

International Development Committee

Oral evidence: DFID's programme in Nigeria, HC 676

Tuesday 26 April 2016

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Members present: [Stephen Twigg (Chair); Fiona Bruce; Dr Lisa Cameron; Mr Nigel Evans; Mrs Helen Grant; Pauline Latham; Jeremy Lefroy; Wendy Morton; Albert Owen; Virendra Sharma]

Questions 1-42

Witnesses: Dr Kate Meagher, Associate Professor in Development Studies, London School of Economics, Josephine Osikena, Director, the Foreign Policy Centre, and Dr Sola Kasim, Research Fellow in Energy Economics, University of Aberdeen gave evidence.

Chair: Good morning everyone. Welcome to this evidence session for our inquiry into DFID's programme in Nigeria. I need to start by drawing the Committee's attention to my relevant entry in the Register of Members' Interest, which is that I was previously the director of the Foreign Policy Centre and one of our witnesses performs that function at the moment.

We are going to ask a number of questions. Our usual practice is for our witnesses to respond to those questions they want to. Do not feel you need to respond to every single question because sometimes questions will be aimed at individual witnesses. When you answer your first question please feel free to take 30 seconds to introduce yourself as part of the first answer. The first question lends itself to each of you giving us a brief answer, and I am going to go to Wendy to ask it.

Q1 Wendy Morton: Good morning. My question is around ensuring growth is inclusive. The M4P approach of making markets work for the poor is a key part of DFID's strategy for generating inclusive economic growth. I wanted to ask you what you feel the barriers are to making markets work better for the poor and what are the keys to unlocking a dynamic and inclusive economy in Nigeria? Dr Kate, you are sitting in the middle. Would you like to start?

Dr Meagher: I am Kate Meagher. I am Associate Professor of Development Studies at the London School of Economics. I have been working in Nigeria since the beginning of the 1990s and living there for quite a stretch of that time. My main focus has been on the informal economy. Given that the informal economy constitutes somewhere in the range of 65% to 80% of the non-agricultural labour force, particularly in northern Nigeria, it is a

very important thing to keep in mind. I have to say one of the big weaknesses in a lot of DFID's programming is a very limited or non-existent understanding of the dynamics of the informal economy. They tend to see it as a block or sponge into which people can be pumped in order to create employment.

I would say one of the core issues to thinking about how to make markets work better for the poor would be understanding better the dynamics of the informal economy. In the north of Nigeria in particular, that involves a recognition that the informal economy over the last 30 years has become saturated. We did some research with the NSRP about a year and a half ago. It means recognising that in fact many of the people currently entering the informal economy are entering as workers, not as independent operators. They get their supply goods or do their service and make returns to the actual owner of the business. This idea that people are in the informal economy as independent entrepreneurs is a mistake.

The pumping of people into the informal economy, particularly at the bottom survival end, which is being done by things like the Mafita Programme, ignores the fact that a) it is saturated, and b) that saturation is leading to a high level of social tension within the informal economy. For the first time I noticed in the research that I did there are struggles over indigeneity in the informal economy. Indigenes of the state complain that non-indigenes are taking jobs at the bottom of the informal economy. That means Kano state indigenes complaining that non-indigenes—people from Niger as well as people from Sokoto state or Jigawa state—are taking up jobs like load-carrying at markets and hawking, which they see as important for their own people who lack jobs.

More broadly, there is a difficulty of thinking about education and skills in a cohesive way. Thinking about making markets inclusive for the poor is not just skilling up a few women and youths and pumping them in at the survival end but looking at the structures of economic activity in the informal economy, where the dynamic areas are—tailoring, hand embroidery, tannery, shoe-making, etc, and trying to figure out how to expand and strengthen local businesses in clusters that can then employ labour rather than creating an endless number of tiny entrepreneurs that basically operate at the survival level or go bust within the first year. It is about building up experienced, well-skilled, small, informal entrepreneurs who can employ, rather than just pumping an endless number of entrepreneurs into the market. There is a lot more I could say but I do not know what my slot is, so perhaps I should stop there.

Josephine Osikena: My name is Josephine Osikena and I work at the Foreign Policy Centre, which is a London-based think-tank. I make my observations based on some of the research work we have done around economic development across Africa. We have held conferences, seminars and roundtable discussions, as well as published reports and essay collections, so I make my observations on that basis, based on the research work and professional experience that the people we have brought around the table, as it were, have shared with us.

I would echo much of what Kate has said around issues around quality of employment, which is really important. Also, just to touch on some of what Kate has talked about, thinking about issues of improving quality of employment, there are issues around training and education, but particularly around vocational training and education rather than just having a job. It should be a job where there are useful, practical and productive skills but also transformative skills.

Something that has come through from much of the research and events work that we have organised—I do not know whether other panellists would agree—is issues around the importance of not only improving agricultural development but perhaps supporting a more integrated rural economy, so it is not only about agricultural production and soil and so on but about transport, logistics and processing. For example, cassava can be processed into glycerin and starch, and things like that. This might touch on Kate's points around creating enterprises where there are decent jobs and enterprises that can then employ local people who then acquire skills, if that makes sense.

Dr Kasim: My name is Sola Kasim. I work as a research fellow at the University of Aberdeen. Previously I was a consultant in Nigeria and therefore was able to work on energy matters. Coming to the issue that we are discussing now, from what Kate has said and from what even the World Bank has said, for example, the World Bank defines an SME as an organisation that employs more than 20 persons. If you go by that definition, you are going to leave a lot of people behind because a lot of folks in the informal sector, as Kate said, will constitute about 70% of the workforce. They are left behind in many of the things that we consider.

We focus on understanding what goes on and the dynamics of that sector in order to know what to do to help them. I will discuss some of the issues. I do not know if we can just talk about the things that need to be done to have inclusive growth. I have some points here that we need to focus on if we want to work on inclusive growth.

The first one will be education. We need to ensure that literacy levels in countries are higher and make education compulsory and free. Right now they have what they call the UBE—Universal Basic Education—which means that you must have at least nine years of formal education. I am proposing that that be increased to 12 from nine. That means that somebody must be in school in primary school age and secondary school age. That way you take people off the streets that are low-skilled and low-employed. They do not have money to buy things anyway, so they are not useful to any market.

In order to have a thriving economy, you need one in which people are educated and in which they have higher purchasing power, because a market is of no use if you have numbers but no money in pockets to buy the things that are being sold. To make the market work we need purchasers, and purchasers must be educated to earn an income that can allow them to purchase things. Therefore, education to me would be very important. Primary education and secondary education should be compulsory and free, and that is where people can progress.

The other thing we need to talk about when we discuss inclusive growth is this issue of diversification. People talk about diversifying the economy of Nigeria because right now the Government are talking about moving away from oil dependency to manufacturing and the like. What is missing out is that not enough was done to understand why we have the problems that we have, but again maybe we should talk more about that as time goes on.

The other issue that we might talk about on that inclusive growth is that of taxation. The country has a very narrow tax base. There is a need therefore to widen the tax base and bring a lot of people in to collect money from them. Those are the broad areas that I would like to discuss when talking about inclusive growth and how to make the market work.

Chair: It is very reassuring because it is almost all the questions that other people are going to ask. That is good to see. That was great and thanks to all three of you. That took about 10 minutes. We have half an hour to do the other seven questions, so we should just bear that in mind in terms of brevity of answers, but they were really fantastic answers, thank you.

Q2 Jeremy Lefroy: Just picking up on something that you mentioned, Josephine, should DFID focus on specific areas of economic activity—you mentioned agriculture—or is it better to tackle systemic issues or a mixture of the two?

Josephine Osikena: In short, it is a mixture of the two. There are sectors that if they are invested in appropriately—I mentioned agricultural development but also integrated rural development—that are key, particularly where you have acute levels of poverty in Nigeria, particularly in the north-east and north-west, where that might reduce levels of poverty. A sectoral focus is really important but then you also need to work on systems. If you are trying to integrate a rural economy, one of the biggest obstacles for people, households or even small and medium-sized enterprises trying to embark on enterprise and business are issues around access to finance. There are systemic issues there that need to be addressed. The short answer is both.

Dr Meagher: I would agree both, but at the level that one is thinking about how to focus more on prioritising key sectors, having a much more inclusive approach to those key sectors and what infrastructure they need is critical. DFID's focus on the meat and leather industry is one that really looks towards a modernising infrastructure, which is a strategy that is already being tried in other west African countries and is not working out because it does not take proper account of the fact that most of the people in the meat industry cannot afford these high-tech abattoirs. This strategy has been tried before in Nigeria—building high-tech abattoirs—and they stand empty and neglected.

Looking at the way the value chains in priority sectors work, working with those value chains, working with the occupational hierarchies as well—not only the Fulani cattle producers but the National Butchers Association of Nigeria, which is a nationally federated association and has its own hierarchies but hierarchies that are based not on being swish, modern and highly educated but on knowledge of the butchers' industry and moving up through the system—it is quite important to integrate the idea of inclusive growth with the idea of infrastructure and strategic sectors.

Q3 Jeremy Lefroy: Are there any other sectors, Dr Sola Kasim, which DFID could perhaps look at apart from agriculture and agri-processing given that this is incredibly important? Are there any others that would contribute greatly to inclusive growth?

Dr Kasim: Yes. Basically in terms of artisans we need to look at what they do—the welders, the plumbers, the painters. A lot of work is not being done in those areas and yet we need to bring them in because the philosophy is that nobody is left behind. Greater attention has to be paid to the informal sector apart from the agricultural sector. There are so many things that have to be done in terms of even making the tools available to them—the equipment that they need. There are mostly ways of also ensuring that those people in that sector are able to organise themselves and then to be able to do the standards of work and so on and so forth.

Dr Meagher: If I may add, the textile sector is critical. Textile integration with cotton as well and garment.

Q4 Mrs Grant: Good morning everyone. Can you tell us how foreign direct investment can be better leveraged to help the poor?

Dr Meagher: It is important to focus less on how to satisfy the needs of foreign direct investment and more on how foreign direct investment can engage with the needs of connecting up value chains, integrating informal and small-scale industries into the local private sector, and connecting up local units that can create not only low-value jobs but high-value jobs. This idea of an expanding middle class is not going to happen with technical and vocational education. They want management jobs. They want engineering jobs. They want high-value jobs within the country. Bringing in FDI really as a servant or an agent rather than a master of the process is absolutely critical to allowing it to work in the service of an inclusive economy rather than in the service of profit.

Josephine Osikena: Can I just add a point to that, if I may, Mrs Grant? One of the external flows that are quite significantly important is diaspora remittances. One of the submissions that the Committee received outlined that diaspora remittances from British Nigerians into Nigeria is significant and almost as much as foreign direct investment. There may be really important strategic ways that DFID could be more co-ordinated in working with British Nigerian diaspora organisations to see how the gaps that Kate talks about may be plugged by British Nigerians who are already interested in development transformation in Nigeria and are keen to contribute to it and have demonstrated that through their remittance transmissions.

Q5 Mrs Grant: These are little businesses being formed between British Nigerians here and Nigerians in Nigeria.

Josephine Osikena: It could be. I am just looking at it in terms of the external flow. You touched on foreign direct investment. What I am saying to you is that remittances are also a significant flow into Nigeria.

Q6 Mrs Grant: Are they remittances for business or remittances for supporting families?

Josephine Osikena: It is a combination. People are remitting for hospital fees, for education fees, but also to set up businesses. Are there co-ordinated ways that DFID might work with its British Nigerian diaspora to see how that can support structural transformation across the country?

Q7 Albert Owen: What assessment have you made on the progress in power sector reform in Nigeria? We have had evidence concerning the poor and that privatisation might have a negative impact on the poor in Nigeria. I just add that we met with the Vice President when we were out in Nigeria on a trip and it is an issue we raised with him, and he was quite optimistic about rural areas getting part of this reform and having renewables and liberating some of those rural areas.

Dr Kasim: When it comes to the issue of energy and getting this post-privatisation of the energy sector, personally it is not the route I would have travelled because privatisation of

energy always ends up with higher cost of tariffs. If people are already suffering from poverty, privatisation, even from the UK experience, will normally lead to higher tariffs and therefore more people might end up being poor. We are where we are now, so there is no going back on privatisation.

The focus should be on affordability because when I did work for the Government some years back in Nigeria that was my recommendation to them and that was a concept that was accepted not only by the Government but even also by the World Bank, because they were interested at the time. The issue will be how the present regime can ensure that power is affordable to small-scale industries and as well as poorer segments of society.

There are two key issues we need to work on in that regard. Sources of energy have to be diversified and they also have to be decentralised. Diversification means that we use all sorts of energy resources that are available. The Government are already talking about coal, so maybe coal should be used. Biomass and biogas should be used because this emphasis on trying to use gas is to me misplaced. It is misplaced in the sense that gas is a very valuable resource, which many Nigerians cannot afford to use. They are better off exporting the gas and using many other resources for energy that are available locally—small-scale hydro, solar.

Q8 Albert Owen: Oil is still king. We went to a massive project of proposed developments of Lagos Harbour when they were talking about energy sources from diesel and they thought that was diversifying—going from crude oil to diesel. They thought that was diversification. I am trying to make a serious point about the poor and the rural areas; do you see any progress being made in having renewable energy, solar for instance, where you could have an integrated grid in a rural location rather than being dependent so much on oil and gas?

Josephine Osikena: Could I just add a point on solar? Certainly solar should be an option and is being explored, I am sure, currently, particularly in the north of the country. Any type of business in Nigeria is very expensive. Part of the criticism around the liberalisation of the energy sector is that it was focused on gas and it is only belatedly that alternative sources of energy have been considered. Solar certainly is an option, particularly as, from my understanding from people we have spoken to at the FPC, the costs of providing solar energy is much more competitive and comparable to gas. Also, it is an opportunity to get people connected who are not on the grid and who are in very remote areas but absolutely need energy provision.

Q9 Albert Owen: Do you see any progress?

Josephine Osikena: There is some progress but there is room for a huge amount of improvement.

Albert Owen: I will just make this final point, if you could answer this as well. One of the big issues was mobile money. They were talking about getting the poor into investing in banks and everything. Without being able to charge a mobile phone it is very difficult for a section of society to be part of that mobile money.

Q10 Chair: Do you want to respond to that and make any broader points?

Dr Meagher: I would like to make the broader point on the whole power issue, as although some things are already done we can learn from mistakes. The extent of financialisation of the privatisation process has been catastrophic. I watched the process of people raising the loans from all over the world to be able to buy up the various parts of the privatised energy regime, and what it has ended up with is a system in which they do not have the capital for the improvements to the existing infrastructure, and their whole focus is on increasing tariffs to the level they need to not only pay for the provision of energy but to pay off the extremely high interest burden that they are carrying. That is a big problem in a situation in which the majority of the country are poor. I thought the comment of Global Justice Now was very much to the point and the response of Adam Smith International grossly inadequate—that they are providing reduced tariffs for 0.5% of the population in a country in which over 60% of the population are below the poverty line.

On top of that there has been no consideration of what this does to the public sector, let alone the poor. Ahmadu Bello University, which is one of the top three universities in the country, no longer can afford to pay for its power requirements and now runs its system on 12 hours a day of deliberate power outage. How are you supposed to do reasonable academic research in a context in which you have a regime of 12 hours' lack of power because the university cannot pay its power bills?

Charging mobile phones is an irritation but there are a lot of local solutions to that. People provide generators; there are supported charging arrangements in the market. That works for local people. It is a bit of a pain for elites. Generators are there. People manage to charge mobile phones.

Josephine Osikena: Mobile network coverage is a problem, particularly in the north. There is a huge problem, and that was a negative consequence of the liberalisation of the telecom sector—that they cherry-picked urban centres.

Dr Meagher: That general joined-up thinking about what these high tariffs are doing for the society and for the economy, rather than just thinking about how people can make their money back from them—frankly the people making their money back are the foreign investors who have lent the money for people to privatise it.

Q11 Fiona Bruce: Good morning. A very specific point: do any of you have any suggestions as to how our Department for International Development could help ensure that power sector reforms are implemented and energy poverty is tackled? Do you have any specific suggestions for DFID action?

Dr Kasim: The emphasis, like I said, must be on decentralisation of energy sources, so there will be many off-grid locations in which there are energy sources. Given the Government's interest in coal usage, DFID could, for example, help make sure that the coal used for energy is clean. The UK has been working on carbon capture and storage, so maybe DFID can work out partnership arrangements between UK researchers and Nigerian researchers in terms of having clean coal, given the fact that the Government wants to use coal.

I spoke earlier on about biogas and biomass. There are a lot of centres in this country where biogas and biomass are being researched into or are being used. DFID, for example,

can help to tie up cities—city partnerships. A city in the UK that is using biogas or biomass can find a partner in Nigeria to use biogas and biomass. That kind of arrangement can be made.

Dr Meagher: I would suggest much more serious regimes of cross-subsidy, not some kind of token 0.5% reduced subsidy for the poor but the targeting of poor neighbourhoods and priority sectors—local private sector—and priority industries for substantially reduced tariffs and at-cost and even higher-than-cost tariffs for elite neighbourhoods and for non-priority areas, such as the entertainment industry, the foreign fast food industry, etc. They wanted cost-effective tariffs and they should be prepare to pay for it.

We need something that recognises the structure of tariffs and that allows the economy to function, rather than looking at just this idea of cost recovery, which makes no sense in a country where 70% of the population is below the poverty line.

Also, I disagree with Dr Kasim, with all due respect, on gas. Affordable energy will depend on effective use of something that Nigeria produces itself and can therefore use in a more flexible way. I know that many of the serious approaches to power stations are looking at the possibility of gas pipelines, and it beats flaring.

Q12 Chair: Do you want to respond, Dr Kasim?

Dr Kasim: Gas is expensive to Nigeria because most of the cities and towns in Nigeria are not planned, and because they are not planned it is very difficult to lay pipes to connect houses to use gas. The UK is blessed. The town planning is very good here. It is incredibly easy to connect houses with pipes.

Dr Meagher: No, I meant gas for power generation, not for household.

Dr Kasim: Even for power generation it is still very expensive because you look at the cost of it to the households. At the end of the day, it is not viable. In any case, if it was viable we would not be where we are today because I know that, as far back as the 1990s, the Government have been talking about using gas for power generation, so there must be reasons why they have not been able to do it. The energy suppliers are always talking about the cost. The power stations cannot afford to pay them for the gas they are supplying them. It is expensive. It is a very expensive commodity for Nigeria and experience has borne that out.

Josephine Osikena: I just wanted to add a tiny bit. I will not get involved in the gas issue, as they are much more expert than I am. Just on the biomass issue, to challenge slightly Dr Kasim's point, there are issues around connecting biomass and separating it. If it is incinerated that is increasing carbon emissions. If it is compressed it is really expensive. I am saying I am not quite sure what the answer is, but the options that appear to be available are quite expensive. To my mind, from the discussion that we have had, solar seems like an affordable and more practical option, but there are issues around constructing the panels and maintenance. Those could be opportunities to create jobs in terms of training young people up to construct these panels and maintain them, and that could be really good transferrable skills that could be acquired. In my opinion, in the immediate future solar might be a really interesting option and a practical option.

Q13 Fiona Bruce: The Committee saw a small solar panel project where thousands of people with these tiny panels on their roofs were able to power a fridge, television and a phone. Something like that might be viable, do you think?

Josephine Osikena: Yes, particularly for people who are off-grid or quite remote those are options, in terms of picking up the points that both my co-panellists have made about people that do not have affordable or any access to electricity and power.

Q14 Mr Evans: There does seem to be a tragic irony, does there not, that the country is so full of oil and gas and yet the people are so energy-poor? Just park that idea for a second.

I want to attack another area. When I first got elected 23 long years ago I went to Dubai, and there they had a vision for what Dubai was going to be so they were not reliant on just revenues from energy, and it was tourism—23 years ago nobody would have dreamt of going to Dubai or Abu Dhabi for a holiday, but now millions flock there. Is this the problem with Nigeria: that they are so dependent on this oil and gas thing? Is it not 94% of all their exports are oil and gas? And 70% of their GDP is that. Should they be looking to diversify into other areas and, if so, what sort of areas have you got in mind? What sort of assistance would they need to go there?

Dr Meagher: Although oil and gas has been too much of a focus, there have been a lot of economic pressures to keep that a focus for a very long time—the pressure on export revenue. The reality in Nigeria is that it has a huge home market, so they do not need to focus as much on export revenue, and there is a lot of capacity to build up local manufacturing, potentially export capacity, focusing initially on the home market, to substitute for the huge amounts of importation that is going on.

On the strategy currently being used by Dangote—it is also worth mentioning that the richest man in Africa is a Nigerian, so they do not have to rely on foreign direct investment—working with the large-scale, strategic, very focused local private sector, the domestic private sector, is very valuable. I listened recently to the economic strategy of the Dangote Group. They are very careful and systematic about building up the agri-processing areas. Rice is a core one. They have a huge home market for rice. Agri-processing in rice would yield an enormous amount of foreign exchange simply by substituting for imports. There is tomato-processing.

Textiles is another area both for employment generation and for import substitution. There are elements of the garment sector as well in the home market. They have an extremely skilled garment sector, especially in hand embroidery. All of those are important areas but there are a number of areas of manufacture as well—shoe production, light industry. There is an enormous private sector in Nigeria. The fact that they do not export is partially a quality issue and partially also a home market issue.

Q15 Mr Evans: What do you mean by “home market issue”, as far as buying their own—

Dr Meagher: I mean that many of them can meet their demand needs simply by servicing a low-quality home market. The fact that the exports of non-gas products are low is not an indication that there is no diversification in the Nigerian economy. It means that the export quality in that diversified economy is lower.

The other issue that is very important to keep in mind is the kind of incentives that are being used right now for export diversification, which are grievously exacerbating regional inequalities. Boko Haram is a direct outcome of that process. Continuing with the same types of market-led incentives ignores the fact that that kind of inclusion is highly selective and it pulls in the people with the best education and the most connections with the formal private sector and it leaves behind all of the people who do not have a good education and do not have those kinds of modernised formal private sector skills, and that is the bulk of northern Nigeria.

Thinking about diversification also must be lined up with thinking about education, thinking about regional inequalities, thinking about priority industries and recognising that the bulk of the highest share of the unemployed in Nigeria are university graduates. Education needs to be thought through much more carefully. I will stop there.

Chair: Thank you. Very brief additional answers if you want to give them.

Josephine Osikena: No, in that case I will hand over to Dr Kasim.

Dr Kasim: These are old issues that have been discussed time and time again in Nigeria—the issue of diversifying and a reliance away from oil to other sectors—but what has always been missing is a proper understanding of why that has been the case. A lot of people just say that we depend on oil and the Government's focus is on oil. It is perceived that Nigerian efforts is producing the oil, which is wrong, because oil is produced in Nigeria because of FDI—foreign direct investment. It is not as if the Government or anybody else in the country are putting their efforts into those areas.

Oil and gas has been very important for two reasons. One is because the other source of revenue, which is taxation, has been ignored for a long time. It has been ignored for a long time for reasons that the Government understand very well, because if the Government were to go very hard on collecting taxes then questions would be asked about how the money is being spent. Therefore, one way to get around that is to widen the tax base. I am thinking, for example, that every Nigerian must be made to feel a part of the development by introducing, for example, a poll tax. Every adult must pay money and that way they feel part of the system.

Q16 Mr Evans: That has to come from the top down, does it not? It has some vision from the Government. Are the Government up to it?

Dr Kasim: Yes, the Government should do that.

Q17 Mr Evans: Are they up to it? Are the Government up to it?

Dr Kasim: The UK Government, through DFID, can try to let them know that it is in their better interest to do it. The other thing that we need to focus on as an area of interest is why it is so that the rate of return on investments in other sectors is so low compared to the oil and gas sector. The rate of returns on investment is higher in construction and rate of

return to effort—manual labour—is also higher in the construction sector. The return to effort in the agri sector must also be increased.

Q18 Pauline Latham: We have some written evidence to the Committee on this inquiry highlighting the need for improvements to the tax collection systems. What more can DFID do to make sure they have an effective tax system in Nigeria? DFID obviously can help support them? They have done work in Rwanda to help this, which has been very effective. How do you think that can help in Nigeria?

Josephine Osikena: If I could hand tax over to my co-panellists.

Pauline Latham: Not your favourite subject.

Dr Meagher: I have just done some research on taxing the informal economy in Nigeria. Again, a more differentiated strategy that looks at local dynamics is absolutely critical. The reality is in Nigeria and most Anglophone African countries the informal actors have paid tax since the 1950s at the local government level. This idea that the informal economy is not taxed is simply not true and there are even World Bank studies in Uganda that show that the poorest people in the informal economy pay the highest rate of tax, sometimes in the range of 22% to 25%.

We need to look at whether there is any mileage in trying to tax the informal economy. This idea of widening the revenue base is fine within reason within the formal sector. In Lagos, the tax success story of Nigeria, they have still not managed to generate more tax from the informal economy than it costs them to try to collect that money. That means it is a net loss to the budget and Lagos is the most effective in tax collection.

In northern Nigeria it produces an additional problem in that the political pressure of tax and the higher levels of poverty mean that the opposite of the assumption that taxation creates political voice is true. Those with the most political voice pay the least tax, namely indigenes, and those with the least political voice, mostly migrants from other parts of Nigeria, pay the most tax. Thinking about the ways in which political pressures interact with tax collection and interact with conflict dynamics is absolutely critical.

There needs to be a more differentiated strategy within regions between poorer and wealthier states. Lagos is a deeply commercial area in which the returns to broadening the tax base are huge and the results are clear. The same is not true of Kano. There is a need to be realistic, rather than just this drive to force the revenue service to collect more tax and not look at what the local social dynamics are; that is problematic.

Q19 Pauline Latham: Surely everybody has to pay, as we do here, according to how much they earn. It does not matter what sector they come from; they have to pay a certain percentage of what they are earning.

Dr Meagher: Do we not have an exemption for people below a certain earning level?

Q20 Pauline Latham: Yes, we do, but what I am asking is what DFID can do to make it more effective. You have said, “Do not tax the poor. Do not tax the informal society. Tax others,” but you have not said what DFID can do.

Dr Meagher: What DFID can do is look at what is going on in Lagos but also look at where the success is. Where are they making more effective taxation work and what segments of the population are not worth taxing and in fact do we not tax in this society? There should be exemptions below which you do not bother collecting taxes, a) because it is a waste of your time because it costs more than you get out of it and b) because it creates conflict dynamics that are not constructive, especially in places where there is already a lot of tension. Lagos has given us an example of how to do it with the formal sector and with those who can afford to pay higher taxes.

Q21 Chair: We are running out of time and suddenly everyone wants to ask supplementary questions. I am going to apologise to Jeremy and to Virendra and I am afraid I cannot take their supplementaries because there is one more question. I am going to ask it and ask each of you to try to answer it in a minute, which is probably incredibly unfair. It is about small and medium-sized enterprises, for which I understand the contribution to GDP in Nigeria is substantially less than in comparable countries in other parts of Africa. Can you just say what you think the big challenge is for SMEs and what more could be done by donors, including DFID, to improve the prospects for SMEs?

Dr Kasim: I still hope I can have some time to answer the question that was posed by Pauline. What can be done about SMEs? First of all, we need to get more data about what goes on in that sector, and DFID can help to get data about what goes on because everybody says they are not productive and they are not contributing, but what is going on there?

We also know that we need help to set standards and maintain standards for those people. In this country, the plumbers have to be registered. You have to be registered as a plumber to work as a plumber and then there are quality standards that this registration asserts. Things like that have to be understood. We also need to have ways of making tools available to them because there is nothing as bad as a workman that does not have the right tools.

Education is very important and vocational training is very important. I did say at the beginning that we need to have everybody in school up to a certain age because the country has what you call a six-three-three system. Six years of primary education, three years of junior secondary and three years of senior secondary. What we can do is to have the secondary education go into two streams: vocational and academic. They must be within the same premises so that the vocational people have also the proper training and therefore when they go out they can set up good businesses with standards. I know you are running out of time.

Chair: It is because we have another panel coming after and I just want to be fair to the two panels rather than curtailing them.

Dr Meagher: Financing is a critical issue. Microfinance is not a helpful thing for a developing small and medium-scale industry. It is too small; it is too short-term. There is a need for concessional financing with much longer time horizons. Even one year is much, much too short for reasonable support for a small enterprise. There needs to be a much more joined-up strategy rather than just a proliferation of small and medium enterprises without any strategic co-ordination, and a strategy of particular sectors that are being prioritised as well as of how to connect that into the larger-scale domestic private sector,

so that incentives for quality are created through those connections, rather than random quality controls that are never carried out.

Chair: Thanks Kate. Josephine, the final word.

Josephine Osikena: Reiterating Dr Kasim's point on vocational education and Dr Meagher's point on access to finance, financial institutions are known in Nigeria, particularly banks, for not really understanding, for example—and I plug the agricultural and rural economy again—how to assess risk and how to lend. Vehicles around, perhaps, restructuring loans, so perhaps more seasonal, but they just fit the demands for the client, so servicing in the rural economy.

Chair: Thank you very much indeed. There is never enough time. You have been wonderful witnesses. Can I emphasise that you can write in with any further points that you felt you did not get an opportunity to raise today, and particularly, Dr Kasim, we would be very keen to hear more from you on the education point because that is a significant part of our inquiry into Nigeria? Thank you very much for raising that, and thank you to all of our witnesses in the first panel. Please feel free to stay to listen to the second panel, but equally feel free to go if you want to as well. Thank you very much.

Examination of Witnesses

Witnesses: **Dr Leena Koni Hoffman**, Associate Fellow, Chatham House, **Alex Duncan**, Director, The Policy Practice, and **Joseph Hurst-Croft**, Stakeholder Democracy Network, gave evidence.

Chair: Thank you very much indeed. We have around 45 minutes for the second panel, which is roughly the same as we have had with the first panel. I think you were all here, but just to reiterate the way that we do this is that we will go straight to questions. When you first answer a question, please do briefly introduce yourself. Do not feel you need to answer every question and bear in mind that we are seeking to cover nine questions in 45 minutes, so roughly five minutes per question.

Q22 Mrs Grant: Good morning to you. Has the governance situation, especially in relation to transparency and accountability, improved since the transition to democracy in 1999, and what role has the Government in the UK played in any change?

Alex Duncan: Could I read a sentence from a review I did for DFID six years ago of governance in Nigeria? My name is Alex Duncan. I work with The Policy Practice, a small group we set up 12 years ago to focus on the political economy challenges of development. We have been quite involved in various roles in Nigeria with DFID. The review reads: "The prevailing political economy results in a systematic failure of the state to provide the public goods on which poverty reduction depends—quality public services, public infrastructure, a conducive environment for investment and growth, and personal security."

I am afraid what I said six years ago remains true. There are major, major systematic weaknesses in governance and accountability still 17 years after the return to democratic rule. There have been important improvements. The introduction of democracy, which the UK and others have played a constructive role in supporting, has improved the quality in important respects of the debate around public policy and around the performance of Government. There has been an opening up, in important respects, of this debate. It is, in important respects, much better informed, both among Nigerians and also among the development agencies.

DFID in 2003 to 2005 invested £3 million in political economy studies, which fundamentally changed, improved and deepened the understanding of the nature of the systemic problems in the country, and the country programme and the design and implementation of a lot of programmes within that have been influenced by a much better understanding of the nature of these embedded political economy problems.

The broad picture remains the case that Nigeria is a major, major development challenge. It is a complicated country, extremely large, extremely diverse, fragile—all sorts of challenges. There is, of course, a question about whether the UK should be involved in the way it is. The answer is that it should, for a number of quite strong reasons. The challenges are severe. It is an extremely difficult environment in which the UK Government engage, and importantly failures of a number of initiatives must be expected. One has to be realistic about this. There are also a number of examples of really quite major payoffs to success. One can identify a number of those.

Q23 Mrs Grant: Could you give us a couple, just quickly?

Alex Duncan: I did a review three years ago for DFID of 15 years of UK support to the debt management office within Government. When President Obasanjo came to power the management of Nigeria's debt was a shambles. It was unsustainable. Nigeria simply could not pay. They did not even know what they owed. It was chaos.

When we did this review I talked to some banks and I talked to some ratings agencies, and by common consent Nigeria had the second best debt management system in Africa. They were advising other Governments on how to do this. It is a very good example, in a very difficult wider context, of taking advantage of a political opening of a conducive environment created in the first Obasanjo term.

The elements of success in the support were some high-grade, low-key technical assistance, funded by the British Government, provided by Crown agents. It was a good example of how to do it. It was low-key. It was not seen as a British project, and I have a slight quarrel with the need to badge a lot of these highly sensitive governance activities with a Union Jack. It is a pity because Nigerians quite rightly are in many cases proud people with a sense of identity. It is much better to feel—which is the reality in many of these programmes, and they are run by Nigerians to a great extent—that this is a Nigerian initiative to bring about some of these improvements.

The debt management office was a good example, which has saved Nigeria a lot. They got the biggest ever debt relief deal, \$18 billion, just over a decade ago, which was a direct result of that. Also the saving on the management of the debt ran into hundreds of millions, if not more.

Dr Hoffman: My name is Leena Hoffman. I am Nigerian. I am an Associate Fellow of Chatham House and I work on politics, governance and corruption in Nigeria.

On the question about how governance has improved in the last 16 or so years of democracy, within the frame of that we have to be mindful of where Nigeria was coming from. The last military regime before the one that transitioned Nigeria to democracy was one of the most repressive military dictatorships in the history of Nigeria. There was repression and the press was not as independent as we see today. The broader picture or the broader context in which we should look at the improvements in governance should be the journey—the point at which Nigeria transitioned from democracy. There was a very repressive military regime in place, there was very, very little press freedom and institutions of governance were severely weakened by corruption and patronage to networks tied to military power.

Looking at the journey since then, some of the positives that are worth highlighting are to do with the management of electoral processes and the strengthening of democratic institutions. I am aware that DFID have made significant investments in resources and support to electoral management bodies, such as the Independent National Electoral Commission. As much as previous elections have not lived up to expectations of credibility, equality, etc, the last election in 2015 was a direct result of this journey of strengthening electoral management bodies and making them more efficient and supporting them in terms of funding and technical capacity.

There are definitely positives to highlight there and as well maybe pointing to the privatisation of the telecoms sector. We have spoken about that, about the power sector, but there are successes to be highlighted in that respect. That was a process started by the Obasanjo Administration.

In terms of the frameworks for anti-corruption efforts, in the very first democratic Administration when Nigeria returned to democracy in 1999 Obasanjo set up a number of anti-corruption agencies. There were some prior to that, in terms of legislative framework and powers with which they can do their responsibilities.

We have spoken about power sector reform and failures in that. I am sure we are going to be speaking about corruption and anti-corruption later on, but the larger point I do want to emphasise and make is be mindful of the path Nigeria was on and how far it has come and some of the positives worth noting.

Joseph Hurst-Croft: My name is Joseph Hurst-Croft. I work for Stakeholder Democracy Network. I have been working in Nigeria, particularly in the Niger Delta, since 2004. I have spent a lot of time there. Thank you for having me today.

My colleagues have said a lot. I have two points on the governance point. When I first went down there in 2004 there was this term banded around—“Democracy”. “That is what we have in Nigerian. We do not have democracy.” At the last set of elections there was a less than 10% split and the people accepted that there needed to be a change of Government. That was a huge moment and a lot of the work that DFID did was around supporting electoral reform and making sure that civil society could have an active voice within that.

Some of the election observation that I have been involved in over the last three set of elections has seen a real, real difference. You have elections now that are being rerun in the Nigeria because people can say, “Hang on, you are trying to rig the votes. We need to be able to hold you to account.” That process is going on. A lot of DFID’s work on that grassroots accountability of political actors is something that can really improve.

I will not go into repeating other things, but the other side on the governance issue is the work around transparency and budgeting. There have been a lot of improvements around supporting civil society groups to track budget expenditure, to begin to say to local governments and state governments, “Hang on a minute. Where is the budget being allocated? What is it for?”, and beginning to ask some interesting questions of politicians.

The accountability is probably where the weaknesses are at the moment. That is where DFID programmes need to move more towards the accountability and not just the transparency side of things. Some of the work that I have seen, not with just DFID funding but with USAID funding and Dutch Government funding, looking at community groups holding local politicians to account, has a lot of good examples in the south of Nigeria, which I have seen.

Chair: Thank you very much indeed. They were great answers, but a bit too long. We just need slightly shorter answers if we are going to get through everything else.

Q24 Wendy Morton: My question very much follows on from what you were talking about, Joseph. How would you describe the relationship between improved governance in Nigeria and DFID’s mission of poverty reduction?

Joseph Hurst-Croft: It is absolutely key because basically the fundamentals, unfortunately, of the political system are a patronage corrupt network that extract from the country. Unless you begin to support civil society and other groups and the reformists within Government—the President himself is the main champion of bureaucracy— and within the different sectors, the different ministries and civil society, and unless you get these groups working together, you are going to continue to have this elite group that extracts from the core and therefore undermines the resources Nigeria does have. There is an opportunity for DFID to leverage funding in targeted areas to lead to more money. We can talk about that when we come to corruption.

Dr Hoffman: Just to add to that, there are opportunities to leverage the current President’s public commitments and declarations to address corruption in Government—institutionalised corruption. It will reflect on the sincerity of his Administration and as well get the buy-in of the Nigerian public and as well get ordinary citizens paying attention to how the Government spends, uses resources and the resources that are attached to the projects, and there is accountability in delivery processes in that regard.

Alex Duncan: I have just one point that is coming out of what we are saying, which is the extent to which the fundamental problems of governance that impact on poverty are very, very profound in this society. One is talking about long-term historic processes of change. Politics has to work differently in Nigeria ultimately if these problems are going to be addressed.

I admire the British Government for being involved in one of the biggest development challenges but you have to be there for the long-term. This is not even decades. This is

generational change, in some respects, that we are talking about. It is enormously important to combine a strategic goal, a sense of the real long-term that one is aiming for, with recognising that one needs to be practical, have nuts and bolts things that work, be opportunistic even when required, but do not lose sight of and be very realistic about the timescale.

Q25 Mr Evans: When one thinks about Nigeria normally corruption is one of the things that first does come to mind. It goes together like bread and butter for me almost. You say that the new President is making great advances and has been swept to power on the message of anti-corruption. Is that right?

Dr Hoffman: Yes.

Q26 Mr Evans: In some of the things that you have spoken about improvements have been made and that has to be welcomed, because PricewaterhouseCoopers estimated that if they did nothing about corruption by 2030 it would cost each person about \$2,000 in Nigerian. Looking at the levels of poverty that clearly would make a massive difference, what areas do you think that they are missing considering the fact that we should give some credit to where they have made advances? Where else do you think they ought to be concentrating and are there other areas where we could be assisting them?

Dr Hoffman: There are areas of concentration that are quite key, and I will speak of areas perhaps first that the current Administration has been focusing on. Specifically it has been in terms of prosecuting corrupt officials. There are a number of high-profile corruption cases going on, but the processes or the procedures in the courts that are ongoing indicate to us some of the institutional challenges that the anti-corruption agencies have in properly and effectively prosecuting corrupt officials.

Q27 Mr Evans: Can you say something a little more about that please, so I can understand?

Dr Hoffman: There are a number of high profile cases of corrupt officials in the courts presently. The point I was trying to make is that the challenges that the courts and the tribunals are having at the present time in prosecuting these cases indicate to us some of the institutional weaknesses of anti-corruption agencies in Nigeria and the challenges that investigators and prosecutors have in getting evidence together and presenting the cases. These are very powerful and very wealthy individuals who are able to assemble an army of lawyers into courts and tangle up these cases in the court system.

There has been a lot of focus on prosecution and perhaps, beyond external donors supporting judicial reform and strengthening access to justice and anti-corruption processes at the anti-corruption agency level, the Nigerian state itself—the President, the federal state and local government—should invest in strengthening these institutions and how they work, so you have a prevention process or strategy, as opposed to recovering and prosecuting corrupt officials. The focus or the emphasis should be towards anti-corruption prevention as opposed to prosecuting, because the challenges that the anti-corruption tribunals are facing right now is a lot of these cases are going to be tangled up in the court system for perhaps months or years to come.

Q28 Mr Evans: So one area where we could assist would be judicial reform.

Dr Hoffman: Absolutely.

Q29 Mr Evans: Just as an add-on there, are the newspapers and the media full of these stories about how the President is tackling corruption and people are being brought to book, despite the judicial problems?

Dr Hoffman: There is a keen media focus on these cases. Lots of the focus is coloured by Nigeria's politics and who is being prosecuted and who is not being prosecuted and why, and all sorts of ethnic connotations and settling scores from the last elections, so it changes the dynamic as to the purposes of these processes. You want to prevent corruption. It is not about who stole or who did it. The media is actively reporting these cases. I know there is a lot of social media coverage of the cases in the tribunals. On the citizen level or the Nigerian public level, they are fully engaged.

You have to understand that in that engagement there is a bit of cynicism as to watching how this process will play out. Perhaps it is just very exciting right now, but when it gets lengthy and legalistic, people lose interest and you have backroom deals that get people off. They may be handing over a few percent of the money they have taken and they are let off the hook. It is really how these dynamics play out, and the public does influence the way final decisions would be made.

Q30 Pauline Latham: DFID's approach to tackling corruption includes technical assistance on budget transparency and financial management, supporting civil society and engaging with the private sector to encourage anti-corruption efforts. Do you think DFID has prioritised the right actions in tackling corruption and do you think the newly formed department to tackle corruption is up to the job?

Joseph Hurst-Croft: On the agency of the agencies tackling corruption, there is a big gap that DFID could provide a lot of technical assistance on. I am not sure of the exact figure, but I think it is fewer than 100 agents in the EFCC that are tackling 1,000 cases. It does not have the capacity, let alone the right skills. Also, the financial tracking capacity is a real gap that DFID could support on.

One of the other areas that is a really big key is that we have seen some good audits supported recently, particularly in the oil sector and other sectors, but they are very backward-looking and perhaps three or four years late, so that the people that have been involved in stealing that money are well gone. How we support those audit processes and add that accountability in a much more real-term political cycle is something that DFID's resources could lead to a lot more accountability; if that threat is there and people know that the capacity there is coming, we could have a lot more accountability.

The other thing for me that is a huge area that DFID could focus on is the issue of oil theft. I know it is a standalone issue, but when oil was at \$100 there was a \$15 billion crime involving UK companies and international companies. Nigeria needs its international friends to stop those big flows of illegal wealth leaving the country, and perhaps picking one or two things where DFID could say, "Look, we are going to help plug these holes while we are looking at the structural reforms internally", could be a good way of packaging up the assistance.

Alex Duncan: I would just like to highlight the lower levels of Government and responsibilities. As you know, it is a federal system. Under the constitution, substantial Government revenues go straight to the governors of the 36 states. The states vary enormously in the quality of governance and accountability from really some quite impressive reformers—Lagos is a lot discussed—to ones that are run by people who are highly corrupt and unaccountable.

DFID, through some of the governance programmes, such as SPARC and SAVI, and their successes that I am sure you heard about, do work substantially at state level. It is absolutely crucial to keep this level of focus because the extent of unaccountable corruption at the level of the state governments is extremely high.

An area that is substantially neglected, and I do not have any easy ways forward, is the next level down of local government. There are 770-odd local governments. This is the interface for important services with the population, with the people, particular in rural areas but not only. It is very difficult to see how the quality of performance of local governments can be improved. Little is known but one can only imagine that there is vast inefficiency and waste there. The occasional look I have had has confirmed that but I have not done anything systematic at all.

The question is what an external agency can do, if anything, at that level. It is important to remind ourselves of how tiny aid is in relation to Nigeria. Here is a vast economy with very small amounts of aid as a proportion of national income or per capita of population, so one must not expect external agencies, DFID or others, to try to get overstretched, because it is extremely easy to do that. This is an area that is really crucial to dealing with corruption and improving the performance of Government, where we do not have simple answers, but it is really important not to lose sight of that.

Q31 Chair: Do you think, Alex, that there is anything that British local government could do to support that?

Alex Duncan: It is a really good question. The answer may well be yes. I have never thought about that. Wherever you look in Nigeria there are reformist people. That is one of the encouraging things about the country; whether it is the federal Government or some of the states or wherever it is, there are people who are very angry and upset about what is going on in their country and really wish to do something about it. It seems to me that if there is political economy analysis that has been systematically done, including at state level, if it can be kept up to date it can identify those would-be reformers who can benefit perhaps from external twinning. Who knows? It is not something I have thought about but in principle twinning can matter a lot—both local governments but also professional groupings, such as universities. The neglect of universities over the last 20 or 30 years by international agencies is tragic.

Joseph Hurst-Croft: Even if it is just rewarding those that are performing well and banning those others from applying to the opportunity in itself is a good message.

Alex Duncan: Twinning can be an effective instrument in a number of ways.

Q32 Albert Owen: DFID has identified working towards enhanced transparency and accountability in the oil sector as a key part of the governance programme in Nigeria. What progress has been made in improving governance in the oil and possibly gas sector?

Dr Hoffman: Just quickly on transparency in the oil sector, I would perhaps highlight that since the new Government was sworn into office and a Minister for the oil ministry was appointed, Kachikwu, there have been significant developments in the way those institutions or the institutions under his ministry have been working. I would point to the NNPC—the Nigerian National Petroleum Company—and the way it has been perhaps more open with its records in the last couple of months, reporting its incoming and outgoing expenses and its budget, etc. This is something we have not seen since it was put in place in the 1970s.

I would certainly highlight improvements in accountability in that respect. There is a lot more to be done. There is a need for the passage of the Petroleum Industry Bill. It has been in the Senate for many years. It has gone up and down. It is really a yo-yoing Bill. It is really hard to follow how that is going to pan out, but I am aware that DFID has given technical advice in the formulation of the Bill. It has been maybe revised or reviewed in the last couple of months by the Senate and people are looking into these revisions and what they mean for strengthening transparency in the sector. Certainly there is a lot more to be done and a lot has been done, but a focus on the passage of a robust and effective Petroleum Industry Bill is critical.

Q33 Albert Owen: What measures in the Bill deal specifically with accountability and transparency?

Dr Hoffman: Some of the things that the NNPC is doing currently are things that have been reflected in the Bill, as in reporting revenue collected. The current Administration has introduced or is implementing the Treasury Single Account. That is what has been in place in the last couple of months. Through revenue generation and collection, Government agencies like the NNPC and the Federal Inland Revenue Service are putting income into this account, so you have one account. The Government can see how much money they have. If an agency is struggling to collect or support its programmes, they can transfer money in that respect. I would like to perhaps say that the federal Government is making efforts to effect some of the elements that this Bill would bring about when it is passed.

Q34 Albert Owen: It sounds as if there is progress. Is DFID right to concentrate so much on this?

Joseph Hurst-Croft: I think so, because that is where the money is for delivery of governance and alleviating poverty. There are the structural reforms under the PIB that DFID has been advising on and making sure you have separated income from regulation. Before it was just one big agency. That is going to be a huge shift to then put the transparency mechanisms you have in place.

Also, there has been big progress on public engagement with the oil sector. That is something else that the DFID programme has improved on. I worked on a programme tracking oil spills and the negative impacts of the oil sector and the environment ministry was supported to put a mechanism in place where it could publically track the oil spills

and people could comment on whether a spill had been cleaned up or not, which was impacting all of their livelihoods. It was very much a bottom-up process. That DFID support for transparency in the oil sector is not just the big numbers; it is also giving people accountability.

Q35 Albert Owen: Will this be further complicated by the privatisation of the power sector in Nigeria because when you centralise things, when you are dealing with things, it is very easy to look at it, but when you have smaller companies or foreign companies or offshore companies involved, is that going to complicate it?

Joseph Hurst-Croft: I do not think so, because allowing a national oil company to raise the money through bonds or whatever, which is what the PIB will allow it to do, takes it out of the national purse, and they can use the Government's money for addressing governance challenges. Having a formalisation of the energy company—I am not quite sure what they are going to call it—will allow that to operate on the private markets and free up a lot of the capacity and resource that should be there for governance, so I see it as a good thing.

Q36 Jeremy Lefroy: I was told by someone who was in a position to know that at one point up to half the oil produced in Nigeria was stolen or went through illegal channels. What is your estimate of what the situation is now?

Alex Duncan: I do not have a quantitative estimate. It clearly continues to be enormous.

Q37 Jeremy Lefroy: Even given these changes and this accountability?

Alex Duncan: I am not the person to give you an informed answer on that.

Joseph Hurst-Croft: Unfortunately I have done a lot of work on it and the system is still there, but because the oil price has come down so much the transactional cost of bringing in ships and stealing oil means that it is not as profitable as it once was. It is not that the systems we have in place plug it; it is just that there is not so much being stolen because it is not as profitable, so it is a good moment to begin to plug those things because when oil goes back up, the gaps are still—

Jeremy Lefroy: So literally ships would come in and steal whole loads of oil.

Q38 Dr Cameron: Written evidence that we received indicated from DFID that its approach in Nigeria is about influencing how Nigeria uses its own resources. How would you assess DFID's capacity to improve governance to the benefit of development outcomes?

Dr Hoffman: Perhaps it would be useful to point out that improved governance is in the interest of Nigerians, firstly. DFID should emphasise engaging with Nigeria's politics and not being afraid or concerned about the connotations of challenging ideas and policies and programmes and actions by the Government that do not reflect well or will not produce the kind of prosperity that is possible. I am aware of DFID's programme or attempts to integrate technical advisers into various ministries and agencies. That is a reflection of an awareness of the challenges these agencies basically have with technical skill. For example, the trade ministry should be supporting negotiators and staff who engage in trade policy formulation and what the implications are for Nigeria's trade policy with its relations with its neighbours.

I am aware of those kinds of efforts, especially as well in tax collection with the Federal Inland Revenue Service. I have spoken to a number of people who have supported the chairman of the Federal Inland Revenue Service agency and the efforts they are making to support these agencies that collect Nigeria's revenue, doing it in a transparent and an efficient way. The resources that are collected are published and made available to the public and the public itself can monitor the way Nigeria's Government institutions use its resources. It is about making those connections or enabling the environment in which those connections can be made. The Nigerian public itself should be the one and will be the one to put the necessary pressure on Government to use the resources collectively generated to improve the economy and support development.

Q39 Dr Cameron: Do you think that will require a cultural shift? When we visited it was mainly a cash-based society, and I am wondering about collecting taxes and how transparent that is currently. If technology can improve that is another issue in terms of electronic transfer of money.

Alex Duncan: There are some very promising opportunities sometimes created by technological advances. You put your finger on an area where this might be possible. The whole reform of the fertiliser subsidy area is enormously significant. They are using smart cards to try to reform the area. What was described to me by a distinguished academic and former chief economic adviser is that the second largest area of corruption in Nigeria after the oil sector was fertiliser. Significant improvements have been made with a 40-year problem of fertiliser subsidies, partly through transparency, partly through a DFID-supported programme doing research that showed that 89% of the fertiliser subsidy did not get through to the intended beneficiaries. That was used by Ministers in speeches and the President in a speech. The technological advance has offered a way forward using smart cards.

If I could answer your question more generally, the thrust of DFID's Nigeria programme to help Nigeria make better use of its own resources makes total sense. Aid is tiny. What this means is that it is fundamentally an agenda of institution-building and of seeking to influence the way that Nigerian institutions and processes work through trying to achieve maximum leverage with very small financial and staff resources.

If I could diverge for a moment, I am concerned about DFID's staffing. It seems to have got quite a lot thinner. Too much is being handed over the big implementers.

Chair: That relates directly to our next question, so can I interrupt you and I will come to you first on the next question? We are slightly running out of time, but we have three more questions and I am really keen to get them all in.

Q40 Mr Sharma: DFID has adopted a new approach to development, which is thinking and acting politically, and it has a number of advisers embedded in federal Government ministries. Is this likely to be an effective strategy in supporting necessary reforms?

Dr Hoffman: I would answer that question by highlighting some work that DFID has done on researching and understanding the dynamics of the informal economy. I was involved in that project last year. Initially it was to try to make sense of how Nigeria's economy works, but the research project evolved to looking at how the informal economy works

and how the informal sector works and how the Nigerian Government can encourage more and more people in that sector to formalise and move from operating under the radar and being engaged. What are the advantages of engaging with the informal sector, for tax collection purposes and so on?

In doing that project we did engage with the Nigerian customs services. Regarding some of the recommendations, I would perhaps recommend that the Committee does get a hold of the report that we made and look at the way the recommendations were constructed. The agencies and the bodies of the Government that they addressed reflected lots of the input that we received from advisers that we embedded in the trade ministry, for example, and the ministry of finance and the ministry of agriculture and the Federal Inland Revenue Service. There was a lot of joined-up thinking and confirmation of the challenges businesspeople told us about—corruption at the borders and not being able to move their goods in and out of Nigeria, despite a protocol in place for free movement, etc.

Just to conclude on that, the strategy of embedding or providing technical assistance on the ground to Nigerian officials and agencies is critical and is important and is very, very useful in understanding how truly the Nigerian Government works and why in certain respects it does not.

Chair: Alex, please do complete your earlier point as well.

Alex Duncan: Yes, if I could. Emphatically yes. A Nigerian said to me, “In this country the political trumps the economic.” If you do not understand the political context for programme design and implementation you are not going to succeed, and important work and advances have been made in the direction of thinking and working politically. It is very important that programmes are flexible. They have to be able to adapt as they go along in the light of experience gained, so I would really endorse that general thrust.

It is really important that DFID staff, if I could come to the staffing point, themselves are able to internalise the lessons from the implementing companies that DFID takes on to implement the programmes. I look at the scale of the staffing of the DFID office in Nigeria and I do worry. Institution-building is really difficult. You really need to bring sustained, substantial, high-level thought processes to this and your management has to be prepared to respond.

One of the important things about international staff, for example, is that they can bring international norms and ways of doing things. I worry in some of the areas—the economic growth team and the governance team and so on—that that is getting pretty skinny. It is also extremely important to make use of informed senior Nigerian staff, and DFID has a partially good record on that but could do more.

Q41 Jeremy Lefroy: Just really following up on that, the new public sector accountability and governance programme of DFID aims to focus on various pillars of governance, building accountable, capable and responsive Government engaging citizens and learning lessons on what approaches work to improve development outcomes. Do you think, given what you have said about the importance of internalising the political situation and development, this is a suitable approach in the Nigerian context or not?

Dr Hoffman: You said public sector—the programme.

Jeremy Lefroy: There is a public sector accountability and governance programme; DFID has placed an emphasis on politically smart development, which really follows up from what Mr Duncan was saying.

Dr Hoffman: I would perhaps expand on the previous point I was making on embedding advisers and support into institutions and just pointing, as well, to the support that DFID has given to third sector actors and civil society organisations who are involved in public sector accountability, activism and advocacy.

One of the organisations I will perhaps highlight that I know DFID is supporting is the Budget Platform. They are a budget transparency and public finance management organisation who have made the effort to go to as many states as they have had the resources to and ask the state governments for their budgets, and they are also publishing this online making them accessible and making budgets understandable to the average Nigerian, especially with low literacy levels in Nigeria.

In terms of efforts in that respect, these are efforts that are definitely positives and are worth supporting and even scaling up. It is not just the one agency or the one organisation. It is useful to have these types of organisations that are driven by Nigerians and operated or run by Nigerians at the state level as well as local government. We have talked about local government and corruption and inefficiencies at that level of the system. It useful to scale this up and broaden it out.

Alex Duncan: I was the team leader for the consultancy team that worked with the DFID office to design that programme, so just in the interests of transparency I am not sure you therefore want an answer from me.

Q42 Chair: What would be really helpful, and I said this to the first panel when we similarly ran out of time, is that there will be issues you have not had an opportunity to elaborate fully on and we welcome further written evidence from witnesses. I really want to ask the final question, which I am just going to put to Joseph because he referred to it earlier, although both of you have as well, and it is about last year's national election. It has been widely viewed as the most credible electoral process in Nigeria since 1999, with much less violence than perhaps might have been anticipated. Can you explain how that was achieved, why you think there was not the level of violence that was perhaps anticipated and in particular to what extent you think support from donors, including DFID, contributed to that credibility?

Joseph Hurst-Croft: The first thing is the support outside of the election cycle is really key—not just having election money that came in on those 100 days before the election and the election itself. That support for making sure the proper civil society monitoring groups were there working, tracking and making sure that people know their terrain, so you can get out and know where the areas of violence are going to be.

DFID also supported some really interesting engagements in the Niger Delta where there was potential for violence and had political debates and supported political debates, which had not happened before in that context, both on radio and on TV. It was very interesting to see politicians having to come and being pressurised to talk down the potential of violence. That is something that also helps—that political leveraging, which was not just

DFID. The international community as a whole came together and that was really important.

The other side of it is that awareness that we talk about in terms of the accountability side of things. Civil society and the media are getting braver. They are willing to being to say to politicians, “Hang on a minute. What are you going to do for us? It is not just something you do over there—elections. It is something we are involved in.” That is a really encouraging sign that DFID’s programmes need to continue to support and therefore see programmes around budget transparency as things that lead to groundwork and to the networks that can then switch into election-monitoring and election-observing at that time.

Chair: Super. Sorry I have not got time to come to everyone on this one. We have gone beyond the time. Many, many thanks to all three of you. You have been fantastic witnesses today and, as I said, we would welcome any further submissions into our inquiry, but thank you again for coming and giving us your oral evidence today. Thank you very much.

Q43