

THE QUEST FOR DEVELOPMENT

Essays in Honour of Prof. Akin Iwayemi

Edited by

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Essays in Honour of Prof. Akin Ibejemi

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necessary condition for building strong, efficient and effective institutions that will ensure inclusive growth in Nigeria.

Keywords: Nigeria, Rwanda, institutions, decentralisation

26.1 Introduction

The economic problems of Africa are similar across its component countries – infrastructural deficits, prevalence of mass corruption, weak institutions, natural resource/foreign aid dependence, low tax revenue, an underdeveloped financial system, non-inclusive growth, and so on. The question is, why are these problems more prevalent and somehow persistent for many decades in most African countries, including Nigeria? One of the principal reasons unanimously acknowledged by scholars, policymakers, international organisations and donor agencies is that all these problems persist because of prevalence of weak institutions and bad governance in Africa. A voluminous literature has shown that the quality of institutions and governance affect the growth of per capita income, investment, inflow of foreign direct investment (FDI), and other measures of economic performance (see for example, North 1981, 1987, 1990, 1991, 1994, 2005; Mauro, 1995; Hall & Jones, 1999; Acemoglu, Johnson & Robinson, 2001; Easterly & Levine, 1997, 2002; Rodrik, Subramanian & Trebbi, 2004; Kaufmann, Kraay and Mastruzzi, 2007; Ndulu and O'Connell, 1999; Olson, Sarna and Swamy, 2000; Knack, 2002; Gradstein, 2004; Persson and Tabellini, 2009, among others). This raises a more difficult question: why are institutions weak in Africa? Why is there bad governance in most African countries?

The literature on determinants of institutional quality is limited. However, pioneering works by Lopez-de-Silanes, Shleifer and Vishny (1999), Straub (2000), Knack (2001), Islam and Montenegro (2002), Eyrusalem (2008), Kandil (2009), Alonso and Garciamartin (2013), La Porta, Javed (2013), Lehtine, Mo and Plekhanov (2014), for example, established some correlation between six sets of factors and differences

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Creating the Institutional Foundation for Development in Nigeria: Lessons from Rwanda

Kilishi A. Abdulkareem

Abstract

There is a general consensus that institutions matter for economic performance. However, little is known about how countries with weak institutions can build strong institutions. This chapter examines one of the success stories in Africa, Rwanda, while drawing lessons for Nigeria. The analysis shows that many areas in which Nigeria must make significant improvement to experience any positive change. It was identified that decentralisation is central to Rwanda's success. The decentralisation did not only transfer administrative power and resources to the sub-national government but also transferred political power to elect national government politicians to the citizens. The main lesson is that the decentralisation of political power that allows citizens to participate in government decision and policymaking is a

in institutional quality as well as governance across countries. These include economic factors; geographical condition; socio-cultural factors; historical events; openness to trade and investment; and political factors. Other control variables often included are natural resource endowment and foreign aid, among others. However, the literature is not very explicit on how countries with weak institutions can acquire strong and efficient institutions since most of these factors are not policy variables.

Interestingly, some countries in Africa have made significant progress in building good institutions in recent times. One of the big success story is Rwanda. Since there is no established theory of determinants of institutional quality, and the empirical literature is still feeble, the best way to learn how to build good institutions is from success stories. Therefore, this chapter discusses the recent transformation of Rwanda while drawing lessons for Nigeria.

This chapter is arranged in six sections, following the introduction in section 26.1, section 26.2 consists of a brief assessment of the quality of institutions and governance in Rwanda. Section 26.3 draws a comparison between Nigeria and Rwanda in economic competitiveness indicators. A brief discussion of the Rwandan reform is discussed in section 26.4, while lessons for Nigeria are drawn in section 26.5, and section 26.6 concludes the chapter.

26.2 Institutions and Governance in Rwanda

Rwanda is a country that has recreated itself after the genocide of 1994. All measures of institutional quality and governance have shown that Rwanda has made significant progress in recent times. Table 26.1 presents rankings of Rwanda in the world and Africa using different measures of quality of institutions and governance. In the ranking of Economic Freedom by Heritage Foundation, Rwanda was ranked number 125 out of 157 countries as at year 2005. In a period of ten years Rwanda moved to number 71 out of 178 countries. In the Africa region, Rwanda moved from number 29 to number 4 in ranking of

Economic Freedom. Similarly, the World Bank Governance Index shows that Rwanda has made significant progress, from number 162 out of 200 in 2005 to 90 in 2014 and from number 47 in Africa to number 7.

In ten years, Rwanda gained forty places in ranking of governance quality. The Global Competitive Index computed by the World Economic Forum equally reveals that Rwanda has made significant progress in recent times. Rwanda is one of the countries with high competitive index in the world today. It is important to mention here that Rwanda has equally made progress in economic and social development (see *Human Development Report*, 2015).

Figure 26.1 depicts the performance of Rwanda in the six World Bank Governance Indicators between 1996 and 2014. It is evident in the figure that Rwanda recorded significant progress in all the six governance indicators. The progress is more in Rule of Law, followed by Control of Corruption, Regulatory Quality, Government Effectiveness, Political Stability, and Voice and Accountability, in that order. Rwanda has succeeded in improving the quality of governance tremendously within one and half decades. The country has transitioned from a country with poor governance to a country with good governance.

Table 26.1: Ranking of Rwanda Institutional Quality

	Rank in the World		Rank in Africa	
Heritage Foundation	2005	125 (out of 157)	29 (out of 44)	
Economic Freedom	2016	71 (out of 178)	4 (out of 52)	
Mo Ibrahim Governance	2000	-	26 (out of 54)	
Index	2014	-	11 (out of 54)	
World Bank Governance	2005	162 (out of 200)	47 (out of 54)	
Index	2014	90 (out of 200)	7 (out of 54)	
Economic Freedom of	2005	98 (out of 123)	17 (out of 32)	
Frazer Institute	2013	38 (out of 123)	4 (out of 32)	
Global Competitive Index	2010	80 (out of 139)	-	
	2015	58 (out of 140)	3 (out of 37)	

Source: Computed by author from different sources

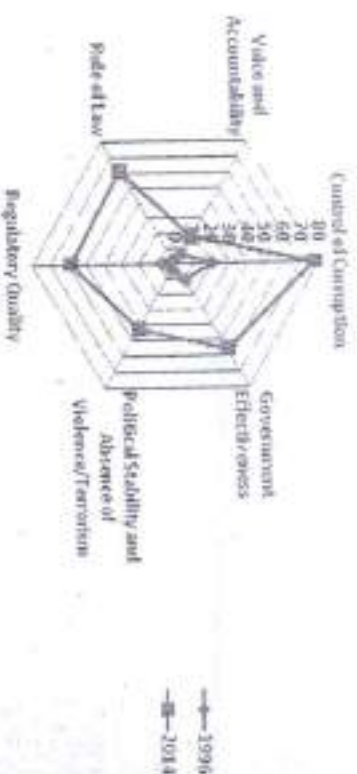


Figure 26.1: The Six World Bank Governance Indicators

Source: Plotted by author using World Bank Data Set

26.3 Nigeria versus Rwanda

To foster economic and social development there are interrelated institutions, policies and factors that government should focus on. For instance, to achieve inclusive growth, two things are important, according to McKinley (2010): (i) create and expand economic opportunities; and (ii) ensure broader access to these opportunities so as to allow the majority, including the vulnerable, to participate in and benefit from growth. It is clear, therefore, that for growth to be inclusive it must translate to greater access to productive resources to the majority of the people in the economy. This can be achieved by expanding human capabilities, such as investing in education, health, and basic social services as well as providing productive employment opportunities. In addition, inclusive institutions are necessary prerequisite, as argued by Acemoglu and Robinson (2012), and Iyeyemi and Kilishi (2015) that it is inclusive economic institutions which create inclusive growth, while inclusive growth will further enhance inclusive institutions.

The World Economic Forum designed and computed competitiveness index using set of institutions, policies and factors

driven indicators that ensure inclusive economic activities. The composite index, known as the Global Competitiveness Index (GCI), consists of twelve pillars computed from 114 indicators. The twelve pillars include: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. These twelve pillars focus on three key drivers which are factors drivers, efficiency drivers and innovation drivers.

The idea of competitive institutions measured by the first pillar is that good and efficient public and private institutions that guide human interactions, either social, economic and political, are essential factors that attract investors, protect the property and assure profit maximisation. The second pillar focuses on availability and efficiency of basic infrastructure which matter much in shaping the business environment. The third pillar emphasises that stability of macroeconomic variables such as inflation, fiscal deficits business cycles are essential for the operation firms as well as performance of government. Accessibility and affordability to sound health and quality education is fundamental to high productivity of the workforce – and this is the focus of the fourth pillar; while the fifth pillar is concerned with skill acquisition and training that provide important inputs to productivity of labour. The argument in the sixth pillar is that market efficiency is necessary for effective transaction between supply and demand of goods and services. Efficient market is essential for effective interactions of producers and consumers in an economy.

The labour market (the seventh pillar) measures how the demand and supply of labour ensures clear strong incentives for employees to give their best at the workplace. The availability, accessibility and affordability of financial services are all important to investment in any economy. These are measured by financial development (the eighth pillar).

The ninth pillar captures indicators of technology, particularly information and communication technologies (ICTs) that are key drivers of modern economy. The ability of a nation to adopt,

domesticate and utilise modern technologies is important to productivity, growth and development. The sizes of the domestic and international markets influence performance of firms in many ways, including economies of scale, hence, indicators of market size are captured by the tenth pillar. The eleventh pillar, which measures business sophistication consists of two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies. Finally, the twelfth pillar emphasises that ability and the incentive of entrepreneurs to create new product, new process, new production processes, or new marketing strategies are important for economic performance.

To allow some comparisons, the 2016 ranking of Nigeria and Rwanda in the GCI scores, the pillars and a number of the indicators are presented in Tables 26.2 to 26.4. The overall GCI shows that Nigeria is ranked number 124 out of 140, while Rwanda is number 58 in the world. Rwanda has made continuous progress in the past five years in all the twelve pillars. However, Rwanda made more progress in the area of labour market efficiency with the assistance of high female participation. Between 2015 and 2016, Rwanda has gained 15 places in quality of institutions, to be ranked 17th. The country ranked among the first ten in the world in nine indicators of institutions as presented in Table 26.3. Rwanda succeeded in increasing public trust in politicians, transparency of government policymaking, government efficiency, and reducing wasteful spending in government, favouritism in government decision making, burden of government regulation, business costs of crime, violence, organised crime and insecurity. However, there is more room for improvement in the areas of higher education and training, market size and technological readiness.

Though, Nigeria gained three places between 2015 and 2016 it still ranked 124 in the overall index of GCIs out of 140 countries. However, Nigeria is ranked high in market size (25th) which is facilitated by GDP rebasing. The country also did well in the ranking of labour market efficiency (35th). On the other hand, the country takes the last place in health and primary education due to poor quality

of primary education and low scores in health indicators. Thus, there is a need to improve in the quality of primary education beyond the emphasis on just enrolment. Accessibility and affordability of health services also need improvement. Related to this is higher education and training where the country is ranked 128 out of 140 countries. This is largely due to the inability to retain and effectively use talents, poor deployment of scientific research as well as limited linkage between universities, research institute and industries.

Nigeria is equally ranked low in institutions and infrastructure, falling to 124 and 133, respectively. Ranking on indicators of institutions presented in Table 26.3 shows that despite the war against corruption in recent times, the diversion of public funds, irregular payments, bribery and corruption are still high in the country. There is so much waste in government spending, and favouritism in government decisions is very common. Though the military has recorded huge success in fighting insurgency, particularly Boko Haram, security is still a major threat to business in the country. Government policies are less transparent and less effective; the public have little or no trust in policymakers. The Nigerian police is among the least reliable in the world. The quality of infrastructure, particularly power supply, is one of the lowest in the world. Nigeria is second to last in ranking of quality of electricity supply.

Nigeria is ranked number 81, 100, 79, 106, 94 and 117 out of 140 countries in macroeconomic environment, goods market efficiency, financial market development, technological readiness, business sophistication and innovation pillars, respectively. Relative low government deficit and debt lifted the country's ranking in macroeconomic environment while inflation rate pulled it down. The domestic market environment of goods is less competitive which outweighs the improvements made in foreign market competition. Financial services are available and adjudged to be relatively sound but the majority of the people do not have access or cannot afford them. Financial inclusion is sine qua non to the achievement of inclusive growth and this goes beyond just availability of banks. The poor quality

of research institutions, low spending in R&D (Research and Development), poor university-industry collaboration in R&D dragged down the country's performance in innovation. Poor access to Internet in schools and inadequate research and training services to workers are a main concern in technological development.

Table 26.2: Global Competitiveness Index and Twelve Pillars (2016)

Index	Nigeria	Rwanda
Global Competitiveness Index	124	58
1st pillar: Institutions	124	17
2nd pillar: Infrastructure	133	97
3rd pillar: Macroeconomic environment	81	92
4th pillar: Health and primary education	140	88
5th pillar: Higher education and training	128	120
6th pillar: Goods market efficiency	100	44
7th pillar: Labour market efficiency	35	8
8th pillar: Financial market development	79	28
9th pillar: Technological readiness	106	103
10th pillar: Market size	25	126
11th pillar: Business sophistication	94	69
12th pillar: Innovation	117	46

Source: Global Competitiveness Indicators

Table 26.3: Institutions, Infrastructure, Financial, Labour Market and Doing Business Indicators (2016)

Quality of Institutions	Nigeria	Rwanda	Quality of Infrastructure	Nigeria	Rwanda
Property rights	100	20	Quality of overall infrastructure	133	57
Intellectual property protection	119	28	Quality of roads	125	37
Diversification of public funds	132	18	Quality of air transport infrastructure	111	64
Public trust in politicians	132	8	Transport infrastructure	124	68

Table 26.3 (cont'd)

Irregular payments and bribes	132	24	Quality of electricity supply	129	80
Ethics and corruption	136	14	Doing Business Indicators	Nigeria	Rwanda
Judicial independence	96	26	No. procedures to start a business	103	93
Favouritism in decisions of government officials	132	10	No. days to start a business	30.8	6.5
Unbureaucratic	109	19	No. days to start a business	115	36
Wastefulness of government spending	131	4	Burden of customs procedures	135	16
Burden of government regulation	109	4	Degree of customer orientation	123	71
Efficiency of legal framework in settling disputes	83	12	Financial indicators	Nigeria	Rwanda
Efficiency of legal framework in challenging regulations	91	18	Affordability of financial services	122	54
Transparency of government policy-making	121	9	Availability of financial services	86	67
Government efficiency	111	4	Ease of access to loans	135	42
Business costs of terrorism	135	17	Venture capital availability	128	30
Business costs of crime and violence	125	4	Labour Market Indicators	Nigeria	Rwanda
Organised crime	109	6	Country capacity to retain talent	90	23
Reliability of police services	134	21	Country capacity to attract talent	50	15
Security	130	5	Women in labour force, ratio to men*	87	3
Public institutions	129	13	Efficient use of talent	68	8

Source: Global Competitiveness Indicators

Table 26.4: Health, Education, Innovation and Market Size Indicators (2015-2016)

Health Indicators	Nigeria	Rwanda	Education Indicators	Nigeria	Rwanda
Business impact of malaria	61	38	Quality of primary education	128	64
Malaria cases	70	50	Quality of the education system	125	45
Tuberculosis cases	129	80	Quality of math and science education	132	59
HIV prevalence	126	125	Quality of management schools	102	74
Infant mortality, deaths	137	109	Internet access in schools	124	66
Life expectancy, Value	52.50	63.99	Availability of research and training services	106	93
Life expectancy, Rank	133	112	Extent of staff training	62	57
Innovation Indicators	Nigeria	Rwanda	Market Size Indicators	Nigeria	Rwanda
Capacity for innovation	82	02	GDP (PPP\$ billions)	21	122
Quality of scientific research institutions	129	08	Exports as a percentage of GDP	126	133
Competing spending on R&D	108	65	Domestic market size index	21	124
University-industry collaboration in R&D	122	64	Foreign market size index	42	132
Gov't procurement of advanced tech products	117	6			
Availability of scientists and engineers	98	71			
Innovation and sophistication factors	114	55			

Source: Global Competitiveness Indicators

26.4 The Rwanda Reform

As shown in section 26.3, Rwanda has made progress in many areas of competitiveness indicators. The policy steps taken by Rwanda to achieve a major turn-around in governance and quality of institutions is discussed in this section. A careful study of the social, economic and political history of Rwanda shows that the recent success in Rwanda is the fruit of conscious planning that started around 2000.

Rwanda Vision 2020 is the official document of the long-term plan which is implemented in a series of medium-term strategies initially a three-year Poverty Reduction Strategy (PRS, 2002-2005), followed by a five-year Economic Development and Poverty Reduction Strategy (EDPRS 1, 2007-2012) and then reviewed to EDPRS 2 (2013-2017). The ADB (African Development Bank) Country Strategy Paper (CSP) of Rwanda 2012-2016 acknowledged that Rwanda has recorded exemplary progress in design and implementation of public policies. The *UNDP Human Development Report* (2015) mentioned some of the implementation strategies that led to the great reform success in Rwanda.

The central reason for the success in Rwanda reform is the decentralisation policy. It was identified during the post-conflict Urukwo consultations that one of the causes of the conflict that led to the 1994 genocide was concentration of power in a few hands and the misuse of such power (UNDP Report, 2015). Hence, one of the strongest policy recommendations to the Transitional Government of National Unity is decentralisation of power. Though the decentralisation policy was implemented in phases, the Rwanda decentralisation policy comprises of four interrelated components vis-à-vis political decentralisation, administrative decentralisation, fiscal and financial decentralisation, as well as sectoral and service delivery decentralisation.

Without much details discussion on each of the components (for details, see Rwanda Five-Year Decentralisation Implementation Programme 2004-2008, Decentralisation Implementation Plan 2011-2015) the decentralisation policy in Rwanda involves the transfer of resources and service delivery responsibility to sub-national entities particularly at local government and district levels. Key ministries such as Agriculture, Health and Education established service delivery units at the local government levels. The local governments have been given power and responsibility to prepare comprehensive and integrated development plans incorporating the needs and taking into account the priorities of the local communities. Political decentralisation

ensures that citizens are fully involved in all aspect of policymaking starting from planning, implementation, monitoring and evaluation. The involvement of the citizens at that level makes the whole planning system participatory, transparent, effective and efficient.

The political decentralisation propelled achievement in two major areas: first, it transferred to the citizens, the power to elect and remove leaders at the local level. Second, it encouraged citizens to participate in all aspects of governance and the process of service delivery. Citizens' participation was strengthened over time, local government planning became inclusive and local ownership of development process was achieved, hence demystifying the concept of government. Politicians are made to sign a performance contract known as *Imihigo* in traditional parlance which serves as mechanism to measure their performance. The whole process of governance and policy making as well as implementation became more transparent, and politicians became more accountable to the people. Consequently, accountability and transparency as well as effectiveness and efficiency in governance and service delivery processes were enhanced.

A quick highlight of the key components of Rwanda decentralisation policy are:

- a. Service delivery units of key ministries are established at local governments
- b. Responsibility to deliver services is transferred to the local units
- c. Resources to finance service delivery are transferred to local units
- d. The mandate to prepare development plan and budget is given to local administrators
- e. Citizens are fully involved in the planning and implementation process
- f. Citizens have the power to remove a non-performing politician.

26.5 Lessons for Nigeria

One of the main obvious focus of the current federal government administration in Nigeria is the war against corruption. Some of the major steps taken are the arrest of looters and the recovery of loots. Meanwhile, this is just a short-term solution to corruption because there is no measure to prevent looting in the future. In the case of Rwanda, corruption has drastically reduced since the beginning of the reform without necessarily arresting people. This was achieved by operating transparent and participatory government. The citizens and the civil society are directly involved in the design of policy, monitoring and appraisal of implementation. Thus, accountability and transparency as well as effectiveness and efficiency in governance and service delivery processes were enhanced.

The structure of government in the Nigerian federal system is similar to the decentralisation structure in Rwanda. Mainly, there are three tiers of government: federal, state and local. There are also the district administrative units in both countries which is a sub-entity within local government. In the Rwandan decentralisation policy, resources and responsibility of service delivery are transferred to the sub-national entities, including the districts. Units of key ministries such as Agriculture, Health and Education were established at the local government as discussed earlier. Local government administrators are more like field workers who are always in the communities talking to people, and implementing government policies, programmes and projects.

Similar decentralisation structure exists in Nigeria where departments of Agriculture, Health, Education, Works and so on are established at the local governments. However, the form and nature of decentralisation in Nigeria is different from the Rwanda case in a number of ways. One, the units of key ministries at the local governments in Nigeria are more of administrative units rather than service delivery units as it is in Rwanda. Politicians at the local government level are basically administrators who may not implement

a single project throughout the life time of a regime. Two, fiscal and financial decentralisation is restricted particularly with the operation of local government joint allocation account.

Three, people are not involved in the activities of local governments in Nigeria. The local government is far from the people, though geographically located close to them. Four, citizens have little or no power to elect and remove local government administrators. Local government chairmen in Nigeria today are more like political appointees of the state governors. Hence, rather than people having control of local government activities, the governors are in control.

Given these peculiar characteristics of decentralisation structure in Nigeria, more transfer of financial resources to the local government is not likely to deliver more services to the people. Rather, more corruption and diversion of funds are likely to be seen at the local government level. Therefore, the local government autonomy that people are agitating for should be considered with care. If at all it should be considered, attention must be given to who owns the political power to elect and remove local government administrators. In addition, mechanisms should be designed to allow and encourage citizens' participation and involvement in all aspects of governance, at least, at the local government level.

It is important to mention here that the reform and progress in Rwanda happened without discriminating against the female gender. In the space of the reform, Rwanda made significant progress in gender parity. Today, Rwanda has the highest number of female parliamentarians in the world and is among the top three countries with more proportion of women participating in the labour force. Thus, the country is able to maximise women's contribution to the development process as well as ensure that they benefit from the process. Closing up gender disparity in politics, schooling and labour force participation is very important, particularly in addressing gender discrimination and generally in nation building.

Though there are a number of lessons Nigeria can learn from Rwanda as enumerated in this section, it is important to mention what

Nigeria should not learn from Rwanda. The central government in Rwanda is less democratic with a sit-tight president holding on to power. Ironically, the institutions of the constitution were distorted recently to allow the president continue to stay in power.

26.6 Concluding Remarks

Nigeria is facing many economic, social and political challenges mainly due to the decline in oil revenue, cultural fractionalisation, long failure of government to meet the needs of people and political dominance. Many countries in Africa are faced with similar challenges. One of the main reasons for the prevalence and persistence of these problems in Africa and other developing countries is the presence of weak institutions and bad governance. Unfortunately, both theoretical and empirical literature could not clearly explain how strong institutions and good governance can be created. However, few countries in Africa, including Rwanda, have made significant progress recently in building strong and efficient institutions as well as good and effective governance. Therefore, this chapter discussed the building of good institutions and governance, drawing lessons from Rwanda's experience.

The Rwandan experience has demonstrated that decentralisation, which gives political power to the people, is central to building effective institutions and good governance. This is in line with the argument of Acemoglu and Robinson (2012) which states that economic institutions depend on political institutions and political institutions are a function of the distribution of political power.

The main conclusion from this study is that for Nigeria and other African countries to build a strong, effective and growth-enhancing institutions, decentralisation of political power is a necessary policy. However, decentralisation should be backed up with sanctions so as to ensure checks and balances. It is also important to mention that decentralisation structure such as local administrative entities, and trained personnel are necessary. Local government administrators

should have the requisite knowledge and skills of planning and budgeting. The sufficient condition is to get people involved in the entire process of decision-making, formulation, implementation, monitoring and evaluation. Finally, the power to discipline non-performance should belong to the citizens, not the state governor or *de facto* political elite (*political godfather*).

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