U.S. Interests in Nigeria's Success with Financial Reform

Testimony before the House Subcommittee on International Monetary Policy and Trade

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November 16, 2010

Thank you Chairman Meeks, Ranking Member Miller, and other members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the effects of the global financial crisis on Africa and U.S. interests in Nigeria's future.

The global financial crisis of 2008-09 hit developing countries particularly hard. Much of Africa saw a sharp slowdown in private capital flows, and the region's growth rate fell by more than half last year. The decline was mitigated, and the outlook today is much brighter, in large part due to the aggressive response of the multilateral development banks which accelerated lending to compensate for the drop-off in private capital.

For this reason, my first point today is that the multilaterals are critical to the recovery of the global economy, and worthy of robust U.S. support. I would urge Congress to look favorably upon the soft loan window replenishments and general capital increases for the African Development Bank and the World Bank in particular. These are investments that leverage U.S. contributions, build global markets, and expand the circle of prosperity.

Turning to Nigeria specifically, I want to make three points. First, the global economic crisis may turn out to be a good thing for Nigeria. That country's banking troubles are largely local in nature, and the pressure of the global crisis both exposed the hidden problems and forced the actions of the Nigerian authorities. In the long run I believe this will make Nigeria's financial sector stronger and more competitive.

It is worth highlighting that real change was not a foregone conclusion. The actions of Governor Sanusi have been decisive, credible, and transparent. In a short period of time, the Central Bank conducted an emergency audit of all banks, initiated a multi-billion dollar bailout, seized control of 8 failing banks and fired their management, pursued aggressive prosecution of executives for fraud, and is now moving quickly with the Asset Management Company (Amcon) to exchange bad loans for government bonds. Particularly notable is the listing in newspapers of debtors, including many powerful and high profile people, as part of a successful name-and-shame campaign. The Governor and his team should be congratulated.

My second point is that the steps so far are meaningful, but Nigeria's reforms are incomplete. There is much left to be done in the financial sector, such as containing the final cost of the bailout, selling off the seized banks in a fair and transparent manner, and enforcing rules to prevent a repeat of the frenzy of insider trading, misreporting, and irresponsible practices.

Yet the future of Nigeria's banking sector goes well beyond monetary policy. A petroleum bill sitting with parliament is necessary to both rationalizing the oil and gas sector and, pertinent to our discussion today, fostering the domestic capital markets by using local banks to source joint investments currently financed through the budget.

Dealing with a deteriorating fiscal situation is also urgent. The savings in the Excess Crude Account stood at $20 billion just 20 months ago and now are almost completely depleted. For this reason Nigeria's outlook was downgraded by the credit rating agencies last month.

More broadly, success in banking ultimately depends on other necessary steps to make real sectors in the Nigerian economy more competitive. The fight against corruption, which had been so promising a few short years ago, has waned badly over the past three years. A broken electricity system is holding back Nigeria's potential. Spending more capital on the power sector, including public investment and credit from the central bank, cannot alone overcome the other policy constraints squelching the energy sector.

And of course, perhaps most importantly, a credible election next spring is essential if the country is going to restore confidence and get back on track.

This leads to my final point. Nigeria's success is undeniably in the U.S. national interest. The United States needs a strong, capable, and stable Nigeria.

Nigeria is the key to regional security. It is the regional powerhouse and has been the neighborhood enforcer when necessary, with its troops helping to provide security in Liberia and other hotspots.

Nigeria is vital to U.S. energy security. It is not only the 5th largest source of U.S. oil imports, but instability in the Niger Delta can spike international oil prices, affecting the wallet of every American.

Nigeria is also a lynchpin in our fight against 21st Century transnational threats such as terrorism, disease, and drug and arms trafficking. A weak Nigeria is a source of these dangers. A strong Nigeria can be an indispensable ally to contain these threats.

Last Christmas was a stark reminder of the risks of a weakened Nigeria. The would-be bomber on Northwest Airlines Flight 253 was Nigerian. Yet during that emergency, there was no partner for the United States on the other end of the line. The U.S. was under terrorist attack and President Yar'Adua was literally missing-in-action. The power vacuum was dangerous for Nigeria and the United States.

This incident and counterterrorism more generally may seem disconnected from the financial sector issues we are discussing today. But they are in fact closely linked to the capacity and credibility of the Nigerian government. Banking is the leading edge, and a leading light, of Nigeria's economy. Fixing the financial sector is a prerequisite if the country is going to modernize, become middle-income, and join the international community as a responsible and dependable partner.

Let me end with a pitch for a new idea—and one where Nigeria may be able to learn from our own American experience. In the 1980s, Alaska began paying dividends from earnings on oil savings directly to state residents as a way to check the power and wasteful spending of government. New technology, like iris scanning and mobile banking, now make it feasible and affordable for any government to make payments directly to its citizens.[1] Cash transfers, which are being used now in Mexico, Brazil, South Africa, Bolivia, and Mongolia, may be worth considering in the Niger Delta where billions of dollars have been spent with few tangible benefits on the ground. This waste and corruption is the root of Delta violence today. The government has an opportunity, with some political courage and creativity, to finally break that vicious cycle.

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[1] See CGD's *Oil-to-Cash* initiative at http://www.cgdev.org/section/initiatives/_active/revenues_distribution