non-oil (%) ^b	25.7	16.5	23.5	28.9	19.4	14.4	14.1	11.3	21.9
Total consolidated expenditure	1,266	1,560	2,246	2,196	2,795	3,177	4,234	4,933	5,795
Federal government	942	1,066	1,403	1,427	1,605	1,654	2,273	2,626	3,297
Current expenditure	495	874	1,085	1,109	1,338	1,393	1,879	1,870	2,286
Interest payments	277	187	152	213	242	231	382	187	208
Capital expenditure	447	192	318	318	267	261	394	756	1,011
State and local governments	284	494	843	762	1,190	1,523	1,961	2,308	2,498
Overall balance (cash basis)	-239	367	-19	-143	0	951	1,387	1,443	92
Overall balance as % of GDP	-7.4	8.6	-0.4	-2.5	0.0	8.1	9.4	7.7	0.4

Sources: Compiled by author using data from International Monetary Fund Article IV Consultation Staff Reports (2001, 2002, 2005, 2008).
(a) estimated; (b) primarily tax revenue, with a small amount of non-oil, non-tax revenue.

Exhibit 8 Balance of Payments and Total Foreign Reserves (Billions of US Dollars)

	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007 ^a	2008 ^b
Current account	5.2	2.6	5	-2.6	7.4	2.5	1.1	3.4	4.3	8	13.8	1.3	10
Trade balance	11.2	5.7	8.7	3.5	10.4	6.9	4.7	7.8	17.5	24.5	28	22.5	34.6
Exports	25.9	13.1	13.6	11.7	19.1	18	15.6	24	36.9	50.2	59.1	61.3	78.9
Of which oil (%)	96	96	97	98	99	99	95	97	96	98	98	95	95
Imports	4	4	3	2	1	1	5	3	4	2	2	2	5
Of which non-oil (%)	-14.7	-7.4	-4.9	-8.2	-8.7	-11.1	-10.9	-16.2	-19.4	-25.6	-31.1	-38.8	-44.3
Net services	-4.2	-1.3	-1	-4	-1.5	-3	-2.4	-2.2	-6.1	-7.1	-6.4	-7.6	-8.6
Net income	-1.3	-1.5	-2.7	-2.9	-3.1	-2.8	-2.7	-3.2	-9.7	-12.8	-11.3	-17	-19.4
Net current transfers	-0.6	-0.3	0.1	0.8	1.6	1.4	1.4	1.1	2.8	3.4	3.4	3.4	3.4
Capital account	0	0	0	0	0	0	0.1	0	0	7.3	10.7	0	0
Financial account	-0.1	-3.7	-4.2	0	-6.2	-3	-6.6	-10.3	3.1	-1.9	-8.8	8.7	11
Net direct investment	-0.7	0.5	0.6	1.1	1.1	1.2	1.9	2	4.4	4.1	8.7	10.1	10.8
Net portfolio investment	0	0	-0.2	-0.1	0.5	0.8	0.1	0.2	0.4	2.4	0.4	0.2	0.2
Net other investment	0.7	-4.2	-4.6	-1	-7.9	-5.1	-8.6	-12.5	-1.7	-8.5	-17.9	-1.6	0
Errors and omissions	-0.7	-0.1	0.2	-0.1	1.8	0.8	0.8	5.6	0.7	2.9	-1.7	0.2	0.1
Change in reserves	-4.4	-0.5	-2.5	0.2	-4.5	-0.5	2.7	0.2	-9.5	-11.3	-13.9	-10.3	-21.1
Exceptional financing	0	1.7	1.4	2.6	1.4	0.3	1.9	1	1.4	-4.9	0	0	0
Total foreign reserves	5.5	1.7	4.5	1.4	9.3	10.3	7.7	7.5	17	28.3	42.3	51.3	59.7

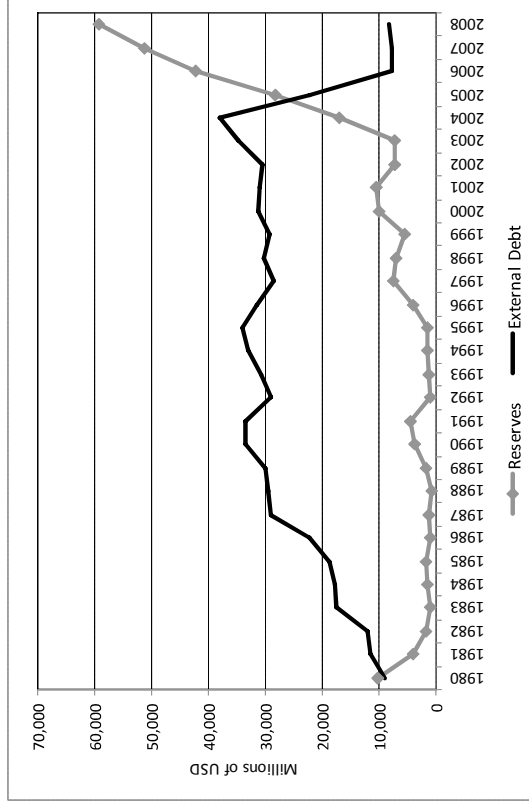
Source: Compiled by the author using data from Economist Intelligence Unit, www.eiu.com (accessed February 24, 2009), Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report and Statement of Accounts (December 2007), IMF Article IV Consultation Staff Report, February 2008. (a) estimated; (b) projected.

Exhibit 9 Comparative Indicators: Nigeria, BRIC countries, and South Africa

	Nigeria	Brazil	Russia	India	China	South Africa
Macroeconomic indicators^a						
GDP, 2008 (billions of current USD)	180	1,588	1,645	1,175	4,236	280
Per capita GDP in 1960, PPP (constant 2005 USD)	1,239	3,018	n.a.	984	503	5,523
Per capita GDP in 2008, PPP (constant 2005 USD)	1,770	9,550	14,736	2,677	5,661	9,523
Real GDP growth rate, 2008 (%)	6.3	5.3	6.0	5.3	9.0	3.1
Gross fixed investment, 2008 (% GDP)	21.6	18.5	19.9	34.8	40.4	21.4
Gross national savings rate, 2008 (% GDP)	38.0	16.9	29.1	34.1	51.5	14.3
Consumer price inflation, 2008 (%)	11.6	5.9	13.3	6.8	1.5	10.0
Fiscal balance, 2008 (% GDP)	-2.7	-0.7	5.5	-6.0	-0.1	-1.0
Current-account balance, 2008 (% GDP)	2.7	-1.9	6.0	-3.6	10.2	-7.6
FDI, net inflows, 2008 (% GDP)	5.6	2.5	3.6	3.4	2.6	2.2
Foreign exchange reserves, 2008 (billions of current USD)	60	194	427	255	1,939	34
Foreign exchange reserves, 2008 (months of imports)	16.2	10.6	13.9	8.4	19.1	3.8
External debt, 2008 (% GDP)	4.6	14.3	21.5	14.0	9.1	14.0
Population indicators						
Population, 2008 (millions) ^a	146	192	142	1,148	1,329	48
Rural population, 2007 (% total population) ^b	52	15	27	71	58	40
Population ages 0-14 years, 2007 (% total) ^b	44	27	15	32	21	32
GINI index, 2005 ^c	43.7	57.0	40.0	36.8	46.9	57.8
Adult literacy rate, 1995-2005 ^c	69	89	99	61	91	82
Human development index (HDI) value, 2005 ^c	0.47	0.80	0.80	0.62	0.78	0.67
% of population below \$1 a day, 1990-2005 ^c	70.8	7.5	--	34.3	9.9	10.7
Intentional homicides per 100,000 people, 2004 ^d	9.8	28.5	24.3	4.3	2.1	54.3
Business indicators						
Ease of doing business index, 2007 (1= most friendly) ^b	108	122	106	120	83	35
Corruption perceptions index ranking, 2008 (of 180 countries) ^e	121	80	147	85	72	54
Total tax rate (% of profit) ^f	32	69	49	72	80	34
Bank capital to assets ratio, 2006 (%) ^b	15	9	12	7	6	8
Electric power consumption, 2005 (kwh per capita) ^b	127	2,008	5,785	480	1,781	4,847

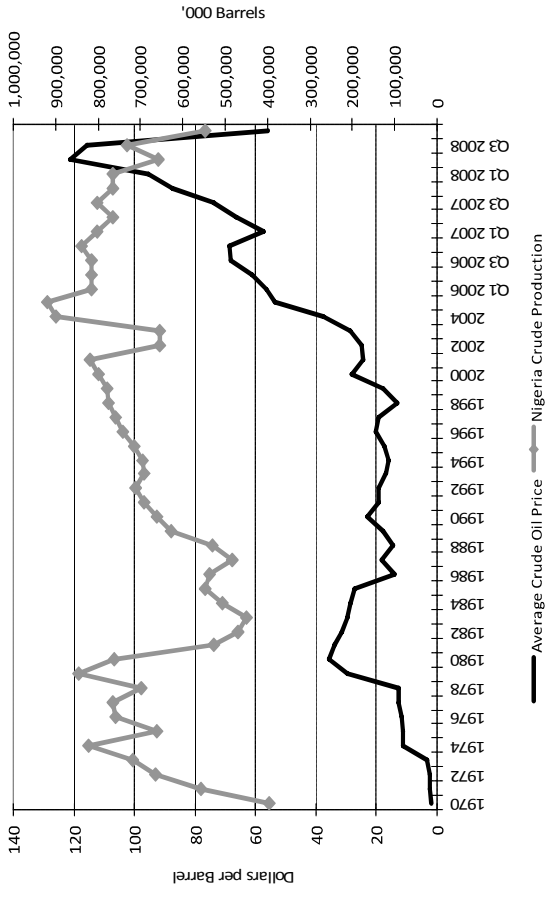
Sources: Compiled by the case author using data from (a) Economist Intelligence Unit, 2008 estimates (accessed February 24, 2009) www.eiu.com (b) World Development Indicators (accessed February 20, 2009); (c) The Human Development Index is calculated from data on (1) life expectancy, (2) education, and (3) GDP per capita. UNDP Human Development Report 2007/2008, <http://hdr.undp.org/en/> (accessed February 24, 2009); (d) UN Office on Drugs and Crime, International Homicide Statistics, <http://www.unodc.org/documents/data-and-analysis/IHS-rates-05012009.pdf> (accessed February 6, 2008), high and low estimates averaged; (e) Transparency International, <http://www.transparency.org> (accessed February 23, 2009); (f) Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, the dividend tax, the capital gains tax, the financial transactions tax, waste collection taxes and vehicle and road taxes. *Doing Business Project*, <http://www.doingbusiness.org> (accessed February 2009).

Exhibit 10 Nigeria's Foreign Reserves and External Debt, 1980-2008



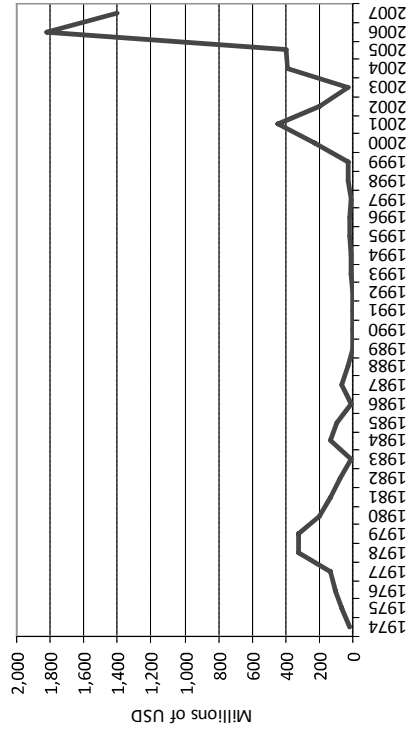
Sources: Compiled by author using data from Economist Intelligence Unit (accessed February 24, 2009), www.eiu.com, Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report (December 2007). IMF Article IV Consultation Staff Report, February 2008, Statement of Accounts (December 2007).

Exhibit 11 Average Price of Oil and Nigeria's Production, 1970-2008



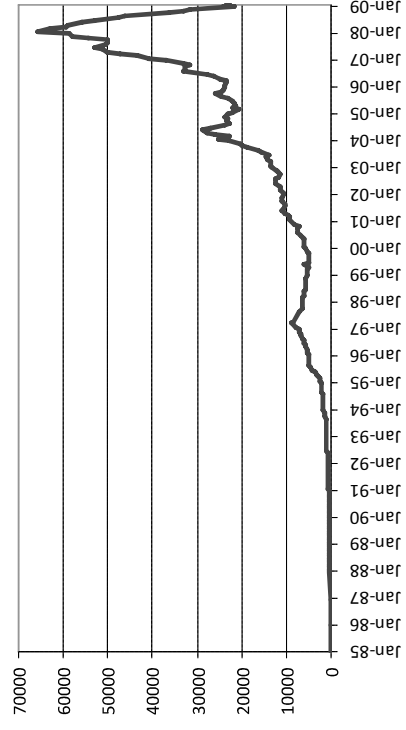
Sources: Compiled by author using data from International Financial Statistics, www.imfstatistics.org, Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report and Statement of Accounts. Price of oil is average across all crude types.

Exhibit 12 Government Investment in the Power Sector, 1974-2007



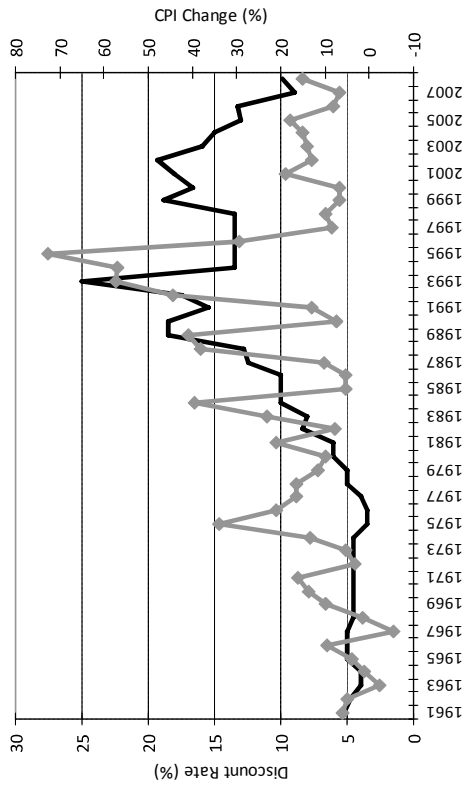
Source: Compiled by author using data from Report of the Presidential Committee On Power Supply Improvement (May 2007).

Exhibit 13 Nigeria Stock Exchange Index, 1984=February 2009 (1984=100)



Source: Compiled by author from Global Financial Data, www.globalfinancialdata.com, (accessed February 26, 2009).

Exhibit 14 Central Bank Discount Rate and Inflation, 1961-2007



Sources: Compiled by author using (14 and 15) Global Financial Data, www.globalfinancialdata.com, (accessed February 26, 2009), Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report (December 2007). The parallel rate is the unregulated but officially recognized rate at which institutions can exchange money amongst themselves with minimal CBN oversight.

Exhibit 15 Official and Parallel Exchange Rates (naira per dollar)

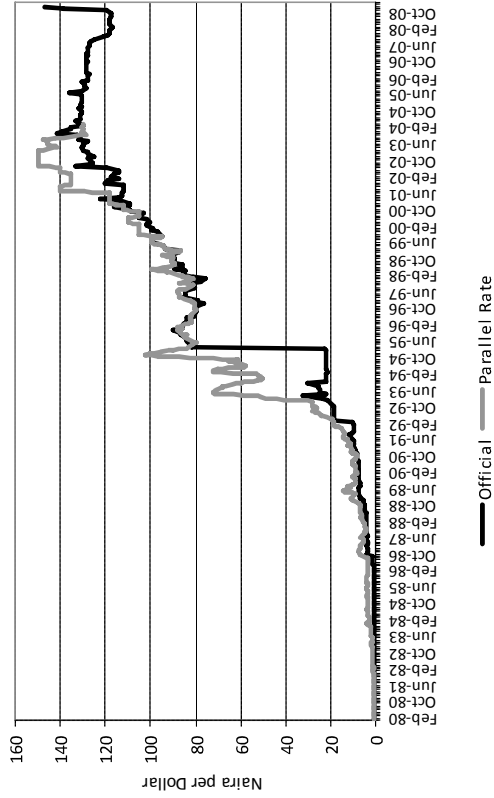
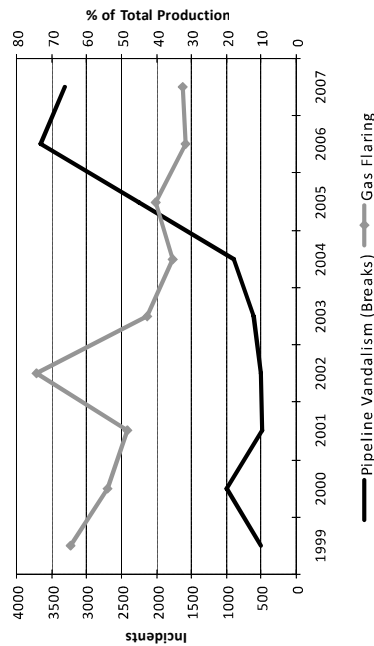
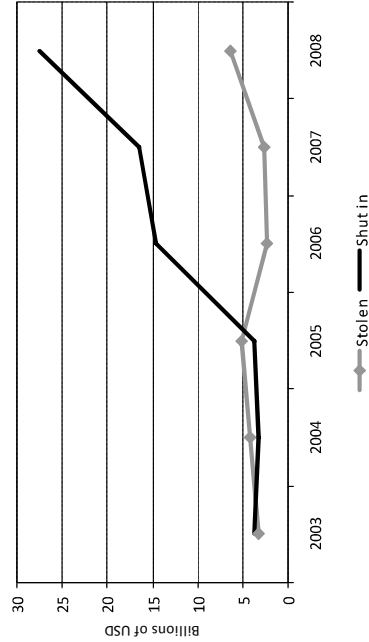


Exhibit 16 Oil Pipeline Vandalism and Gas Flaring



Source: Compiled by author using data from Nigerian National Corporation. Annual Statistical Bulletin (2007) Central Bank of Nigeria, Statistical Bulletin (December 2006), and Annual Report (December 2007).

Exhibit 17 Oil Theft and Shut-in



Source: Compiled by author using data from Coventry Cathedral (2009)⁸⁶ Shut-in oil is the difference between the available output of a facility and the amount of oil that is actually produced.

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¹² It is notable that the North did not necessarily receive more money for investment than the Eastern and Western states. Rather, differences in geography and land tenure systems may have allowed more efficient investment in the North, which translated into a quicker pace of development.

¹³ Both the President of the Senate and Agui-Ironsi were Easterners, a point which was fodder for many conspiracy theories, particularly in the North. It is far from clear, however, that the two men's shared home region played any part in the Senate President's decision.

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¹⁶ To his credit, while Easterners had feared that surrender would mean genocide, Gowon stressed that this had been a "war of brothers," and forbade additional violence.

¹⁷ A legislative act had created a fourth "Midwest" region in 1963.

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