CSEA
Avoiding the resource curse

The *Centre for the Study of the Economies of Africa* (CSEA) made sound research essential to the government's handling of Nigeria's oil boom and fiscal crisis.

SETTING THE SCENE —Around 80 percent of Nigeria's public revenues come from oil, leaving the government dependent on a highly volatile income stream. In such oil-dependent countries, public expenditures tend to reflect the booms and busts of the oil market. This can create a 'resource curse' that leads to indebtedness, inflation, and weak growth rates – all of which Nigeria suffered following decades of income and expenditure volatility.

In order to guard against this resource curse, the country needed to translate oil wealth into long-term economic gains. Following failed attempts to accomplish this, as well as the 2008 fiscal crisis, the government's search for a better solution led it to consider creating a sovereign wealth fund (SWF). An SWF is a government-owned investment tool for investing surplus revenues in assets that promise high risk-adjusted returns in financial markets. This is where the Centre for the Study of the Economies of Africa (CSEA) got involved.

WHAT CSEA DID —CSEA supported the idea of creating an SWF and played an essential part in highlighting the need for the government to use research effectively in implementing these reforms. CSEA's research showed that creating an SWF in Nigeria would promote transparency in managing oil revenues and also enhance social equity. The think tank took on an unprecedented role during this process, especially given that Nigeria doesn't have a history of collaboration between researchers and policymakers. Historically, research has been conducted in universities and research outputs tend to cater to academic agendas; as such, policymakers in Nigeria have not typically relied on this type of evidence.

CSEA recognized that targeted dissemination of evidence is important if successful changes are to be made in the way policies are designed and implemented in Nigeria. It set out to promote a culture of evidence-based policymaking in order to ensure that government policies and strategies are informed by high-quality research. The think tank published and shared an important

policy paper entitled *Should Nigeria Establish a Sovereign Wealth Fund?*[1] This paper discusses the underlying issues of oil revenue management, the policy choices, and SWF implementation issues, while outlining how Nigeria might benefit from an SWF if there is an appropriate accompanying governance structure. CSEA also organized a policy dialogue in 2009, which featured debates between various stakeholders, including policymakers, media, and civil society organizations, on the usefulness of an SWF for Nigeria.

THE OUTCOME —CSEA's research on the SWF sparked huge national interest in, and debate on, oil revenue management. This culminated in the establishment of a Nigerian Sovereign Investment Authority in 2011 with the mandate to manage Nigeria's Future Generations Fund, the Stabilization Fund, and the Nigeria Infrastructure Fund. The creation of an SWF should address Nigeria's historical problems with the resource curse by saving oil revenues for future use, facilitating investment in infrastructure development, and providing stabilization support to minimize volatile public expenditures.

Oil revenue management is a strong example of how CSEA's work served to bridge the gap between research and policy. CSEA's involvement led to an improved understanding of the usefulness of a broad-based approach to governance, which encouraged the use of inputs and research findings from think tanks and civil society organizations in the policymaking process. This change marks a modest movement among policymakers toward relying on research-based evidence when making policy decisions.

[1] *Katz, M. & C. Ojong (2009). Should Nigeria Establish a Sovereign Wealth Fund? Centre for the Study of the Economies of Africa, Working Paper No. 3.*

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