

ACBF Development Memoirs Series

ACBFDMS/006/2011



THE AFRICAN CAPACITY
BUILDING FOUNDATION

FONDATION POUR LE RENFORCEMENT
DES CAPACITES EN AFRIQUE

Building Sustainable Capacity for Poverty Reduction in Africa

Renforcer durablement les capacités pour réduire la pauvreté en Afrique

TRANSPARENCY AND ACCOUNTABILITY IN THE MANAGEMENT OF PUBLIC FUNDS: HOW SENSIBLY MUST AFRICAN COUNTRIES STAND?

NGOZI OKONJO-IWEALA

Managing Director, World Bank





NGOZI OKONJO-IWEALA
Managing Director, World Bank

ACBF DEVELOPMENT MEMOIRS SERIES

ACBF DMS/006/2011

TRANSPARENCY AND ACCOUNTABILITY IN THE MANAGEMENT OF PUBLIC FUNDS: HOW SENSIBLY MUST AFRICAN COUNTRIES STAND?

NGOZI OKONJO-IWEALA
Managing Director, World Bank

March 2011

© 2011 The African Capacity Building Foundation
7th Floor, ZB Life Towers, Harare, Zimbabwe

Produced by the Knowledge & Learning Department
The African Capacity Building Foundation
All rights reserved.

The views and opinions expressed in this publication are the reflections of the contributor of the Memoir. They do not necessarily reflect the official position of the African Capacity Building Foundation (ACBF), its Board of Governors or the Executive Board.

ISBN: 978-1-77937-026-6
EAN: 9781779370266

THE ACBF DEVELOPMENT MEMOIRS SERIES

ACBF's Development Memoirs Series is a key instrument in the Foundation's knowledge management strategy aimed at harnessing the know-how and learned experiences of eminent senior policymakers and development managers. Central to the Series is the understanding that knowledge management tools and practices can be effectively employed to leverage both local and externally generated knowledge to bridge the knowledge gap between sub-Saharan Africa and the developed world.

The Series is generated through contributions from the ACBF Senior Policymakers and Development Managers Knowledge Sharing Program (SPM-KSP). It provides professional insights, reflections, skills, processes and experiences in the management of specific policies and programs, and offer case studies on processes, practices and experiences associated with specific policies and programs that have made measurable impact on the continent's development experience. The individual voices captured via the SPM-KSP collectively contribute to enhancing the effectiveness of the Foundation's operations, identifying learning and knowledge-sharing opportunities, and providing practitioners with guideposts to best practices in policymaking and development program management.

The Development Memoirs Series reflects the Foundation's vision and quest to actively embrace a diversity of knowledge sources including the ways gender, values and culture influence the generation, sharing and application of knowledge. The Series speaks to ACBF's vision that the creation, sharing and deployment of cutting edge knowledge in an increasingly complex, competitive and changing world, is imperative to Africa's current development efforts and future prospects.

Knowledge & Learning Department
The African Capacity Building Foundation
7th Floor, ZB Life Towers
Cnr. Jason Moyo/Sam Nujoma Avenue
P.O. Box 1562
Harare, Zimbabwe

March 2011

EXECUTIVE SUMMARY

In managing their respective countries' economies, African Finance Ministers encounter a number of challenges. Principal among these is the challenge of adopting appropriate budget processes and mechanisms that do permit information sharing and inclusiveness. To succeed in implementing reforms, there is the absolute imperative to ensure public buy-in of government economic policies.

Against a backdrop of acute resource inadequacies, effective tradeoffs and negotiations between a Finance Minister, his/her colleagues in government and the public on spending priorities in keeping with government vision is essential for economic governance. While this practice is not peculiar to Africa, the challenge for African economies is more pronounced given the yawning gap between demand for public goods and services and available resources. The African situation is not made better in light of the continent's susceptibility to vicissitudes of world trade conditions.

As a way of addressing the daunting challenges confronting the continent, there is need for African countries to adopt home-grown economic blue prints that can stand the test of time. Such development policies must be championed and owned by the government and people working together for a common cause. Nigeria's adoption and implementation of the National Economic Empowerment and Development Strategy (NEEDS) afforded opportunity for the country to lead in defining its economic growth path.

While individual qualities and experiences contributed to the success of the NEEDS program, the commitment to reform, as exhibited by the political leadership and supported by the people were the driving forces for the program's implementation. President Obasanjo personally provided leadership to the process. Such highest level of political commitment, made it possible for the

Economic Management Team to take tough but necessary decisions in carrying through with the reforms in Nigeria.

In addition to adopting country-led reforms, African countries must be prepared to settle their arrears with development partners as a necessary condition for debt cancellation. This is more the case with countries who did not qualify for debt cancellation under the HIPC initiative. Nigeria succeeded in securing a debt cancellation of US\$18 billion from the Paris Club after the country demonstrated unyielding commitment to reforms, coupled with willingness to pay off its arrears.

One important but often underestimated negotiation element, which played a role in securing the debt cancellation for Nigeria, is leadership networking and contacts with friends in high places. The Team leader of the reforms and then Finance Minister had either prior working relationship or professional contacts with officials in almost all the countries that held the key to important decisions regarding the country's debt cancellation. Background knowledge of individual qualities builds trust and boots confidence in such delicate negotiations.

Africa must pursue its unfinished agenda for economic reforms by investing in infrastructure development. There must also be investor-friendly policies that will attract foreign direct investment; establish a strong foothold in global trade negotiations; add value to primary products for export and diversify their economies to ensure robustness. Africa must insist on transparent *quid pro quo* in their dealings with China and any other country in trade and investment relations.

Ngozi Okonjo-Iweala

Washington DC, USA

I. INTRODUCTION

The African Capacity Building Foundation (ACBF) through its Knowledge and Learning Department is geared towards generating, sharing, disseminating and utilizing knowledge for capacity building and development management. The ACBF knowledge management program seeks to achieve four major objectives, amongst others. These are to:

- Enhance the performance of internal project and program operations based on best-practice methodologies, strategies and instruments.
- Foster the sharing of best practices in capacity building, in the design and implementation of development policies and programs as well as in reform programs that are directed at strengthening the effectiveness of Africa's development process.
- Contribute to programs and mechanisms for extracting and sharing tacit knowledge for the benefit of national and regional development.
- Enhance returns to, and the efficiency of, investments in capacity building

One of the key instruments in the Foundation's knowledge management toolkit is the Senior Policymakers and Development Managers' Knowledge Sharing Program (SPM-KSP). SPM-KSP provides a platform on which successful development practitioners (active and retired) who have made significant contributions to the development process in Africa or other developing regions, share their experiential memoirs for the benefit of future efforts at African development. SPM-KSP specifically targets very senior policymakers and development managers, including visiting academics and eminent guests to the Foundation. Participating policymakers and development managers

are selectively drawn nationally, regionally, continentally and globally from the public and private sectors spanning national, regional and continental institutions; international development agencies; civil society organizations; ACBF partner institutions; tertiary institutions of learning; research and specialized training institutes, among others.

ACBF extended an invitation to Dr. Ngozi Okonjo-Iweala to draw on her experience and share insights guided by the theme: *Transparency and Accountability in the Management of Public Funds – How Sensibly Must African Countries Stand?*

II. PROFILE OF THE CONTRIBUTOR

Currently a Managing Director of the World Bank, Dr. Ngozi Okonjo-Iweala was a Distinguished Visiting Scholar with the Brookings Institute, Washington, DC, at the time of the interview. Dr. Okonjo-Iweala previously served as Foreign Affairs Minister for the Federal Republic of Nigeria, while simultaneously heading Nigeria's acclaimed Presidential Economic Team, responsible for implementing President Obasanjo's sweeping socio-economic reform agenda for Nigeria. Prior to this, Dr. Okonjo-Iweala served as Minister of Finance and Economy. As Finance Minister, Dr. Okonjo-Iweala spearheaded the Nigerian team that successfully negotiated the cancellation of \$18 billion (approx. 60%) of Nigeria's \$30 billion Paris Club debt – the second largest debt cancellation in the Paris Club's 50-year history. As a result of the debt cancellation and an innovative Debt Buy Back Scheme, Nigeria exited the Paris Club in April 2006, thereby bringing the country's external debt burden down from \$35 to \$5 billion. Additionally, Dr. Okonjo-Iweala previously worked with the World Bank in Washington, DC, for over two decades, rising to the position of Vice President and Corporate Secretary.

Dr. Okonjo-Iweala graduated with an A.B. magna cum laude in Economics from Harvard University and holds a Ph.D. in Regional Economics and Development from the Massachusetts Institute of Technology. She is the recipient of numerous prestigious awards including: Honorary Doctorate of Laws from Brown University; Honorary Doctorate of Humane Letters from Northern Caribbean University, Jamaica; Euromoney Magazine Global Finance Minister of the Year 2005 award; and, Time Magazine European Heroes 2004 award.

III. GUIDING ISSUES

With a profile spanning academia, international development and finance, as well as public service, Dr. Ngozi Okonjo-Iweala held face-to-face knowledge-sharing interview with the African Capacity Building Foundation on November 2, 2007 at the Brookings Institute in Washington, DC USA. During the interview, Dr. Okonjo-Iweala shared her insights and thoughts on:

- The challenges that a typical African Finance Minister might contend with regarding issues of transparency and accountability in the management of public funds.
- Her characterization of the present macro-economic and financial policy environment in sub-Saharan Africa and what it will take to achieve desired level of transparency and accountability
- Her personal experiences and understanding of the missing links in Africa's quest for sustainable financial management and accountability.
- The main challenges that she faced in negotiating the landmark debt cancellation deal of \$18 billion (approx. 60%) of Nigeria's \$30 billion Paris Club debt – the

second largest debt cancellation in the Paris Club's 50-year history.

- The unsettled question of the optimal modalities of transparency and accountability in the management of public expenditure in Africa, balancing the reality of government failure on the one hand, and the exigency for capacity building of the same African governments in order to improve public-service delivery on the other.
- Her views and insights on what she considers being the unfinished agenda for economic and financial reforms in sub-Saharan Africa in the years ahead.

In what follows, Dr. Okonjo-Iweala shares her thoughts on the foregoing leading issues relating to *Transparency and Accountability in the Management of Public Funds in Africa*. She draws on her experiences and offers a prognosis on the focus and channel of support to the continent and presents invaluable insights on what she envisions as critical steps central to Africa's quest for sustainable development and effective management of public funds.

IV. TRANSCRIPT OF KNOWLEDGE-SHARING INTERVIEW

ACBF: What in your opinion are the challenges facing a typical African Finance Minister and those that you personally had to contend with regarding issues of transparency, accountability in managing public funds?

Dr. Okonjo-Iweala: I think the challenges are many fold. They have to do with the issue of proper budget processes and mechanisms that do indeed allow the sharing of information with the public, that allow inclusiveness of civil society and other institutions such as the

legislature in the budget process. It also includes challenges having to do with the ability of colleagues to make trade-offs with the government. This is not anything unique to Africa, but it is particularly challenging in our case where the resources are not in abundance. Making trade-offs, focusing on priorities, being able to say no to certain programs – those are all challenges. But I think the biggest challenge really does have to do with making information available to the public so that everybody knows just exactly what's in the budget; how are the resources spent and what are the expected results from this expenditure. These will enable the public to hold the government accountable.

ACBF: When you refer to making information available to the public, how did you do that in Nigeria?

Dr. Okonjo-Iweala: We tried very much to do several things:

TRANSPARENT BUDGET

We put together a proper process that involved a *fiscal strategy paper* that set out the parameters for the budget after initial discussion with the President, who would set out his policy directions to guide the drafting of the fiscal strategy paper. That paper was to enable us to get Cabinet members to make trade-offs by looking at the various priorities. Second, we had to include civil society in our discussions for the very first time by sharing with them the draft priorities and having their input. With this we were able to make public information on the parameters being considered; what we were going to do in terms of the oil price benchmark that we use in the budget and things like that. We also tried to include the Legislature in the information dissemination process.

PUBLISHED BUDGET

Once the budget was done, we published and also uploaded it on our website. This had not been done for quite some time in Nigeria. I think it used to be done in the old days but somehow the practice was stopped, necessitating the public's call to know what was in the budget. We also started to publish monthly, the revenue side of the budget highlighting what was coming in and going out each month to the Federal government and the State governments so that people would know what their governments at whatever level was getting and how they were spending it, so they could be held accountable.

COMPETITIVE PROCUREMENT

Another very important challenge that we needed to address had to do with procurement. We had challenges on procurement issues. We needed to ensure that government contracts went through competitive bidding process that was transparent and devoid of corruption. Within the Economic Management Team in which I worked, one of my colleagues took charge in developing a transparent, competitive procurement system, which enabled us to save a lot of government money by avoiding over-inflated contracts and corrupt practices.

ACBF: The fight against corruption was a benchmark in President Obasanjo's first term in government. Do you think that he made a dent in curbing corruption in Nigeria?

Dr. Okonjo-Iweala: It was actually a benchmark in his second term. It was during his second term that he brought together a team of mainly technocrats, which I headed, in government. We constituted an Economic Management Team made up of ministers and senior Advi-

sors. Together, we designed and implemented the National Economic Empowerment and Development Strategy (NEEDS), that had four thrusts - macroeconomic stability, public sector reform, fighting corruption, including privatizing government enterprises and strengthening institutions. During that time there was a strong focus on fighting corruption, but as is generally the case, it's always a long battle, however, I think the Economic and Financial Crimes Commission (EFCC), then headed by Nuru Ebadu did an outstanding job.

ACBF: Do you think that the anti-corruption crusade was continued after President Obasanjo?

Dr. Okonjo-Iweala: President Yar'Adua, as you know, was an up-standing and strict President who declared his own assets publicly. That set a good example for transparency and from all the pronouncements, the fight against corruption is one of the pillars he wanted to work on. Of course tensions developed between the Economic and Financial Crimes Commission and the Ministry of Justice that everybody knows about. I think that such issues need to be dealt with in order that the focus continues on fighting corruption. But every pronouncement from the succeeding government says yes, they want to continue this thrust.

ACBF: Drawing on your experience with the NEEDS Program that you put together and which dealt with four key areas - structural reforms, macroeconomic environment, public spending management, institutional governmental reform... is there more to be done? Did you reach your targets and if you didn't, what more needs to be done to get Nigeria on the right track?

Dr. Okonjo-Iweala: Oh absolutely! There is much more to be done. I think that we did have very outstanding results if I may say so. We set

out to develop and grow the economy and in doing so, the first thing was to stabilize the economy. When we came in, inflation was very high (approximately 28%). Foreign exchange reserves were \$7 billion in a country, which was benefiting from high oil prices. Starting in 2003 we were actually even losing reserves, which meant that fiscal policy was quite lax. So we set out to de-link the oil price at which we prepared the budget from the international oil price, as a strategy to deal with price volatility in the world market.

So we had an oil price based fiscal rule that worked and helped us to stabilize the fiscal side. What do I mean by that? When oil prices were \$35 per barrel, we used \$25 in the budget. Meaning we could have stability in the budget instead of volatility in our expenditures and we could also save the difference. That really helped us rein in the fiscal deficit, in-fact we ended up with a fiscal surplus of 10% of GDP in 2005 and 12% in 2006, from a turn around of greater than 3% of fiscal deficit. So that was a big achievement

GROWING RESERVES

Reserves grew during that time from \$7 billion to the time I left, when they were hitting \$28 billion. Currently, the reserves are hitting 46 billion. GDP growth also tripled from an average of 2.5%. We started growing at 6% plus. The non-oil sectors such as agriculture were growing at 8%. These are some of the measurable results we achieved on the macro level. The next stage was to dig into the sectors, so that we could really begin to develop them, mainly the agricultural and mining sectors. We also needed to improve the basic delivery of services to the population, because we hadn't gotten to that yet. But you know we couldn't do all of that at once. Going forward we need to maintain stability. We need to do all of that because the population needs to feel the impact of the reforms.

SUSTAINED GROWTH RATE FOR POVERTY REDUCTION

We also need to maintain the very important growth rate we achieved. We need to get to better than 8% and keep it sustained for the next couple of decades if we really area to have a sufficient impact on poverty and create jobs for our youth. Why do I say that? The world experience in East Asia, in China, shows that this is what we need to do. Malaysia had to grow at 8% per annum for two decades before they were able to bring poverty levels down to 8% and below. China has been growing at 10% per year for the past two decades as you know and that has made a very big impact on their poverty levels and has created jobs. So we need to sustain it. We need to complete reforms at the sectoral levels because there are still many unfinished agendas. We haven't finished privatizing all the loss-making enterprises, we need to complete that! We need to reform our various sectors. We need to reform our customs among others.

ACBF: You talked about devising a strategy to contain oil price volatility. Oil prices jumped from \$34 a barrel to \$99 a barrel recently. How is that going to help the Nigerian economy? Do you think the extra revenue would be put to good use?

Dr. Okonjo-Iweala: I would hope so. I mean the oil price fiscal rule has been maintained. They are budgeting \$53 per barrel. The current oil price, the spot price is quite high, but if it's on average seventy something they'll still be able to save quite a big amount. And then what can be done with these savings? They can be applied to infrastructure development. One of the big things missing in Nigeria is good infrastructure. This is critical for both ordinary Nigerian families and businesses. We can actually kill two birds with one stone by investing in electricity, because you know we have very low electricity usage per capita in our country. You know we generate 4,500Mwatts

of electricity for 140 million people whereas South Africa generates 45,000Mwatts for 45 million people. So we need to invest heavily to bridge the gap between demand and supply.

We also need to invest in roads and the ports. Actually we privatized the ports and they are working. That's a good thing. We equally need to invest in rail because we are a large country and we need to haul goods by roads and rail. So there is so much to do, so much to invest in. We need to invest in our human capital. As you know the quality of our education system at home has declined considerably. The physical infrastructure of the schools where our children attend school has deteriorated. Our children cannot learn in such an environment so we need to invest in education and in health. Both the Federal and State governments need to invest in infrastructure. In Nigeria everybody tends to look to the Federal government but the State and local governments are getting 50% of the budget and they are responsible mainly for the health and education, at least at the primary and secondary levels. The states need to invest their share of what we call the excess crude savings in those activities and those sectors.

ACBF: You managed to pull-off a great feat at the Paris Club by reducing Nigeria's debt by \$18 billion, by about 60%. What did it take to negotiate such a deal?

Dr. Okonjo-Iweala: That was quite a feat and of course you remember that President Obasanjo deserves quite a lot of credit for making debt relief a major part of his cardinal reform. My team members who worked with me deserve a lot of credit as well because we all worked on the reforms together. What we needed to do was to not just go and ask the international community or the Paris Club for debt relief; we needed to show them that Nigeria is a reforming country capable of managing its own finances in a responsible manner. Nobody will give you debt relief if whatever relief you get is

not going to be handled properly. So that's why it was crucial that we implemented for a steady 18 months the NEEDS program, and that we got sterling results out of it. And you know it was not easy crafting the program and convincing people for a buy-in. As you know many people are against reform. Usually there are vested interests that don't really want to see reform go forward, whether it is in the area of fighting corruption or privatizing enterprises. But we had to do all of that. We succeeded largely because we had the support of the political leaders, which is crucial.

It was implementation of the NEEDS program that helped. We went in to convince the G-7 Finance Ministers to whom we owed most of the debt. We visited their countries, especially some of the other European countries. We made a strong case that we deserved debt relief because we are a serious country that is implementing reforms; that we are fighting corruption and that we will use the money well. That took quite an effort.

PERSONAL ELEMENT

In all these, it is important not to discount the role of personal contacts. Of course there are elements where you say God's hand was really at work because, in addition to doing all these things, personal relationships helped enormously. It turned out that in many of the G-7 countries, former colleagues were either in the finance ministry as Advisors, Deputy Finance Ministers, senior people, Ministers who knew me and my work. Within that environment, when I came in and said we were going to do this as a country, they could take it that we would do it.

You know an example is in Japan, which is known for not giving debt relief. A colleague of mine was senior advisor to the Minister of Finance, he was able to say to the Minister, "I know this person, she's serious and if she says her country is going to do this, let's give them a

chance". In Germany, the Deputy Finance Minister was my former boss at the World Bank. I was able to convince him that we were serious. In the UK, the advisor to Gordon Brown was a former colleague, a chief economist at the World Bank, Sanick Stearn. He was able to tell Gordon Brown to give me a chance to talk to him and make my case, which he did. I must admit that Gordon Brown was enormously helpful. Hilary Benn, the then Secretary of International Development, had worked with two of my former colleagues, who also explained that this is serious, and he was also very helpful. Also, at the Paris Club, there were people who also knew of one's record, and gave a chance to listen that this is a serious person so if she says that her country is going to do this, they will do it. So there was that element. I think the personal element was very helpful. But I think our ability to implement the reforms was a key success factor.

PAYING ARREARS

Another key element was being able to come up with innovative ideas. Till date, people still think it's a miracle that Nigeria got debt relief at a time of high oil prices. Part of how we were able to do it was not only convincing them, but also being willing to pay back the arrears that we owed. As is generally known, the Paris Club do not even begin to discuss debt relief if a country does not pay back its arrears. That's part of the whole thing. We owed \$6 billion in arrears that had accumulated so we had to pay that off. They became convinced when we paid the arrears.

UNPRECEDENTED DEBT WRITE-OFF

As a result of our efforts they wrote off 60% of the debt, which was \$18 billion. Regarding the balance, the President decided that, look, we don't even want to owe these people. So we came up with an innovative scheme to buy back the balance of that debt. And they did

something unprecedented which is one, allowing a low-income country to buy back its debt, which had never been done. This was the first time. Two, they allowed us a discount. Normally, when when they allow a middle income country to buy back its debt, you have to buy it at par, meaning that for each dollar you owe you have to pay back a dollar. In this case, they gave us a 25% discount, thereby enabling us to buy off the rest. That is how we spent \$6 billion for arrears, \$6.4 billion for the buy back and then \$12.4 billion went to them, they wrote-off \$18 billion and the \$30 billion we owed then disappeared off the books. It was a miraculous achievement I tell you.

ACBF: Do you think that the NEEDS program you put in place can be extrapolated for other sub-Saharan African countries to possibly reduce their debt?

Dr. Okonjo-Iweala: Absolutely! Actually we are at a good point now. Things have evolved on the continent. Almost all countries have received debt relief. They received it under another program supported by the donors and the World Bank, the International Monetary Fund (IMF) and the international community, called the Highly Indebted Poor Countries Program (HIPC). Under this initiative, most debts have all been written-off of eligible countries. There are a few countries on the continent that didn't fall into the HIPC category, just like Nigeria didn't fall into that category so we couldn't get our debt written-off. In that event we had to pursue another strategy. Other countries which did not fall under HIPC included Kenya, Lesotho and some other countries. There were mostly few middle-income countries on the continent. I believe they could pursue a similar strategy. I mean they can implement reform and put forward their own program. For a number of them, they have less debt stock than Nigeria. It is generally not easy but it is doable.

IMPLEMENT YOUR OWN REFORMS

Let me also add that implementation of the National Economic and Empowerment and Development Strategy was not just so we could get debt relief. That was not really the objective. The objective was that we needed to implement these reforms for Nigeria. I strongly recommend our approach of developing our own reform program to other countries so that people could see this is not being forced on them by IMF or the World Bank, but that these are reforms that they themselves need to embark on. This approach accords more ownership. This approach also addresses the problem of people going on demonstrations to accuse the IMF and World Bank for forcing a program on them. As in the case of Nigeria, they can then say that they are doing this because the country needs it. If it also provides a good basis for debt relief, then so be it. But we would have had to do this program anyway. So, I strongly recommend that approach.

IMF POLICY SUPPORT INSTRUMENT

One more thing. The NEEDS program became a new instrument at the IMF. We were able to argue to the IMF on its merits because the IMF had to endorse what we were doing so we could get the debt relief. We explained that this is a good way of doing business - allowing countries to make their own reform programs as long as they are strong or even stronger than what the IMF could get you to do, which was the case in Nigeria. The IMF recognize it as a valued program. Consequently, they named it the Policy Support Instrument, PSI, an instrument developed by a country that doesn't need access to IMF funds but only wants to implement reforms and get endorsements. So that's one more thing we were able to do in terms of breaking new ground.

ACBF: In your opinion, do other African Finance Ministers face challenges similar to what you faced in Nigeria as you sought to provide transparency and accountability in implementing financial and economic reforms?

Dr. Okonjo-Iweala: I would say so. In speaking to my fellow Finance Ministers at the time I was there and even now, yes they face similar challenges. And it's known that it's a tough job being a Finance Minister. Sometimes one has to say no, even to the highest level. There is always the challenge of guarding against excessive spending in order to control inflation. And you also don't want to open the room for people to be careless with the money. They are facing the same challenges but Finance Ministers in other developed countries also told me they face the same challenges. And you can see it. They also have to say no. Politicians typically want to spend isn't it? That's what you are there for - to show people you are spending for their benefit. Finance Ministers sometimes have to be in the uncomfortable seat of saying, yes we can spend because we need to improve the lives of our people, but we have to have limits about the spending and how we do it.

The other challenge is that in many African countries institutions are not well developed. Many of our processes for managing money and other things are not as clear. And there are not too many mechanisms to hold policy makers accountable and give people voice. So it becomes more of a challenge.

I really felt when I was in office that you know people would tell me that Nigerians don't like this, or Nigerians don't like that. And I would say how do you know? We didn't really have any objective measure. So that was why when I left office one of the things I did was to start an opinion research organization. You know, to be able to go to the people and ask for their views on policies and have their input and their voice, which you can then look at. However, I don't

believe that opinion research should lead policy because sometimes you have to do things that people don't like. You have to implement reforms that are not necessarily popular. But certainly they should inform policy so you know how to adjust it and be more responsive to your population. So that's another issue. You are doing these things, Finance Ministers are facing this. They need the voice of the people to make sure they are in the right direction and what they are doing is being supported.

ACBF: If you could go back and serve your country again, is there anything you would do differently when it comes to financial transparency and accountability?

Dr. Okonjo-Iweala: No, I would do more! When it comes to financial accountability and responsibility, I would do more. I would work harder with the States. I feel that we managed to implement reforms at the Federal level. But like I told you in Nigeria the State and Local governments spend 50% of the resources. And they have great independence and autonomy in the Constitution. regarding how they spend their share of national revenue. So the Federal government doesn't really have much to say about how they spend money. And this is something that was put in our Constitution. That means you really have to work collaboratively with the State Governors and the finance people there to make sure that some of the prudent policies are also followed at State level. That the accountability systems are also there... that they observe proper budget processes and that they observe transparency in their budget; and that they consult their State legislature. You know, because you have a level of government that is spending money and people don't really know what they are doing. And as you know we have had difficulty in our States, in Nigeria.

FISCAL RESPONSIBILITY

So what would I do? I would do more of the same by pushing the same policies at the State level. And I think that's what succeeding governments need to focus on as far as fiscal transparency issues are concerned. We actually do now have a fiscal responsibility Bill that we worked on, and which has been passed and signed into law and one of the issues is that, it's at the Federal level. So the States, I understand from the present Minister of Finance, that they have actually pledged to do their own State fiscal responsibility rules which will mirror the Federal one. And that one will require them to have proper budgets, to publish these budgets, to have audits, and to be fiscally responsible. And if we can get the States to do this it will be wonderful.

ACBF: Based on your experience at the World Bank and as former Finance Minister for Nigeria, what would you consider to be an unfinished agenda for economic and financial reforms in sub-Saharan Africa?

Dr. Okonjo-Iweala: First of all I think it is worth saying we have to notice the good news about sub-Saharan Africa now. The continent is growing at better than 5% and projections are for 7% growth in 2007-2008. This is wonderful! And we mustn't forget how good this is. Five six years ago people were not even thinking sub-Saharan Africa would begin to grow like this. The growth rate is still not enough to make the kinds of inroads to poverty we need. We really need to make the growth rate reach 8%. So the agenda is how do you drive for a sustained and higher growth rate? But the fact that we can do 6% and we are going onto 7%, to me is amazing.

So we have to look at what has been done to make this happen and do more and better. That's the unfinished agenda. Most countries

have managed to stabilize their economies, so this provides the framework within which you can then look at the different sectors, and look at what are the sources of growth in each economy. It will vary from one economy to the other. But I think that's what we need. And what are the constraints on this growth? Like in Nigeria, most country's big binding constraints is infrastructure. It's estimated that sub-Saharan Africa needs \$40 billion at the minimum for the next few years in order to develop infrastructure.

We need to get regional infrastructure, because many of our countries are land-locked and have no access to ports and so on to the sea. So we need to develop good roads and rail linking them so that they too can grow. So that's a huge challenge for the continent.

We also need to continue stabilizing the macro. It's not once it's stable you now throw up your hands and declare success. No, because the global environment and the regional environment in which economies operate is constantly changing. And in every economy all the policy makers must be on the alert, to see what is happening in the global environment, what is happening domestically, so you keep adjusting. So that has to continue.

ATTRACT INVESTMENT

Then we have to attract investment ... domestic investment. In some of our countries, we have resources that are not being properly invested, in creating employment. We also need to attract resources from outside, both from external investors as well as our own Diaspora. Many of them are doing very well outside and we can attract their money as well as their skills and technology and apply them. If we can work successfully on these things, in many of the sub-Saharan countries that would really make a difference.

GLOBAL TRADE ISSUES

Secondly, we also need to work on the global arena. There are some external policies that are also binding including trade issues. You know the Doha round; development round is not going well. Unless the developed countries can agree to substantially reduce the agricultural subsidies, to open up other avenues of trade, to look at labor migration issues, to look at intellectual property issues, to look at their cascading tariffs. We need to add value to our products. Many sub-Saharan African countries export primary commodities, and when we try to add value to it by processing, and we export that, it meets even higher tariffs. All that needs to be done away with so that markets can be open for our goods and services. So those are also external issues that need to be looked at.

ACBF: When it comes to foreign investment we seem to be getting a lot of Chinese investment coming in to sub-Saharan Africa... South East Asian investment, but do we need to be careful about the deals we are making with these countries, who we perceive as coming to invest and help us, when maybe there may be a different agenda?

ATTRACTING SOUTHERN HEMISPHERE INVESTMENT

First of all let me say, by and large I think it's a good thing to have other sources of capital coming into the continent. And if it's south-south, and not only Chinese, Indian and even Brazilian, South African (in the case of Nigeria a lot of the investment comes from South Africa, and Nigerians also invest in South Africa by the way) and other countries, but let's say we have these other sources of capital, I think it's a good thing. We shouldn't only be dependent. We should attract capital from where ever it is going to come competitively. And often people from the south, like China, South Africa, Brazil, have more appetite for risk.

WATCH OUT FOR NEW DEBT

Nevertheless, like you said we have to recognize that the investment is not pure altruism. They also have an agenda for themselves. And how we negotiate the support they give to us is crucial. African countries must not make the mistakes they made in the past of signing onto agreements that are not sustainable and which are not in their best interest. I think we will only have ourselves to blame this time if we end up with another pile of debt... maybe not owed to the West this time but to some other fellow developing countries or emerging markets.

TRANSPARENT QUID-PRO-QUO AGREEMENTS

So yes, we have to know that they are sitting across the table expecting to get things from us, be it natural resources. When you make those agreements, try to make them as transparent as possible. That is, sometimes you can say we will get these natural resources, in exchange we will build you a railway or a road. You can do that, but you have to do the proper calculation. All these things can be quantified. And see whether you are really getting a fair deal? Does that road, the benefits from that match up to the benefits stream they would be getting from the natural resources. Quantify that and make sure the rate of return for you, as a country, is good. Make sure you don't take on huge debt, because it would be a pity to have debt written-off and then re-accumulate them to another set of countries. So I totally agree.

MORAL OBLIGATION

I also believe that China needs to have, obviously, responsible policies in its investment. And you know if a country is oppressing its own people... is not treating its population properly, it's proper to ask yourself a few questions. What I'm doing, is it really in the best interest of the people or not? And if the answer is no then you can use, I'm not saying don't invest, but

you can use some of that clout to say look, why don't you treat your people better, why don't you be more straight forward. So I think the investors have an obligation, but we as Africans have the primary obligation to ourselves to make sure we negotiate sound agreements that don't get us back into debt and deliver for our people.

ACBF: You have reached high places. You've been at the World Bank for more than 20 years, first female Finance Minister of Nigeria; you are going back to the World Bank in another high position. Was it difficult as a woman to be taken seriously by your colleagues?

Dr. Okonjo-Iweala: Well, I think women face challenges everywhere. It's not always easy to juggle everything. But my belief is this, I have to say yes, some how you have to meet a higher threshold. I definitely felt that I had to work harder to be heard. And work harder to show that the substance was there. But my belief is that once you do that, when you focus people on the substance of what you are doing, they tend to then forget your gender, your color and all that. So that's what I tried to do, to focus people on the substance.

ROLE MODEL FOR AFRICAN WOMEN

I think when I was Finance Minister ... of course when my male colleagues saw that I knew what I was doing and I focused on the work ... you know I really felt the best thing I can do for Nigerian women or African women, or women in general, was to be the best Finance Minister I could be. And that's what I did. You know I said if I do this it will become automatic that a woman can be asked just as a man can be asked, it's no longer a special thing. In-fact after I left another woman was appointed to such high position. Women have been put in

other positions and I think that that's a good thing.

But yes, you have to work hard. And I think women need to know this and they need to be very very serious. When they are given a position of authority they have to focus and deliver for the sake of the younger women coming behind so that they can have an easier time of it.

PRIVILEGE TO SERVE MY COUNTRY

I must say that I feel very privileged to have served my country. It's not everybody who is given that chance to be able to give something back. And I was given that chance. And I consider it a high honor. It was a rough job. It was tough. And I have to say, the now Prime Minister of the United Kingdom, Gordon Brown was once joking and he said Finance Ministers have a very short life. That he had actually calculated that the average life was two years and by then I had stayed three, so he said, "You've joined the ranks of the ancients." You know it's not an easy job. But as a woman, you know, you can deliver.

GIVE WOMEN A CHANCE AT POLICY MAKING

Can I say something ... I'm very impressed by Nigerian women ... their capability, their versatility, their seriousness in doing the things they are doing. They are in all sectors. And African women, they work very hard, so I don't even feel ... I feel there were so many other women who were also achieving at very high levels on the continent, and we need to give them more of a chance at policy making levels because they are really serious people who focus on results. So I'm a fan of women doing things as you can see.

ACBF: You're leaving the Brookings Institute and going back to the Bank, what do you hope to achieve?

Dr. Okonjo-Iweala: Well, I feel I'm going back to the Bank, and this is partly why I said I would go back, because I was actually having fun doing the things I was doing here and in the private sector ... I said I would do it because Bob Zoelick, the new President is someone who has a vision, drive and openness to new ways of doing business for the Bank. And I think that that will be very crucial and fun that now in the context of not only African countries, but developing countries, the poorer developing countries, be they in South Asia, East Asia, Latin America, in the context of the new global environment and the new way that they are improving their economies, it would be important for the World Bank to find new instruments for helping them. There is a lot of liquidity that can be tapped from the capital markets. How can the World Bank in addition to its own resources, bring in partners from the private sector, the foundations which have enormous resources, and harness them using the knowledge it has to help these countries develop?

PRIVATE INVESTMENT AND JOB CREATION

How can we encourage private sector companies to have more appetite for risk so that they can invest in these countries and create jobs? The big thing is job creation. When people have a job they can take care of their children's education. They can take care of their health. We need to empower people to have jobs. So how can the World Bank work with investors to help them manage risk, to make them feel comfortable to go and invest. All these are new things. How can countries get rewarded for doing the right things for people ... I mean or policy makers or leaders. Not rewarded, but how can they be better assisted to focus on proper governance of their countries. Because at the end of the day it's not really a World Bank

that is going to come in to develop our countries for us. We have to develop ourselves. But the key is, how can you use the World Bank productively to do this?

And Bob Zoelick is a leader who is really focused on these issues. So I hope to work with him on these issues and start removing some of these obstacles and using these approaches. And that's what is exciting for me, not just in Africa, but also in South Asia, for which I have over-sight, in Europe and Central Asia.

ACBF: Are there things that you have learned from first your 20 years of being at the World Bank, then going to work for government in Nigeria, now you are going back to the World Bank ... has it changed your perspective of how things can be done before and after you went into the government?

Dr. Okonjo-Iweala: Absolutely! I think first of all, from taking experiences from the World Bank, I think that was very important. I really had a good exposure by working across continents. I worked on Asia, Middle East, Africa, across the world. And in each of these places we were able to see how did Malaysia develop? What did they do right? What is China doing right? You know, how can we look at these and transfer some of these practices to our country. I brought back a lot of that experience to what we did. I saw that the East Asian countries do their own thinking, put forward their own programs, and then they know how to use the international institutions very well.

And I saw that part of the problem we had on the African continent was that many times people were coming in, telling us how to think, what to do, how to solve our problems. And that's why programs never lasted. So I brought back that experience and it was very helpful. And I was very proud that I had been able to have that experience at the World Bank. People used to say, "oh World Bank person", and I would say "yes, because I have learned this."

THE WORLD BANK MUST LISTEN

Now coming to government I also learned a lot that I think the World Bank needs to know to change its way of doing business. And that is the World Bank has to be faster in the way it delivers. You know problems in the real world can't wait sometime. You need to really be faster if you are bringing a program in. So how can we improve processes, so that our average processing time can match-up some of the critical speed needed in the countries.

Second, how can we get World Bank staff to listen even more? I think it has improved, from the time when I was a young economist in the Bank. The Bank now has many country offices, and senior people in those offices. So they are on the ground. But I think there is still work to be done in getting a more listening Bank that is giving the country a chance to do its own home work and then coming back and saying this is how we need you. Sometimes there's impatience and they say let's craft a program, they don't have the capacity to do it. But sometimes you have to let countries do it their way and then come in and help them. We have to be quick. Sometimes a President needs help now. You know, and can't afford to wait three years because the political cycle can be short. Maybe by the time you get that help, that person is on their way out. So you need to be able to support policy-makers, and governments and people who are doing the right thing, those who are reforming, those who are managing their countries, fast so their population can feel

the impact during their political cycle.

The last thing is new instruments. I mentioned that before. Bringing the fact that countries are now in a new global environment, former instruments we had will not be enough. The World Bank needs to be involved in new ways and approaches to tap what is out there and bring it to the countries. Because some of them are so small, they cannot tap the new sources of finance, they cannot tap the new sources of expertise for themselves. So, bringing that realization back to the Bank I think is also one of the things I've learned. So it's been good. I'm taking things back, and you know I am also learning as I go along.

One of the things I learned was that I worked with the private sector for the first time this year. Myself personally, and it was a personal journey so I could also learn.

v. CONCLUSION

I just want to say that this trying to learn from experiences is a good program. It would have been nice if I had been able to listen to some other people's experiences. I did have the benefit of talking to people, policy makers, who had done reform in Brazil. And that helped a lot. And I think it's a good thing to exchange, to learn the problems of others and if the African Capacity Building Foundation (ACBF) can help make this happen I think it's a marvelous thing.

The African Capacity Building Foundation

ACBF is Africa's premier institution in Capacity Building. Established in February 1991, ACBF is the outcome of collaboration between African governments and the international donor community. The major sponsoring agencies of the Foundation are the African Development Bank (AfDB), the United Nations Development Programme (UNDP) and the World Bank. The International Monetary Fund (IMF) became a member of ACBF in 2002. The African Union is an Honorary Member.

ACBF's mission is to build sustainable human and institutional capacity for sustainable growth, poverty reduction and good governance in Africa. The Foundation intervenes in six core competency areas, namely, economic policy analysis and management, financial management and accountability, strengthening and monitoring of national statistics, public administration and management, strengthening of the policy analysis capacity of national parliaments, professionalization of the voices of the private sector and civil society.

Besides intervening directly in the area of capacity development, ACBF also provides a platform for consultation, dialogue, cooperation as well as information and knowledge sharing amongst development stakeholders and partners across the African continent.

The Foundation is present in some 44 sub-Saharan African countries and has committed more than US\$350 million to interventions in capacity development since its inception.

IN THIS SERIES

Eveline Herfkens (2008) *Africa and Development Assistance Cooperation: Successes, Pitfalls and Areas for further Reforms*. ACBF DMS/001 (June)

Vijay S. Makhan (2009) *Making Regional Integration Work in Africa: A Reflection on Strategies and Institutional Requirements*. ACBF DMS/002 (July)

Kristina Svensson (2010) *The Future of Bilateral Aid in Africa: Size, Flow, Conditionalities and Relative Importance in Countries' Budget*. ACBF DMS/003 (February)

Callisto Madavo (2010) *The World Bank and Sub-Saharan Africa: The Next Policy Paradigm*. ACBF DMS/004 (June)

Sten Rylander (2010) *Governance and Transformative Leadership in Africa: Progress, Prospects and Challenges*. ACBF DMS/005 (September)



THE AFRICAN CAPACITY BUILDING FOUNDATION | FONDATION POUR LE RENFORCEMENT DES CAPACITES EN AFRIQUE

Building Sustainable Capacity for Poverty Reduction in Africa
Renforcer durablement les capacités pour réduire la pauvreté en Afrique

The African Capacity Building Foundation
7th Floor, ZB Life Towers
Cnr. Jason Moyo Avenue/Sam Nujoma Street
P.O. Box 1562
Harare, ZIMBABWE
Tel: 702931/2, 790398/9, 700208, 700210/11
Fax: 702915, 700215, 792894
Email: root@acbf-pact.org
Web site: www.acbf-pact.org

ISBN: 978-1-77937-026-6
EAN: 9781779370266

This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>