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FAST TRACK BRIEF

September 15, 2008

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Nigeria: Country Assistance Evaluation

- The period from July 1, 1998 to June 30, 2007 (World Bank fiscal years 99-07) saw a substantial improvement in Nigeria's economic performance and outlook relative to the previous two decades, during which, notwithstanding the expanding production of oil and gas, Nigeria's social indicators deteriorated steadily and the country acquired among the worst reputations for corruption and poor governance. During its second term, the Obasanjo administration built on some actions taken previously to stabilize the economy, created an oil surplus account to prevent the fiscal instability of the earlier period, took significant steps to improve public financial management, put in place important new initiatives on corruption and transparency, and continued the privatization program.

- At the same time, there was little progress in tackling some of the important structural weaknesses, and consequently there have been limited outcomes for the vast majority of Nigeria's population. The improvements in the functioning of the federal government have not translated into similar improvements at the state and local government levels, where the main responsibility lies for service provision. The fundamental infrastructure problems in the supply of power and the quality of roads and water remain, and progress on achieving the Millennium Development Goals (MDGs) has been, at best, slow. In some cases there has been further deterioration in social indicators. A 2004 IEG review of the outcomes of World Bank support to Nigeria to that point rated them unsatisfactory. By 2007 the achievements of the reform team put in place during President Obasanjo's second term had began showing signs of reaping much more favorable outcomes. Given these improvements, the overall outcome of World Bank support during the latter part of the review period is assessed as moderately satisfactory, and the overall outcome of the Bank's program for the entire 10-year period is rated moderately unsatisfactory.

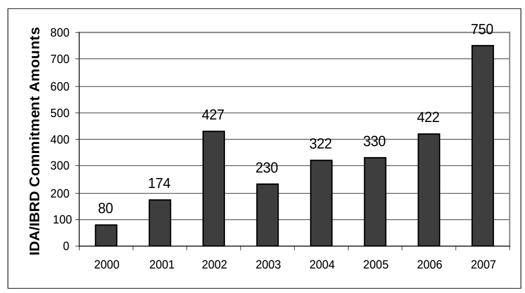
- During this period, the Bank provided important assistance to the government of Nigeria. In spite of the relatively small weight of the Bank's financial contribution given Nigeria's earnings from oil, the Bank carried a great deal of weight as a source of objective advice and as a means of influencing perceptions of Nigeria in the international community. During the period to mid-2003, however, the Bank had some difficulty in determining the role it should play. A large number of lending operations were started, often without the base of local knowledge needed for success. At the same time, the Bank was slow to invest in analytic work. With the reform team providing clear Nigerian leadership in the second term of President Obasanjo, the Bank adapted its program in many areas to provide effective support. The Bank is well placed to continue to make an important contribution to Nigeria's economic and social progress. For this to occur, it is important that the Nigerian government take all necessary steps to ensure policy continuity as well as to extend and deepen the reforms initiated over the evaluation period—this is of critical importance for the country's long-term economic success.

The period since 1999 has been the longest period of democratic civilian rule in Nigeria since independence in 1960. During the preceding military regime of General Sani Abacha from 1993 to 1998, Nigeria had reached its nadir. Corruption was rife and most economic and social indicators deteriorated over the period. During his first term as democratically elected president, Olusegun Obasanjo moved to consolidate his political base and win the support of the governors of Nigeria's 36 states. During his second term, the president put in place a technocratic reform team that introduced far-reaching changes in Nigeria's planning, budgeting, and financial management system, made a significant start on civil service reform and took aggressive steps to deal with corruption. Most importantly, an effort was made to de-link Nigeria's budget from fluctuations in oil revenues, which had led to extreme volatility and macro instability in earlier decades.

During the Abacha regime, the World Bank had essentially closed down its operations in Nigeria. There was no new lending and very limited analytic work. With the return of democracy, the Bank undertook a major effort to identify and approve new investment loans to support the development of key sectors. After the hiatus, Bank staff had limited knowledge of the country and many government officials were unfamiliar with Bank procedures. While the Bank undertook analytic work in the fiduciary areas, in some sectors operations moved ahead without the necessary analytical underpinnings. A number of the operations were under-prepared and overly complex, with the consequence that until 2004, disbursements were slow and a high proportion of the Bank lending program was rated as being at risk. With the slow pace of reform efforts during President Obasanjo's first term there was a great deal of frustration in the country and the Bank that a seeming opportunity for progress was being lost.

Starting in mid-2003 with President Obasanjo's reform team in place, the Bank geared its activities to support the efforts at reform and undertook changes in its management of the lending program to speed up disbursements and get improved results. An important initiative of the government was to secure debt relief, and the Bank assisted with analytic work demonstrating to Nigeria's creditors that the level of debt servicing Nigeria was required to undertake was not consistent with its achievement of the Millennium Development Goals (MDGs). This was a contributory factor to the decision to write off 60 percent of Nigeria's debts. The Bank also supported the efforts of the reformers with a substantial loan for Economic Governance that provided support for the budget reforms and the steps being taken to reform the civil service. Disbursements on Bank loans began to pick up, and the percentage of the portfolio at risk was reduced from 79 percent in 2003 to 26 percent in 2006.

During the president's first term, the Bank operated through a series of Interim Strategy Notes, with the preparation of a full strategy document awaiting Nigeria's preparation of a strategy of its own. In 2004 the Nigerian authorities published the National Economic Empowerment and Development Strategy (NEEDS) and using this as a basis, the Bank prepared a joint Country Partnership Strategy (CPS) with the U.K.'s Department for International Development (DFID). NEEDS enunciated three pillars: (a) changing the way government works and improving governance, (b) growing the private sector and focusing on non-oil growth, and (c) empowering people and improving social service delivery. These were fully consistent with the approach outlined in the earlier Bank strategy documents and were adopted as the pillars for the CPS. This Country Assistance Evaluation (CAE) uses these same three pillars to organize its review of the outcomes associated with the Bank's program in Nigeria.



Source: Business Warehouse database.

The Evaluation Findings

Macro Stability and Governance: The outcome of the Bank's program in this area is assessed as **moderately satisfactory.** Both the Nigerian government and the Bank rightly judged that better economic governance was a necessary condition for effective service delivery and poverty reduction in Nigeria. Oil resources channeled through the federal and state governments were being lost through corruption and inefficiency, and only a small proportion was meeting the stated purposes of the budgets and plans. During President Obasanjo's first term, there were some measures taken, most notably in the area of anticorruption (including, for example, the establishment, with Bank and DFID support, of diagnostic tools—such as unit cost norms—for use in monitoring public procurement). Nevertheless, there was no comprehensive strategy for improving the way government worked. This came with the reform team in mid-2003 when, for the first time, an attempt was made to tackle public sector reform on a number of different fronts. First, a commitment was made to macroeconomic stability by basing the budget on a reference price for oil and putting surpluses into a special account that could only be drawn on when prices fell. Second, steps were taken to increase the independence of key agencies, such as the Audit Office, the Accounts Office, and the National Bureau of Statistics, to enable them to perform a watchdog function. Third, the Economic and Financial Crimes Commission was established to investigate and prosecute corruption cases, and Nigeria subscribed to the Extractive Industries Transparency Initiative (EITI) to track transfers from the oil sector. Fourth, a start was made on civil service reform through automating payroll functions in selected ministries, rooting out ghost workers, and right-sizing pilot agencies with severance payments for unqualified workers.

The reform made an effective start with the federal government, but the reformers ran out of time before an effort could be made to induce the state governments to undertake similar reforms. The states have responsibility for most of the expenditures on service delivery, but in many states the accounts are a black box, with little oversight.

The Bank supported the reform effort at the federal level through two Economic Reform and Governance loans. The first was small and opportunistic, while the much larger second loan provided the reform team with the resources needed to lubricate the programs they were introducing. These, along with high-quality fiduciary work, provided an important contribution to the reform. Attempts to follow a similar pattern through pilot operations in four states have had limited outcomes thus far. The Bank has not yet resolved the issue of how to engage at the state level at an adequate scale to have an impact over time.

Creating the Basis for Sustainable Non-Oil Growth: The outcomes of Bank support under this pillar were **moderately unsatisfactory.** The pace of non-oil growth during the period under review was well ahead of that achieved in the 1990s. A number of factors contributed to this: the spill-over from buoyant prices and production of petroleum and gas allowed both expenditures and imports to expand without harming either fiscal or exchange rate stability; the stable macro-environment and lowered inflation created confidence in the business community; and the government was perceived to be pro-business and committed to better governance. There was, however, slow progress on improving infrastructure and in putting in place the conditions needed to promote a sustained rate of non-oil growth in the years ahead.

In every survey of the business sector, the main constraint to growth that emerges is the inadequacy of Nigeria's infrastructure. Virtually no enterprise of reasonable size relies solely on public supplies of power, and all invest in generators that produce power at a cost that is a multiple of prices in other countries. Transport is an equally important bottleneck, with less than 20 percent of national roads rated as being in good condition. Nigerian enterprise thus faces a high cost structure and at the same time low prices from competing products as a consequence of the appreciation of the exchange rate due to rising oil and gas export earnings.

The Bank has attempted to support private sector development in a number of ways. One important goal has been to improve infrastructure. In the power sector, the Bank did not participate in government programs to increase generating capacity, which were deemed questionable and often corrupt, but instead focused on much needed sector reforms and improvements in transmission and distribution facilities. This was an appropriate strategy under the circumstances, and indeed, there has been some progress in last two years on power sector restructuring and the establishment of a regulatory structure. However, the overall outcomes have been modest and the country still faces serious power shortages. The Bank's efforts were under-scaled relative to the enormous issue that inadequate power supply represents for Nigeria. In transport the Bank held back lending because of concerns that the institutional structure was not conducive to efficient management of the road system, particularly for maintenance. The Bank has been pushing institutional reforms that are only now beginning to show prospect of being adopted. The situation in the highway sector is therefore not much better now than it was in 1999. The same is true for fixed-line telecommunications.

On the positive side, Bank technical assistance for privatization of the ports contributed to a genuine success story that has sharply lowered waiting times in Nigerian ports. The Bank, however, was unable to pursue the reform of customs procedures because of lack of receptivity by the government.

Another element of Bank support for the private sector was support for the government's privatization program under which most commercial state-owned enterprises (SOEs) were privatized. The Bank also provided a number of studies and technical assistance activities on improving the business environment for small and medium enterprises (SMEs) and, most recently, a program for improving the mining sector with emphasis on artisanal mining. While each of these activities has merit, together they do not add up to a coherent program of support and have not so far yielded significant outcomes.

This lack of a coherent strategy for bringing together institutions, policies, and investment programs is mirrored in the agriculture sector. The Bank has not addressed national or statewide agricultural systems and policies. Again, the Bank was able to put in place some very successful individual programs. In agriculture, it has operated at the community level through a community-driven development (CDD) program—the FADAMA project—which focuses on agricultural investments and appears, according to a recent independent evaluation, to have yielded significant gains in farm incomes.

Social Service Delivery and Community Empowerment: The outcomes of Bank support under this pillar are rated **moderately unsatisfactory.** The sustained growth during the period from 1999 to 2007, due mainly to rising oil revenues and relative internal stability, led to some decline in income poverty but to very little change in social indicators. Social service delivery is mainly in the hands of the state governments, and there is little evidence of the kinds of institutional development over the period that would raise the prospects for improved outcomes in future and for achievement of the MDGs. One bright spot is the success and popularity of CDD programs. These appear to have led to short-term income gains and a process within communities for weighing priorities for development. To take this to the next stage of making these achievements sustainable and contributing to better social service outcomes, it will be necessary to forge better links with the local governments and state ministries, which are responsible for providing the teachers, books, and furniture to the newly constructed schools and the health workers and pharmaceuticals to the clinics.

The key to sustained rural development is agricultural growth and natural resource management. There has been little progress in either of these areas. Increased prices and demand have led to expansion of area under some crops, notably cassava, and to production increases. But a policy framework of import restrictions and input subsidies is not creating the basis for the levels of agricultural growth Nigeria needs. As regards the outcome of Bank support for natural resource management, the efforts have not yet yielded substantial positive outcomes.

The Bank's activities, except for the CDD programs, have been mainly at the federal level. When the objective has been to develop narrowly defined programs, such as those for attacking preventable diseases such as HIV/AIDS and polio, Bank projects have had some success. When more broadly defined across the health and education sectors, they have foundered due to the lack of focus on building institutions at the state level.

Overall the outcomes of the Bank program are rated **moderately unsatisfactory.** In the Nigerian context this reflects an improving trend relative to a previous IEG assessment of the 2000 to 2004 period, which rated the outcome of Bank assistance as unsatisfactory. The current assessment recognizes the signal achievements in maintaining macroeconomic stability and laying the basis for more effective and cost-efficient performance of the central government. There are major risks associated with this, however. The earnings from Nigeria's oil and gas resources require strong management that puts the national interest ahead of that of individuals and state governments. In the fragmented context of Nigerian politics that is a very tough proposition to maintain. If the government shows the necessary leadership and successfully leverages the resources it has at its disposal to provide incentives to state governments to do a better job of delivering social services, there is the potential for real progress in reducing poverty and achieving the MDGs.

During the CAE period, the Bank has taken an increasingly strategic view of the challenges it faces in Nigeria, recognizing, for example, the primacy of finding ways of engaging at the state level, and evolving the approach of "lead states" which, while still needing to be fine-tuned, is moving in the right direction. The Bank is also moving toward an effective partnership with DFID. It now needs also to take a more strategic view of the challenges of building institutions and developing capacity in Nigeria. Within that strategy scope remains for the Bank to continue being flexible and taking advantage of opportunities that arise when institutions have committed leadership. The Bank has an important role to play in Nigeria in the long term. This is a situation where the Bank can make a major difference to the outcomes. But for this to happen, there needs to be continued commitment by the Nigerian authorities to the reform agenda that was decisively set in motion earlier this decade, which IEG regards as critical to ensuring the country's long-term economic success. The World Bank can then respond by deepening its engagement in selected areas of the Nigerian economy.

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