Oral History Program | Series: Governance Traps
Interview no.: H7

Interviewee: Obadiah Mailafia
Interviewer: Itumeleng Makgetla
Date of Interview: 28 August 2009
Location: Abuja
   Nigeria
MAKGETLA: My name is Itumeleng Makgetia, and we’re in Abuja, Nigeria. It is the 28th of August 2009 and I am here with Dr. Obadiah Mailafia who was the Deputy General of the Central Bank of Nigeria from 2005 until 2007, and is currently the Founder and Director for the Center for Policy and Economic Research (CEPER).

MAILAFIA: Yes.

MAKGETLA: Thank you for participating in this set of interviews with reform leaders.

MAILAFIA: Thank you Tumi. It is a great pleasure to meet with you and to be able to engage in this fascinating discussion and conversation.

MAKGETLA: Thank you. Before we begin, can I just ask you to confirm that I’ve been able to answer any questions you had and that you are aware that this is a voluntary interview.

MAILAFIA: Of course, we have discussed that and I am more than happy to converse with you on this.

MAKGETLA: Thank you. So as we begin, perhaps you could just give me a brief overview of your career and how you came to be the Deputy Governor at the Central Bank of Nigeria.

MAILAFIA: Actually, I graduated from Ahmadu Bello University in Zaria. I studied economics, politics and sociology, and received a combined honors social sciences degree. I also did a Master’s degree at the same university in International Studies. Then I went to France to the Institut International d’Administration Publique, which is the external wing of l’École Nationale d’Administration, or ENA, the famous French school of administration. I studied economics there, in French, not in English. You would recall that nearly all of France’s post-war leaders, barring the likes of Francois Mitterrand and Nicolas Sarkozy, were all trained at ENA. Then I went to Oriel College, Oxford, where I did a PhD specializing in Economic Development/International Relations. My thesis examined EU projects in central Africa, mostly Zambia.

I taught in England at the American University, briefly and at Regent’s Business School London before joining the African Development Bank where I served in Côte d’Ivoire, and then moved to Tunis, because the bank had moved there by 2003. Out of the blue, the government invited me to come back home to become Deputy Governor of the Central Bank. It was quite a big decision I had to make. In the end, I took the big step of returning to serve my country. It was quite a challenge, as I was to discover.

MAKGETLA: I look forward to hearing more about those challenges. When you think back to those earliest days of the reform period that you helped to initiate, what did you perceive as the major issues or challenges that were priorities for you to address in your role as Deputy Governor?

MAILAFIA: Well, the Nigerian economy was a bundle of paradoxes—the paradox of poverty in the midst of plenty. A paradox of very competent people with such a very underperforming economy and government, hyperinflation, unemployment, high interest rates, and unstable and generally very repressed exchange rates regime. All sorts of things, a very, very bad-banking environment in which you couldn’t be
sure that your money would be safe even in the bank. These were the scenarios, all very unhappy ones. Our job was to sanitize the system and to sort out this mess, to have a sound economy financial system and get things back into shape.

MAILAFIA: Okay, so where were we?

MAKGETLA: You were discussing the major issues or challenges that were priorities for you.

MAILAFIA: Absolutely. Our job in the Central Bank obviously was to help re-define the policy agenda. As you know, any central bank in an emerging economy is expected to fulfill a number of objectives: the first one is price stability; ensuring that you control inflation. We set a target of single-digit inflation. The second objective of government of the central bank is to be an advisor to the government, to be a financial advisor to the government, to advise them of public expenditure, and to advise them of prudence in managing national resources. The third objective obviously is that of ensuring financial stability, stability of the banking system, stability of capital markets, and so on. The final objective, of course, is that of promoting growth as well as development of the country. These were the objectives that we wanted to reaffirm and to pursue. In some areas we succeeded, in some areas we did not quite succeed.

MAKGETLA: Did anything make you think at the time that you were appointed to the post that the time was right or ripe for change?

MAILAFIA: Oh yes, I had that feeling. It was quite ecstatic, magical. Because if I'd lobbied for it, probably the joy of it wouldn't have been so much, but it just came out of the blue, it tumbled on my lap. To come home, come back, and serve the country as Deputy Governor of Central Bank—it is a position of high honor in any country, in Nigeria particularly. It was a time when democracy was beginning to take firm root in our national system. People had blamed the Olusegun Obasanjo administration for under-performing during the first four years from 1999 to 2003. Nothing was happening. He was basically trying to launder Nigeria’s image abroad. He was all over the world trying to let people know that Nigerians were not such ugly people, and that the world should give us a chance and should support us in those areas that need external support. To some extent, you could say that that diplomacy also succeeded.

But then people were saying, “Well, you’ve already done the diplomacy, now sit down and deliver.” I came at that point in time, so for me it was very exciting, indeed. I felt it was the right moment.

MAKGETLA: Were there any preexisting strategies or programs that you could continue or revive, or another country’s approach from which you could draw lessons or guidance?

MAILAFIA: I would say both. The NEEDS (National Economic Empowerment Development Strategy) program had just been launched and also could learn a lot from other countries. Most Nigerians would make references to Malaysia, to Singapore and
even to South African GEAR—the GEAR (Growth, Employment and Redistribution) program in South Africa, which I read through and through. I believed that we could learn from some of the things that they did well in South Africa, and also learn from some of the mistakes. For us, there were many lessons to be learned from outside the country, but also from within. Indeed, some programs had already been laid out. Some we had to devise ourselves. That was the situation.

MAILAFIA: You participated in a number of important changes in your position.

MAILAFIA: I would say banking consolidation—the consolidation of the banking system. That was number one. The second one was the policy support instrument (PSI), which was launched with the backing of the IMF (International Monetary Fund). It was very unique to Nigeria. The third one was the negotiation of the debt relief. I signed the first check—how much was this—if I recall correctly, it was about $7.5 billion. Have you ever signed a check for $7.5 billion?

MAILAFIA: Neither had I before then. To be honest with you, I caught fever after signing that check. I said, “Oh my God, I probably have sold the country!” It was extraordinary. But we had to carry out that process in order to save the country from the problem of an external indebtedness, which was beginning to take the shape of debt peonage. We negotiated ourselves out of the Paris Club. That was a wonderful experience. So, yes, those were some of the reforms. We could go into more detail on each of them, maybe starting with banking consolidation.

MAILAFIA: Nigeria then had almost a hundred banks, many of them with very dubious standards. Some were on the verge of collapsing; some had very serious management and financial problems. A few were engaged in money laundering activities. Some were strapped in terms of liquidity; cash strapped. Some were not behaving as banks at all. It became absolutely necessary to undertake major reforms of the banking sector.

MAILAFIA: With new management we decided to launch the banking consolidation exercise, which I think in the end was quite successful. Before then, the banks needed to have—in a capital base of only 2 billion; we raised it to 25 billion, from 2 billion naira to 25 billion naira. Of course it was a shock for most bankers. They couldn't believe it. Many of them placed ads in newspapers threatening and crying. They believed that all hell would be let loose. Some said, “It's impossible, it can’t happen.” We faced massive resistance. It affected some of the most powerful people in the land, some people that you couldn't touch. We were faced with personal threats, direct personal threats to our lives.

MAILAFIA: I remember the case of the former Governor, Professor (Charles) Soludo—while he was abroad, his parents were attacked and left for dead.

MAILAFIA: Really?
MAILAFIA: Yes, yes. I was Acting Governor at the time and had to look after his parents in hospital until he came back. Those were the kinds of threats we faced. All of us had to get police to protect our parents, protect our families, it was that bad. But in the end it worked, it worked mainly because we stuck to each other as a team and we worked very, very hard. We were very meticulous and we kept ourselves above board, by and large. We also had political support. Obasanjo had his own share of human frailties, but on the matter of banking consolidation he stood firmly behind us and sort of deflected all the missiles that were aimed at him and at us because of banking consolidation. In the end, some of the banks had to go under, and some had to merge. We now have 25 very solid banks and it was a remarkable, remarkable experience.

MAKGETLA: Can you walk me through the steps of that reform? I understand that some adjustments were made in the process to accommodate banks that perhaps had fears that—there were depositors who had fears about what would happen to their deposits if the banks were liquidated. Perhaps you could take me through when it was initialized. What support did you have to get to mobilize—to get the reform passed, to get the legislation passed? Could you just take me through those steps?

MAILAFIA: Actually, in May 2004, when Professor Charles Chukwuma Soludo was appointed Governor, he made it clear that one of his priorities would be reform of the banking sector. Now we had to get a team of consultants to carry out a study to assess the situation, the strength and viability of the banking system as a whole. Within the Central Bank we also carried out a number of verification exercises to find out the cash balances of these financial entities, to find out their status, and to find out how good were their shareholders funds, depositors—the whole financial strength of the company.

Having done that we were able to reach a correct assessment of which banks were good and which were really not good. With that information we spoke to the National Assembly and we spoke to the President. There was no need for any new legislation in order to carry that process out because the CBN (Central Bank of Nigeria) Act was very clear in giving us responsibility for ensuring financial stability, including stability of the banking system.

What was needed mostly was lobbying and diplomacy to get a buy-in in terms of—. [Phone interruption]

Then having done that, we announced the policy. We called a meeting of the Bankers’ Committee—the Bankers’ Committee is where we meet with all the banks’ Chief Executives. After extensive discussion told them that this is the decision, we are taking it in the interest of the country, and the interest of the banking profession and the banking business as a whole. Of course, the reaction was very, very strong. There was very fierce opposition. Some said it was not possible, it can’t happen. We looked at it and said, “Look, this is the new scenario and this is the new policy.”

MAKGETLA: Did you try to negotiate directly with the bankers who were concerned? Did you make these messages through the media? How did you engage that?

MAILAFIA: Some went to the media and we also had to do some of the media work ourselves. We laid out our reasons and our rationale for this, but we were careful not to be seen to be running a Central Bank on the pages of newspapers. That
can be counterproductive. But we tried to do a lot of political work—we stepped up within the CBN the public relations department and increased their role in responding to questions, responding to queries from bankers and from members of the public. That helped quite a lot.

MAKGETLA: You talked to bankers who were concerned directly or how did you manage that issue?

MAILAFIA: We spoke to them, but unfortunately Central Banks are not extremely polite to bankers. It’s the nature of the job. We were, I think, sufficiently gracious. We were sufficiently forthcoming in explaining the rationale of the whole thing, but then we had to draw the line so it was clear that these were the new directives and they had to comply. At the end of the day, it’s the only way to do it.

MAKGETLA: Were there any unforeseen obstacles as you went forward with this reform?

MAILAFIA: Were there any obstacles—?

MAKGETLA: That you didn’t anticipate or that emerged as significant problems?

MAILAFIA: There were many obstacles and they were mostly political. A lot of pressure was being put by bigwigs to stop it, to stop the reforms. There were direct threats, as I said earlier, to us individually and collectively, and to our families. We simply had to take extra precautions. We knew that we were up against some of the most powerful people in the land and we understood that it wasn’t going to be easy at all. So yes, there were lots of obstacles. But again, what helped was the kind of support we received from President Obasanjo and also from the National Assembly. At the end of the day, they understood that this needed to be done in the interest of the system as a whole. They were ready to work with us.

MAKGETLA: You mentioned a second important change was the policy support instrument. Can you tell me more about that?

MAILAFIA: The policy support instrument was a three-year program, actually a two-year program that was brought by—it was designed within our country, within Nigeria. It was very unique. In fact, Nigeria is probably the only country that had ever had one.

MAKGETLA: Can you describe more about it?

MAILAFIA: Yes, the function of the policy support instrument is a package of reforms that was agreed to, designed internally, but agreed upon with the IMF and the World Bank, and they would supervise and mutually agree on progress in its implementation. This instrument was designed for a country like Nigeria that did not want to subscribe to IMF standby loans, or adjustment loans, or stabilization loans, but still needed official imprimatur of the IMF—still needed the approval of the IMF for the sake of the credibility for national policies. We agreed on this package of reforms covering several area: reduction of subsidies, public subsidies, removal of exchange controls, a market-determined interest rate, the foreign exchange, liberalization of the foreign exchange market, and so on and so forth, as sort of structural benchmarks including tort reform of the courts. It was a whole package.
We agreed to it because we were having a lot of money coming in. Oil prices were good. We needed those reforms and we needed the approval of the IMF. I wanted to work with the IMF, but we did not want IMF loans because it is not politically acceptable to most Nigerians. But, we still needed that cooperation with them. It was a win-win situation for us. The IMF felt they were involved in what we were doing, and we felt we were having the cooperation and the support of the IMF, but without incurring the wrath of our people by taking loans from the IMF. So, it was a win-win for everyone and in the end it was quite successful.

At the last count, I know that countries like Tanzania, Uganda, even Ghana wanted to experiment with the Policy Support Instrument. But it can’t work unless a country is sufficiently flush with foreign reserves, before it can do that sort of experiment.

MAILAFIA: Was this something that the Central Bank did alone, or were there representatives from other ministries affected—?

MAILAFIA: It was done with the Ministry of Finance mostly, jointly.

MAKGETLA: Was there any opposition to this decision to develop this instrument?

MAILAFIA: No, I don’t think so. I don’t think there was any opposition. I think it was a very successful experiment. There were tensions. We deferred to the IMF for interpretation of certain trends; we differed with them on certain figures and the sources of reliability of some of the statistics that we used. There were massive challenges, capacity challenges, especially in the Central Bank. In the department we were heading, some of the data being generated turned out not to be very reliable. With the benefit of hindsight, one would not rule out sabotage from within the body of staff. We had capacity issues, in terms of the IT systems that we were operating, because we needed to link up all the banks so that on a daily basis we can really have a view of the liquidity position of all the banks. Many of the banks didn’t like that. They found one reason or another not to be part of the system, so it was tough going. It was tough going.

Of course, the IMF wasn’t particularly happy about some of these things, but in the end I think we straightened out many of our ways and ultimately, I think it was quite a success.

MAILAFIA: Yes, there were legal sanctions. But the sanctions sometimes didn’t quite work because they were prepared to pay the sanctions and break the law. It seemed cheaper for some of them to break the law than to do the right thing.

MAILAFIA: We had to sit down with them. We had to put the fear of God in them. We had to do a lot of things. In the end, I think it became much better.

MAKGETLA: The third area of reform that you discussed was negotiating debt relief and exiting the Paris Club. Can you tell me more about that process, about the steps that occurred for that reform to be implemented?
MAILAFIA: This initiative actually started with the Ministry of Finance rather than the Central Bank, but of course they needed the Central Bank to complete the process. Up to that time, our debts totaled around 38 billion US dollars. We needed to go off that because we were paying up to 4 billion (US$) dollars a year on debt service alone. It is very curious how Nigerian debt has built up since '79. In that year, for a very strange reason, the military government took up a loan of one billion dollars at a time when, in fact, there was a second oil boom and Nigeria was actually in a position to loan a billion dollars to any country. The military just incurred a loan without explaining any purpose to it and they incurred it under variable interest rates, market interest rates.

Now succeeding governments kept on borrowing and borrowing from the fund, from the World Bank, from bilateral partners, and so on and so forth. At some stage this loan totaled about 10 billion. During the (Sani) Abacha era, many of them stopped—the Nigerian government stopped paying some of the loans and the interest kept multiplying. Before we knew it, in the ‘90s, our debt had gone to over 40 billion. By 2004, 2005, this loan stood at about 38 billion dollars.

Now we have taken a political decision that we wanted to free our country from this kind of debt peonage. Number one, we were paying off something like 4 billion annually for debt servicing, it was not even on the capital. You could go on paying that forever and ever. We had to make a decision to sacrifice and pay off. It was tough. Ngozi Okonjo-Iweala had come in as a consultant to work on setting up a debt management office and did that remarkably well. I think it was on that basis, that Obasanjo was impressed with her enough to make her Minister of Finance. She was the driver of this process. She had been in the World Bank, she was a World Bank young professional, and she understood the system. She understood how things worked and put her reputation on the line.

Luckily for her and for us, she was well known and she was well respected by the international development community. When she led these negotiations, it was very, very tough. The first thing that we had to do was verify the true status of our debts, and we had to verify that mainly through the central bank. It was curious in the sense that there were aspects in which there was no real evidence of debts incurred. Now, you can imagine the curious situation where you go to a putative creditor, and ask him or her, “By the way, please could you tell me how much I owe you?” That sort of thing. In principle, they could quote any figure they liked.

There were a couple of those kinds of things that were very worrying, but in the end, it was through bargaining, through cross-checking, that we arrived at the true position, a fairly accurate position of our debt at 38 billion dollars.

Having passed through that stage, the next stage then was to go through a series of negotiations. Several of those negotiations—the debt management office, which was then run by Mansur Muhtar who is currently the Minister of Finance, he was head of the debt management office and had to travel all over the world with members of his staff to verify some of the figures, and so on and so forth. Then of course, there were a series of negotiations with the government, with the Paris Club members in Paris, and the negotiations were very, very tough. They went sometimes into the wee hours, 2 o’clock, 3 o’clock, 4 o’clock and it was very tough. But in the end, we had very strong backing from Britain.

Gordon Brown, who was the Chancellor, stood very strongly behind Nigeria and supported Nigeria. In the end, it was agreed that we would pay 13 billion dollars
in cash, in direct cash, in exchange for the forgiveness of the bulk of our debt. It worked and it was very successful, but I don’t think some of the countries were altogether happy, some of the smaller European countries like Holland, Denmark and so on. For them, their power and their influence over a country the size of Nigeria existed simply because they felt we owed them money; they could call the shots here for that reason. So, they really didn’t want to give up that power but at the end of the day, they had no choice.

Before we knew it, Nigeria was now a debt-free country. Like I said, I signed the first check. It was tough. It was not easy. I caught a fever immediately after signing the check. I said, “Oh my God, I sold the country.” It is one thing to sign a check of 7 million, but 7.5 billion is something else altogether. That was the first tranche and then the second tranche came a few months later.

MAKGETLA: Was it important for your institution to build a public constituency for its reform and if so, what steps did it take to do that?

MAILAFIA: Well, indeed it was necessary. There were two very important groups. One of them was called Corporate Nigeria, which is a movement of bankers, industrialists, and business people who used to meet and have dinners together and discuss the reforms. We received backing from that group and that was very important. Then, there is also the Nigerian Economic Summit Group (NESG), which is another movement. NESG holds an annual summit on the economy and their support for the reforms were very critical. They pointed at areas that still needed change, and so on and so forth. It was very important for us to get feedback from these kinds of organized groups—well educated, very professional—to get their buy-in for these reforms. They kept us on our feet and they kept us balanced in terms of understanding how these reforms were impacting society.

MAKGETLA: What was the nature of that engagement? Did you ever sort of give them an issue that you wanted them to thrash out and discuss, or was it more that they would raise issues that you would accept as feedback from important stakeholders?

MAILAFIA: It was more the latter. They would have a free hand to raise issues. They would bring up topics for discussion for their evening dinners, seminars and lectures during dinners. They would do that. Then we would engage with them and discuss it, thrashing out the issues.

MAKGETLA: You mentioned earlier on, especially around the banking consolidation exercise, that you had to beef up your PR section.

MAILAFIA: Yes.

MAKGETLA: Can you describe how you did that? Also, some people talk of the civil service as being reluctant to share information, that it can be a very secretive organization. Did you have to take any other steps to ensure that the PR office would have access to the necessary information to be more open to the public?

MAILAFIA: Well, yes. We got some of the best economists within the bank, gave them some orientation, and created a corporate affairs department where on a regular basis they would give press releases on what was happening. Also, we had paid adverts explaining particular lines of policy. Then we had hot lines, where people
could actually e-mail us or phone if they were concerned or needed explanation about something. We had a sort of give-and-take kind of approach. That really was very helpful.

**MAKGETLA:** What did you see as challenges to the level of public support that you had, that might cause it to dip or decline?

**MAILAFIA:** What was that?

**MAKGETLA:** What would you have identified as challenges to the level of public support that you had, what might have caused it to decline?

**MAILAFIA:** Well, lack of responsiveness—if we were not responsive to queries, to situations. If we took decisions without explaining to people what we were doing, that causes problems. Also much later, sadly to say, aspects of the management gave the impression that they were now becoming too close to some of the people we needed to reform, and some kind of rent-seeking activity was now beginning to prevail. The leadership was becoming increasingly compromised, succumbing to greed. It was at that stage that I actually left the Central Bank.

**MAKGETLA:** When you first arrived at the bank—people have talked about the difficulty of finding individuals with the necessary talents that they needed.

**MAILAFIA:** Yes.

**MAKGETLA:** How did you pull together a team of people in those early days? Were you part of that—having been recruited yourself, were you part of helping to identify other people?

**MAILAFIA:** Yes, indeed. I was part of that, and that helped quite a lot. Well, through reputation, through people we knew that were doing very interesting things—that was an approach that actually we deployed, in identifying people who we could work with. Some came as consultants, some came in as advisors. We kept an open door. Then we told ourselves that we were not going to be doctrinaire. We are not purely monetarists and we’re not purely neo-Keynesians or structuralists—we are pragmatists. We looked at what works and what is applicable to the Nigerian situation as it was then. That sort of open-minded approach, I think, was quite refreshing.

**MAKGETLA:** Could you outline some of the talents that were important and needed in the bank amongst your staff, and which were the least available or the hardest to find?

**MAILAFIA:** We didn’t have enough econometricians and then we did not have enough statisticians, partly because people with IT/statistic skills—because during the years of political dictatorship—you would be surprised, that soldiers hate statistics. They don’t like statistics at all. The last time I think a friend published—he was head of statistics, the National Bureau of Statistics—he said unemployment was something like 27%. He had to flee the country because he announced that kind of figure. The military said, “what are you talking about, there’s no unemployment here, everybody is happy, everybody is employed.” [laughing]
We had a backlog of training needs—capacity needs in IT and statistics. Luckily for us, I think with the leadership within the CBN, we were able to agree on a massive infusion of funding into those areas—into IT, into strategic planning, implementing even, a human resources planning program. We conducted massive training within the country as well as outside the country. Some of the training took place at the IMF, some at the World Bank, and some at the Bank of England. We were able to get one or two advisors. One of them was a retired executive director of the Reserve Bank of India, who had worked at the IMF. He was brought in. Another one, the former Deputy Governor of the Bank of Israel was also brought in as an advisor. They worked with us on a daily basis to strengthen those areas where we were weak. They were elderly people; they mentored us. We had no problems learning from them and that helped quite a lot.

MAKGETLA: Many of the ministry-based officials that we’ve interviewed have said that they struggle with the difficulty of changing attitudes of civil service members or others in their department. In the Central Bank, are there any examples from your experience of successful strategies to project new norms of behavior?

MAILAFIA: Well, yes indeed. We launched what we call Project Eagle. Project Eagle was an effort to undertake wholesale reengineering of the Central Bank by looking at human resources and training, by looking at IT, by looking at statistics, by changing the way we do business. Accenture was brought in as the consultant to help drive that process, and to a great extent it succeeded. When we started and up to the time I left, there was an effort—I was trying to launch a knowledge center, to turn the Central Bank to a knowledge institution. So, that is the remaining reform that needs to be carried out, to turn the whole institution into a knowledge-based institution where knowledge and intellectual capital are the basis for everything that we do. That is the stage where we are.

I think things have improved, but the problem had to do with the topmost leadership. There was an over-centralization of power. There was even sadly a kind of cult of personality, which was not very pleasant at all. It was perhaps for this that the late Professor Susan Strange of the LSE and Warwick University once described economists as “one-eyed monsters”. People with a bit of technical knowledge but with no real intellectual understanding or moral depth can turn out to be very dangerous when they find themselves in positions of money and power.

MAKGETLA: Do you think that cult emerged through anything that was institutional in the environment, or do you think it was more personality driven?

MAILAFIA: It was more personality. It is an irony; it was a paradox of success. We had succeeded in banking consolidation. By then the people began to feel, wow, if we could pull out this one, then we must be gods. Sadly, some people began to believe that they were gods.

MAKGETLA: Was there any feedback mechanism that could have perhaps corrected, or allowed people to voice concerns about the way the bank was being run and these tendencies towards centralization that you described?

MAILAFIA: Sadly, there was just no way out. There was no other way out. Also, those who tried to do it were kicked out. That was the end of it.
MAKGETLA: Were there any other big projects after the banking consolidation set of reforms that were spurred by this sense of, the belief in their own confidence at the bank?

MAILAFIA: That was Project Eagle, as I mentioned, which we tried to continue as a practice after the banking consolidation. Of course, there was a PSI (policy support instrument). The PSI focused on improving interest rates and reducing liquidity in the system, on getting—you would not believe, for nearly two years we were meeting on a daily basis to look at liquidity figures and to take all the practical actions in the capital markets to reduce liquidity in our system. I was chairing meetings literally five days a week, sometimes working Saturdays and Sundays. We had to do all of that.

Then of course to get interest rates under control, to get inflation under control. And I’m happy to say during that time we achieved single-digit inflation for the first time, perhaps, in two decades.

MAKGETLA: I see. When you left, was there anything that you were able to do to ensure that your successor was able to continue some of the policies that you put into motion?

MAILAFIA: Yes, of course, I wrote a very detailed memo explaining what we had achieved, what remained to be done and areas that needed attention. I don’t think one could have done more than that. So, I left it at that and I left my door open for any advice if they needed it.

MAKGETLA: Just before I move away from these questions about staff levels—you mentioned Project Eagle. What was the time period in which it was implemented?

MAILAFIA: It was implemented actually—it was started much earlier but was shelved, but it was brought back again. It was a three-year program.

MAKGETLA: Why was it shelved initially?

MAILAFIA: It was shelved initially because there was a change in government, and at first, I think the new administration did not believe in it. But after banking consolidation, we felt that well the next logical thing was to now look inwards and try improving our internal processes, so it was brought back and rejuvenated.

MAKGETLA: If we consider these issues that we’ve been discussing to be deployment issues, sort of managing and organizing teams, are there any deployment successes that stand out in your mind?

MAILAFIA: Deployment successes? Well, yes. For example, returns on reporting from the branches. We have 28 branches and before then, everything was done manually. But now, everything is done electronically. Every day at the Central Bank we could tell what the balances were for all our branches in the country. That was a remarkable development. Of course, IT processes have improved, payments have improved through IT computer-based payments, and other processes have improved. We’ve also launched a computer-based approach for surveillance of the banks and that has worked to a great extent. Some of them now report through software, and so we at least have some kind of preview of the prevailing situation. Those kinds of deployments have been successful.
MAKGETLA: In a similar vein, were there any deployment failures that had an impact on your ability to implement change, and in retrospect, are there any steps that you think could have been taken to prevent this problem from arising or having had a strong impact?

MAILAFIA: Unfortunately, we were not successful in completely overhauling the IT department. We should have just simply changed all the people there, or most of them, but we left them intact. Looking back, I realize they had a vested interest in not allowing the system to function properly because then rent-seeking activities couldn’t take place in orderly environment. The chaos in Nigeria, I’m beginning to realize, is systematic chaos. By systematic chaos, I mean people deliberately create chaotic situations because then it allows them to do the things they want to do. Because if everything is very clear, if everything is organized, then it is easy to spot anomalies. People deliberately create chaotic situations so that they can take advantage.

MAKGETLA: Can you explain to me what specifically the IT people were able to benefit from?

MAILAFIA: Well, you know, manipulation of financial figures for example. I suspect that some of that may have been going on. Maybe covering up for some banks and collecting kickbacks in the process, perhaps.

MAKGETLA: What steps do you think could have been taken at the time to maybe address some of these problems?

MAILAFIA: The most prudent option perhaps would have been to get rid of those people who had become deadwood, who had been there for a long time and were totally incorrigible. Get rid of them, put in new people, train them, let them inculcate a completely new mindset, and let them get on with the job. I think that is what we needed to have done.

MAKGETLA: Many leaders face the pressure to employ people who are important, who come from different factions, sometimes from their family, or perhaps people have officials under them who feel this pressure. There are many tradeoffs associated with accommodating these sorts of appointments.

MAILAFIA: Yes.

MAKGETLA: Did this problem arise in the bank and if so, did you come up with any strategies for balancing or managing these different imperatives?

MAILAFIA: At first, we paid very careful attention to this. We created practically a merit-based system—a system of examinations and tests for recruitment and promotion, and so on and so forth. But I think we did not succeed very much. It ended up that you’d find that many people had come from just one state. It happened to be the state of the top man there. Obviously there was some kind of underhanded manipulation going on. It’s not necessarily because they were the smartest people around. So, there was a bit of that. There was some lack of transparency in that process and I think people got demoralized as a result. People felt there was lack of transparency, there was lack of clarity, and there was lack of accountability in how things were being done.
MAKGELTA: Do you have any suggestions as to how the potentially negative influence of such appointees could be circumscribed, or how they could be isolated from the policy-making process?

MAILAFIA: Well, I don’t know. I don’t know. It is difficult to find an easy solution to that because once people are already in the system it is much more difficult to get rid of them. You can’t legislate that those people should not be brought into the mainstream. One solution, I think, is for the top echelons—they shouldn’t stay in their place more than three years. There should be a system of rotating them, so that people would not sort of carve out a niche for themselves or personal fiefdoms—so that there would be no opportunity for empire building by certain people who would then exercise a stranglehold on policy. That’s one solution that I can think of.

MAKGELTA: How would you balance that with a desire for policy stability?

MAILAFIA: I think it is not an issue. At the highest level there ought to be very clear objectives and for the Central Bank, they are not complicated. Number one—price stability, needing to control inflation. That one is clear. Number two—we must be sure that there is financial stability, stability of the banking system, and of the financial system as a whole. Thirdly, we must try to promote growth with employment. And finally, we must give sound advice to government on how it generates and manages revenues, especially controlling overspending and profligacy. I think the policies are very clear. What does matter is how to implement them, how to make sure that they succeed and that the monetary authority enjoys credibility at home and abroad. The objectives are not the issue; the issue is the blueprint for meeting those objectives. That one we can debate and the discussion can go on, the debate can go on. Management has to discuss, reach agreement on how to proceed, and then get on with the job.

MAKGELTA: There are some systems that promote winner-take-all type of competition, such as performance-based promotion systems and competitive bidding systems.

MAILAFIA: Yes.

MAKGELTA: These systems can sow division in places where people think that whoever wins will take all the advantages.

MAILAFIA: Yes. This is always a risk. It can lead to unhealthy competition. People may develop an attitude of non-cooperation because relations with colleagues have become rivalrous rather than chivalrous.

MAKGELTA: In your work have you every thought to reduce the divisive effects of a competitive process, and if so, could you describe what steps you took and how well you think it worked?

MAILAFIA: A divisive process?

MAKGELTA: Yes.

MAILAFIA: Divisive in terms of?

MAKGELTA: Divisive in terms of—something like a performance-based promotion system might lead to the impression that certain people are being favored and others
might feel marginalized from the system. It is an almost inevitable consequence that may not be designed to make a person feel marginalized, but may have that effect in a workplace.

MAILAFIA: Yes, that’s right. We introduced a competitive examination, tests and promotion system, to be merit-based, performance-based. I think in the end, nobody seemed to think that it is not fair. Everybody seems to agree that it is fair. But the issue then, is that it weakens esprit-de-corps, people tend to be more competitive—I’d better hide information from this fellow because she may do better than me in the exams or in the tests, that sort of thing. Central bankers tend to be very sedate gentlemen and women; you don’t try to elbow your way around. But with this competitive testing system for promotion, I got the impression that it was beginning to create that sort of bad blood.

MAKGETLA: Were there any steps that you took to address that?

MAILAFIA: No. Unfortunately, we did not. It is unfortunate, but we can’t have it both ways.

MAKGETLA: Fair enough. In some systems and maybe not in the Central Bank, per se, the system of brokerage exists where people pay for their civil service positions on commission—sort of reminiscent of England and France in the 19th century where people bought their positions, but also elsewhere in the world. Is this something that happens anywhere in the Nigerian civil service that you’re aware of?

MAILAFIA: Not in the civil service. I better qualify what I’m trying to say. There have been stories, even though I’ve never experienced this personally, but there have been stories of people paying some money to get positions, to get recruited. In the past, there were reported cases of people paying money to gain recruitment into the police, immigration, customs and prison services. As we say where I come from, there can’t be smoke without fire. When you come across a police officer who cannot write a simple report of a crime incident, then you know the criminal system is in trouble. And it boils down to the people who were recruited in the first place. But I would like to believe it is not anywhere near the medieval prebends that we had in Europe where you could buy your way to become the chief of customs. Then you set up your own golden gate at the ports and collected all the money, and it is what you got that you took. Cardinal Richelieu became so rich in the court of Louis in France to the extent that he could literally underwrite the whole of the French treasury with his own personal income. What we have in Nigeria is not on the same level. But more recently, and this is deeply worrying, we have begun to hear that some people, some ministers have actually bought their position. That is very, very frightening.

MAKGETLA: Were these ever rumors that arose about the bank? You mentioned the rumors previously.

MAILAFIA: About the bank, I would say no, definitely no. I have to confess, there is a great deal of rot in Nigerian public service. However, one thing I discovered is that the Central Bank has some of the best people that you will ever find in the country—very, very bright. People who made the top grades in university, many of them are working there. Until recently, there has been a very convivial atmosphere—a very, very convivial atmosphere at the CBN. Some staff used to refer to “those good old days when were one family”. It is very touching to hear this.
MAKGETLA: Do you think certain aspects of your own background or personal management style enabled you to make progress in your position?

MAILAFIA: Well, yes. I think I kept a very open door. It is for others to say, but they tell me I was approachable. They felt they could come to me if they had any concerns or any worries. I tried to be humble. There were areas in which I didn’t have expertise and I was prepared to learn, because Central Bank is very technical. Much of my own training had been in development studies and macroeconomic policy. I had to brush up on my monetary economics and to absorb some of the new paradigms in central bank policy and management. There are some things that no amount of textbook learning can give you. You just have to jump into the water and swim. I came from development banking, so I was humble enough to learn in areas in which I was deficient, and I hope some of my colleagues and indeed my staff appreciated that. I asked the right questions and got explanations.

Secondly, I learned from the philosopher Hannah Arendt who made the distinction between the ‘vita activa’ and ‘vita contemplativa’. You either live a life of reflection or you live a life of action. In central banking, you must combine both modes of living. It is a highly intellectual activity, but at the same time, the bottom line is action—action that produces the right results. The welfare and life-chances of millions of our citizens depend on what the central monetary does and how it does it. I had to remind myself everyday that my reason for being there is to make life better for our people—to help them achieve the good life in the Aristotelian sense.

Thirdly, I held meetings regularly with my department where issues were thrashed out, and I kept an open mind and made sure there was no bullying. I told them I had zero tolerance of bullying of junior staff. Everybody should be allowed to do his or her job. I gave the directors their respect, and I also demanded work. We had targets we had to meet. But I tried to make it fun, make them feel that we were working for our country, that we have a job to do and everybody should get down to work. Of course I tried to rule with some mild-mannered approach to supervising people, being very firm but at the same time giving people enough room. Be tolerant of genuine mistakes and help people to overcome those mistakes.

Some may have seen it as weakness. I saw it as strength, and I think it helps a lot.

MAKGETLA: When you referred to having to address bullying, can you explain more what you meant by that?

MAILAFIA: There were instances of office bullying, it’s quite normal. Because he’s the boss, he might just pick on somebody and go out of his way to really humiliate them unnecessarily. If you’ve been to boarding school or read the famous Victorian English novel, Tom Brown’s School Days, you will understand what bullying is and what it can do for people. The story goes that the famous Cambridge philosopher G. E. used to walk with a slight tilt of the head. Apparently, he was bullied as a schoolboy at Eton, that for the rest of his life, he was always looking out for where the next bully will come from! Bullying in the workplace is dangerous—no sane organization should tolerate it. I for one never allowed it to surface where I held my turf.
MAKGETLA: Several people have pointed to the need for a leader to articulate a vision or a narrative or a story line to help a community move forward. How important is this step in your view, and do you have advice about how to go about developing this vision in your experience?

MAILAFIA: A narrative? I think the story is very important. The story is part of African culture, as kids, people are told stories. I think every society, every organization, should have its own stories about how things were in the past, and the dreams for a better future and how things may be. I think those stories are very important. We had time to share these stories. We had retreats; we went to Obudu Cattle Ranch up in the mountains and stayed there. It is a place of scenic beauty, almost like the Alps of Switzerland without the snowy bit. We had retreats; we dressed casually, had dinners together, had bonfires, and those sorts of things. We told stories about how the CBN, the Central Bank, used to be and what we could make it to be in the future. All of that I think has been important.

MAKGETLA: One problem that leaders may face is obtaining ideas about the options available to them and getting information on what approach to take, and they may be too busy to collect that information themselves. In your work, where did you turn for advice and information? To staff members? Think tanks? Or did you rely on your own instincts?

MAILAFIA: What sort of information? About the work? About the job?

MAKGETLA: About policy development and strategizing.

MAILAFIA: Well, I would discuss with colleagues. I would choose some staff and discuss with them. I used to go to the former governor and the former deputy governors, and get feedback from them. This is the importance of the story, as well—how were things done in the past—this is our new thinking. How does it fit in with the role, the trajectory of the organization? I would talk to a lot of people. I would talk to staff and I would talk to my directors. We would have lunch every day, all of us in senior management. There were also opportunities to exchange notes and to talk casually over issues. I had no laid-down approach for getting ideas—but also other ministries, other departments, Ministry of Finance, the planning commission. I kept open links with all those people, as well as with the presidency. Unfortunately, we do not have think tanks of real standing in Nigeria. Some of the university research establishments are way behind in terms of ideas and cutting-edge methodologies. Some of the problem has to do with underfunding; the rest derives from the quality of the type of people who call themselves professors these days and the narrow-minded campus politics, which robs the Academy of knowledge and ideas.

MAKGETLA: This question relates to information again, but from a different tact. What do you do if the only source of information on an institution that you want to change is a reporting unit within that very same institution? How do you obtain reliable information? This might especially be a concern in, for example, the verification exercise you conducted at the beginning of banking consolidation. [ Interruption]

Should I repeat the question?

MAILAFIA: Sure.
MAKGETLA: The question was, what do you do if the only source of information on an institution that you want to change is a reporting unit from within that same institution? How do you get reliable information?

MAILAFIA: From the same institution?

MAKGETLA: Yes, if you rely on the institution to sort of self-report about its activities?

MAILAFIA: Well, it’s not difficult for a Central Bank, because, unless they invent the figures, figures speak for themselves. We get the figures and they tell you a story. Then you decide what to make of that story. So, of course you should have a way of assessing that information and verifying its reliability. You can learn, you can get information from the same institution, but you should always take it with a grain of salt and you should learn to always crosscheck and verify it.

MAKGETLA: And the auditing institutions at that time are credible?

MAILAFIA: The auditing institutions had and still have their challenges in Nigeria. The Office of the Auditor-General seems to have been deliberately starved of funds perhaps to weaken it and prevent it from playing its constitutional role. However, they still managed to get a few things right under difficult circumstances.

MAKGETLA: This program helps leaders to share experiences about innovations and addressing challenges that arise in developing and strengthening institutions. Is there anything that I missed or anything you'd like to add at this stage?

MAILAFIA: I think it is a great experience; it has been a great experience. What I’ve learned, Henry Kissinger once said that—and I met him in Oxford when he came to give a lecture—he said in a statement that political office taxes intellectual capital. By that he meant, that you cannot be prepared enough for leadership because there’s no time to learn on the job. It is so awfully important for us to prepare people for leadership. There is an inborn element of leadership, but there is a lot that comes through learning and through education and through training. For those who aspire for leadership, they should learn and learn and learn, and prepare themselves.

You cannot prepare enough for leadership because once you’re in there, there’s no time to learn—you have to just sink or swim. It is crucially important that we in Africa prepare people for leadership. Once we identify leadership potential, we should put them through rigorous training and prepare them for the future. I think that is very important. There are some things I would have done differently if I felt that I was prepared in every area for what I was meeting. It’s not just intellectual preparation; it is also psychological preparation.

MAKGETLA: Can you give me an example?

MAILAFIA: Excuse me?

MAKGETLA: Can you elaborate?

MAILAFIA: I mean people—there are all kinds of demands on your time. You have to know how to plan your time; you have to know how to structure your time. There will be pressures on you, all kinds of things including pressures from outside, and pressures from within. You have to be strong enough psychologically—be robust
enough to be able to resist some of those pressures, especially on your time and people demanding that you cater to their specific interests. You have to be able to resist those pressures. But mentally you should have prepared yourself and known that those kinds of things can be pressures that are put on one, and one should be able to deflect them effectively. And of course, to prepare intellectually and rigorously for leadership—I think that is important.

MAKGETLA: Great. Thank you very much for your time and your thoughts.

MAILAFIA: It is a pleasure. I feel honored to meet a young woman of such intellect and character and culture as yourself.

MAKGETLA: Thank you, it has been a pleasure interviewing you and we hope that these interviews will form a tool in that learning process for future leaders. Thank you very much.