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Nigeria must wake up to the changing role of state governments

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Nigeria needs to review existing structures to drive growth. xtock/Shutterstock

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There have been sustained efforts to diversify Nigeria's economy since the country returned to democratic civilian rule in 1999. Successive governments have made foreign direct investment a priority to achieve this aim.

Originally, the organised private sector was intended as the primary driver of investment-led economic reforms. But, in the process, the policy space was inadvertently opened up for state governments. Nigeria has three constitutionally recognised levels of government. These are the federal government, 36 state governments and 774 local governments. Each level of government has defined powers under the constitution. States are not meant to engage in foreign economic relations.

However, successive economic reforms have given impetus to Nigerian states to grow in stature as gatekeepers to foreign direct investment. It's now common to hear of states introducing specialised agencies to facilitate and coordinate investment inflows. Examples include the Kaduna State Investment Promotion Agency, the Lagos Office of Overseas Affairs and Investment and the Anambra State Investment Promotion and Protection Agency.

Some states have also floated development focused corporate entities in which they have controlling stakes. A recent example is the Development Agenda for Western Nigeria Commission. This was set up by the six state governments in Nigeria's South-West. They are pursuing a regional economic integration strategy.

All these initiatives invariably lead to foreign entities including diplomatic envoys, multinational companies and international organisations getting directly involved at state level.

The emerging practice is an interesting example of bottom-up economic development. However, the current state of affairs isn't optimal. This is because having states all pursuing separate deals and arrangements makes central coordination problematic. If coordination is weak, there's the potential for unnecessary duplication of processes and institutions. This in turn would have a knock-on effect on the ease of doing business in Nigeria.

There are also constitutional questions over the legality of agreements which Nigeria's state governments have signed with foreign entities. If left unchecked, these could expose the Nigerian state to legal claims by foreign investors. And there's a question mark over the constitutional status of states opening foreign offices, as Bayelsa state did in 2013. On the face of it, this was unconstitutional. States in Nigeria don't have constitutional powers to operate quasi-diplomatic offices.

The trend of decentralised economic development has striking similarities with how things worked in the first Nigerian Republic, from 1960 to 1966. Regional governments in this era had constitutional authority to participate in Nigeria's foreign economic engagements.

An example was the control of commodity boards by states (then regions). Surplus from levies imposed on export commodities was a vital source of funds for economic development in the respective regions.

Given this history it's not surprising that states today are keen to take control of foreign investment inflows to fund their economic development objectives.

Why action is needed

No constitutional disputes have been raised between the federal government and the states. This can be taken as tacit acceptance of these emerging practices by states. Alternatively, the federal government prefers to deal with any fall-out on an ad hoc basis. This would make sense, given the benefits that can accrue from the arrangements.

But those responsible for Nigeria's economic development policy coordination need to wake up to the changing realities of the times. Other federal systems have been proactive in restructuring the cooperation mechanisms for foreign relations. These include the US, Canada, Belgium, Argentina, Austria, and Germany.

These countries have recognised the need to adjust their existing regime to catch up with an emerging reality about sub-national governments – like states. These groupings are critical stakeholders in the 21st-century global economy.

In Nigeria, meanwhile, there's little evidence that states going abroad is viewed as a matter of urgency. It's time it was.

Time to review

The emergence of states as gatekeepers of Nigeria's investment-led economic reforms demonstrates the dynamic nature of federalism. States have already carved out the autonomy they need to determine the pace of their economic development. And they have done so with no formal constitutional changes.

Now the federal government must realise that it's no longer the sole determinant of Nigeria's foreign economic policy. It would be both impossible and undesirable to try and reverse the trend.

Instead, there's an urgent need to review existing arrangements for cooperation. These reviews must happen at the constitutional and institutional levels. The aim should be to maximise the benefits of the drive and impetus that states are bringing to the Nigerian economic reform agenda.

Nigeria stands to benefit immensely if states drive economic development. But effective coordination is critical.

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