VII describes the downstream petroleum sector in Nigeria, starting with the Nigerian National Petroleum Company's (NNPC) refineries, pipelines, and depots; the regulation in the recent past with a de facto import monopoly for the NNPC, fixed retail margins and administered retail prices; and the liberalization steps taken in September 2003, with the government's announcement that retailers were henceforth free to set prices. The chapter describes the economic effects of price fixing in the recent past, and looks ahead at the policies needed for the sector's revival under a new liberal regime.

Natural gas prospects

10. Chapter VIII gives an overview of the natural gas sector in Nigeria with a focus on the impact on government revenue and the balance of payments from existing and planned gas production. It presents the two existing natural gas export projects in detail, following an overview of reserves and production, looks at the impact of the gas sector on government revenue and the balance of payments, and discusses possibilities for expanding the domestic market for natural gas.

II. A Retrospective on Policies and Performance Under Recent Fund-supported Programs[2]

A. Introduction and Overview

11. **Nigeria has reached an important milestone in its modern political history**. In April 2003, the country achieved the first peaceful transition from one civilian administration to another since its independence. President Obasanjo was sworn in for a second term in May 2003 and announced a final-term commitment to implement far-reaching economic and social reforms, with a view to leaving a restructured, more dynamic Nigerian economy as his fundamental legacy. He subsequently appointed a new team of well-respected economic technocrats, who moved quickly to define and begin implementing a comprehensive reform agenda. Nevertheless, the economic and social challenges facing Nigeria remain daunting, and continued policy implementation will be critical to the prospects for successful reforms. Reform implementation itself will face obstacles in weak institutions, technical capacity constraints and resistance from entrenched interests.

12. **In view of these challenges, an assessment of past economic reform efforts—in particular the program supported by the 2000-01 Stand-By Arrangement (SBA)—is timely**. At the time, expectations that the emphasis on improved governance, stabilization and pro-growth policies could deliver a quick turnaround in economic performance and improved living standards ran high. Yet, policy implementation and economic performance fell well short of expectations. The aim of this paper is to review the economic and institutional reasons behind these disappointing results, with a view to highlighting lessons that could reinforce the prospects for Nigeria's current reform agenda.

13. **The paper is structured as follows**. Section B describes the objectives, monitoring and performance of the program supported by the 2000 SBA. Section C discusses briefly the informal monitoring framework adopted after the SBA was allowed to expire. Section D analyzes reasons for the disappointing economic performance under the Fund-supported program and in the subsequent few years. Section E highlights some conclusions and lessons.

B. The 2000–01 Stand-By Arrangement

Objectives and policies under the SBA

14. **On August 4, 2000, the Executive Board approved a 12-month SBA[3] to support the Federal Government's economic reform program.** After more than a decade of economic mismanagement, weakening of public institutions, and isolation from the international community, the government pledged to bring about a lasting improvement in the country's standard of living through higher economic growth and poverty reduction.

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[2] Prepared by Ulrich Bartsch, Thomas Baunsgaard, Jeanne Gobat, and Karen Ongley.

[3] The program period covered July 2000 through June 2001.

Program objectives

15. **The government's main economic reform objectives were to** (i) maintain macroeconomic stability; (ii) reduce poverty; (iii) rebuild public sector institutions and enhance public service delivery; (iv) improve public sector governance; and (v) privatize the majority of public enterprises, especially in telecommunications and power, to help promote the private sector and remove acute infrastructure bottlenecks. As part of the reforms, the government established a poverty reduction initiative aimed at improving the quality of spending through better transparency, accountability and monitoring of the use of public funds. This was also intended to facilitate a more participatory approach to poverty reduction and provide the basis for an interim poverty reduction strategy paper, which the government intended to complete by end-2000.

Fiscal policy

16. **The fiscal program was aimed principally at achieving the prudent management of windfall gains from projected improvements in Nigeria's terms of trade (ToT).**[4] The projected ToT improvement gave rise to concerns that, in the absence of a stabilization mechanism, higher revenue would ratchet spending up to much higher levels. This carried substantial risks: (i) it threatened macroeconomic stability as higher spending would increase aggregate demand and put pressure on the price of non-tradable; (ii) it would result in a real exchange rate appreciation and undermine the growth prospects of the non-oil economy; and (iii) it would not necessarily address the country's pressing social needs, given the public sector's weak institutional capacity, the economy's limited absorptive capacity and severe infrastructure bottlenecks.

17. **Recognizing these risks, the authorities agreed to an informal fiscal rule under which all oil proceeds in excess of a budgeted oil price of US$20 per barrel would be saved across all tiers of government**. If the oil price was to fall below US$20 per barrel, the authorities agreed to review their budget accordingly, although no specific downward adjustments were agreed. However, a formal mechanism through which oil windfall savings at the federal as well as subnational level could be enforced was not put in place. The fiscal targets under the SBA were unfortunately based on the Executive's original budget proposal, with spending levels substantially lower than in the budget that was eventually approved by

[4] Oil revenue was projected to increase by about 15 percentage points of GDP over the program period.

the National Assembly.[5] The authorities argued that, through effective implementation of due process requirements, they could contain execution of the capital budget substantially below the limits approved by the National Assembly (see Table II-1).[6]

18. **After having agreed with trade unions in May 2000 to double public sector wages, the authorities aimed to limit their budgetary impact by eliminating fraud and overpayment**. As the payroll system was manual, and personnel data had not been updated and verified in a systematic manner, there was considerable room for abuse. To eliminate scope for abuse, the authorities intended to conduct a civil service audit and move to a centralized payroll system.

19. **The authorities also planned to increase the efficiency of public service delivery and improve governance of public resources**. The most important reforms were (i) implementing the due process requirements to strengthen project quality; (ii) introducing value for money audits; (iii) conducting an inventory of domestic arrears; and (iv) adhering to new procurement procedures developed with assistance from the World Bank.

Table II-1. Nigeria: Government budgets and outturns, 1999-2002
(in percent of GDP, unless otherwise indicated)

	1999	2000			2001			2002		
		Budget	Progr.	Actual	Budget	Staff Proj.	Actual	Budget	Staff Proj.	Actual
Oil price (in U.S. dollars per barrel)	16.6	20.0	20.0	28.1	22.0	25.5	24.3	18.0	25.2	25.0
Total revenue	29.4	36.5	36.5	42.5	36.6	39.8	42.1	32.7	37.5	36.2
Total consolidated expenditure	28.6	38.7	35.4	36.5	44.0	41.4	47.0	40.8	41.9	39.6
Overall balance (cash basis)	0.7	-2.1	1.1	6.0	-7.4	-1.6	-4.9	-8.1	-4.4	-3.5
Financing	-1.9	2.1	-1.1	-6.1	7.4	1.6	5.3	8.1	8.0	5.0
Statistical discrepancy	-1.2	0.0	0.0	-0.1	0.0	0.0	0.4	0.0	0.0	1.4
Memorandum item:										
Non-oil primary balance (in percent of non-oil GDP) 1/	-17.3	-37.0	-30.6	-34.7	-44.1	-37.4	-43.2	-35.7	-35.8	-33.2

Sources: Nigerian authorities; and Fund staff estimates.

1/ Excluding oil revenue, cash call payments, and cash interest payments.

Monetary and exchange rate policies

20. **The monetary program was aimed at maintaining low inflation, building foreign reserves, and developing further the market-based exchange rate system**. The SBA-supported program aimed at maintaining inflation in single digits in 2000, containing broad money growth in line with nominal income, and increasing net international reserves through government savings of "excess" oil proceeds. The Central Bank of Nigeria (CBN) was only to intervene in the interbank foreign exchange market to smooth excessive

[5] Federal government spending was increased by about 20 percent.

[6] Directors stressed that this was a "second-best" solution (BUFF/00/133, 8/11/00).

fluctuations in the naira/dollar exchange rate,[7] while allowing the naira to depreciate if demand for foreign exchange increased significantly due to a sharp deterioration in the balance of payments.

21. **The program also envisaged actions to strengthen the financial system, mainly by continued efforts to bring the banking system in line with the Basel Core Principles**. In late 1999, staff preliminarily assessed Nigeria's prudential norms to be largely compliant with the intent of the principles, but noted that, in practice, supervisory and enforcement gaps existed, allowing many requirements to be circumvented.

Structural reforms

22. **The government's structural reform agenda was extensive and heavily front-loaded, aimed at improving the environment for private sector-led growth.** Strengthening governance and institution building (including judicial reforms) were seen as essential to removing impediments to economic development.[8] The SBA included legal and institutional reforms to establish and enforce accountability, and the government planned to review its Anti-Money Laundering Act to ensure compliance with international standards.

23. **Establishing more effective sectoral regulatory frameworks—in particular for utilities—and privatizing inefficient public enterprises were also seen as critical to facilitating private sector growth**. Implementing privatization programs had already proved difficult, in part because of capacity constraints. The SBA-supported program, therefore, aimed at reinvigorating the privatization program and regulatory reforms, with the World Bank taking a lead advisory role.

- The sale of public enterprises was to occur in three phases between 1999 and 2001. Smaller entities and those already listed on the Nigerian Stock Exchange were to be privatized in 1999 and 2000 under stages one and two. The sale of larger entities—including the telecommunications companies (NITEL/MTEL), the national power company (NEPA), and oil refineries—were to follow by end-2001 under stage three.

- The authorities committed to conducting privatization in a fair and transparent manner, with minimal infusion of public monies.

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[7] In 1999, the authorities abolished the preferential official rate and the CBN moved to daily sales to the interbank foreign exchange market (IFEM). However, these transactions remained subject to significant constraints. Among others, banks acted solely as agents for their retail customers. Banks were allowed to deal in foreign exchange amongst themselves, but could not use foreign exchange obtained for their customers from the CBN.

[8] Prior to the approval of the SBA-supported program, the government had already taken several measures to improve governance practices—namely the adoption of an anticorruption bill and a comprehensive progress report on the government's anticorruption campaign (including investigations of past abuses).

- The government announced its intention to deregulate domestic petroleum prices.
- The authorities were also encouraged to develop a regulatory framework and body for each of the key sectors: power, telecommunications, and petroleum.

24. **Trade liberalization was another important element of the program, aimed at improving competitiveness and reducing distortions**. Nigeria's trade regime had long been characterized by numerous and high tariff rates, import bans and licensing restrictions. This encouraged smuggling and corruption, and fostered an inefficient import-substituting manufacturing sector. The 2000 budget included an average tariff reduction,[9] and the authorities agreed to comprehensively review the tariff regime by December 2000. This was to provide a basis for further liberalization to meet the government's medium-term goals concerning the Economic Community of West African States (ECOWAS).

Program monitoring and risks

25. **Program implementation was to be monitored through quarterly performance criteria and benchmarks, and three scheduled program reviews**. The three reviews were to focus, respectively, on program financing, developments in fiscal federalism, and the operation of the Poverty Reduction Fund. Some of the quantitative targets were tailored to reflect Nigeria's particular circumstances and statistical weaknesses. For instance, due to unstable velocity, sharp changes in the money multiplier and lags in the availability of data on monetary aggregates, the monetary program was to be monitored through movements in reserve money rather than CBN's intermediate operational target of broad money. To enhance program monitorability, the authorities also undertook to strengthen reporting of monetary and financial data by the CBN and oil-related data by the NNPC.

26. **The implementation risks were significant, but were most pressing in terms of the budget process, limited technical capacity, rising social pressures, and concerns about ownership.** The change to a civilian government and favorable external conditions were seen as an exceptional window of opportunity, and it was hoped that any small reform successes could help build domestic support. The SBA-supported program also provided a vehicle for channeling donor support and for the government to rebuild its credibility with the international community through a demonstrable track record. However, a SBA-supported program was seen as a means to strengthen the government's hand in pursuing difficult policies. There was concern that, without a program, progress on economic reforms would be less likely, leading to further policy drift.

27. **To help address some of the program risks, substantial international technical support—including that of the IMF, UNDP and other development partners—was**

[9] The budget implied an average tariff of 12 percent in 2000 (compared to 24 percent in 1999), although effective protection on some goods may have increased.

planned to build the government's institutional capacities and capacity for macroeconomic policy formulation and implementation.

- A Fund senior representative was assigned to Nigeria to help monitor program implementation and improve the policy dialogue.

- To help address capacity weaknesses, the authorities created the National Economic Management Council (NEMCO) to coordinate economic policy making within the Executive, liaise with the National Assembly, and monitor the implementation of the government's economic program (including understandings reached with the Fund).[10]

- To promote broader awareness of the issues, Fund staff also met with civil society groups, the National Assembly, and state finance commissioners, to discuss the importance of fiscal prudence.

- The World Bank approved a complementary project to strengthen key aspects of economic management in Nigeria (EMCAP). EMCAP was also envisaged as the vehicle to coordinate other donors' technical assistance efforts into a comprehensive, well-integrated program.

Performance under the SBA

28. **Overall macroeconomic performance and implementation of structural reforms under the SBA-supported program were disappointing**. Serious macroeconomic imbalances emerged during the program period—the fiscal deficit widened, inflation accelerated, and the parallel foreign exchange market premium increased sharply—and many policy understandings were not implemented. Progress on privatization was also slower than expected, and the government continued to support several nonviable enterprises, contrary to understandings reached with the World Bank. Technical support to help build institutional capacity had a limited impact. The authorities missed a majority of the quantitative targets, and failed to implement four of the five structural performance criteria and most structural benchmarks. Cumulatively, this precluded completion of the first review and, with continued poor performance, the SBA was allowed to expire.

Fiscal policy

29. **There were substantial deviations from the fiscal program early on:** the excess oil proceeds were not saved; the limit on borrowing by the federal government was missed; and warrants were issued at the federal level without cash backing. Under strong pressure from the civil service, the government rolled back its earlier decision to centralize wage payments.

[10] NEMCO was to be chaired by the president, with the vice president serving as alternate, and members included the Minister of Finance, the Minister of National Planning, the Special Advisor to the President on Petroleum, the Governor of CBN, the Secretary to the Government, and other key economic policy makers.

The lack of central oversight and control, along with widespread payments to "ghost" workers and other payroll abuses, resulted in substantial overruns on personnel costs and a much higher wage bill than budgeted. The authorities were only able to partially offset this through lower capital budget execution, by strengthened project review and enhanced compliance with the due process requirements recommended by the World Bank.

30. **The fiscal program was further compromised by the spending of the windfall at the subnational level, and pressures from the National Assembly.** The ability of the federal government to prudently manage oil windfalls became more challenging, given the fiscal federalism constraints set by the 1999 Constitution.[11] Furthermore, the National Assembly was very critical of the nonimplementation of the budget it had approved and the authorities were unable to withstand heavy political pressure to implement further budgetary amendments by the National Assembly.

Monetary and exchange rate policy

31. **The procyclical fiscal stance undermined the implementation of the monetary program**. While the CBN was able to partially offset the expansionary fiscal policy of the federal and state governments, it tightened its stance too little and too late to forestall inflationary pressures.[12] Political interference on interest rate policy further complicated monetary management.

32. **The expansionary fiscal stance also contributed to pressures in the foreign exchange market**. In response, the CBN reverted to the system of selling foreign exchange at a predetermined price rather than allowing the rate to be market-determined. As a result, the differential between the official and parallel exchange rates widened substantially, and the official exchange rate appreciated in real terms. The CBN's foreign exchange management included some administrative measures that gave rise to a multiple currency practice.[13]

[11] The Supreme Court ruled that the federal government could not retain revenue destined for the subnational governments.

[12] The CBN was concerned about the impact of high interest rates on the real economy and the already weak banking system.

[13] With excessive fiscal spending spilling over to the foreign exchange market, the CBN reverted to the system of selling foreign exchange in the IFEM at a predetermined rate. The IFEM and the "open" interbank market (in which banks trade freely amongst themselves) segmented, giving rise to a multiple currency practice. The two markets were merged in December 2000, but transferability of IFEM funds was prohibited again in February 2001.

Structural reforms

33. **Many planned structural reforms were not undertaken, and the government's privatization program experienced several setbacks.** By mid-2001, stage one of the privatization program was largely completed and important progress had been made toward stage two. However, progress was more limited in the strategic sectors. Most difficulty seemed to have been encountered in improving the legal and regulatory frameworks, and NITEL, NEPA, Nigerian Airways, and the oil refineries were not privatized as scheduled. Government spending policies were at odds with the intention to increase private participation in the economy, with a large share of the budget continuing to be allocated toward rehabilitating commercially unviable plants and companies of inefficient parastatals. These actions also conflicted with understandings reached with the World Bank. Measures to improve governance and plans to review the tariff regime stalled, and, under pressure from labor unions, the government rolled back its decision to remove the petroleum subsidy and deregulate downstream petroleum.

C. Informal Monitoring Framework

34. **Following expiration of the SBA, the government's key priority was to correct policy slippages and establish the basis for a medium-term program for growth and poverty reduction**. Staff and the authorities agreed on an informal monitoring framework[14] aimed at restoring macroeconomic stability by (i) establishing fiscal discipline by cutting expenditure sharply in the final quarter of 2001 and implementing a prudent 2002 budget;[15] (ii) tightening monetary policy; (iii) restoring a market-based foreign exchange system and narrowing the parallel market premium to less than 10 percent; and (iv) maintaining a healthy external reserve position by reducing daily sales of foreign exchange.

35. **Some progress was achieved in beginning to restore macroeconomic stability, but ultimately performance under the informal monitoring program was similarly disappointing.** Inflation was kept somewhat in check with a favorable harvest and reasonably tight underlying liquidity conditions, reflected in positive real interest rates and exchange rate stability. Overall federal government spending declined in late 2001, with some improved control over capital spending. However, these improvements fell short of expectations, and spending and monetary aggregates continued to exceed agreed targets.

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[14] This was neither a staff-monitored program nor formal Fund arrangement, but a more loosely defined framework for monitoring economic performance.

[15] As a means to tighten control over capital spending, the authorities lowered the threshold for payments requiring certification by the Budget Monitoring and Price Intelligence Unit (BMPIU) to N100 million at end-2001, and then to N1 million in January 2002. Payments to contractors would also be contingent on both the BMPIU and the spending ministry certifying the satisfactory completion of the work. The government also committed to publish in full value-for-money audits of expenditures incurred in the second half of 2000.

Macroeconomic imbalances widened further and international reserves declined sharply, despite high oil prices. The 2002 budget ratified by the National Assembly during the monitoring period was more expansionary than that proposed by the Executive, and not consistent with what was required to restore macroeconomic stability.

36. **The government decided in 2002 to cease informal monitoring.** They considered it imprudent to commit to policies that could prove difficult to implement, particularly in light of the upcoming presidential elections. Fund staff also did not see a basis for continued informal monitoring, given the fundamental weaknesses in policy implementation.

D. Reasons for Program Failure and the Lack of Progress with Reforms

37. **The government's reform efforts and ability to meet program commitments were compromised by a lack of domestic ownership and support (both political and social), as well as institutional weaknesses for formulating, executing and monitoring economic policies.** Moreover, support for reforms that did not immediately bear fruit was easily undermined, given elevated expectations for dramatic social and economic improvements following the return to a more democratic society and the support of the international community (the "democracy dividend").

Institutional and programming weaknesses

38. **In retrospect, the foundations necessary to implement economic reforms in a consistent and sustained way were not in place**. Both the authorities and international community (including the Fund) underestimated the depth of legal, political and institutional constraints—including resistance by vested domestic interest groups and the erosion of civil service morale—and therefore the time needed to implement reform. In large part, this reflected more than 20 years of military misrule, gross mismanagement of public resources, virtual destruction of the civil service and public institutions, and complete disregard for the importance of sound institutions and the rule of law. Hence, the sense of urgency and implied rapid progress on all fronts (including conditions under the SBA) did not give sufficient regard to capacity and ownership, and, in turn, the appropriate sequencing of reforms.

39. **Domestic ownership of the reform agenda was not sufficiently entrenched or broad-based; in particular, it did not have the full backing of the National Assembly.** The importance of macroeconomic stability was not sufficiently engrained in the political process. Progress, particularly in restricting the level and increasing the efficiency of expenditure, thus became more difficult. Moreover, the public did not have a clear understanding of the role of the Fund, and some perceived it as debt collector for the Paris Club. Further, public pressure for more spending on decaying infrastructure and pressing social needs was mounting, and labor unions began emerging as an effective and vocal force

in challenging government policies.[16] All in all, this made it more difficult for the government to commit to a prudent fiscal framework.

40. **Significant weaknesses in economic statistics made it difficult to set meaningful program targets and impeded monitoring.** The key data problems that hampered monitoring included the absence of a central unit responsible for collating data; general poor quality data; considerable lags in data publication; and lack of data sharing among responsible government agencies.

Policy coordination weaknesses

41. **Weaknesses in the framework governing macroeconomic management and policy coordination were also evident.** Aside from the lack of data sharing, policy making proved to be highly fragmented. This was further undermined by lack of leadership to ensure the regular review of consistency between fiscal, monetary and exchange rate policies, and program international reserves targets. Performance was compromised on a number of levels:

- **The stand-off between the Executive and Legislature over the budget also rendered the understandings reached under the SBA difficult to implement**. The authorities' intention to hold spending below the levels approved by the National Assembly—and the Fund's programmed support of this—proved to be highly problematic, raising legal issues and further fueling tensions between the government and the National Assembly.

- **The devolution of substantial budgetary power to state and local governments (SLGs)[17] under the 1999 Constitution also complicated the federal government's ability to control consolidated spending and meet program targets**. There was no formal legal mechanism or binding agreement to help coordinate policy at all levels of government. The federal government was unable to manage or influence the resources distributed to the subnational level, and the authorities failed in their attempts to reach understandings with the SLGs to restrain spending and design budgets to sterilize a significant part of their oil windfall gains. Little progress was also made in establishing accountability and financial reporting requirements of the SLGs.

- **General weaknesses in the budget process and Budget Office of the Federation** (BOF) resulted in significant breaches in spending procedures by line ministries (such as issuance of warrants without cash backing), wage bill overruns, and an inability to complete the civil service audit. The BOF had neither the institutional mandate nor

[16] In particular, the government's attempts to increase the retail price for fuel were successfully thwarted by strikes coordinated by labor unions.

[17] General weaknesses in public expenditure management and control at the subnational level was compounded by pent-up spending needs following decades of underfunding.

professional staff to formulate a realistic budget consistent with an overall macroeconomic framework and effectively enforce expenditure limits for line ministries. The line ministries' budgets, as a consequence, were allowed to increase without consideration for the impact on public finances and the macroeconomic framework. Estimated personnel costs also proved to be unrealistic, failing to reflect actual staff, pension costs, and outstanding arrears.

- **Fiscal reporting and analysis also proved inadequate,** severely handicapping the authorities' ability to react in a timely fashion to divergent fiscal developments. There was no regular monitoring of monthly revenue and expenditures, and considerable lags in submitting information to the Accountant General's office. The manual, decentralized accounting system slowed the flow of information, and the authorities found it difficult to derive and monitor their overall financial position. Moreover, the absence of regular fiscal reports undermined fiscal transparency and added to the distrust between the National Assembly and the Executive.

Economic policy weaknesses

42. **The expansionary fiscal policy also made it difficult to maintain price stability**, particularly given the dominance of the public sector. The effectiveness of monetary policy in sterilizing excess liquidity from expansionary fiscal operations was also limited by poorly developed and shallow financial markets, and the absence of sterilization instruments. Furthermore, poor coordination on budget execution led to frequent unwarranted "liquidity surprises", which the CBN found difficult to unwind. The CBN's lack of operational independence—exemplified by the practice of granting quasi-automatic extensions of the overdraft facility at end-year[18]—allowed for significant monetization of the fiscal deficit and infringed on the CBN's ability to control money. Weak banks and political constraints also precluded a more aggressive interest rate policy by the CBN by threatening a worsening of banks' bad debt problems. Finally, inflexible and inconsistent exchange rate policies led to distortions—visible in the widening parallel market spread—and made it more difficult for the economy to respond to the oil-driven demand shock.

E. Conclusion and Lessons

43. **Macroeconomic performance and reform implementation under the Fund-supported program, and beyond, proved disappointing**. The high expectations of return to civilian rule were not fulfilled. Difficulties with policy formulation and implementation were a root cause for the poor performance: macroeconomic stability was compromised by a weak budget formulation process and weak expenditure control at all levels of government,

[18] The statutory limit on the government's overdraft facility with the CBN is set at 12½ percent of current-year expected revenue. Typically the government clears the year-end balance through issuing 91-day treasury bills in the primary market, with the majority purchased by the CBN.

and the sharp increase in government spending undermined price stability. Underlying this were weak institutions, limited technical capacity, and resistance from entrenched interests. Progress on the structural reform agenda was also slower than planned (the government continued to support several nonviable enterprises), and what limited progress was made was often unwound (e.g., reversion to an administered exchange rate).

44. **In retrospect, the minimum foundations necessary to implement economic reforms were not in place.** The authorities and international community underestimated the depth of the constraints, including the quality and morale of the public service. The changes introduced with the transition to civilian rule in 1999, including the move to fiscal federalism, created new realities that were not easy to assess, because the post-independence history of Nigeria—characterized by military dictatorships—offered no basis for comparison. Some valuable lessons can be drawn from reviewing performance under the SBA and the subsequent staff monitoring:

- **Broad domestic ownership.** Economic performance was compromised by the absence of strong domestic ownership of, and commitment to, economic reforms. The importance of macroeconomic stability to economic growth was not broadly endorsed. The new-found fiscal and political freedom for SLGs, and the confrontational rather than collaborative relationship between the Executive and the National Assembly, also complicated fiscal management and stabilization efforts. The latter was particularly evident in the formulation and approval of the federal budget, which led to large increases in spending limits.

- **Consistent and coordinated formulation and implementation of policies.** Weaknesses in the government's ability to formulate and implement consistent economic policies undermined economic performance. Significant weaknesses in Nigeria's economic statistics—reflecting decades of underfunding and disregard for data gathering and analysis—impeded timely and accurate monitoring of developments and performance.

- **Prioritization and sequencing of reforms.** In many respects, the structural and institutional reform agenda under the SBA was very demanding and lacked sufficient attention to capacity constraints and sequencing. This stretched the already limited capacity, with many reforms on parallel tracks. While the planned reforms were, and remain, significant to improving Nigeria's economic efficiency, there was not sufficient regard for the relative macroeconomic importance of reforms and the time likely needed to garner the necessary skills and/or support.[19]

[19] Arguably, the structural conditions went beyond what might be considered ideal under the subsequently introduced guidelines for streamlining structural conditionality (subject to the extent of the World Bank's involvement and conditions in areas of overlap).