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## AFRICAN DEVELOPMENT BANK GROUP

# Planning to Fail or Failing to Plan: Institutional Response to Nigeria's Development Question

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## **Abstract**

**Despite recent interest in the interplay between institutions and growth, country studies in developing countries particularly relating to planning has not been given considerable attention. This forms the main motivation for this study, which evaluates the economic planning in Nigeria and discusses how institutions play influential roles on the kind of economic outcomes emanating from planning. It draws comparative evidences from Botswana and South Korea based on the fact that Nigeria had similar planning trajectory with them as they all had regular fixed-term development plans in the 1960s and 1970s. Nigeria had her five-year development plans the same time with South Korea starting with the 1st phase (1962-1966). Whereas South Korea's**

**five-year plans continued that of Nigeria was truncated in 1985 with the advent of Structural Adjustment Programme (SAP). Institutions in Botswana and South Korea have also been noted as key for their economic development. The study underscores the need for Nigeria to pursue the improvement her institutions that will provide supportive role to planning as any planning void of adequate institutional 'pillars' will not deliver the expected development outcomes irrespective of the coverage and how well nuanced. Thus, it is not that Nigeria planned to fail nor failed to plan but the critical factor associated with the planning models is weak institutions, among others.**

**Key Words:** Economic development; Institutions; Macroeconomic objectives; Planning.

**JEL classification:** E61; O43; P48

## **Planning to Fail or Failing to Plan? Institutional Response to Nigeria's Development Question**

### **1. Introduction**

There finally comes 27<sup>th</sup> July 2012, where the level of preparation and strength of performance across countries are to be tested in diverse kinds of sports. Yes, it is 'London 2012'; the popular Olympic Games involving 205 countries competing for different medals (Gold, Silver and Bronze respectively). As the events unfolded, countries made effort to include their names on the medal table. At the closing ceremony on 12<sup>th</sup> August 2012, it was evident that out of the 205 countries that featured, only about 39 percent of them eventually succeeded in gaining entrance to the medal table. For the African continent, less than 20 percent of the 54 countries that participated in the event made it to the medal table (British Broadcasting Corporation-BBC, 2012). What happened to the rest 126 countries? This may not be necessarily failure to prepare (plan), but it may be traceable to the inadequacy of such preparations. In other words, performance (or outcomes) is a function of planning; formally expressed:  $performance/outcome=f(preparation/planning)$ . Thus, planning requires adequate framework to effectively deliver its desired outcomes<sup>4</sup>.

Applying the above to the context of national planning, countries do not necessarily fail to plan or plan to fail, but the supporting components that could drive economic agents in alignment to the planning requirements are sometimes inadequate. One of such components of interest to this study is institution. This is because institutions have been recognized as a critical factor that shapes the relationship between economic agents. Institutions mediate potential moral hazards and adverse selection that may be associated with economic agents (North, 1991; Rodrik, et al, 2004; Adewole and Osabuohien, 2007; Osabuohien and Efobi, 2011).

Planning simply involves the process and actions taken to drive economic outcomes to expected levels<sup>5</sup>. Thus, planning even from market oriented perspectives is essential. It is not uncommon to hear of organisational vision statement, action plan and the like, in most corporate entities. At the national level, planning is part of government's activities. This is why it was not unusual that most countries engaged in some forms of development planning immediately after their political independence. As Ekpo (2011) observed, economic planning is essential in 'fast tracking growth and development'. Hence, economic planning does not basically go against the engagement of the market.

As some commentators (e.g. Obadan, 2003) have posited, planning can be said to have achieved some elements of post-independence success in most Africa countries. The periodic planning was somewhat discontinued particularly with the advent of Structural Adjustment Programme (SAP) 'sold' to most African countries by the International Monetary Fund/the World Bank with only a few exceptions such as Botswana. It also might have resulted from the precondition to access credit facilities (Osabuohien and Ike, 2011). Some of the failures experienced by many African countries especially comparing the expected with the actual outcomes can be linked to the quality of their institutional frameworks. Fosu (2011) surmised that weak institutions were one of the reasons for low growth experienced by some African countries.

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<sup>4</sup> However, other factors such as the athletes (mental and physical) condition and the preparation of other competitors could also contribute. The argument is that a country's disposition towards her citizen can have important influence, *ceteris paribus*.

<sup>5</sup> Planning and economic planning was used synonymously in this study.

This study evaluates the planning episodes in Nigeria and how the expected outcomes differ from actual. It also explains how institutions can play supportive roles in achieving high planning outcomes. It draws comparative evidences from Botswana and South Korea, based on the fact that Nigeria had similar economic planning patterns with them as they all had regular development planning in the late 1960s and early 1970s. Nigeria started using the five-year development planning models at the same time with South Korea, with the 1st phase 1962 -1966. South Korea's five-year plan continued up to the 9th phase in 1996, before it started strategic planning. Nigeria, on the hand was somewhat truncated in 1985 with the advent of Structural Adjustment Programme (SAP). Institutions in Botswana and South Korea have also been noted as important factors for their economic development. For instance, Botswana's development plans were not without financial control mechanisms to enhance efficient utilisation of resources for attaining them (Leith, 2004; Parsons and Robinson, 2006). Similarly, South Korea had mechanisms to ensure high level of fiscal discipline for the attainment of her development plans (Acemoglu and Robinson, 2008).

The remainder of the paper is structured as follows: Section 2 presents some background facts and analytical underpinning relating economic growth and institutions in Nigeria in comparison with Botswana and South Korea; The planning episodes in Nigeria with possible lessons from the planning models of Botswana and South Korea are in Section 3, which is supported by some empirical evidences in section 4, while Section 5 concludes.

## **2. Economic Growth and Institutions**

Nigeria, Botswana and South Korea had similar political history. Nigeria gained independence in 1960 from Britain. Botswana's independence from Britain was in 1966 and South Korea's was in 1945 from Japan. After their independence, they have managed with post-independence development challenges, but with varying fortitudes. Nigeria started with tackling her development needs by fixed-medium term planning to include infrastructural development and growth policies (Obadan, 2003; Ekpo, 2011). Botswana focused on the transformation of a 'fledgling' post-colonial polity to an on-going democracy, which has lasted more than three decades (Leith, 2004). South Korea's plans were on specific goals, targeted at specific sectors with adequate institutions to ensure the attainment of the goals. After independence, the government of South Korea had the target of building a self-reliant economy through industrialisation. This was achieved by investing heavily in the energy sector to support industrialisation (Leith, 2004). This explains the government's effectiveness through the development of Korea Electric Company and fostered industrialisation in oil refining, cement, synthetic fibres, iron and steel and other sector.

Using averages of some economic development indicators such as the economic growth rate and per capita income (PGDP) from 1961-2010, it can be observed from Table 2.1 that Nigeria had a per capita income that was higher than Botswana immediately after independence. However, in the process of time, Nigeria economic growth declined relative to Botswana and South Korea. For instance, within the period 2001-2010, per capita GDP growth rates for Botswana and South Korea PGDP were more than six and nineteen times those of Nigeria respectively. Economic growth for Nigeria fluctuated between 1.33 and 6.53 percent across the period. These are quite low compared to the economic growth rates achieved by South Korea and Botswana which ranged between 4.16 and 8.74 percent for South Korea and 4.15 and 15.19 percent for Botswana.

**Table 2.1: Economic Growth and Per Capita GDP (1961-2010)**

Period	Nigeria		South Korea		Botswana	
	Economic Growth (%)	PGDP	Economic Growth (%)	PGDP	Economic Growth (%)	PGDP
1961-1970	5.07	117.97	8.26	156.46	8.67	87.74
1971-1980	4.92	449.32	7.30	886.24	15.19	504.18
1981-1990	1.33	377.08	8.74	3270.31	10.94	1484.51
1991-2000	2.79	283.16	6.19	9573.90	5.76	2991.41
2001-2010	6.53	867.73	4.16	16716.83	4.15	5448.94

**Note:** PGDP is Per Capita Gross Domestic Product in US Dollars.

**Source:** Authors' Computation from World Bank (2012).

The economic growth and development performances above can be associated with the quality of the planning and policy institutions in place. The extent of government effectiveness and control of corruption as indicators of institutions is presented in Table 2.2. This is given that the quality of policy formulation, implementation and the credibility of government commitment to such policies will have influence on the level of outcome that will be realised (Obadan, 2003; Adewole and Osabuohien, 2007).

**Table 2.2: Indicators of Institutions (1996-2010)**

Period	Nigeria		South Korea		Botswana	
	GE	CC	GE	CC	GE	CC
1996	-0.976	-1.156	0.625	0.262	0.465	0.584
1998	-1.122	-1.071	0.325	0.334	0.499	0.704
2000	-0.944	-1.122	0.746	0.290	0.510	0.663
2002	-0.991	-1.322	0.890	0.461	0.574	0.607
2004	-0.804	-1.285	1.009	0.358	0.562	0.985
2006	-0.883	-1.054	1.107	0.316	0.480	0.897
2008	-0.975	-0.815	1.110	0.425	0.561	0.974
2010	-1.195	-0.993	1.189	0.423	0.509	0.975

**Notes:** GE: Government Effectiveness; CC: Control of Corruption.

Their values range from -2.5 (weakest) to +2.5 (strongest).

**Source:** Authors' Computation from World Governance Indicators of Kaufmann et al(2010).

As evidenced in Table 2.2, the values for both indicators of institutions in Nigeria were negative and far less than the values for Botswana and South Korea. Thus, Nigeria lagged behind in terms of the quality of policies and government commitment to realisation of such policies. For instance, all through the period where data was available, Nigeria had scores for government effectiveness that ranged between -0.804 and to -1.195, while those of Botswana and South Korea had positive values. It is useful to note that there were a number of planning models initiated and implemented within this period in Nigeria. However, government's commitment to such plans was weak, due to inadequate framework to institutionalise such plans. The issue of corruption is also a militating factor for the realisation of development plans in Nigeria. As Table 2.2 shows, the extent of corruption control in Nigeria was many folds lower than Botswana and South Korea. This indicates that the government's 'fight against corruption in Nigeria, is far from being won.

Institutions are humanly devised mechanisms created to shape relationships among economic agents. They can be formal or informal (North, 1991). The formal includes written codes of conduct. They include the 'rules of the game' and frameworks initiated to regulate economic and social interactions by structuring incentives for exchange. The informal institutions include norms, beliefs and traditions,

usually unwritten but generally accepted and control human behaviour (North, 1991; 2005; Osabuohien and Efobi, 2011). Both are relevant in influencing the nature of economic outcomes in a society. Thus, institutions matters and La Porta et al (1999) provide some theoretical insight on the development of institutions.

La Porta et al (1999) theories of institutional development explain factors that can influence the formation and persistence of a given quality of institution in a society. They are classified into three: economic, political, and cultural institutional theories. The economic theory of institutional development maintains that institutions are designed when it is efficient to create them. This means that institutions are created when the perceived social benefits are significantly greater than the associated costs. Political theory of institutional development as nuanced by La Porta et al (1999) hinged on the redistribution of societal resources with the basic philosophy that institutions are established by political leaders in a way that they can 'sit in power' to extract economic rents. This is obvious in a multi-ethnic society where there are conflicts of interest between different groups regarding policy preferences, which can result to inefficient policies that are based on political allegiances rather than efficiency (Adewole and Osabuohien, 2007). Another theory of institutional development is the cultural theory, which postulates that a given society will hold beliefs to shape collective actions of the constituting human agents (La Porta et al, 1999). This study builds on political theory of institutional development given its possibility to influence economic outcomes.

The role of institutions in economic performance has been emphasised in extant literature with different views regarding the role of institutions in a country (e.g. North, 1991; Williamson, 2000; Acemoglu et al, 2003; Greif; 2006; Acemoglu and Robinson, 2008; Osabuohien and Efobi, 2011 etc). Fosu (2011) compared the economic outcomes of dependence on natural resource between Botswana and Nigeria and concluded that resource curse is prevalent in Nigeria relative to Botswana because of the divergent qualities of their institutions. Mehlum et al (2006) noted that the quality of institutions in a country is the predominant factor that transcends resource abundance towards economic growth.

Bjorvatn et al (2012), using panel data from 30 oil-rich countries commented that the strength of governance can generate growth in a resource wealthy country. Cappelán and Mjoset (2009) have also reached similar conclusion. In relation to state fragility, Bertocchi and Guerzoni (2010) posit that low institutional quality in some Sub-Sahara African countries is a contributing factor to the inability of the government to achieve desired macroeconomic objectives. Fosu (2008) earlier cautioned that policy failure in some African countries can retard their growth process.

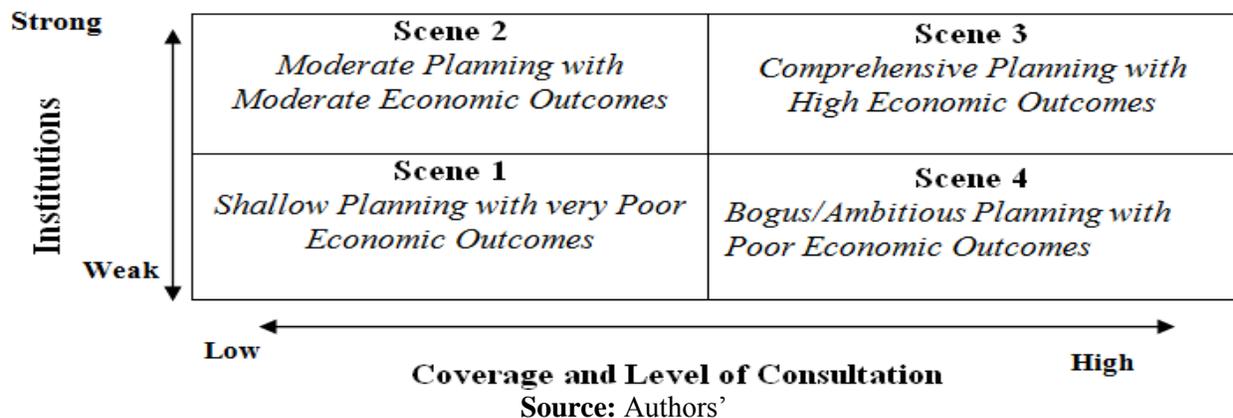
Policies are products of planning. Thus, the fundamental need for planning is to achieve the set of macroeconomic objectives, which includes rapid economic growth and development, price stability, maintaining favourable external balance, reduce unemployment and so on (Iyoha, 2004; Aigbokhan et al, 2007). The connotation of the above is that planning is tailored towards driving the set of macroeconomic variables to desirable positions. This study is aware of possible policy trade-off. For instance, inducing investment level to create employment of labour and capital can lead to inflation as it may result in aggregate demand exceeding aggregate supply. This can be handled with the expansion of the productive base of the economy. Hence, the Fisher's equation of exchange assumption ( $MV=PQ$ ) may not suffice as the increase in M (money supply) may not necessarily lead to increase in P (price level) if there is a corresponding expansion in Q (output). Furceri and Zdzienicka (2012) have recently submitted using a panel of OECD countries (1980-2005) that social spending particularly those on health and unemployment benefits has expansionary effects on GDP. This might have resulted from the understanding that strong institutional framework is key to having efficient social benefit scheme.

The above discourse is further illustrated in Figure 2.1, where the interaction between institutions and the level of consultation during the planning process is examined. In Figure 2.1, the desirable phenomenon in

the planning process is at Scene 3, where there is a wide coverage of consultation across different economic strata and stakeholders in the society. The presupposition is: the broader the coverage, the better the quality of information that will be contained in the planning and consequently, better economic outcome, *ceteris paribus*. An example of this kind of comprehensive planning is the National Economic Empowerment and Development Strategy (NEEDS) and Vision 20:2020 of Nigeria. This planning process unlike others had long-term perspectives that are also broken down into short-term components cutting across different sectors of the economy.

Relating the Botswana and South Korean planning framework with scene 3, it can be observed that these two countries were involved in the development of their institutions to match their long-term development plans. For instance, it is not uncommon to have national plans, boosted with fiscal discipline and sound financial controls. Furthermore, the governments of these countries engaged sound government policies and macroeconomic management strategies, to ensure the accomplishment of their plans (Leith, 2004). The extent of government consultations was equivalently high. This is because the governments are able to understand the mechanisms, workability and the effect of each policy before they are eventually implemented.

**Figure 2.1 Planning Model and Institutions Interplay**



Having a wide coverage of consultation in the planning process will not necessarily result in having a better economic outcome, when the needed frameworks such as institutional quality are not in congruence. For instance, planning failures in Nigeria are not due to inadequate coverage but weak implementation that is rooted in weak institutional framework (Ibi-Ajayi, 2002; Obadan, 2003). In this light, the recent poor performance of Nigeria in ‘London 2012 Olympic Games’ where no medal was won, may not be attributed to lack of resources as over 2.3 billion Naira was spent for the preparation, nor the weakness of the athletes but instead, it can be traceable to low motivation to drive the athletes to success. This can be understood by the reward and incentive processes of economic agents that can be made possible through institutional mechanisms (North, 1991; Adewole and Osabuohien, 2007). In effect, wide consultations that are not supported with strong institutions will result in ‘bogus and ambitious’ plans that will not yield the expected outcomes as depicted in Scene 4 of Figure 2.1.

When the planning process involves low consultation and weak institutions, there will be ‘shallow’ planning with its resultant effect: poor economic outcomes as illustrated in Scene 1 of Figure 2.1. In this case, minimal coverage and low consultation in the planning process will not be adequate to support desired outcomes. This is also worsened by weak institutions. In Nigeria, this scenario can be observed during the military dispensation as weak institutions and poor consultations were made at the so called ‘policy-oriented rolling plans’ (Obadan, 2011). At Scene 2, there could be strong institutions but low consultation and coverage leading to moderate planning which cannot yield much economic outcomes as

the economic development process requires inducing considerable segments of the economy, which cannot be attained without a comprehensive consultation process.

### **3. What went wrong and what can we learn?**

Evaluation and monitoring are components of a good planning model, which involves comparing the desired expectation with the actual. Thus, this study investigates the planning paradigms of Nigeria and classifies them into six episodes. Obadan (2003; 2011) grouped them into three namely: fixed-medium term planning phase (1962-1985), policy-oriented planning (1986-1988) and the three-year rolling plan (1990-1995). This study expands the episodes into a more contemporary period by adding three other episodes namely: the period of political transition (1996-1998), the nascent democratic era (1999-2006), global financial crisis and post crisis era (2007-2011). One would observe that 1989 was not classified in any of the episodes as there was no designable planning apart from the usual annual budget. The reason for this might be the 'unquestionable' disposition of military rule, among others.

Descriptive narrative and exploratory techniques are employed to compare some macroeconomic objectives of the Nigerian planning process in relation to those of Botswana and South Korea that have been reputed as success stories with respect to institutional frameworks (Acemoglu et al, 2003; Parsons and Robinson, 2006; Fosu, 2011; Osabuohien and Ike, 2011). The average values for the respective episodes are used given the fact that the number of years differs, which will help to eliminate the possible bias. Charts are used in addition to trend equations to observe the behaviours of the variables over time, with a view to examining the trend and what can be learned from Botswana and South Korea during these episodes.

#### **3.1. The Six Planning Episodes in Nigeria**

As presented in Table 3.1, Nigeria has witnessed various planning model, aimed at different objectives. The first episode of the Nigerian planning process involved the fixed-medium term planning, which was further divided into four phases. The first phase of the national development planning (1962-1968) was geared towards post-colonisation development strategies, which include infrastructural developments, growth policies and other components that would enhance national development (Obadan, 2003). The second phase of the planning was targeted at post-civil war reconstruction and development strategies of the country. This plan spanned 1970-1974 and was expected to improve the agricultural sector and industrialisation by the promotion of indigenous production through import substitution policies (National Planning Commission-NPC, Various Issues).

**Table 3.1 Planning Episodes in Nigeria**

Period	Planning Episodes	Objective
1962-1968	First Phase National Development Plan	post-colonisation development strategies
1970-1974	Second Phase National Development Plan	post-civil war reconstruction and development strategies of the country
1975-1980	Third Phase National Development Plan	Similar to the second phase
1981-1985	Fourth Phase National Development Plan	promotion of the bottom of the pyramid
1986-1988	policy-oriented planning	Structural Adjustment Programme aimed at boosting the macroeconomic performance of the country the objectives include higher economic growth rates, building a strong foundation for a self-reliant industrial development, employment creation, increasing food production for food security
1990-1993	three-year rolling plan model	
1996-1998	the era of political transition	the preparation for the return to civilian rule.
1999-2006	era of the nascent democracy	the consolidation of the civilian rule the objectives include rapid economic growth and development, better income distribution, improved welfare of citizenry,
2007-2011	the crisis era	reduction of poverty

**Source:** Authors'

In the third phase (1975-1980), government revenue was enhanced by the oil boom and less emphasis in the agricultural sector. Expansion of social infrastructure and encouragement of indigenous production were also emphasised. Furthermore, the government in the verge of enhancing welfare of the citizenry, promoted import liberalisation measures for consumer goods, which led to massive importation. The fourth phase (1981-1985) focused on the participation of the local government, reduction of socioeconomic doldrums like unemployment and income inequality.

The policy-oriented planning was initiated in the second episode (1986-1988), which was entrenched in the Structural Adjustment Programme (SAP). Some of the resultant policies from the SAP include: the devaluation of the local currency, liberalisation of the economy and export trade, reduction of extra budgetary spending, privatisation and commercialisation (Obadan, 2003; Ekpo, 2011). Based on some of the macroeconomic shocks experienced during the policy-oriented period and the resultant outcome from the implementation of SAP, some specific objectives were put in place. They include: self-sufficiency in the production of food and other raw materials, industrial development, reduction of socio economic doldrums like unemployment and weak socio-political awareness. The weakness of this plan could be based on poor institutional framework, fiscal indiscipline and absence of concrete plans to foster its realisation (Obadan, 2003). For instance, within this episode, exchange rate depreciated a great deal as it was left to market forces and this in turn led to inflationary trend. Currency depreciation is not always 'bad' as in some instances it can help boost exports but this can happen if the country is able to expand the export base. However, this has not been the case of Nigeria.

The third episode is the three-year rolling plan model that started in 1990 and continued up until the democratic transition era. Following the unsatisfactory performance of SAP in the second episode, a kind of development planning was again introduced in 1990 christened 'three-year national rolling plans'. The main difference between the rolling plans and the fixed medium-term plans of the first episode was the shorter period of three years and the incorporation of annual performance evaluation of activities that

could be 'rolled over' into the following year. The first rolling plan was between 1990 and 1992 (NPC, Various Issues; Obadan, 2011).

The key objectives of the national rolling plan included: higher economic growth rates, building a strong foundation for a self-reliant industrial development, employment creation, increasing food production for food security and so on. The success of the rolling plan model was minimal as the average economic growth rate for the period was less than 3 percent against the minimum of 7.5 per cent envisaged. The implementation of the rolling plan was to infuse the desired medium-term perspective to the government's capital expenditure programme and improve efficiency of public resources allocation. It stipulated the screening and prioritising of projects and payments based on the extent of implementation (Usman, 2001). The projects were included in the government's capital expenditure programmes that did not undergo the inspection of the rolling plan process. This resulted in high inefficiency and wasteful expenditure, which were some of the pitfalls that prevented the rolling plan model from delivering the expected outcomes (Usman, 2001; Obadan, 2011). Fiscal indiscipline in the implementation process also contributed to the ineffectiveness of the rolling plan. This should not be too surprising as it was initiated and implemented under the military regime.

The fourth episode (1996-1998) can be tagged the era of political transition, as it witnessed the preparation for the return to civilian rule. This started with the regime of late General Sani Abacha who was bent on changing 'his garment from khaki to agbada' (military to civilian rule). In effect, four out of the then five political parties overtly had him as their flag bearer for the proposed election until his sudden demise on June 8, 1998. When this occurred, the actual political transition kicked-off with General Abdulsalami Abubakar becoming the Head of State. The government of General Abubakar came with the blueprint for transition, which came to limelight after nine months. The planning in this era was more like emergency as resources and efforts were not on driving macroeconomic objectives (e.g. employment, investment and so on) but on changing over of government to civilian rule. Thus, some reforms like electoral act were initiated. For instance, the new constitution was adopted May 5, 1999. Many have applauded General Abubakar for keeping to his words of handing over power to democratic government. However, some have accused him of wasteful spending and fiscal indiscipline but the joy of democracy was more important to Nigerians (Aboyade, 2007).

The fifth episode can be classified as the era of the nascent democracy (1999-2006) as Nigeria finally returned to civilian rule on May 29, 1999, which marked an end to decades of military dictatorship. The planning model in this episode was the consolidation of the civilian rule. In this episode, the government of the day led by President Olusegun Obasanjo focused on building confidence in the Nigerian State both from the national and international perspectives. Some like the late Gani Fawehinmi have accused President Obasanjo of recklessness owing to his frequent trips overseas in the name of wooing foreign investors (Sahara Reporters, 2007). Elements of success were achieved as some Nigeria's foreign creditors gave the country concessions. However, inflation rate still remained in the domain of double digits and exchange rate fluctuated despite building up of external reserves (Olokoyo, Osabuohien and Salami, 2009).

Efforts were made towards strengthening political institutions as well as the sovereign national conference (confab) to 'sit down' and 'define' the Nigerian State. However, some ethnic groups from the oil-rich Niger-Delta angrily walked out of the confab owing to the disagreement of 'some cards on the table', regarding the sharing formula for the oil revenue. Freedom of Information Bill was passed by the legislative arm but was not signed into law by the then President, notwithstanding public outcry<sup>6</sup>. The reason for this can also be linked to the issue of weak institutional envisioning that should shape the actions of political office holders, such as adherence to the rule of law, compliance with court injunctions

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<sup>6</sup> It was finally signed into law by President Goodluck Jonathan May 31, 2011.

and such like. In this episode, little progress was made regarding the fight against corruption as few ‘big-fishes’(such as the arrest and prosecution of a State Governor and Inspector General of Police)were caught with the nets of anti-corruption agencies especially the Economic and Financial Crimes Commission (EFCC)<sup>7</sup>.

Some planning models in this episode include: NEEDS implemented in 2004, which was associated with a broad-based financial sector reform christened Bank Recapitalisation. As Obadan (2011) and Adebayo (2011) have separately observed, the stability of the macroeconomic variables particularly the general price level, was achieved to a little extent but it was below expectation. The inflation rate averaged 12.55 percent more than the single digit anticipated. The same goes for economic growth rate that averaged around 3.75 percent, which was less than the expected 10 percent (World Bank, 2012). Low level of government’s commitment to the plans, due to inadequate institutional framework to ensconce such plans in policies, was one of the factors that have not made the expected outcomes to be realised. A related factor is the issue of corruption in the public domain.

The plan in the sixth episode (2007-2011) can be said to be ‘emergency’ in nature, as the government through the instrumentality of the CBN, engaged in the bailout of some ailing bank<sup>8</sup>. This was during the global financial crises that resulted in the crash of the stock market and the price of Nigeria’s crude oil in the international market, among others. The Vision 20:2020 was one of the key plan documents in this episode. Though launched in 2006, it actually took effect the following year as a government strategy driven by the CBN in order to integrate and consolidate Nigeria’s socioeconomic reforms. One of the major aims was to make Nigeria one of the focal points in Africa’s financial system and to be among the top 20 largest economies in the world come year 2020 (Soludo, 2007; Egwakhe and Osabuohien, 2009). This gave birth to Financial System Strategy 2020 (FSS 2020) designed to provide one of the top 50 mega banks in Africa and develop a consistent strategy vision for the financial system (Soludo, 2007; Egwakhe and Osabuohien, 2009).

The framework of planning embedded in Vision 2020 was conceptually defined in 2009 with the first phase of implementation in 2010, extending to 2013 (National Planning Commission-NPC, 2008; 2009; 2010).These are besides other ‘auxiliary’ plans and policies like the Seven Points Agenda (of President Umaru Musa Yar’Adua before his death on May 5, 2010), market strategy, export promotion and public sector-led development. The goals of rapid economic growth and development, better income distribution, improved welfare of citizenry, reduction of poverty, among others were not achieved as envisaged as most economic and social indicators deteriorated. In sum, the high expectations of the various planning episodes might not have been realised due to inadequate commitment to the planning imperatives, plan and fiscal indiscipline, corruption and mismanagement of resource.

### **3.2. The Planning Models of Botswana and South Korea**

After independence, Botswana’s planning model involved the laying up of a post-colonial institutional foundation, which has metamorphosed to an on-going democracy (Leith, 2004). This was based on strong political will, institutional framework and policies that were emphasised. The government actively participated in the provision of ‘cheap’ capital through government loans directed to state owned enterprises and indirectly to the public through the government development banks. This encouraged domestic investment, supported by the government’s investment in social and infrastructural development such as: educational facilities, energy, and transportation, which became the foundation for the success story of Botswana (Acemoglu et al, 2003; Leith, 2004).

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<sup>7</sup> Commentators have added that the nets of EFCC were schemed at fighting political enemies.

<sup>8</sup> There is a little overlap between fifth and sixth episodes as 2007 can also be classified in fifth episode. However, with the occurrence of global financial crisis, it was classified in sixth episode for clarity purpose.

In Botswana, the institutional framework, sound government policies and macroeconomic management strategies have moderated the extent of macroeconomic shocks (e.g. inflation rate and unemployment rate) [Leith, 2004]. Before policies are made and implemented, the government is able to understand the mechanisms, workability and the effect of such policies on the economy. This shows the governments' commitment to economic development with wide consultation and coverage achieved through the introduction of the National Development Plan process and financial control mechanisms for the attainment of national plans.

Botswana's commitment to development reflects the mechanism for wedging-off macroeconomic shock by deliberately not increasing its expenditure when there is increased inflow from revenue sources (e.g. foreign exchange from export boom and resource extraction) in order to boost her reserves. Leith (2004) noted that among the strategies conjured by the government was the accumulation of significant reserve with the Bank of Botswana. This brought about fiscal discipline where government spending was not initiated by increase in government revenue. This has effectively kept the government expenditure reasonably close to a long-run growth pattern. The issue of coverage and consultation was adequately emphasised as institutional framework was put in place to protect the public interest during the planning process. For instance, the Bank of Botswana played regulatory and supervisory role over commercial and privately owned banks, with the intention of curtailing possible adverse inclinations. This reduced income inequality and encouraged private participations in the economic progress.

In sum, Botswana's planning process, which has translated to economic growth and development, can be explained by the combination of government participation and sound institutional framework. This also emphasises the need for government involvement in physical and human capital development to enhance total factor productivity. The government policies were focussed on specific growth promoting goals and their polity has witnessed a relatively peaceful transition. The continuity of planning and policies has also been instrumental to the realisation of desired outcomes.

South Korea had the goal of becoming self-reliant through short-term attainable plans, termed 'five-year development plans'. In total, seven five-year development plans were spelt-out, with specific objectives targeted at specific industries in the economy and aimed at promoting rapid industrialisation and exports (Park, 2000). The first phase of the planning model (1962-1966) was aimed at building a self-reliant industrial structure that witnessed active government participation via massive investment in the energy sector (Korea Electric Company). The government had a specific plan, and a high commitment to the attainment of such plan. For instance, in the second phase (1967-1971), the emphasis was on modernising the industrial sector to become internationally competitive, and enhance import substitutive production capacity. The government was largely involved in this phase of planning by massive investment in the steel industry to enhance economic development. Also, consultation and coverage were high as the government spurred more investment in the steel, machinery development and chemical industries (Federal Research Division, 1992).

The third phase (1972-1976) of South Korea was termed the 'Big Push' era, where the aim of the government was on massive investment in chemical industrialisation and export-oriented industrial development, resulting in the production of iron and steel, transport machinery, household electronics, and chemical productions (U.S. Library of Congress, 2012). Previous plans are usually assessed and lessons learnt are incorporated in the current planning phase. The government also made effort in curbing some socioeconomic issues (e.g. rural unemployment, and inequality) by encouraging industrialisation outside the major cities. The fourth phase (1977-1981) was targeted at developing internationally competitive industries. The government emphasised manufacturing efficiency comprising of technology and skilled labour production processes, thus boosting export capacity (Wikia, 2012). This made South Korea competitive in the international market as high quality production at low cost was emphasised.

Government participation remained on the increase as financial assistance was offered to industries involved in power generation, integrated machinery, diesel engines, and heavy construction equipment.

The fifth phase (1982-1986) was targeted at technology-intensive industrialisation. The country followed the trend in the international market to determine the target of its industrialisation plan, which typifies effective consultation and flexibility. For example, the global demand for technology oriented products, explained South Korea’s enormous investment in technology production such as manufacturing of electronic televisions, videos, semi-conductor related products, among others. The sixth Five-Year Economic and Social Development Plan (1987-91), were predicated on the goals of the previous plan. In this phase, the government focussed on less protective mechanisms by import liberalisation, the removal of trade restrictions and nontariff barriers on imports (U.S. Library of Congress, 2012; Wikia, 2012). The government further expanded manpower training, research and development for industrial utilisation especially for small and medium-sized firms.

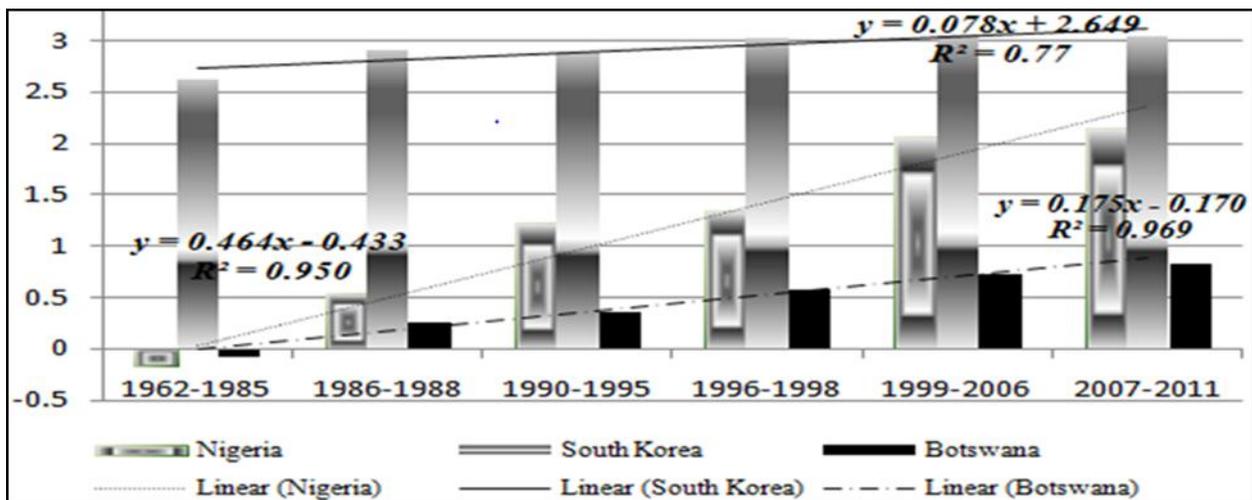
The goal of the seventh Five-Year Economic and Social Development Plan spanning between 1992 and 1996, was aimed at developing high-technology production including microelectronics, fine chemicals, bioengineering, optics, and aerospace. To achieve this, public-private partnership was encouraged to enhance even geographical spread of industrialisation to provincial cities and other locations outside the major city of South Korea. The South Korea planning model reveals that the country’s plans are short-term interconnected plans, targeted at specific objectives. Their planning model also indicates that financial constraints did not inhibit the achievement of the national plans as the country reduced government expenditure to widen the resource gap and enhance self-reliant economic progress in the first three phases of the planning.

#### 4. Some Empirical Evidences

This section provides some empirical evidences using some macroeconomic variables across the six planning episodes in Nigeria, which are compared with those of Botswana and South Korea. The aim of this section is to establish the macroeconomic performance disparity between the countries over the periods.

Figure 4.1 presents the exchange rate of Nigeria’s Naira to the US dollars and that of Botswana’s Pula and South Korea’s Won.

**Figure 4.1: Exchange Rate across the Episodes**



**Note:** Logarithmic transformation was used in the graph to show rate of change and make them more comparable.

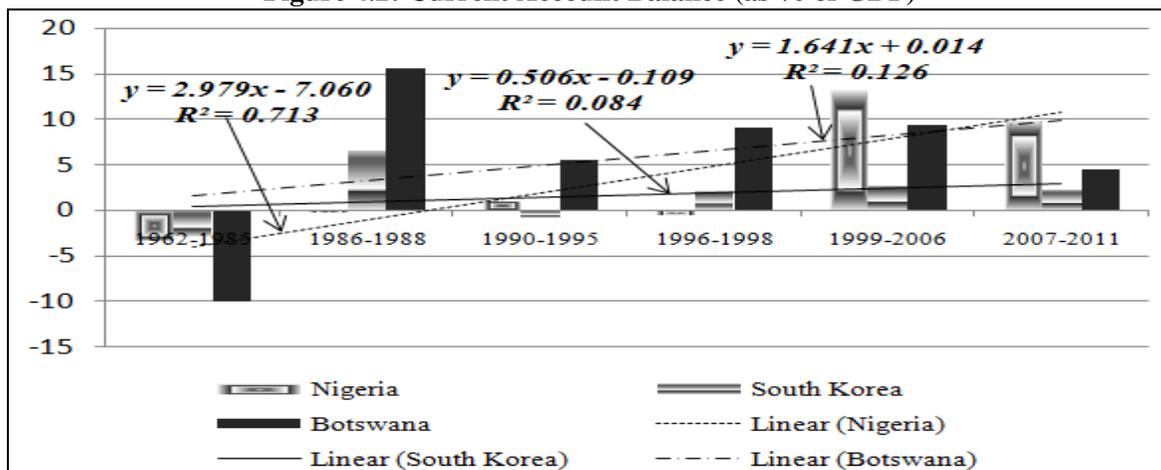
**Source:** Authors’ Computation from World Bank (2012)

In the first episode, the rate of change for Nigeria's Naira was less than 1 USD, which consistently declined over the subsequent episodes. South Korea's Won was relatively high but appears stable across the episodes, which is akin to Botswana's Pula. The first episode in Nigeria witnessed some form of exchange rate stability as the economy was relatively export-oriented, especially in agricultural produce. During this period, the exchange rate was at 0.71 Naira to 1 USD. Relating this across the episodes, the exchange rate in Nigeria has witnessed some fluctuations compared to Botswana and South Korea. The essence of exchange rate stability in making adequate planning for investment, and encouraging private sector participation in the economic development process has recently been mentioned by the incumbent Governor of the CBN (Sanusi, 2012).

Taking it further, the extent of fluctuation of exchange rate across the periods can be observed. The value for Nigeria has the coefficient of 0.46, which means that on the average exchange rate fluctuated as much as 46 percent, unlike those of South Korea and Botswana with 7.8 percent and 17.5 percent, respectively. Even when the actual values were assessed, within the first and second episodes, the exchange rate fluctuation for Nigeria was over 400 percent and between the third and the fourth episodes, it was 431 percent. Furthermore, using real effective exchange rate indices exhibited similar patterns except for the last episodes (CBN, 2010). During these episodes, especially the policy-oriented planning, the national plan was aimed at, inter alia, ensuring the stabilisation of the economy through the exchange rate (Obadan, 2011). However, the exchange rate was volatile during this period as the rate of change ranged between 5 and 129 percent.

The trend has effects on other external sectors of the country such as the current account balance, which comprises of trade, net income, and other current transfers. The volatility of exchange rate can have adverse impact on trade outcomes, especially export. Thus, this study appraised the current account balance as a percentage of GDP as presented in Figure 4.2<sup>9</sup>. Another possible indicator is net export (trade balance) as a percentage of GDP; however the current account balance encompasses both the net exports of goods, services, net income, and other net current transfers (World Bank, 2012).

**Figure 4.2: Current Account Balance (as % of GDP)**



**Source:** Authors' Computation from World Bank (2012)

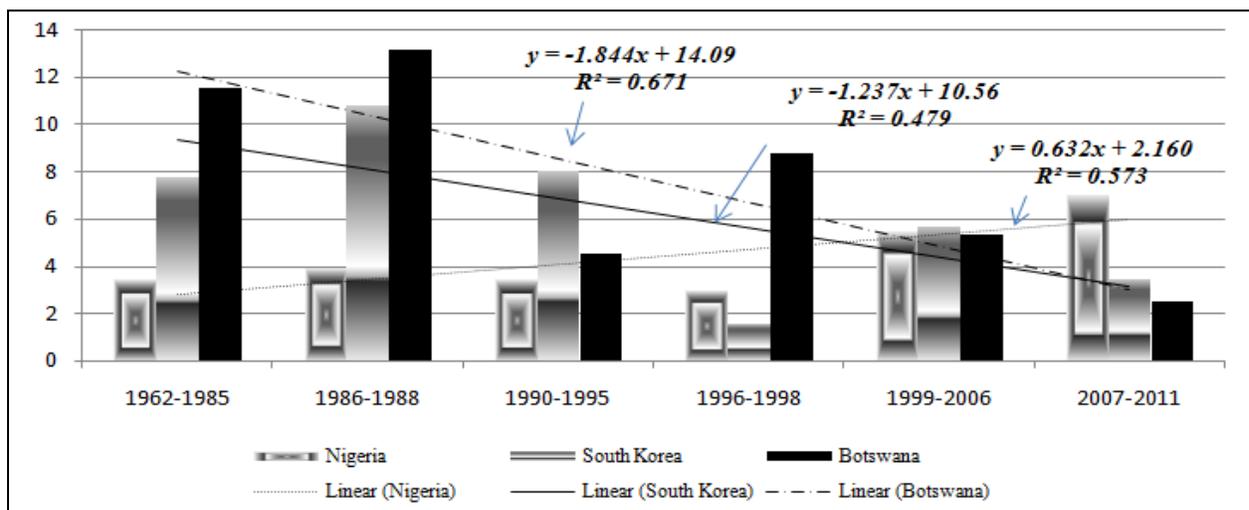
From Figure 4.2, the current account balance for Nigeria in the first and second episodes was negative but slightly increased in the third episode to a positive value. It then decreased to a negative value of 0.58 percent in the fourth episode. During the democratic era, it increased to its highest value of 13.30 percent. This may not be unrelated to the fact that investors became more optimistic as a result of

<sup>9</sup> Most of the indicators used in the study are as percentage of GDP in order to eliminate country size bias.

democratic governance in Nigeria as well as economic boom in the world market, which led to increased demand for Nigeria's export, particularly crude oil. The last episode witnessed a slight decline, which can be attributed to the aftermath of the global financial crisis, where there was a reduction in the price of primary products. In terms of degree of fluctuation, the value of the coefficient of determination ( $R^2$ ) indicates that over the period, it fluctuated by about 73 percent compared to South Korea (8.4 percent) and Botswana (12.6 percent). The national plan was aimed at enhancing export capacity by improving capacity utilisation across sectors of the economy. However, manufacturing capacity utilisation deteriorated by 13.3 percent except for the last episode (CBN, 2010).

Examining the economic development performance, the growth rate of GDP is presented in Figure 4.3. As can be seen, GDP growth rate across the episodes for Nigeria, ranged between 2.96 and 7.04 percent. This was quite lower than the expected values in most of the planning documents. For instance, in the NEEDS document, Nigeria's economy was expected to grow at an average of 10 percent to realise the set objectives, especially as it relates to achieving the Millennium Development Goals- MDGs (NPC Various Issues, Obadan, 2011).

**Figure 4.3: Economic Growth across the Episodes (%)**



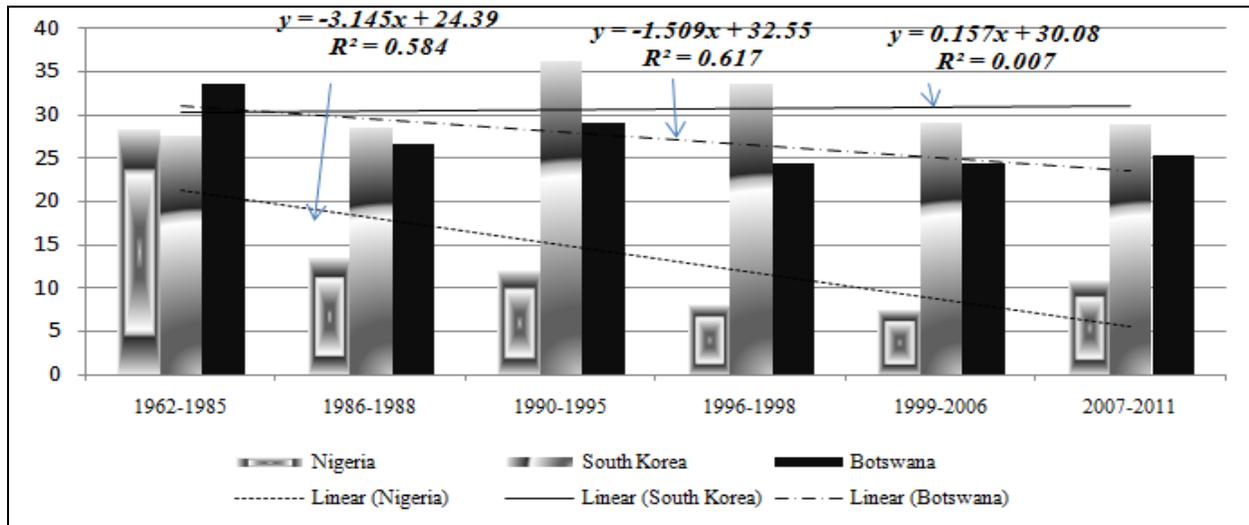
Source: Same as in Figure 4.2

The value for Nigeria compared to those of Botswana and South Korea is lower in most of the episodes. This is not too surprising as Botswana has been reputed to have one of the fastest growing economies in the world for a period of 35 years, making her citizenry's living standard to be at par with those of Turkey and Mexico (Acemoglu et al, 2003; Cabrales and Hauk, 2011; Osabuohien and Ike, 2011).

To further adduce why the economic growth of Nigeria was lower than those of Botswana and South Korea in most of the episodes, a component of GDP: investment, was investigated (following this macroeconomic identity:  $Y = C + I + G^{10}$ ) and presented in Figure 4.4.

<sup>10</sup> Y: income, C: consumption, I: investment (measured as gross fixed capital formation) and G: government expenditure.

**Figure 4.4: Investment (as %of GDP)**

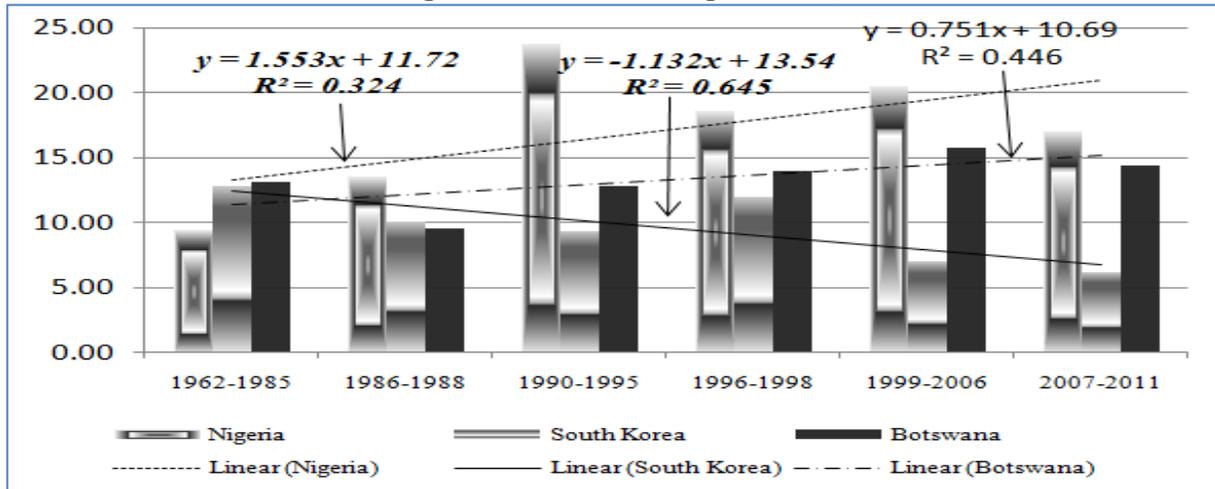


**Source:** Same as in Figure 4.2

The percentage of investment to GDP in Nigeria was almost at par with Botswana and South Korea in the first episode with a value of 28.37 percent. However, in other episodes, it dwindled between 7.45 and 13.54 percent, which are quite lower than the W.W. Rostow's recommended saving/investment rate of 20 percent for an economy to experience economic transformation (Grawboski and Shields, 1996). The trend reveals that the investment rate began declining continuously from the second episode until the fifth episode. This may not be unconnected with the economic destabilisation that was experienced in the second episode, where inflation rate, exchange rate, lending rate and other fiscal policy instruments did not follow the planned pattern (Obadan, 2011).

The low rate of investment in Nigeria can be linked to the high lending rate as reported in Figure 4.5. Except for the first episode, the lending rates for Nigeria were all double digits and higher than those of South Korea and Botswana. Given that investment is influenced by lending rate (cost of borrowing/capital usage), ceteris paribus, and high lending rate might have posed some constraints to marginal propensity to invest as it was more than 23 percent in the third episode.

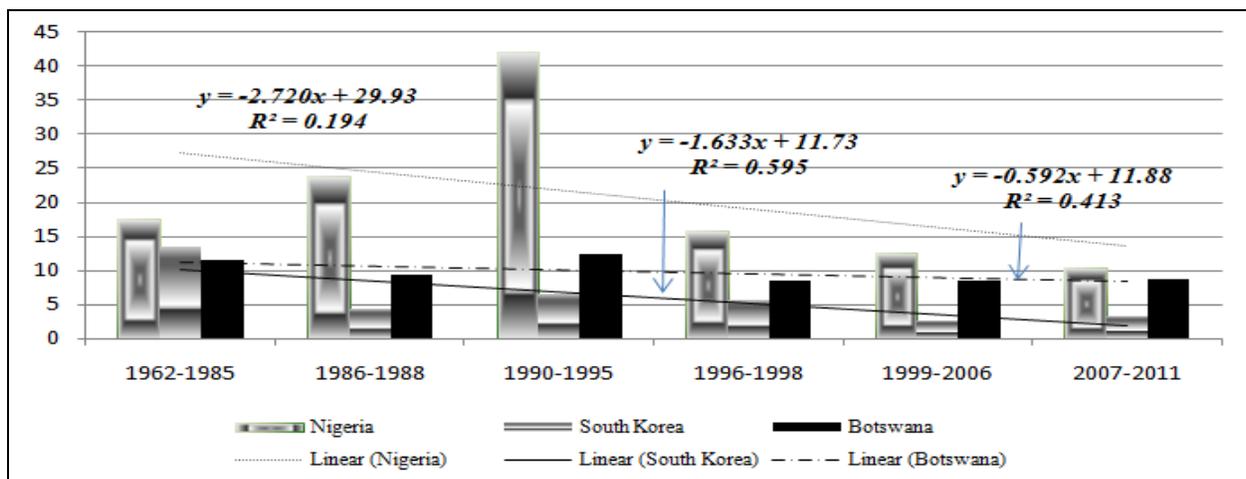
**Figure 4.5: Prime Lending Rate (%)**



Source: Same as in Figure 4.2

On the other hand, the stability of the domestic economy using annual inflation rate is presented in Figure 4.6. The level of inflation was double digit all through the episodes; it was highest in the third episode with value as much as 42 percent. This may be connected to the military high-handedness, coupled with the issue of budget indiscipline that resulted in excessive government borrowing, and the soaring debt profile of Nigeria. In comparative terms, the value for Nigeria of 23.84 percent was many folds more than Botswana's 9.39 percent and South Korea's 4.32 percent in the second episode. The target for most of the national planning regimes was aimed at maintaining a single digit inflation rate (Adebayo, 2011), which was not achieved for most of the episodes.

**Figure 4.6: Annual Inflation (%)**



Source: Same as in Figure 4.2

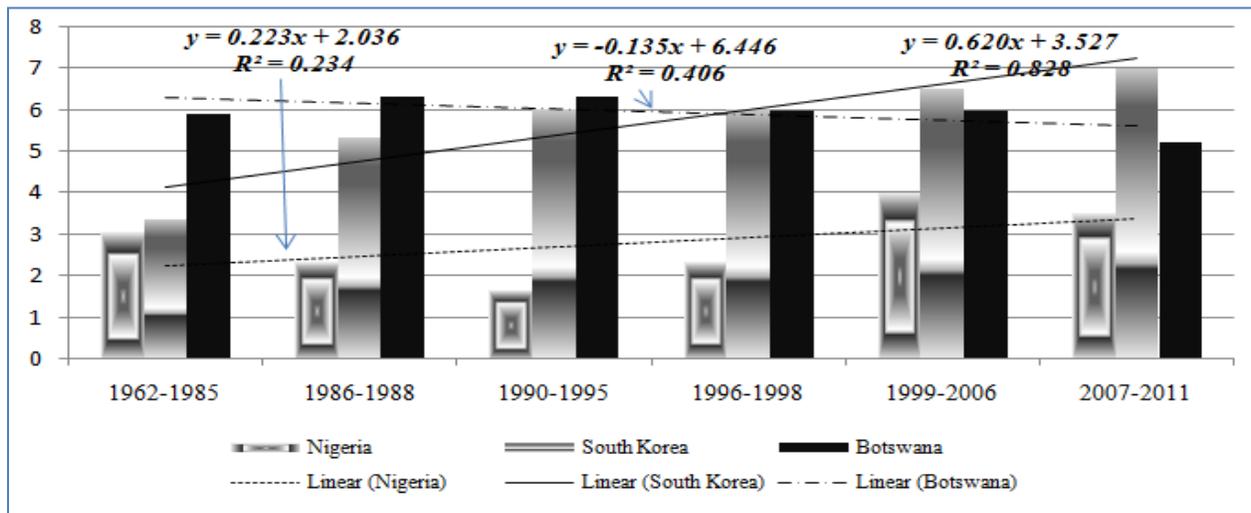
Given that institutions matter in influencing economic outcomes, this study evaluates how the 'attainment gap' between the planned objectives and the actual for Nigeria can be explained within institutional purview. In this regards, the institutional quality in Nigeria during the episodes is appraised in comparison to those of Botswana and South Korea. Two indicators of institutions from Freedom House (2011), namely: political rights (PR) and civil liberty (CL) are presented in Figures 4.7 and 4.8, respectively. The

PR measures the level of freedom to participate in the political process, which includes: the right to vote freely in legitimate elections, compete for public office, join political parties and organisation and elect representatives that have decisive impact on public policies and are accountable to the electorate. CL indicates the freedom of expression and belief, associational and organisational right and rule of law, without interference from the State (Freedom House, 2011). The choice for this is due to its long period of coverage (1972-2011). PR and CL are reported on a scale of 1 (best/freest) to 7 (worst). However, the initial values of PR and CL were transformed such that higher values indicate better institutional quality, which means that the transformed values ranged from 1(worst) to 7 (highest/freest). The average value less than 3 can be considered as not free (weak institutional framework); between 3 and 5, as partly free (moderate institutional framework); while above 5 is Free (strong institutional framework).

As reflected in Figure 4.7, the extent of political rights in Nigeria during the democratic regime (both in 1999-2006 and 2007-2011) was high. During these episodes, the citizens relatively had some inputs in the governance process including national planning. Processes like participation in budgetary preparation were in place as the annual budget goes through the National Assembly. Observing the trend, it can also be underscored that between the second and fourth episodes (1986-1998), the political right was lowest. This was the period where Nigeria’s economy witnessed instability with wide variance between planned objectives and the actual.

Comparing Nigeria with Botswana and South Korea, it can be observed that both Botswana and South Korea performed better than Nigeria across the six episodes. This scenario might be responsible for the unsatisfactory performance of the national plans especially in the second, third and fourth episodes. This is imperative as national plans without the required institutional mechanism to ‘police’ them for effective monitoring and evaluation of the implementation process, will deliver less than the expected outcomes (Obadan, 2011).

**Figure 4.7: Quality of Institutions using Political Rights**

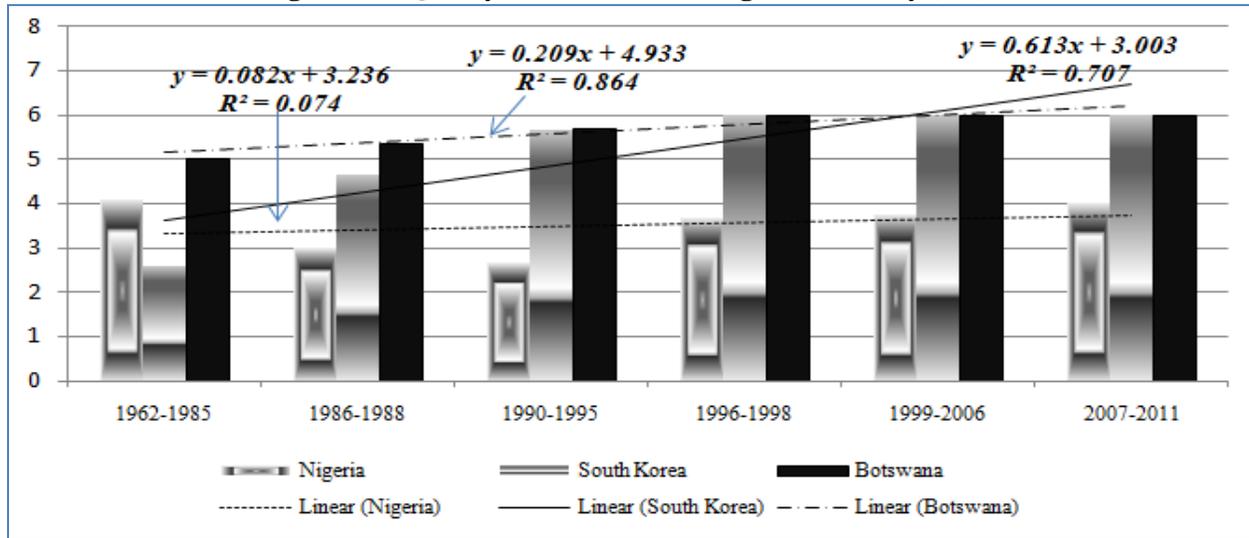


**Source:** Authors’ Computation from Freedom House (2011)

The values for civil liberty in Nigeria in relation to those of Botswana and South Korea are presented in Figure 4.8. In essence, the episodes 1986-1988 (second) and 1990-1995 (third) had the least average values for Nigeria, which were less than 3, indicating that the political ambience was repressive (not free) compared to those of Botswana and South Korea. These episodes are the era of economic instability characterised by rising bank lending rate, hyper-inflation, low capacity utilisation, series of political

upheavals such as massive demonstrations and so on. Botswana and South Korea had values far greater than Nigeria.

**Figure 4.8: Quality of Institutions using Civil Liberty (CL)**



Source: same as in Figure 4.7

The linear equation shows that the value has experienced a marginal improvement of about 8.2 percent over the period compared to Botswana’s 20.9 percent and South Korea’s 61.3 percent. This is also supported by the R2value of 0.074 for Nigeria unlike 0.707 and 0.864 for Botswana and South Korea, respectively. The import of this is that on the average and across the episodes, Nigeria’s institutional quality increased by less than 10 percent compared to 70.7 and 86.4 percent in Botswana and South Korea. This calls for institutional strengthening in Nigeria especially as the country has since returned to a democratic era. The inclusion of the citizens’ aspiration in the political process is pivotal to building strong institutions that will guarantee better performance of her planning models.

## 5. Concluding Remarks

At the national level, planning is targeted at achieving a given set of macroeconomic objectives. However, good planning models do not come ‘from the blues’ but require some structures to function, which usually accounts for the reason why the outcomes from planning may differ from the expected. Apart from having a good planning model, the implementation of the plan is also very important because no matter the quality of the planning process and the eventual plan document, if not effectively implemented, it will not yield the expected outcomes. The place of enhanced institutional framework in this regard cannot be overemphasised as this study has articulated. This is based on the fact that institutional checks are fundamental in guiding ‘plan implementers’ and guarding against abuses: thus, creating incentives for performance and reprimand for non-performance. The economies of Botswana and South Korea have been reputed for this, and Nigeria can learn from these experiences. For instance, in the event of boom in the commodity price that results in the increase of government revenue, the government of Botswana does not alter its expenditure pattern but such ‘windfalls’ gains are dedicated for development purpose in the future as enshrined in her fiscal discipline.

The idea of ‘sharing’ the excess crude account between the three tiers of government- Federal, State and Local government in Nigeria needs a re-examination to incorporate saving for the future and investing in development projects. The refurbishing of the existing refinery to produce to installed capacity and building of new refineries are apparent development needs. This will help correct the paradoxical scenario

of exporting crude oil and importing refined petroleum products. Institutional restructuring and political will is key in this process as well as a sincere fight against corruption. In fact, the recent drama surrounding the fuel subsidy probe at the National Assembly epitomises this urgent need. This will include strengthening of sensitive agencies like the Economic and Financial Crimes Commission (EFCC). That of the National Planning Commission (NPC) is also essential for the commission to effectively plan by including broad consultation from many sectors of the economy including the academia.

Transparency of information, especially at the public sector is also vital. With the eventual passage of the Freedom of Information Bill by the current President is a step in improving this aspect, as it will improve the availability of planning data. Comprehensive planning should also include bottom-top approach where the respective stakeholders generate information that can be incorporated in the planning process. This will create some sense of ownership and guarantee public acceptability and adaptability, which are essential for the success of plan implementation.

The main submission of the study is that the reason for low economic development outcomes in Nigeria is not essentially related to failing to plan or planning to fail, but it is understood by weak institutional frameworks as most of the planning episodes were not backed up with institutional transformation. The country has embarked on different models of planning with emphasis on level of investment, public spending, targeted inflation rate, creation of employment and such like. However, besides very few plan documents, most planning models in Nigeria do not have discernable institutional framework to provide the needed platform on which the targeted macroeconomic variables can be realised. This is relevant as the issue of financial prodigality and rascality in the expenditure pattern and budget indiscipline in the public sector cannot be adequately addressed by just stipulating macroeconomic objective without decisively having the institutional reforms to necessitate the realisation. In this case, the whole rhetoric of fighting corruption, which has been attributed as one of the fundamental reasons for planning failures, can only be stemmed 'on the altar' of strong institutional quality.

This study further suggests the need for systematic technical assistance by development partners, to achieve institutional transformation. This includes the role of the regional communities to enforce institutional development by creating incentives to foster institutional development of member countries.

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