



THE WORLD BANK IN NIGERIA 1998–2007  
**Nigeria Country Assistance Evaluation**

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# Abbreviations

BPE	Bureau of Public Enterprises
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CBUPD	Community-Based Urban Development Project
CPS	Country Partnership Strategy
CDD	Community-driven development
CODE	Committee on Development Effectiveness
CPRP	Community-Based Poverty Reduction Project
CPS	Country Partnership Strategy
DFID	Department for International Development
EFCC	Economic and Financial Crimes Commission
EITI	Extractive Industries Transparency Initiative
EMCAP	Economic Management Capacity Building Project
ERGP	Economic Reform and Governance Project
FERMA	Federal Roads Maintenance Agency
GDP	Gross domestic product
ICPC	Independent Corrupt Practices and Other Related Offences Commission
IEG	Independent Evaluation Group
IDA	International Development Association
IFC	International Finance Corporation
IS00, 02, 04	Interim Strategy 2000, 2002, 2004
LEEMP	Local Empowerment and Environmental Management Project
LMATA	Lagos Metropolitan Area Transport Authority
LMDGP	Lagos Metropolitan Development and Governance Project
MDA	Ministries, departments, and agencies
MDG	Millennium Development Goal
MSME	Micro, small, and medium enterprises
NEEDS	National Economic Empowerment and Development Strategy
NGO	Nongovernmental organization
PIU	Project Implementation Unit
PSD	Private sector development
SEEDS	State Empowerment and Economic Development Strategy
SGCBP	State Governance and Capacity Building Project
SME	Small and medium enterprises
SOE	State-owned enterprise
TTL	Task team leader
UBE	Universal basic education
UNICEF	United Nations Children’s Fund
USAID	U.S. Agency for International Development
WHO	World Health Organization

# Acknowledgments

This report evaluates outcomes in the areas targeted by the World Bank's program in Nigeria from 1998 to 2007. The report was prepared by Basil Kavalsky (Task Manager) and Catherine Gwin, David Pearce, Inder Sud, and Omar Lyasse (Independent Evaluation Group, Country Evaluation and Regional Relations [IEGCR]). The task team visited Nigeria from July 14 to August 8, 2007, and held discussions with federal authorities and with officials of state and local governments in Bauchi, Cross River, Kaduna, Kano, and Lagos, as well as with representatives of partner agencies, nongovernmental organizations, and representatives of civil society. In addition, the team held extensive discussions with World Bank staff and others familiar with Nigeria and the Bank's work there. Rupa Ranganathan (IEGCR) provided research and data support, Cecilia Tan provided administrative support, and William Hurlbut provided editorial support. Peer reviewers were Steven O'Brien (IEGCR) and Peter Lewis (Director, African Studies, Johns Hopkins University).

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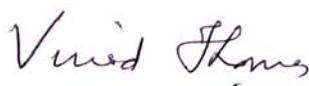
# Foreword

Following the restoration of democracy in Nigeria and the election of President Olusegun Obasanjo in 1999, the World Bank worked closely with the Federal Government of Nigeria to help achieve the government's priorities of establishing good governance, rebuilding the country's infrastructure, improving service delivery, and promoting non-oil growth. Because it had been involved very little in Nigeria during the preceding five years, the Bank had to rebuild its knowledge base in the country. Reflecting the preference of the government, the Bank chose to initiate a large number of projects rather than to engage in up-front analytic work. Many of these projects ran into difficulties, partly because of the Bank's failure to factor fully into the program design both the country's overall institutional weakness and the Nigerian authorities' inexperience in dealing with Bank procedures.

During President Obasanjo's first term, economic reforms proceeded at a relatively slow pace as the government gave priority to firming its political base. In mid-2003, however, the government created a reform team that acted decisively to improve fiscal discipline and public expenditure management, to make a start on public sector reform, and to introduce the changes in the institutional framework needed to address corruption. The Bank moved quickly to support these efforts, providing loan and grant support for needed capacity-building initiatives. The Bank also reevaluated its Nigeria portfolio and took steps to improve it and to ensure that it focused on priority issues.

Arresting the deterioration of Nigeria's infrastructure has been a special challenge for successive governments in Nigeria and for Bank support, which has focused on getting the right institutional structures in place. Although the track record is littered with setbacks, support from the Bank now holds promise to help the government make tangible progress in this area.

With effective leadership at the federal level in place, the focus for Bank support gradually shifted to Nigeria's 36 states. The state governments control roughly half of the country's public resources and carry the bulk of responsibility for service delivery, yet their fiscal management is for the most part a black box; there is almost no oversight. A key challenge facing the Bank is how to engage effectively with these governments. The approach proposed by the Bank, which entails identifying "lead states," holds promise; however, it has not been fully operationalized. Working with state governments to ensure that the substantial resources they receive translate into real improvements in the lives of Nigerian citizens, most notably the country's poor, is the most important challenge facing the Bank in the next 5–10 years.



Vinod Thomas  
Director-General, Evaluation

# Preface

This Country Assistance Evaluation assesses the outcomes of the World Bank's program in Nigeria during the period 1998–2007. The Country Assistance Evaluation focuses on the objectives of that assistance and the extent to which outcomes were consistent with those objectives. It looks at the Bank's contribution to the achievement of those outcomes and at the lessons for the Bank's future activities in Nigeria and in other countries. The evaluation includes a review of relevant documents, complemented by interviews with Bank staff and other key donors, as well as with representatives of the Nigerian government, the private sector, and civil society.

The comments received from the Government of Nigeria and the Independent Evaluation Group's responses are provided in appendixes D and E, respectively.

# Nigeria: Summary of World Bank Program Outcome Ratings

The Independent Evaluation Group's (IEG's) Country Assistance Evaluations (CAEs) assess and rate the outcomes (loosely speaking, the "results") of a given World Bank country program relative to its objectives. Rating program outcomes is different from rating country outcomes or Bank or client government performance. The central question in rating country program outcomes is, "to what extent did the World Bank program achieve the outcomes that it set out to achieve?" Distinct ratings and subratings are typically assigned to each pillar, or set of strategic goals, set out in the relevant Bank strategy document(s).

Bank strategic goals	Achievement of associated Country Assistance Strategy results	Bank program outcome ratings
Overall rating	This rating reflects the improving trend in the latter part of the period, during which the outcome of the Bank's program is assessed as moderately satisfactory, relative to the rating of unsatisfactory given by IEG in 2004 for the earlier part of the period.	Moderately unsatisfactory
First pillar: Achieving macrostability and better governance		Moderately satisfactory
Achieving macroeconomic stability	Substantial macroeconomic stability was achieved and an oil surplus account was established.	Satisfactory
Improving federal-level fiscal management and civil service reform	Good progress was made on transparency of government budget and accounts and improvements in financial management, but progress on civil service reform was slow.	Moderately satisfactory
Improving state-level governance	Very little progress occurred over the period.	Unsatisfactory
Attacking corruption	New institutions were established and the political will to crack down on corrupt practices was demonstrated. Certain measures showed a slight improvement in public perceptions of the control of corruption in the latter half of the evaluation period, although the problem remains daunting.	Moderately unsatisfactory
Second pillar: Creating the basis for sustainable non-oil growth		Moderately unsatisfactory
Enhancing federal infrastructure	Ports were privatized and some progress was made on power sector restructuring. The overall infrastructure, however, remains poor.	Moderately unsatisfactory
Enhancing state-level infrastructure	Little progress was made on municipal water and urban infrastructure. The Issue of state finances for maintenance remains unaddressed.	Unsatisfactory
Enhancing infrastructure in Lagos	The Lagos Metropolitan Area Transport Authority performed well. Water and Lagos infrastructure projects have serious deficiencies. Lagos financing and infrastructure strategies are still to be	Moderately unsatisfactory

Bank strategic goals	Achievement of associated Country Assistance Strategy results	Bank program outcome ratings
	developed.	
Promoting private sector development	There was overall growth in agricultural production and in the services sector and good progress on privatization of state-owned enterprises. Overall, the private sector development agenda remains diffuse and ineffective.	Moderately satisfactory
Supporting agricultural and rural development	Community-based projects produced good results, but no consensus was achieved on developing a coherent agriculture strategy and policy framework or on supporting an institutional development framework.	Moderately unsatisfactory
<b>Third pillar: Delivering social services and empowering communities</b>		<b>Moderately unsatisfactory</b>
Achieving better educational outcomes	Some increase in access occurred, but progress overall was uneven. There were no improvements in the quality of education and no institutional strengthening.	Moderately unsatisfactory
Improving health status of population	Progress on the country's Millennium Development Goals was uneven. Some success was seen in federal disease programs, but very little progress occurred in state-level health service delivery.	Moderately unsatisfactory
Improving social service delivery through community empowerment	The community-driven development program is leading to community empowerment and poverty reduction in areas covered, but the program needs to forge links with local governments and sector ministries to improve social service delivery.	Moderately satisfactory
Strengthening environmental management	No meaningful progress was made in tackling environmental management issues. Environmental management was not included in Bank objectives after 2004 because of a lack of government commitment.	Unsatisfactory

# Executive Summary

The period from July 1, 1998, to June 30, 2007 (World Bank fiscal 1999–2007) saw a substantial improvement in Nigeria’s economic performance and outlook relative to that of the previous two decades, during which, notwithstanding the expanding production of oil and gas, Nigeria’s social indicators deteriorated steadily and the country acquired one of the world’s worst reputations for corruption and poor governance. During its second term, the administration of President Olusegun Obasanjo 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 anticorruption and transparency, and continued the privatization program.

At the same time, the country made little progress in tackling some of its important structural weaknesses. Consequently, its actions have had a limited effect on the 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. Fundamental infrastructure problems in the supply of power and in 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 Independent Evaluation Group (IEG) review of the outcomes of World Bank support to Nigeria to that point rated them as *unsatisfactory*.

By 2007, however, the achievements of the reform team put in place during President Obasanjo’s second term had begun to show 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 as *moderately unsatisfactory*.

During the period covered by this review, the Bank provided important assistance to the government of Nigeria (see figure ES.1). In spite of the relatively small weight of its financial contribution in comparison with Nigeria’s earnings from oil, the Bank carried a great deal of influence as a source of objective advice and as a means of influencing perceptions of Nigeria in the international community. Until 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.

Today 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 military regime of General Sani Abacha from 1993 to 1998, Nigeria reached its nadir. Corruption was rife and most economic and social indicators deteriorated. During his first term as democratically elected president, Mr. 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 important, an effort was made to make Nigeria's budget independent of fluctuations in oil revenues, a situation that had led to extreme volatility and macroinstability in earlier decades.

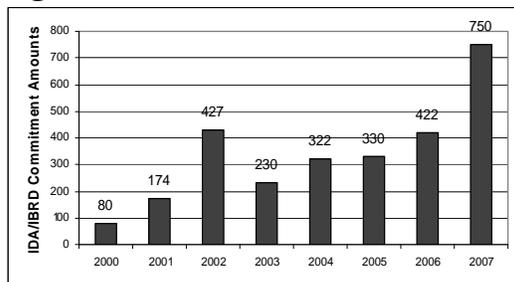
During the Abacha regime, the World Bank had essentially closed its operations in Nigeria. It provided no new loans and engaged in limited analytic work. With the return of democracy, the Bank undertook a major effort to identify and approve new investment loans to support the development of key sectors. After the hiatus, however, Bank staff had limited knowledge of the country; Nigerian government officials, for their part, were unfamiliar with Bank procedures. While the Bank undertook analytic work in the fiduciary areas, operations in some sectors moved ahead without the necessary analytical underpinnings. A number of these operations were underprepared and overly complex; as a result, until 2004 disbursements were slow and a high proportion of the Bank lending program was rated as being at risk. Reform efforts proceeded at a slow pace during President Obasanjo's first term, and there was a great deal of frustration both in the country and in the Bank that an 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 government efforts at reform. The Bank made changes in its management of the lending program to speed disbursements and obtain improved results. An important government objective 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 MDGs. This contributed 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 country's civil service. Disbursements on Bank loans began to pick up, and the percentage of the portfolio at risk fell from 79 percent in 2003 to 26 percent in 2006.

During President Obasanjo's first term, the Bank operated through a series of interim strategy notes; it deferred preparing a full strategy document until Nigeria had prepared a strategy of its own. In 2004 the Nigerian authorities published the National Economic Empowerment and Development Strategy (NEEDS). Using this document as a basis, the Bank prepared a joint Country Partnership Strategy (CPS) with the United Kingdom's Department for International Development (DFID). NEEDS enunciated three pillars: (i) changing the way government works and improving governance, (ii) growing the private sector and focusing on non-oil growth, and (iii) empowering people and improving social services delivery. The pillars 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.

**Figure ES.1: IDA/IBRD Commitments in Nigeria, 2000–07 (\$ millions)**



Source: World Bank internal database.

## Evaluation Findings

### First pillar: Macrostability and governance

The outcome of the Bank's program in this pillar 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. Until fiscal 2008 oil resources channeled through the federal and state budgets were being lost, and only a small proportion was meeting the stated purposes. 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. Such improvement 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 fronts. First, the government made a commitment to macroeconomic stability by basing the budget on a reference price for oil and putting surpluses into a special account that could be drawn on only when prices fell. Second, the government took steps 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, an Economic and Financial Crimes Commission (EFCC) 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, the government initiated civil service reform by automating payroll functions in selected ministries, identifying ghost workers, and reducing the size of pilot agencies, a process that included providing severance payments for unqualified workers.

The reform team made an effective start at the federal level, but the reformers were unable to induce the state governments to undertake similar reforms. The states have the major responsibility for service delivery, but in many cases the accounts do not benefit from adequate oversight.

The Bank supported the reform effort at the federal level through two economic reform and governance loans. The first loan was small and opportunistic; the second loan, much

larger, provided the reform team with the resources needed to adequately support the programs they were introducing. These loans, along with high-quality fiduciary work, made an important contribution to the reform. Attempts to follow a similar pattern through pilot operations in four states have had limited outcomes. 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.

### **Second pillar: creating a 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. First, the spillover from buoyant prices and production of petroleum and gas allowed expenditures and imports to expand without harming either fiscal or exchange rate stability. Second, the stable macroenvironment and lowered inflation created confidence in the business community, and the government was perceived to be pro-business and committed to better governance. Progress on improving infrastructure and on putting in place the conditions needed to promote a sustained rate of non-oil growth in the years ahead, however, was slow.

Every survey of the Nigerian business sector has identified the inadequacy of Nigeria's infrastructure as the main constraint to the country's growth. Virtually no enterprise of reasonable size relies solely on public supplies of power; all invest in generators, which produce power at a cost far greater than that of other countries. Transport is an equally important bottleneck: less than 20 percent of national roads are rated as being in good condition. Nigerian enterprise thus faces both a high cost structure and low prices from competing products because of the appreciation of the exchange rate caused by rising oil and gas export earnings.

The Bank has attempted to support private sector development in a number of ways. One 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 past 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 insufficient given the enormous challenge 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 signs 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 government receptivity.

Another element of Bank involvement in the private sector was providing for the government's privatization program under which most commercial state-owned enterprises were privatized. The Bank also provided a number of studies and technical assistance activities on improving the business environment for small and medium enterprises and, most recently, a program for improving the mining sector with emphasis on artisanal mining. While each of these activities has merit, 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, although it has put in place some successful individual programs. In agriculture, it has operated at the community level through a community-driven development (CDD) program—the Fadama Project—that focuses on agricultural investments and appears, according to a recent independent evaluation (IFPRI 2007), to have yielded significant gains in farm incomes.

### **Third pillar: Social service delivery and community empowerment**

The outcomes of Bank support under this pillar are rated as *moderately unsatisfactory*. The sustained growth between 1999 and 2007, caused mainly by rising oil revenues and relative internal stability, led to a modest decline in income poverty but to little improvement in social indicators. Responsibility for delivery of social services falls mainly to 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 the future and for achievement of the MDGs. One bright spot is the success and popularity of CDD programs, which appear to have led to short-term income gains and to the creation of a process within communities for weighing priorities for development. To make these achievements sustainable and to ensure they will contribute 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 teachers, books, and furniture to the newly constructed schools and for providing 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. Bank support for natural resource management, moreover, has 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. Programs that are more broadly defined across the health and education sectors have foundered because of the lack of focus on building institutions at the state level.

## **Summary**

Overall, the outcomes of the Bank program in Nigeria are rated as *moderately unsatisfactory*. This reflects an improvement relative to IEG's 2000–04 assessment, which rated the outcome of Bank assistance as unsatisfactory. The current assessment recognizes the country's 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 tough proposition to maintain. If the government shows the necessary leadership and successfully leverages the resources it has 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 period covered by this CAE, 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 of evolving the approach of “lead states”—a policy that, while 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 to be flexible and to take advantage of opportunities that arise when institutions have committed leadership. The Bank has an important role to play in Nigeria in the long term. It can make a major difference in outcomes in this country. But for this to happen, the Nigerian authorities need to maintain their commitment to the reform agenda that was decisively set in motion earlier this decade—an agenda that 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.

# Management Action Record

Major monitorable IEG recommendations requiring a response	Management response
<p>The Bank needs to analyze Nigeria’s federal system more carefully and to offer assistance to the federal and state governments on how the system of transfers can be reengineered to provide greater incentives to states to spend resources efficiently. The Bank can also consider a series of development policy credits that could leverage federal transfers, with triggers linked to improvements in state-level budgeting, expenditure controls, and service delivery.</p>	<p>This area has been extensively analyzed by the Nigerian government and by the Bank and is currently the object of targeted technical assistance and advice on such issues as conditional cash transfers in federal states. Sharing of oil revenues is mandated by the Nigerian constitution, and setting up a system of conditionalities for the federal government to use before handing over funds is therefore controversial. The Bank team and the federal government are approaching the matter cautiously. Going ahead with development policy credits at this time seems to be premature given the country’s weak institutional and public finance management capacity, especially at the state level. Having said that, work at the state level is geared toward preparing states for budget support in one form or another at the appropriate time.</p>
<p>The Bank needs to increase its policy engagement with state authorities and to expand its analytic work at the state level. As part of this effort, the Bank should fine-tune the lead states approach. The Bank does not have the staff and budget to put teams in each of the focus states, but it can make better use of its partnership with the Department for International Development, which is increasingly basing its support at the state level.</p>	<p>Management believes that this recommendation fails to recognize the important work done in Lagos and the activities under way in private sector development (state-level Investment Climate Assessments) and public expenditure management (state-level Public Expenditure Reviews), as well as the informal analytical work underpinning the state partnership agreements. Nonetheless, management agrees with the general direction of the recommendation. The selection of lead states has been based on a number of criteria, including economic importance and growth potential in subregions. The recommendation to make better use of the Department for International Development’s presence at the state level is well taken. This will be pursued with the partnership as well as with the Country Team. These discussions will focus on cooperation at the project and product levels, rather than on generic cooperation. A good example of this approach is the state-level Investment Climate Assessment program.</p>
<p>The Bank needs to expand its efforts in the power sector. The Bank can work back from the objective of expanding power distribution, see what the</p>	<p>This recommendation is being implemented with a significant shift to the power sector in the Country Partnership Strategy Progress Report and strong efforts on both analytical work and a large Adaptable Program Loan that follows very similar designs, as</p>

<p>implications are, and support a broad-based program geared toward achieving these objectives. The Bank may find it advisable to put a team, rather than an individual, into the field.</p>	<p>suggested by the Independent Evaluation Group, but also aims to address long-standing issues of gas supply in the sector through support for independent power producers using guarantee instruments. The recommendation to strengthen field presence has been discussed in the Vice Presidential Unit strategy meeting and will be pursued.</p>
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# Chairperson's Summary: Committee on Development Effectiveness (CODE)

On September 15, 2008, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered the Nigeria Country Assistance Evaluation: The World Bank in Nigeria 1998–2007 prepared by Independent Evaluation Group (IEG)–World Bank and the Nigeria Country Impact Review: July 1998–December 2007 prepared by the IEG–International Finance Corporation (IFC), together with the draft Management Response.

## Summary of the Nigeria Country Assistance Evaluation

The Country Assistance Evaluation (CAE) reviewed World Bank support to Nigeria between 1998 and 2007 and rated the overall outcome of the Bank's program as *moderately unsatisfactory*. In 2005 an IEG review rated the outcomes of Bank assistance as *unsatisfactory* because of the little progress in tackling some important structural weaknesses, and consequently limited outcomes for the vast majority of Nigeria's population. By 2007 the achievements of the 2004–06 reforms had begun to show signs of reaping more favorable outcomes, despite some shortcomings (for example, the worsening infrastructure situation, the slow pace of fiscal reform at the state level, and a deterioration in social indicators). Accordingly, the overall outcome of the Bank support during the latter part of the review is assessed as *moderately satisfactory*.

IEG-World Bank recommended the Bank to take a long-term view of its role in Nigeria, commit to a deeper engagement in a limited set of development priorities, and continue to shift its work in Nigeria to the country office. Some specific recommendations included the following: (i) help prevent a loss of fiscal discipline by analyzing Nigeria's federal system more carefully, offering assistance to the federal and state governments on reengineering the system of transfers, and considering a series of development policy credits that could leverage federal transfers; (ii) contribute to poverty reduction through improving service delivery at the state level (as part of this effort, the Bank should fine-tune the "lead states" approach and make a more effective partnership with the Department for International Development [DFID]); and (iii) scale up the Bank's efforts in the power sector.

## Bank Response

Management broadly concurred with the thrust of the IEG recommendations and considered the CAE useful for preparing the new Country Partnership Strategy (CPS). At the same time, management was of the view that some of the IEG ratings did not adequately reflect the Bank's performance in Nigeria's complex and challenging operating environment, and it proposed to have separate ratings for each CAE subperiod rather than an overall rating for the entire period under review. Management also noted that the Bank's assistance in the areas of anticorruption and non-oil growth deserved higher ratings. In addition, management stressed that going ahead with development policy credits seems to be premature given the weak institutional and

public finance management capacity, especially at the state level. Management noted the ambiguity of the lead states approach but found its use acceptable given the scarcity of the Bank's resources, particularly its staff resources. The recommendations on scaling up the Bank's efforts in the power sector, strengthening its field presence, and making better use of DFID's presence at the state level were well taken.

### **Summary of the Nigeria Country Impact Review**

IEG-IFC found that IFC has been moderately effective in carrying out its mandate in Nigeria. Despite a broad set of stated objectives across a range of sectors in the Country Assistance Strategies (CASs), IFC's investments were concentrated in the financial sector. Although IFC achieved significant results with these investments, the poor environmental and social effects rating for the financial sector projects was of particular concern. IEG-IFC noted that a focused, programmatic, and well-articulated country strategy is becoming increasingly necessary in light of the size of IFC's operations in the country and their impact on IFC's effectiveness in Africa. Over the review period, IFC's main contribution was the provision of long-term financing and improvement in the corporate governance practices of Nigerian financial institutions. In addition to the financial sector, IFC achieved development impacts in telecommunications, but it had limited or no presence in infrastructure, agribusiness, and manufacturing.

IEG-IFC recommended that the Bank (i) diversify areas of intervention to help generate trickle-down effects of oil-driven growth through a more strategic and effective deployment of advisory services and closer cooperation with the Bank in business climate reforms; (ii) improve the process of developing CASs with greater country focus, especially for larger countries such as Nigeria, by formulating clear objectives in terms of expected development impacts and by better linking objectives with organizational resources; and (iii) ensure that proper priority and resources are given to supervision of environmental and social effects.

### **IFC Response**

IFC management thanked IEG for its findings and recommendations. It noted that IFC is actively seeking effective means of engaging in real sectors and diversifying the areas of interventions. Failures to develop projects in infrastructure and agribusiness in the past could be explained by the distorted and uncertain policy environments as well as by the dominance of government parastatals, particularly in the infrastructure sector. In the future, IFC expected to focus its efforts in infrastructure on the power sector. IFC has initiated a new country strategy process in Nigeria, piloting the structure strategy formulation framework, which would inform and feed into the Bank Group and DFIF joint CPS. IFC is exploring ways to more effectively integrate environmental and social supervision into portfolio and relationship management.

### **Comments from the Government**

The Nigerian authorities provided written comments on the CAE. Overall, the representative of the constituency that includes Nigeria supported the CAE and Country Impact Review (CIR) results, noting, however, that the IEG ratings for the CAE could have been less conservative. The representative also emphasized the need for the Bank team to revisit the lead states approach in consultation with the government. The

representative acknowledged IFC's input in developing the finance and banking sector, but stressed the importance of diversifying its areas of engagement.

## **Main Conclusions and Next Steps**

The subcommittee broadly agreed with the findings and recommendations of the CAE and CIR, although some questions were raised about the overall rating in the CAE. Subcommittee members commended the significant progress made by authorities in recent years in maintaining macroeconomic stability and developing the basis for a more effective and efficient federal government, although they also noted the remaining challenges. They stressed the need for sequencing of support, where the importance of robust analytical work preceding investment lending was emphasized. Members noted the challenges of World Bank Group engagement with a country with a complex federal system, where the lead states approach was broadly supported, although concerns were raised about its exclusionary effects. The importance of strengthening administration of federal, state, and local institutions through capacity building, greater transparency, and sound fiscal management, which would also contribute to reducing corruption, was emphasized. Members agreed with the recommendation to diversify IFC interventions beyond the financial sector to address other country needs and priorities, such as those in the infrastructure and non-oil sectors, including agriculture, housing, health, and education. The need for broadening collaboration with all development partners was underlined.

## **Macroeconomic and fiscal situation**

Subcommittee members commended the Nigerian authorities for the strong macroeconomic performance and the fiscal discipline demonstrated over the past several years. They noted, however, that challenges remain (for example, the need to broaden the tax base and to strengthen tax administration) and requested more information about the Bank's role in guiding future policy actions in these areas. *Management responded that the Bank is collaborating with the International Monetary Fund on broadening the revenue base.* A member believed that in oil-producing countries such as Nigeria, development could be reached through an improved financial system and macroeconomic stability. He underlined the importance of efficient administration, transparency, and sound management of fiscal resources at the federal, state, and local levels. In this vein, another member emphasized the need to address issues of corruption and the lack of transparency in governance in order to improve the country's investment climate. A member noted that Nigeria had changed its status from a "blend" to an International Development Association country and sought information about the impact of this change and the future prospects of the country. *Management explained that after changing its status, Nigeria obtained debt relief and access to concessional financing, which were critical for increasing the Bank's credibility.*

## **Work in a decentralized environment**

Subcommittee members emphasized the importance of continuous Bank engagement at the state level. In this connection, a member wondered to what extent the Bank's programs in Nigeria benefited from its experience in and knowledge of other federal countries. *IEG responded that an evaluation of the Bank's engagement with state governments in large federations such as Nigeria, India, Brazil, and Russia will be initiated this year. The Bank has*

*successfully used Development Policy Lending at the state level in some countries; this practice could be replicated in Nigeria. Management added that the use of conditionality in the short term is problematic because almost all resource transfers to the states are constitutionally mandated. However, an opportunity to use Development Policy Lending might emerge in the future. Speakers stressed the need for simultaneous capacity building and institutional strengthening at the state and federal levels. Management agreed and noted that work aimed at engaging state governments in knowledge-sharing activities is ongoing. A member requested more information about the progress in implementing the Fiscal Responsibility Act.*

### **Use of the lead states approach**

Members expressed divergent views on the use of the lead states approach: although acknowledging the importance of selectivity in dealing with large countries, they sought clarification on the selection criteria for the states, evidence of a spillover effect, and an explanation of the downside risks. *IEG felt that in the Nigerian context, the lead states approach should be further considered. It stated that it would welcome any development and clarification of this approach by both the Bank and DFID in the upcoming CPS. Management responded that the Bank works with the states that show ownership and commitment to such cooperation. It also noted that in a large country with many pressing needs, the Bank's strategy should be selective; otherwise, the Bank's resources, particularly human resources, will be stretched. Community-driven, environmental, infrastructure, and health projects have been implemented in all 36 states to mitigate the possible exclusionary effects of the lead states approach. A few speakers noted that the lead states approach may represent the most effective form of donor engagement at the state level, and that it has a potential demonstration effect, to give incentives to "lagging" states to undertake important reforms. One member believed that such an approach is the most effective form of donor engagement at the state level. Another speaker expressed concerns about the risk-averse World Bank Group strategies in an environment where investments flow in the areas of a less-risky business. IFC responded that it has begun to formulate a new country strategy to diversify its activities and extend collaboration with the Bank in key areas such as investment climate reform and electricity. In cases where either risks or sector conditions make investments unfavorable, IFC would engage with advisory services.*

### **Sequencing**

Some members stressed the importance of sequencing World Bank Group support to Nigeria: they called on the Bank to look at the policy environment and engage in policy dialogue and capacity building before providing financing. *Management broadly agreed with this recommendation, noting, however, that the Bank would not have been perceived as a constructive partner if during the period of reengagement with Nigeria it had focused only on economic and sector work.*

### **Ratings**

Some of the speakers believed that the evaluation ratings would have been more accurate if they had separated the CAE into two subperiods instead of one that covered the entire period under review. These speakers felt that an overall rating may not capture all the major changes and improvements that may have taken place during the second half of the evaluation period. *IEG explained that there is ongoing work to introduce a new evaluation instrument that would be intermediate between the CAE and CAS Completion Review in terms of*

*period of time covered and depth of assessment.* Other members felt that the evaluation could have benefited from a clearer distinction between the respective reform agendas of the Nigerian government and the Bank.

### **Involvement in specific sectors**

Members emphasized the importance of expanding Bank and IFC programs in infrastructure, particularly in energy, and sought more information about management plans to strengthen the presence of its energy team in the field. These members believed that in the power sector the Bank's involvement should focus on power generation, and they asked about IFC's plans to invest in other sectors. *Management responded that the Bank currently supports the use of gas for power generation through risk mitigation instruments.* Speakers noted the importance of developing sustainable health, education, and housing. They called on IFC to expand its activities to non-oil sectors of the economy, especially to social sectors. Another member noted that the lack of local knowledge and of adequate sector and analytical work were major issues hindering the effectiveness of Bank interventions. A member sought additional information about the trade finance program, which accounted for almost 50 percent of IFC commitments in the financial sector in Nigeria, particularly its "additionality" and the development impact. *IEG said that it plans to conduct an evaluation of the global trade finance program, and that a self-evaluation of this program by management is expected to be considered by CODE.*

### **Collaboration with development partners**

While appreciating the strong collaboration between the Bank and DFID, a number of members urged the Bank to better coordinate its efforts with those of other donors and nongovernmental organizations. *Management briefed members about plans to involve all major donors in the preparation of the next CPS for Nigeria and confirmed the Bank's active engagement with civil society organizations.*

*Jiayi Zou, Chairperson*

# Chapter 1

## Background

### Nigeria before 1998: A Record of Development Failure

Until 1998, the start of the review period covered in this Country Assistance Evaluation (CAE), Nigeria had been one of the most disappointing development stories of the modern era – a country whose experience serves as a cautionary tale of the risks of large natural resource income in an environment of weak governance. The country's failure in development was evident in the stagnation of gross domestic product (GDP) per capita (in constant 2000 dollars), which stood at \$430 in 2004 compared with \$444 in 1977, with a significant fall in non-oil GDP per capita over the period. This stagnation was accompanied by a substantial increase in the numbers of the poor and in their proportion of the population. The national incidence of poverty rose from approximately 28 percent in 1980 about 55 percent by 2004. Many of the key social and economic indicators stagnated or declined and are now comparable to those of some of the poorest African countries – countries that lack Nigeria's substantial endowment of natural resources (table 1.1).

Table 1.1: Nigeria: Selected Economic, Social, and Infrastructure Indicators, 2004 or Nearest Year

	Nigeria	African comparators <sup>a</sup>	Asian comparators <sup>b</sup>	Low-income countries
<b>Economic indicators</b>				
GNI per capita, Atlas method (current \$)	400	240	717	506
Agriculture, value added per capita (in constant 2000 \$)	104	81	118	100
Manufacturing, value added per capita (in constant 2000 \$)	17	24	137	60
Services, etc., value added per capita (in constant 2000 \$)	85	91	279	207
<b>Social indicators</b>				
Immunization, DPT (% of children ages 12–23 months)	25	78	74	64
Mortality rate, infant (per 1,000 live births)	100	85	54	75
Mortality rate, children under 5 years of age (per 1,000)	194	131	69	115
School enrollment, primary (% net)	68	68	86	79
School enrollment, secondary (% net)	27	14	41	40
<b>Infrastructure indicators</b>				
Road density (km or road per 1,000 km <sup>2</sup> of land area)	21	6	79	
Telephone mainlines (per 1,000 people)	7	5	27	30
Electric power consumption (kWh per capita)	97	151	348	374
Improved sanitation facilities, urban (% of urban population with access)	53	50	72	61
Improved water source, urban (% of urban population with access)	67	79	88	88

Source: World Bank internal database.

Note: DPT = diphtheria, pertussis, and tetanus; GNI = gross national income; km = kilometer; kWh = kilowatt hour.

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- a. Ethiopia, Mozambique, and Tanzania (unweighted averages).
  - b. Bangladesh, Indonesia, and Pakistan (unweighted averages).

The increase in poverty and the deterioration or stagnation of many other social and economic indicators occurred despite access to sizeable earnings from oil exports and large amounts of foreign borrowing. The factors that led to the declines were as follows:

- **Political instability.** From 1967 to 1970 Nigeria experienced one of Africa's most damaging civil wars. This was followed by a series of military regimes. Democratic governments were occasionally elected during the 1970s and 1980s, but none was able to serve out its term until the election of President Olegesun Obasanjo in 1999.
- **Lack of a clear national identity and commitment.** Nigeria is a coalition of three dominant ethnic groups that constitute about 70 percent of the total population, with many smaller groups interspersed among them. The number of languages spoken by the country's population – well over 300 – vividly illustrates the diversity of identities in the country and the complexity of its social fabric.
- **The impact of hydrocarbon exports on the real exchange rate.** Nigeria presents a classic case of Dutch disease. Before the buildup of oil and gas exports that began in the early 1970s, Nigeria had a diversified economy with substantial agricultural production and exports. By 2005, however, oil and gas accounted for about one-third of the country's GDP, 70 percent of budget revenues, and 95 percent of total exports. Exchange rate appreciation has made local agricultural commodities and manufacture goods uncompetitive.<sup>1</sup>
- **Weak economic management.** With pressure to spend surpluses in times of high oil prices and to continue those spending levels when oil prices drop, the Nigerian economy is characterized by high volatility, fiscal deficits, and rapid inflation.
- **Rapid population growth.** Nigeria has not yet experienced a demographic transition. The population growth rate has averaged 2.7 percent per year since 1970 and currently stands at about 2.4 percent per year. Rates of population growth of near 5 percent per annum in the large cities are straining their administrative capacity and infrastructure.
- **Widespread corruption and weak governance.** Nigeria consistently ranks at the bottom or close to the bottom in international comparisons of corruption. Most of the country's military dictatorships were associated with large-scale corruption, but concerns about corrupt practices have also extended throughout the civil service and the private sector.

## 1999: A Return to Democracy

*This bleak historical background has brightened within the past decade. In 1999 President Obasanjo was elected in a democratic election. He was reelected in 2003 – the first instance of successive democratic elections in Nigerian history. The importance of*

breaking the cycle of military dictatorships cannot be overstated. One cannot assume, however, that democracy is irreversibly institutionalized in Nigeria. It remains fragile, as the controversy surrounding the April 2007 state and presidential elections, deemed deeply flawed by several international observers, has demonstrated.

*Between 1996 and 2003, some steps at reform were initiated, although there was no comprehensive reform package.* During the final years of the government of General Sani Abacha, the country's president between 1993 and 1998, steps were taken to curb the high rate of inflation through a stabilization program, and a start was made on privatization. A group of influential businesspersons put together Agenda 2010, a manifesto of measures needed to move Nigeria to middle-income status. This led to a great deal of public discussion. During his first term, President Obasanjo attempted to initiate a broader reform program. His primary political imperative was to strengthen the base of political support for the new government through building alliances with key state governors and ensuring the loyalty of the military to a civilian regime. Despite the introduction of new anticorruption legislation and improved financial management procedures, there was growing disillusionment over the failure to attempt the comprehensive reform that both local and foreign observers felt were needed.

*In 2004 a new economic reform team took steps to deal with the problem of economic volatility.* In 2003, at the start of his second term, President Obasanjo assembled a team of technocrats to spearhead economic reform. In 2004 the government began to base the country's budget on a conservative reference price for oil, with excesses saved in a special account. The new system made government expenditures independent of changes in oil prices. The national deficit, which had stood at 3.5 percent of GDP in 2003, turned into surpluses of 10 percent and 11 percent in 2004 and 2005, respectively. Foreign reserves increased fivefold – from \$7.5 billion to about \$38 billion – between 2003 and 2006. Inflation had decreased to about 10 percent per annum (as compared with an average of 40 percent per annum between 1992 and 1998). By 2006 Nigeria's exchange rate had been unified and imports liberalized, with a reduction in average unweighted tariffs from 29 percent in 2003 to 18 percent.

*The government also prepared a poverty reduction strategy.* In 2004 the Nigerian government prepared a National Economic Empowerment and Development Strategy (NEEDS). The NEEDS identifies three major objectives, or pillars: (i) empowering people and improving social services delivery; (ii) fostering economic growth, in particular in the non-oil private sector; and (iii) enhancing the effectiveness and efficiency of government and improving governance. The NEEDS was followed by the preparation of State Empowerment and Economic Development Strategies, or SEEDS.

*Reforms in government finance were strengthened.* Starting in the first Obasanjo term, the government took steps to strengthen the budget process. These reforms were deepened in the second term. One of their key objectives was increased transparency with greater accessibility of budget and expenditure data. A Cash Management

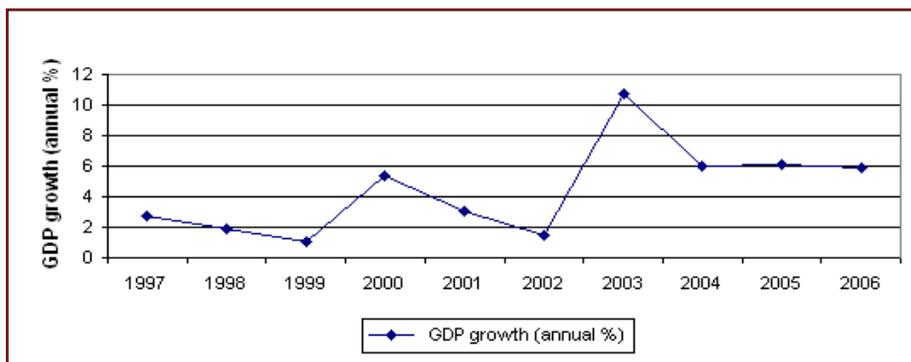
Committee was put in place to ensure that expenditures related to the amounts budgeted; this had not been the case in the past. To improve public procurement, the government introduced a Value for Money audit and promoted an open tender process with competitive bidding for government contracts. Government officials estimate that these systems have saved the country about \$1.5 billion since 2001.

*Structural reforms were initiated.* The government also undertook a package of structural reforms. Between 1999 and 2006, 116 enterprises were privatized. The Power Holding Company of Nigeria was unbundled into 18 companies responsible for power generation, transmission, and distribution. There was deregulation in the telecommunications, power, and downstream petroleum sectors. Civil service reform was begun: 35,700 officials were severed from the civil service and an estimated 8,000 ghost workers were expunged from the government payroll. Salaries were increased and the salary structure was simplified.

*A new institutional structure for dealing with corruption was elaborated.* In 2003 Nigeria became one of the first countries to adopt and implement the Extractive Industries Transparency Initiative (EITI), the purpose of which is to improve governance of the oil and gas sector. The government commissioned an independent audit of the oil and gas sector from 1999 to 2004. It also created two institutions to tackle corruption: the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission (ICPC). Since these commissions were created, there have been high-profile convictions for corruption that included some state governors and a former inspector general of the police. A number of ministers and judges have been dismissed. Assets worth more than \$5 billion have been seized, confiscated, and refunded to the state.

*These measures have positive outcomes.* As a consequence of these measures and of the increase in oil prices, Nigeria's GDP growth has accelerated. GDP growth averaged 7.1 percent per year between 2003 and 2006, compared with 2.25 percent in the preceding 10 years (figure 1.1). The non-oil sector, which had languished in the preceding years, averaged 7 percent growth per annum. In addition, in 2005 Nigeria reached agreement with the Paris Club for a debt relief package totaling \$18 billion, equivalent to a 60 percent write-off of its outstanding debt.

Figure 1.1: Nigeria: GDP Growth, 1997–2006



Source: World Bank internal database.

*The recent achievements must be sustained and built upon.* These recent achievements, while significant, remain fragile: the challenge in the coming years will be to consolidate them. The progress so far has been at the federal level; there has been very little improvement in transparency or efficiency at the state level, where half of public expenditures take place. It is encouraging that the government of President Yar Adua, elected in April 2007, has stated its continued commitment to the reforms. Subsequent to the CAE period, the federal government agreed to a large additional transfer from the oil surplus account to the state governments. Although this transfer is understandable given the very high level of oil prices in 2007, it needs to be coupled with measures to try to ensure that the state governments use these additional funds effectively.

# Chapter 2

## The Bank in Nigeria

### Overview

*During the presidency of General Sani Abacha (1993–98), the Bank essentially disengaged from Nigeria.* It made no new loans to the country because of the perceived high levels of corruption, economic mismanagement, and likely ineffectiveness of Bank assistance. The Bank retained a resident representative position in Abuja, but some of the staff members in the country office were laid off. The remaining staff were directed to focus on activities that might serve as a basis for subsequent reengagement, namely, supervising the existing portfolio and undertaking analytic work, including preparation of a Country Economic Memorandum in mid-1990. By 1997, Nigeria was a pariah in the Bank – when staff of the country office tried to set up a Web page on the Bank’s activities there, they were instructed to remove it.

*Following the democratic elections in 1999, the Bank prepared the ground for an expanded program of support.* Bank staff worked closely with the Obasanjo transition team to help develop the key programs for the new administration. A Country Director position was located in Abuja in 2000. Thirteen projects that had begun between 1990 and 1993 were closed between 1999 and 2001. An internal Bank study had rated more than half of these projects as unsatisfactory, noting that their sustainability was unlikely and their effect on institutional development modest or negligible in most cases.

*The Bank undertook new investment loans before it had a comprehensive Country Assistance Strategy (CAS) to underpin them.* The Bank's senior management had developed a close relationship with Mr. Obasanjo during the period before his election. Once in office, the new president was keen for the Bank to reengage quickly, and Bank managers and staff responded with alacrity. Between May 2000 and July 2001, the Board approved seven new loans totaling \$444 million for Nigeria. Unable to develop a CAS without a government strategy document, the Bank prepared interim strategy papers with a relatively short-term focus in 2000 and 2002.

*Between 1999 and 2003, the rate of project approval outstripped the absorptive capacity and the pace of economic reform.* By 2003 only a small proportion of funds had been disbursed and a majority of the new Bank projects were rated as being at risk. The active expansion of the Bank program was taking place during a period when very little was happening on the Nigerian front. Following a Board discussion of the 2002 strategy document, Nigeria was moved from the base case to the low case for purposes of lending allocations. An Independent Evaluation Group (IEG) internal assessment of the achievements prior to the 2005 Country Partnership Strategy (CPS), the first full assistance strategy since the 1990s, gave an overall rating of unsatisfactory to the outcome of Bank assistance during 1999 through 2003.

*The acceleration of economic reform starting in 2003 and the preparation of a national poverty reduction strategy led to the preparation of the first full CAS in more than a decade. The imperative of the new Country Director who took over in Abuja in 2004 was to support the reform team to the maximum extent possible with technical advice and assistance. The preparation of the NEEDS cleared the path for the production of a full country strategy by the Bank.*

A CPS covering the programs of the Bank and the U.K. Department for International Development (DFID) was issued in June 2005. The CPS uses the same three strategic pillars as does the NEEDS – community empowerment and human development, non-oil growth, and better governance. The essence of the strategy was to build on the achievements of the federal government in improving macroeconomic management by extending these achievements to the state level and effecting improvements in service delivery to the bulk of the Nigerian population, which had yet to benefit from the reforms.

*The progress of reform encouraged the Bank to expand its program in support of the CPS. As reform moved into full gear in 2004, 2005, and early 2006, the Bank put the new strategy into operation. New lending programs were introduced in all areas of the strategy to attempt to deal with Nigeria’s infrastructure crisis (the key to enhanced private sector development [PSD] and non-oil growth), to enhance social service delivery in support of the attainment of the Millennium Development Goals (MDGs), and to build governmental capacity and improve financial management at the federal and state levels. The Bank’s budget for Nigeria was about 40 percent larger than it had been during the implementation of the interim strategies. As a result, the new lending did not come at the expense of analytic work, which was substantially expanded with three major products – a Country Economic Memorandum, a poverty assessment, and a Public Expenditure Review – undertaken between 2005 and 2007.<sup>1</sup>*

*Results of the 2007 election and subsequent political uncertainties raise concerns about the momentum of the reform and will challenge the Bank to find new ways to provide effective support. By mid-2006, Nigeria’s economic reform had begun to run out of steam. The president sacrificed a great deal of his political capital in an abortive attempt to get parliamentary approval of a third term in office, and the political focus shifted to the upcoming election. The 2007 election process was a great disappointment, and almost all independent observers pointed to major political intervention and irregularities. The administration of President Yar Adua will require time to establish its credibility and has had to begin anew the process of shoring up its political base.*

## **The Bank Strategy**

*In the absence of a Poverty Reduction Strategy Paper, the Bank produced a series of interim strategy documents between 2000 and 2005. An interim strategy note in early 2000 (IS00) proposed focusing on establishing a dialogue with government officials, providing advisory services backed by selective technical assistance, updating the Bank’s knowledge base through a set of sector studies, helping the government sort out its*

debt obligations, and preparing several small projects aimed at poverty reduction and the environment for PSD.

*In 2002 the Bank laid out the pillars of its strategic approach to Nigeria.* At the time of the earlier interim strategy note, the Bank had intended to proceed with a full CAS in 2001 pending the government's initiation of the Poverty Reduction Strategy Paper. When the government showed little interest in preparing such a strategy, the Bank prepared another interim strategy report, with the full country strategy expected later that same year. The Bank's 2002 Interim Strategy Update (IS02) noted the difficulties facing the government given the legacy of complex political and economic problems. It emphasized that the Bank's role in Nigeria was not so much to transfer financial resources as to help the country build the capacity to manage its own resources effectively. By this time, a somewhat clearer framework had emerged for Bank support for Nigeria encompassing three pillars: (i) improve economic governance; (ii) create the conditions for rapid, private-sector-led, poverty-reducing growth; and (iii) enable local communities to take charge of their own development (World Bank 2002a). The IS02 established a set of benchmarks that Nigeria would need to meet to stay in the base case scenario.<sup>2</sup> These benchmarks were not met and, as mentioned earlier, Nigeria's lending allocations were lowered in June 2002.

*The 2004 strategy reflected the initial progress on reform.* In May 2004 the Bank produced a second Interim Strategy Update (IS04), reflecting the significant set of measures introduced by the reform team in its first months of activity, including the preparation of the NEEDS. The IS04 indicated that the NEEDS would form the basis for a full CAS in 2005. The three pillars of the interim strategy were essentially restated. The strategy included increased analytic work to fill knowledge gaps, including especially a poverty assessment and a Country Economic Memorandum. The report argued, successfully, that the reforms undertaken justified a move from the low case to the base case (World Bank 2004d).

*The 2005 strategy links the objectives and the Bank's method of operation in Nigeria.* The CPS, prepared jointly by the Bank and the DFID and presented to the Bank's Board of Directors in June 2005, is the first full Bank strategy document for Nigeria in the democratic era. The CPS takes as its framework the priorities cited in the NEEDS: (i) empowering people and improving social service delivery, (ii) growing the private sector and focusing on non-oil growth, and (iii) changing the way government works and improving governance. The CPS clearly differentiates Bank efforts at the federal and state levels. At the federal level the Bank would use traditional investment loans to support investments in infrastructure and, capacity building to improve governance and the investment climate for PSD. It would also support national initiatives for human development, such as HIV/AIDS programs. At the state level, the Bank would create a model that could be scaled up by working in six "lead states" that would be chosen on the basis of their commitment to reform. The Bank would offer a "performance package" to these states using programmatic, cross-sectoral instruments and, eventually, budget support. For the remaining states, the program would focus on community-driven development (CDD) and on programs relating directly to achievement of the MDGs.

*On balance, the Bank strategy has been relevant to Nigeria's needs. Overall, the three priority areas for Bank activity are an appropriate focus for Bank efforts in Nigeria. The three pillars have helped shape, and are consistent with, the Nigerian authorities' own priorities. Problems emerge, however, with respect to program design within the broad strategy categories.*

## The Bank Program

*The Bank's initial focus on lending operations required a tradeoff with analytic work. After the 1999 elections, the Bank wanted to start lending quickly. However, its budget for Nigeria was not increased commensurate with the needs of a balanced program of analytic work and lending, and implicitly a strategic choice was made to identify suitable programs for lending and to use these as a means of rebuilding the Bank's sectoral knowledge. This method of sequencing Bank activities appears to have been an important factor in the disappointing outcomes of the initial group of lending operations.*

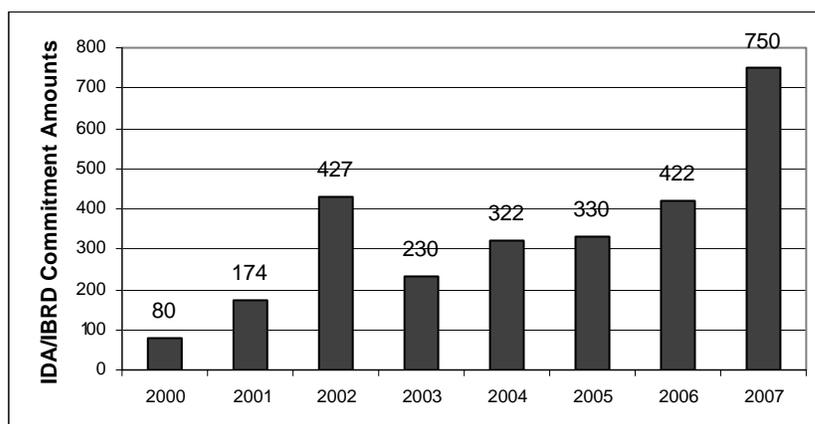
*Over time the Bank deepened its knowledge of the constraints to achievements on the ground, but given Nigeria's size and complexity, an effective means of operation remained elusive. By the time the CPS was issued, the Bank had sufficient background knowledge and depth of understanding of the Nigerian economy, including the political economy, to contribute to a more effective program and an enhanced strategic design. Nonetheless, there were still important gaps in the analytic work – gaps have only been filled recently (a poverty assessment and Public Expenditure Review). Linking such a highly diversified Bank program (both geographically and sectorally) to the three core strategic outcomes defined in the NEEDS and CPS has been a challenge. To promote cross-sectoral coordination in relation to the three pillars of the CPS, outcome coordinators were appointed for each of the pillars. All three coordinators were based in the field. Although in principle this seems a sound strategy, country team members have noted that in practice, coordination remains a problem.*

## Lending

***Buildup of the Bank portfolio.** Bank lending has been broadly consistent with Nigeria's poverty reduction strategy. In 2004 the Nigerian government issued the NEEDS with its three major pillars: (i) empowering people and improving social service delivery; (ii) fostering economic growth, particularly in the non-oil private sector; and (iii) enhancing the effectiveness and efficiency of government and improving governance. Between 80 and 90 percent by number of the Bank's credits have been directed at the first and second pillars (40–45 percent each); the remaining credits have been directed at the third pillar. Nearly all of the credits provided under the first two pillars, however, also had components directed at pillar three.*

*Bank lending to Nigeria has been in the form of investment loans. Since fiscal 2000 Nigeria has received 26 International Development Association (IDA) credits plus 4 four supplementary credits for ongoing projects, for a total of more than \$2.7 billion (figure 2.1). Given Nigeria's weak budget process and its access to budgetary resources from oil exports, the Bank made no adjustment loans during this review period.*

Figure 2.1: IBRD/IDA Lending to Nigeria, 2000–07 (\$ millions)



Source: World Bank internal database.

*Quality of the portfolio.* The Nigeria portfolio performed poorly until fiscal 2005. Only three projects approved since 1999 have closed, and it is difficult to determine how the portfolio is performing on the basis of these limited data. A better indicator is the number of projects at risk (table 2.1). The extraordinarily high figures for projects at risk during fiscal 2002–04 provide evidence of the difficulties experienced during that period.

Table 2.1: Nigeria: Projects at Risk, 1999–2007

	1999	2000	2001	2002	2003	2004	2005	2006	2007
No. of projects	8	5	5	9	12	15	17	19	23
Projects at risk (%)	13	0	0	89	75	53	41	42	30
Net commitment (\$ million)	715	437	254	682	911	1,228	1,503	1,824	2,574
Commitments at risk (%)	14	0	0	81	79	66	43	26	16

Source: World Bank internal database.

*A limited knowledge base, insufficient time to build institutions, and the need to spread projects too thinly appear to be the major factors that contributed to the poor quality of the portfolio.* First, as a consequence of the Bank's absence from Nigeria in the 1990s and the lack of time and budget to do analytic work up front, the Bank's projects in the early part of the period covered by this review were designed and prepared without an adequate local knowledge base. Second, major institutional strengthening was required, and, given the Bank's absence, there was a need to rebuild government capacity in project financial management and procurement. Third, because the projects were thinly spread, with only small loans made to each component or state, the ministries, departments, and agencies (MDAs) did not take ownership of them and were unwilling to provide the needed counterpart funding. Fourth, projects

undertaken at the state level were often geographically dispersed because the Bank was under pressure to work in each of Nigeria's six geopolitical zones during the initial phase of reengagement. The upshot was that in some cases, the Bank had to supervise six or more projects, each with its own set of issues.

*The portfolio was restructured in 2005, and this resulted in quicker disbursement of funds and a lowering of the proportion of projects at risk.* While portfolio improvement was central to the mandate of each Bank Country Director during the period, the Bank made little headway initially. By 2005 a clearer approach was emerging. The approach comprised four elements. First, an increasing number of Task Team Leaders (TTLs) were stationed in the field. The Nigerian interlocutors unanimously agree as to the positive impact of this decision on access, knowledge transfer, and, ultimately, project quality. Second, the Bank reduced or eliminated counterpart funding requirements in many projects. Although this move ran counter to the notion that counterpart funding provides evidence of ownership, the previous practice had held the program hostage to dysfunctional budget procedures at the state level. Third, on the basis of the recommendations of the country financial assessment, the Bank established a Project Financial Management Unit in each state. The newly created units, which were separate from the Project Implementation Units (PIUs), covered all projects in their respective states. This has proved to be an effective approach to decentralized project financial management. Fourth, over time the Bank deepened its knowledge of the Nigerian context and the TTLs developed a rapport with their counterparts. This rapport has been crucial in enabling effective adjustments to be made in programs such as Fadama II, the Local Empowerment and Environmental Management Project (LEEMP), privatization, Lagos metropolitan development, and HIV/AIDS. The success of the restructuring in improving the quality of the portfolio is shown by the sharp reduction in projects at risk (table 2.1).

*Bank project designs appear to have factored in the substantial risk of corruption.* Aware of the high risks of corruption, the Bank has been diligent in its enforcement of procurement guidelines and has put in place the special arrangements for financial management at the state level described earlier. At the same time, senior staff in the country office have provided close supervision. Despite the prevalence of corruption in the country, there have been few investigations of Bank projects in Nigeria.

*Bank projects are also contributing to the establishment of some effective institutions, and Bank CDD projects are showing results.* Bank projects have contributed directly to the strengthening and buildup of some of the most impressive institutions in the country, including the National Statistical Office, the Nigerian Agency for the Control of AIDS, the Lagos Metropolitan Area Transport Authority (LMATA), and the Lagos Central Office of Statistics. An independent assessment of Fadama II, one of the Bank's CDD projects, suggests that it has yielded significant benefits for poor rural communities (IFPRI 2007). The successful CDD projects share three important features. First, they are managed by technical experts who have operational autonomy and a clear sense of the agency's objectives. Second, the leaders have considerable flexibility with respect to recruiting and dismissing staff. Finally, employee salaries are four to five times as high as those of government officials at the same grade.

*Despite these signs of progress, the Bank portfolio is not yet having the projected impact on outcomes. Nigeria is a very large country, and the Bank faces a conundrum. On the one hand, its projects are often overscaled relative to the difficulties of the situation, the institutional capacity to implement them, and the Bank's own supervision capacity. On the other hand, the projects are too small to have an impact on physical production or service delivery in the short to medium term. To address this, the Bank needs to be more strategic in designing its projects: for example, a project intended to support the achievement of an MDG needs to be embedded in a program of appropriate scale for that purpose. Projects intended as demonstrations or pilots for subsequent replication by the government need to be designed with this objective in view.*

### **Knowledge services**

*The Bank entered the period with a serious knowledge deficit, particularly with regard to sectors and state-level activities. As noted earlier, the Bank's knowledge base on Nigeria had eroded during the 1990s. During that decade, the Bank had maintained contacts on the macroeconomic side and it prepared a Country Economic Memorandum toward the end of the period. In the sectors, contacts were limited to project supervision by Washington, D.C.-based staff at six-month intervals.*

*The Bank moved quickly and effectively to strengthen its knowledge of fiduciary matters and began to analyze federal/state fiscal relations. When the Bank resumed activity in Nigeria, it gave priority to the fiduciary sphere to ensure effective procurement and financial arrangements for Bank investment lending. The Financial and Procurement Assessments established road maps for reform in these areas in Nigeria that are still being followed. A second priority was to gain an understanding of the federal system and the functioning of the state and local governments. To this end, the Bank undertook some studies between 2002 and 2004. The intention was to follow up these initial studies with in-depth analytic work at the individual state level. A start was made with some work on Lagos; however, no work has been done in other states.*

*The Bank has undertaken a series of studies on human development, but other sectors, particularly infrastructure, remain understudied. Over time many of the gaps in the Bank's analytic work have been filled. The Bank's analytic work in the human development area has been particularly comprehensive, and has included the recent poverty assessment, a gender assessment, and a review of higher education, among others. Studies for which the main counterparts and interlocutors are at the federal level have been the focal point of this effort. Sector work in other important areas remains a major lacuna in the Bank's analytic work.*

*The complexity of infrastructure issues in Nigeria calls for in-depth sector analysis both to create a shared understanding of what the problems are – and why the progress has been so limited – and to establish a countrywide consensus on the way forward. This said, however, Nigeria's sheer size and complexity pose a problem for the preparation of countrywide sector reports. In agriculture, the fiscal 2002 sector analysis is a compendium of good practice at a level that is too aggregated and unprioritized to*

provide useful advice to practitioners. In a large country such as Nigeria, agricultural practices vary from one area to another; any useful analysis needs to be adapted to different geographic zones.

*Informal, just-in-time notes have been an important feature of the Bank's analytic work.* The Bank has prepared a considerable number of informal notes and just-in-time pieces for the government, including policy notes for incoming governments. In 2003 the Bank was asked to keep these notes confidential because of concern that it might be damaging to the government if the Bank were seen as the source of policy proposals. The policy notes, prepared with DFID and the U.S. Agency for International Development (USAID) for the 2007 change of government, have also been very closely held; at the time of writing, the new government and the Bank had not discussed their content. Many officials expressed appreciation for the willingness of the Bank to put together at short notice advice on good practices or experiences elsewhere. However, these notes should not be treated as a substitute for more substantial analytic work.

### The core processes

*The balance between the federal, state, local, and community levels.* Moving forward, the Bank needs to be strategic in balancing its engagement at the federal, state, local, and community levels. The economic reform has reduced the urgency of Bank engagement on issues of macroeconomic stability, although the need to improve governance at the federal level and to expand and rehabilitate national-level infrastructure remains a priority. A balance between the federal, state, and community levels now needs to become a central issue in the design of the Bank's program. The Bank's formal analytic work, other than an early review of state finances and two studies on Lagos, has largely been directed at federal officials. Of 26 projects undertaken between fiscal 2000 and 2007, 14 were implemented mainly at the federal level or through federally driven national programs; 2 had joint federal and state leadership; 6 were state-driven programs; and 4 were community driven. This balance will almost certainly need to shift toward the states in the years ahead, if the goals of effective service delivery are to be met.

*The critical challenge for the Bank has been how to engage effectively with Nigeria's 36 state governments.* A key challenge for the Bank has been the necessity to operate each program in only a limited number of states and, at the same time, to ensure that the impact of the program extends beyond the borders of the states in which it operates. The approach proposed in the CPS, discussed earlier, is to select lead states on the basis of factors such as the quality of the budget process (transparency, public access, timeliness, realism) and the shares of budget devoted to human development, and the Bank's perception of the state leaders' commitment to development. The rationale for this approach is that states that have shown willingness to reform should have synergies as well as greater prospects of success. The demonstration effect in these lead states, and the carrot of additional resources for development, should motivate other states to improve their economic and financial management.

*The lead states approach needs to be made fully operational.* The approach is definitely on the right track, but neither the Bank nor the DFID has developed a clear sense of the implications of the approach for its operations. National programs are available to all

states or groups of states that differ from the lead states based on criteria specific to those programs. DFID has been concerned that the lead states' criteria may bias social investments away from the poorest parts of the country. Both the Bank and DFID need to think through the numbers of lead states and the level and nature of the programs and projects that these states will undertake. To give just one example, the state governance projects that are key interventions of the Bank at the state level operate in only three of the six lead states, and one of the states in which such a project operates, Bauchi, is not classified as a lead state.

*Institutional development.* The Bank has supported an ambitious agenda of institutional development under the governance pillar of its Nigeria program. Efforts undertaken in response to the government's declared goal of "making government work better" and the widely expressed view that "the capacity situation in Nigeria is dire," have focused on enhancing institutional, organizational, and human resource capacities. Bank support has contributed to the buildup of some very effective institutions. Success in one notable example, the National Bureau of Statistics, as discussed earlier, demonstrates a model of institutional strengthening that works. For the most part, however, achievements have occurred largely in revising institutional frameworks and restructuring certain organizational units. These advances now need to be extended to institutionalizing process and performance changes.

*There has been no real capacity-building strategy, and Nigerian informants view the current approach as "seriously flawed."* To date, consultants have played a major role in helping engineer change. Both government officials and Bank staff expect that this heavy reliance on consultants will have to continue for a considerable time. But increased progress in human resource management and skills development is needed to ensure the implementation and sustainability of institutional and structural reforms.

*Support for training has been substantial, but is not being efficiently planned and executed, and the gains are unlikely to be sustainable.* Job-related training that goes beyond the typical project implementation training is included in most Bank operations. But the training support has been piecemeal, provided project by project (or even component by component) rather than systemically. The Bank is supporting major governance programs at the federal and state levels, but neither of these has helped develop comprehensive capacity-building strategies. The three states included in the Bank's State Governance Reform Project (Bauchi, Cross River, and Kaduna) are planning to invest in the upgrading of existing local training institutions, with the support of project funding, without evidence of the cost-effectiveness of that action. Obtaining such evidence would require a broad review of the training institution landscape in Nigeria and options for the future, possibly including the coordinated development of training institutions between federal and state governments.

*Support for bolstering the demand for change has been limited.* Public sectors generally do not undertake reform without pressure from outside stakeholders. Nigeria has an open press, an active civil society, a growing private sector, and widespread community-level mechanisms, but these groups have not yet become as effective in demanding institutional change as they need to be to ensure efficient and

accountable governance and service delivery. Work on the demand side of the governance and capacity-building agenda has received limited support from the Bank over the past eight years. This would seem to be an important area for greater Bank attention in consultation with other donor partners.

## Partnership

*The Bank's partnership with DFID is intended to build on the comparative advantage of both institutions.* The partnership involves the development of a joint strategy through the country strategy, decisions on which agency will take the lead both sectorally and geographically in developing and implementing programs, and an exploitation by each agency of its comparative advantage – the Bank's capacity to work multisectorally and bring its fiduciary discipline to programs and DFID's speed of response and presence on the ground outside Abuja. The combination of these two factors was described by one country team member as "a marriage made in heaven." A large number of TTLs expressed their appreciation for DFID's willingness and capacity to provide funding and make experts available at short notice to deal with issues that had arisen during project preparation or implementation or to assist with Bank analytic work.

*In a number of areas the partners' potentials are not yet being exploited.* Coordination at the top levels of each agency is very good; however, as one moves down to the TTL level, branding becomes more important and neither side is inclined to coordinate in the design phase of programs. The coordination is stronger in the implementation phase, during which teams can make use of the other agency to deal with problems or to bring issues to the attention of appropriate officials. A particular difficulty in coordination involves the two partners' different approaches to hiring and supervising consultants: the Bank insists on execution by project authorities, whereas DFID tends to contract directly with the consultants it employs. Even with this constraint, however, the Bank could make greater use of the potential afforded by the DFID offices at the state level to help design and implement programs.

*Donor collaboration is good, but with the exception of the Bank-DFID partnership, collaboration does not play a significant role in shaping what donors do in Nigeria.* The Bank-DFID partnership dominates the donor scene in Nigeria, with other agencies such as USAID, the United Nations Development Program, and the African Development Bank associating themselves with the partnership in varying degrees that fall short of full membership. Outside of the partnership there is no real framework for active donor collaboration. The relatively small size of the donor community and the concentration of official agencies in Abuja make for easy and effective collaboration among the donor community. Information flow is not a problem. The most contentious areas have probably been in the MDG-related programs where donor presence is concentrated. There have been strains in the past, but at the time of writing these seem to have resolved, and cooperation in areas such as the HIV/AIDS program is proceeding well.

*Despite a number of good practice examples, the Bank has not yet developed an effective and consistent partnership with nongovernmental organizations (NGOs) in Nigeria.*

Discussions with the NGOs active in Nigeria indicated that many of them still have a poor image of the Bank. They are vocal in their criticism of the Bank's perceived lack of genuine interest in their organizations. They feel that the Bank was unable and unwilling to involve them in their development projects, where their expertise could have been useful in helping the Bank achieve its objectives. Even discounting some of this as reflecting mainly an interest in securing Bank contracts, given the weakness of the MDAs, the Bank needs to be more aggressive in promoting and using NGOs.

# Chapter 3

## Pillar One: Achieving Macrostability and Better Governance

*With the country's return to democratic government in 1999, public sector reform became a major focus of Nigeria's national development effort. The federal government elected in 1999 declared that improved governance and reduced corruption were among its top priorities. In 2000 it presented an anticorruption bill as its first submission to the National Assembly, and in 2003 it identified "changing the way government works and improving governance" as a major objective of its first full national development strategy.*

*The complexity of Nigeria's political economy creates a challenging environment for governance reform. The country's population size and diversity – comprising more than 130 million people, some 200 ethnic groups, 500 languages, and 2 main religions – makes national unity a central but difficult priority. Fiscal decentralization gives Nigeria's 36 states and their 774 local governments considerable policy autonomy. State and local governments bear responsibility for 50 percent of government revenues and major responsibility for delivery of public services, even though they have much weaker institutional capacities than the federal government. Moreover, the predominance of oil revenues as the source of government funds has contributed to economic mismanagement, fueled corruption, and undermined incentives for aligning budgetary allocations with development priorities. These underlying conditions have created the need for public sector reform to proceed simultaneously with efforts to reestablish macroeconomic stability and overcome depleted capacity in the civil service. The conditions also necessitate simultaneous action to improve coordination in public expenditures between the federal and state governments.*

*In response to the government's needs and priorities, the Bank has made improved economic governance a main objective of its country strategy and program. The Bank's earliest interim country strategy emphasized that the Bank's limited resources in Nigeria would be used primarily to help the government build the capacity to manage its own resources effectively and implement policies to attract private investment. The Bank has maintained this guiding principle in several subsequent strategy documents, including the CPS with DFID. To support this aim, the program has the following four strategic objectives:*

- 1. Strengthen the management of oil and gas revenue to reduce instability in economic and budgetary management from swings in oil and gas prices and to increase transparency in the reporting and use of revenues*
- 2. Improve the performance and accountability of the federal government by supporting improvements in policy making, the quality and transparency of*

statistics, public expenditure planning and management, and civil service reform

3. *Reduce corruption* by assisting with reform of public financial management, procurement, and accountability systems; strengthening the legal/judicial system; and increasing transparency at all levels of government

4. *Build the capacity of state and local governments* to deliver economic and social services effectively and efficiently and improve their responsiveness and accountability to local communities.

*These strategic objectives are highly relevant in the Nigerian context and reflect areas in which the Bank has a comparative advantage.* The objectives respond to major areas of weakness in the country's public sector and are closely aligned with the government's own governance agenda. The focus on the public financial management aspects of economic governance builds on an area of Bank analytic and technical strength. Between fiscal 1999 and 2007, support for achieving these economic governance objectives accounted for some 7 percent of total Bank lending to Nigeria and for 35 percent of formal analytic work (exclusive of the assistance provided through informal dialogue, policy notes, or on-demand technical assistance).

## **Maintaining Macroeconomic Stability through Strengthened Management of Oil and Gas Revenues**

*From the 1970s through the mid-1990s poor fiscal management led to high rates of inflation, debt, and volatility.* In recent years, income from oil and gas has accounted for 70–85 percent of Nigeria's government revenues. During periods of high oil prices, successive Nigerian governments increased public expenditure, and particularly unproductive capital investment (for example, \$10 billion of investment in steel plants, most of which were idle by 2001). When oil prices fell, these levels of expenditure could be sustained only through securing Central Bank financing or through incurring debt. During the early years of the Abacha regime inflation was more than 50 percent per annum, reaching 73 percent in 1995. This led to contractionary policies in the face of declining oil prices, and inflation fell to an average of less than 10 percent per annum between 1997 and 2000. The country's debt was estimated at \$32.3 billion, equivalent to 83 percent of GDP, at the end of 2000. Trade and exchange-rate volatility in Nigeria until the mid-1990s was among the highest in the world and constituted a significant economic cost.

### **The Bank's objectives**

*Improved macroeconomic management was a determinant of the level of Bank assistance rather than a specific objective of Bank support.* The IS02 included as a trigger the adoption of a fiscally sustainable budget for 2002. The country's perceived failure to attain this objective was a key factor in the decision to move Nigeria to the low case in that year. The IS04 had triggers for macroeconomic management: (i) adopting policies to improve management of the oil cycle, (ii) limiting the deficit to no more than 3 percent of GNP, and (iii) strengthening links between expenditures and government priorities, including progress on a medium-term expenditure

framework. The Bank determined that the reforms had met these triggers; consequently, macroeconomic management does not figure in the matrix for the CPS.

### The Bank's program

*The Bank supported the macroeconomic aspects of the reform through its policy dialogue and analytic work.* During a previous reform phase in the early 1980s, the International Monetary Fund and the Bank had provided support with conditionality in Fund programs and Bank adjustment lending. This period left deep scars in official and academic circles in Nigeria – scars that related more to the perceived infringement of national sovereignty than to the specifics of the conditions. Only in recent years has the Bank's focus on poverty reduction begun to change perceptions of the institution. Partly as a consequence, the Nigerian government has been reluctant to undertake adjustment lending. Nevertheless, the Nigerian authorities acknowledge the important role the Bank and the Fund, working together, have played in helping the reform team put together the package of fiscal measures. This support came in large part through informal analytic studies, including a set of policy notes prepared for the government in 2003 but not made publicly available. In addition, the Bank prepared country economic assessments in 2003 and 2007. The Bank's analytic work on Nigeria's debt was particularly valuable.

### Outcomes

*Fiscal discipline has been an area of major success and is rated as **satisfactory**.* As shown in table 3.1, Nigeria moved from a budget deficit of 5 percent in 2001 to a surplus of 10 percent in 2005. The country also significantly reduced the level of public expenditure relative to GDP and the deviations in expenditures between approved and actual federal budgets, bringing both indicators of fiscal discipline more in line with those of comparator countries and standards of international good practice.

**Table 3.1: Strong Progress in Reestablishing Fiscal Discipline**

Indicator	2001	2005
Fiscal balance (as % GDP)	Deficit of 5	Surplus of 10
Expenditure (as % GDP)	45	33
Budget deviation (approved versus actual) <sup>a</sup>	27	5

a. Years 2001–03 compared with years 2004–05.

*These improvements stem in part from separating government spending from swings in oil revenues.* In 2004 Nigeria adopted an oil price-based fiscal rule that resolved a problem that had been a major source of fiscal instability in the past. Under the new rule, a reference price is set on a multiyear, moving basis (\$25 per barrel in 2004, \$30 per barrel in 2005, and \$35 per barrel in 2006). Any revenue above this price is placed in an excess

crude oil account in the Central Bank. Funds can be drawn from the account only when the price of oil falls below the predetermined level for a set period.

*These reforms contributed directly to the decision by the Paris Club to write off 60 percent of Nigeria's debt. By undertaking these far-reaching fiscal steps, Nigeria established its claims to benefit from debt relief – a major objective of the Obasanjo government.*

*To institutionalize this renewed macrodiscipline, the government introduced a Fiscal Responsibility Bill. The first version of the bill committed all tiers of government to the new, price-based rule and to other measures to improve budgeting and intergovernmental fiscal coordination. The bill also established a Fiscal Responsibility Council, authorized to enforce compliance with the rule, oversee the preparation of medium-term expenditure and revenue frameworks, and compel government institutions to disclose information relating to public revenues and expenditures. Pressure from the states subsequently led to a decision to make the bill applicable only to the federal government, with the understanding that states would pass their own versions of the act. At the time of writing, the bill had not been signed into law.*

*The push by the state governments to tap into the oil surplus account represents an important economic risk. By mid-2008 Abuja had become the scene of constant lobbying attempts by the state governments to secure additional resources. This happened despite the fact that the value of transfers to the states had gone up substantially. The importance of maintaining fiscal discipline suggests that this issue needs to be reintegrated into the Bank program as a specific objective, with consideration given to operationalizing it through Development Policy Lending.*

## **Improved Performance and Accountability of the Federal Government**

*By the end of the 1990s, after decades of mainly military rule, Nigeria's federal-level institutions of governance and rule of law were badly eroded. Corruption had become endemic, enabled by limited transparency and accountability in the use of public resources. Poor policies and outmoded laws, structures, and processes severely hampered core government functions in key areas of economic and financial management. In addition, a significant decline in civil service incentives and professional skills undermined efficient and effective delivery of public services.*

### **The Bank's program**

*The Bank's support at the federal level has been by far the largest element of its governance program, in terms of lending, knowledge services, and intensity of engagement. The Bank responded quickly to Nigeria's request for support of its governance drive with a broad-ranging but small (\$20 million) technical assistance loan, the Economic Management Capacity Building Project (EMCAP) in 2000. The purposes of this project were to provide technical assistance in priority areas "which required rapid resolution," to help the key economic management ministries and agencies set capacity-building agendas, and to develop a better understanding of what areas of activity were ready for substantial reform. In line with the government's strengthened reform agenda of 2003, a much larger (\$140 million) Economic Reform*

and Government Project (ERGP) in fiscal 2005 was designed to further advance, as well as deepen and broaden, the initial reform and capacity-building activities. To this end, the project continues support for improvements in public financial management and adds support for targeted anticorruption measures. It includes civil service reform as an objective.<sup>1</sup>

*Design and implementation of these projects, especially the ERGP, have benefited from substantial diagnostic work and other nonlending support.* Three country-level public finance diagnostic studies have been undertaken during the period covered by this review: a country financial accountability assessment and a country procurement assessment, issued in early 2000; and a Public Expenditure Management and Financial Accountability Review, issued in 2007. For the most part, these studies provide high-quality assessments and have influenced Bank lending operations and government actions. For example, government officials acknowledge that the country procurement assessment had a direct bearing on the drafting of Nigeria's new procurement law and related reforms, and they expect that the Public Expenditure Management and Financial Accountability Review will provide much of the agenda for reform work in the immediate future. But the extent and the quality of Bank analytic work is less strong on two related issues: (i) civil service reform and capacity building; and (ii) the roles, responsibilities, and working relations between the tiers of government.

*World Bank Institute activities at the federal level have assisted with stakeholder dialogue and training.* Interviews with Bank staff and selected stakeholders provide a mixed picture of the perceived relevance and effectiveness of this assistance. For example, a series of financial management courses for federal, state, and parliamentary officials was widely regarded as very useful, while a set of activities focused on strengthening parliamentary oversight has been seen as far less useful than similar assistance by another donor.

## **Outcomes**

*Progress at the federal level is rated as **moderately satisfactory**.* The federal government has made a significant start in the long process of reforming laws, systems, and structures needed to make public expenditure management more efficient and accountable. Government actions, especially since 2003–04, have produced initial achievements in many of those areas supported by the Bank – notably, reform of financial legislation, improved statistics, and better budget planning and due process. But the implementation of improved expenditure management systems and structures has just begun, and very limited progress has been achieved in civil service reform and capacity building.

*Nigeria's economic and financial management laws and regulations have been updated.* At the start of the review period this framework was out of date. In some key governance areas rules were nonexistent. Since 2000, the government has pursued an ambitious legislative agenda (box 3.1). Most of the bills institutionalize rule changes and process reforms that the government has begun to pilot. Bills in the areas of auditing, procurement, and statistics authorize the establishment of new government structures independent from

existing civil service rules, in order to develop a professional cadre of staff. Nonetheless, the process has taken longer than anticipated and this has delayed reform implementation.

### **Box 3.1. Major New Public Finance Legislation, 2000–07**

#### **Enacted**

- *Anticorruption Act (2000)*: This act establishes the ICPC and mandates it to investigate and prosecute allegations of wrongdoing, to review and enforce corrections in practices that enable corruption in public institutions, and to build public support in fighting corruption. Other anticorruption acts that have been enacted include the Economic and Financial Crimes Commission Establishment Act of 2003, the Money Laundering (Prohibition) Act of 2004, and the Nigerian Extractive Industries Initiative Act of 2007, which institutionalized an independent audit of the oil and gas sector first undertaken in 2004.
- *Procurement Act (2007)*: Enacted after considerable delay, this legislation institutionalizes changes in “due process” begun by the Budget Monitoring and Price Intelligence Unit by establishing an independent Public Procurement Commission that will operate outside the public service, and by requiring open and competitive procurement in all government operations.

#### **Submitted but not yet passed and signed into law**

- *Amendments to the Finance Act*: The amendments clarify and strengthen the roles and responsibilities of the main actors in public finance management. The amendments articulate the Minister of Finance’s roles in policy, oversight, and coordination and in power to limit spending. They also recognize the power of the National Planning Commission to set priorities and prepare medium-term plans, and give the Accountant General authority to withhold funds from a poorly performing ministry, department, or agency.
- *Fiscal Responsibility Bill*: This bill will bind both the executive and the legislature to preparing the national budget within a medium-term expenditure framework, based on the oil price-based fiscal rule. It also authorizes a debt management framework, limiting borrowing to capital expenditures and human development, and requires a stock of government debt to stay within a sustainable share of national income, determined by the Minister of Finance and overseen by the Fiscal Responsibility Council.
- *Auditor General’s Bill*: This bill will take Nigeria’s supreme audit institution, the Office of the Auditor General, out of the public service and give it greater independence, particularly with regard to staff recruitment and salaries and setting the Audit Office budget.

*Improved statistics are also an important achievement.* At the start of the Obasanjo regime, policy makers were faced with outdated data, analyses, and information on key issues such as national income accounts, the consumer price index, and basic

social and poverty indicators. In addition, existing data were not reconciled or shared among government departments. Strong government commitment in recent years has led to the beginnings of considerable improvement in the quality, timeliness, and dissemination of national statistics. A major reorganization and upgrading of staff of the National Bureau of Statistics has been a key factor in these improvements. The bureau, over a period of two years, has discharged about half of its staff, who lacked adequate qualifications for their positions, and has recruited a small cadre of appropriate professionals. Passage of a new statistics bill in 2007 made the bureau an independent agency, and this is expected to facilitate further reorganization, equipping, and upgrading of staff. The Bank, under the ERGP, has supported the drafting of the new law and development of the bureau's infrastructure and information technology. The Bank is also supporting work on the development of a major training component to accompany the bureau's reorganization.

*A start has been made in strengthening expenditure management.*<sup>2</sup> Efforts to improve budget planning and accountability have resulted in better alignment between annual expenditure plans and national development priorities. An important step has been the development of a nascent medium-term expenditure framework, loosely linked to NEEDS, that has guided the preparation of the national budget over the past four years. In the past year the medium-term expenditure framework has been strengthened by the establishment of linkages to expenditure envelopes of the main spending departments and annual expenditure ceilings. Recent budget processes reflect preparation of medium-term sector strategies by eight pilot ministries in the 2006 budget process and by 19 departments in 2007—the latter effort accounting for more than 75 percent of total MDA expenditure and producing savings of some \$1.6 billion (6 percent of the spending covered) through elimination of poorly aligned projects and implementation of other efficiency measures. On the negative side, the progress in budget management has been powered mainly by the work of consultants. Addressing capacity constraints of staff in the Budget Office and the MDAs remains a challenge.

*Progress in strengthening financial accountability through improved accounting, auditing, and due process has been mixed.* Fiscal accounts are now reported on a timelier basis, partly owing to the introduction of a Bank-supported Accounting Transactions Recording and Reporting System and to targeted staff recruitment and training. But many ministries and departments lack capacity to make full use of the new computerized system, and weaknesses persist in reporting on spending as well as in analyzing the budget in a comprehensive way. There has also been little improvement in the effectiveness of the external audit or in the government's response to audit findings. Implementation of audit reforms has been slower than expected, partly because of the delay in the passage of the Auditor General's Bill (see box 3.1). Although training in specific skills has been provided with Bank support, the capacity of both the Audit Office and the recently reactivated Public Accounts Committees of the National Assembly remains weak. More progress has been achieved in the area of procurement. In 2001, the federal government introduced new "due process" guidelines and created the Budget Monitoring and Price

Intelligence Unit in the office of the president to ensure that the guidelines were followed. Increased rigor in procurement processes, fostered by the unit, has now been mainstreamed in all MDAs, leading to open competition for most government contracts. Government reports estimate that by the end of 2006 these efforts had produced savings of more than \$800 million.

*The least progress has occurred in civil service reform.* Many interviewees believe that the civil service remains the real barrier to improved government performance. A large increase in the number of civil servants, patronage in hiring, and underinvestment in civil service management and training during the years of military rule left Nigeria's public sector with insufficient professional capabilities, incentives and accountability, and payroll controls. In recent years the government has taken steps to review and restructure 10 pilot MDAs. As a result, about 40,000 officers have been disengaged from the federal civil service. Each of the 10 MDAs is reported to now have a structure and workforce suited to its current functions. Some efforts have been made to remove ghost workers from the payroll through verification exercises, leading to a cumulative saving of about \$400 million as of late 2006. An Integrated Payroll and Personnel Information System, largely funded by the Bank, was piloted in six ministries and is currently being extended, with the aim of controlling fraud and monitoring and managing recurrent budget expenditures.

*A more determined systemic reform is needed to change hiring, pay, and performance incentives.* Officials of the Bureau of Public Service Reform see the recent government agreement on the updating of the Nigeria's existing public service rules as "a huge success" that will accelerate further reform efforts,<sup>3</sup> though they are also quick to acknowledge that "implementation is everything." A modest start to making needed pay reforms was begun with the monetization of benefits – undertaken to curb the abuse of open-ended privileges and entitlements of public officials – and the introduction in 2007 of a systemwide increase in salaries. Implementation of the updated rules and accelerated capacity building of staff remain major challenges.

## Reduced Corruption

*A significant start has been made on the gargantuan task of reducing corruption.* President Obasanjo launched his first term in office by announcing an anticorruption strategy that set a target of "zero tolerance for corruption" in the public sector. At that time, Nigeria was generally viewed as one of the most corrupt countries in the world. The government has since sought to curb corruption through an array of measures, most notably the reestablishment of "due process" in government operations (discussed earlier – see, for example, box 3.1) and the establishment of three antigraft institutions – the ICPC, the EFCC, and the Nigeria Extractive Industries Transparency Initiative (NEITI). These institutions, especially the latter two, have begun to achieve some results in their respective areas.<sup>4</sup>

- The ICPC, which focuses on curbing bribery and corruption in public agencies, has received and investigated some 150 petitions, leading by mid-2007 to six convictions. It has also promoted 1,800 corruption-monitoring

units in federal ministries and parastatals, established ICPC offices in Nigeria's six geopolitical zones, and carried out public awareness activities.

- The EFCC, which is empowered to prevent, investigate, and prosecute economic and financial crimes such as banking fraud, money laundering, and identity theft, is a major innovation. It has prosecuted and achieved the conviction of a number of top officials in the public and private sectors. It has also promoted the reorganization and change of leadership of key government agencies (such as the police, customs, and drug enforcement) to strengthen the commitment to fighting corruption, and built capacity of law enforcement and judicial officials.
- The NEITI, the innovative Nigerian version of the worldwide EITI, is mandated to promote transparency and accountability in the management of Nigeria's oil, gas, and mining revenues. Its major activity has been to perform the first independent audit of the oil and gas sector. The audit, which covered physical, financial, and process activities for 1999–2004, revealed a number of discrepancies, and, together with follow-on remedies, has led to the recoupment of some \$1 billion in previously uncollected revenue, according to the NEITI chairperson. Other activities have fostered the longer-term goal of building the capacity of civil society, government, parliamentarians, and the media to monitor extractive industry revenue transparency.

During its second term in particular, the Obasanjo administration demonstrated a strong commitment to address corruption in several aspects. Several high-level officials were dismissed, taken to court, and in some cases convicted, for acts of corruption. The administration also managed, after overcoming some initial challenges, to bring back to the country some \$500 million that had been corruptly transferred outside the country under a previous government.

## Outcomes

*The outcomes of Bank support under the objective of reducing corruption are rated as **moderately unsatisfactory**.* This rating applies to the evaluation period as a whole; outcomes in the latter part of the evaluation period appear to some extent to show a more favorable trend. It is difficult to establish a clear trend in standard proxy indicators of public perceptions of corruption in Nigeria (notably the composite indicator on “control of corruption” compiled by the World Bank Institute) over the evaluation period as a whole (table A.11). Some indicators, however, such as Transparency International's Corruption Perceptions Index (table A.12), showed a modest improvement toward the end of the period. Outcomes as captured by perception indicators aside, it is clear that institutional development in the area of anticorruption by the end of the period was significant.

## Building the Capacity of State Governments

*The Bank has provided economic governance and capacity-building support to 4 of Nigeria's 36 state governments: Bauchi, Cross River, Kaduna, and Lagos. The states were selected*

on the basis of an initial competitive process that assessed their reform proposals and performance records between 1999 and 2002 and a subsequent scaling down of the number of states selected to receive Bank support.

### **The Bank's objectives**

*The broad aim of state capacity-building operations is to enhance efficiency and accountability in the management of public financial and human resources in line with each state's overall development strategy, as set forth in its SEEDS. To achieve this aim, Bank projects provide technical assistance to support core reforms involving adoption of modern public finance legislation; reform of the budget process, including the development of medium-term expenditure frameworks; strengthening of accounting, reporting, and external audit procedures and practices; implementation of computerized systems for budget and human resource management; and strengthening of procurement practices. In addition, the projects provide training for MDAs involved in the reform program, and, as part of the state-requested support, the projects will assist in upgrading public sector training institutions.*

### **The Bank's program**

*As at the federal level, the Bank's state governance support has started small. Three states (Bauchi, Cross River, and Kaduna) receive funding (in roughly equal amounts) from a small (\$18 million) State Governance and Capacity Building Project (SGCBP), and Lagos receives similar support under a \$6 million component of a \$120 million loan for the Lagos Metropolitan Development and Governance Project (LMDGP).*

*Several pieces of analytical work underpin the state governance projects. Between 2002 and 2004, two multistate analytic studies (the State and Local Governance in Nigeria Study and the State Finances Study), as well as two Lagos State diagnostic studies (the Lagos State Procurement Assessment Report and the State Financial Accountability Assessment), were issued (World Bank 2002b, 2003a, 2003e, 2004a). There is little evidence of engagement in and use of these studies by state officials, with the exception of Lagos, and only a partial reflection of the analyses in the design of the Bank's initial state governance and capacity-building assistance. Although the two multistate studies facilitated the state selection process of the SGCBP, taken together they identify a much more robust agenda of reform and propose a more intensive Bank engagement with the states than the country program yet encompasses.*

### **Outcomes**

*Overall progress at the state level is rated as **unsatisfactory**. The states are lagging far behind the federal government in implementing economic governance reforms. Both state-level projects are in early stages of implementation, having experienced significant start-up delays. The SGCBP, which was first discussed with state government officials in fiscal 2002, did not become effective until 2005. It was later identified as a problem project and restructured in early 2008. Its problems have stemmed from flaws in both project design and Bank supervision. The government,*

the Bank, and DFID each had its own approach to the state-selection process, and sorting this out led to start-up delays and loss of momentum. The states were not adequately involved in the design of the project's subcomponents. This limited government understanding of the project's objectives in the early phase of implementation. Also, though the Bank had identified significant capacity constraints during project appraisal, these constraints proved more severe than anticipated, especially in the area of procurement, and the minimal supervision initially provided to the project did not adequately address this problem.

Now that the state governments have become actively involved in the recent restructuring of the project and Bank supervision has intensified, project staff in each state expect the pace of implementation to pick up considerably in fiscal 2008. The governance and capacity-building component of the LMDGP, which became effective in mid-2007, is at roughly the same stage of implementation.

*Even with accelerated implementation, the state projects are likely to achieve their overall development objectives to only a limited extent.* Through their support for developing new laws, information technology capabilities, budget and accountability processes, and technical training in selected financial management processes, the states could help lay a foundation for good public sector management. But much broader and deeper reform efforts are needed to produce real gains in the delivery of public services. For example, although project support in Bauchi has contributed to faster preparation of audit reports, the quality of the accounting and auditing functions remains weak. The Public Accounts Committees of the State Assembly have not sat since 1999, so there is no serious oversight and no enforcement of discrepancies found in external audit reports. Interviews with state officials revealed that much is expected from the predominantly technical focus of these interventions, involving the revision of laws and procedures and the development of information technology systems and related skills. But so far, the projects have served as a platform for only limited dialogue on the quality of policy analysis and public spending, and on fighting corruption.<sup>5</sup>

*Continued Bank support could be significantly enhanced by improved state-level donor coordination, especially closer partnership between the Bank and DFID.* Through a State and Local Government Program, DFID is currently providing assistance for public financial management reforms in Lagos and five other states. The aims of this program and the Bank's state-level projects overlap to a considerable extent. DFID staff in Lagos believe that the Bank and DFID are not communicating regularly, and there is a question of where the coordination point is at the state level. Capacity building is seen as an area of great opportunity for closer coordination, but the Bank and DFID seem to lack a strategic approach as to how the two programs should work together.

## Overall Assessment

*Outcomes of the governance and capacity-building pillar are rated as **moderately satisfactory**.* This reflects major success by the government in reestablishing macroeconomic stability; considerable, though by no means complete, achievement

of objectives in expenditure management at the federal level; and good progress on developing credible anticorruption institutions. The assessment also reveals that these efforts have had limited impact, a slow start at the state level, and limited progress in capacity building at both the federal and state levels. Nigeria's economic management system remains fragile, and the country faces a large unfinished agenda for achieving its goal of "making government work better." Institutional development presents the same dichotomy of significant progress at the federal level, but little or no evidence of change in the states except through the hit-and-miss process of the occasional governor committed to greater efficiency and effectiveness. The risks to sustainability are high even at the federal level, where high oil prices could serve to corrode the commitment to fiscal responsibility at the federal level.

*The Bank's contribution has been significant at the federal level but ineffective at the state level. Success at the federal level has occurred largely as the result of committed leadership, especially that of Nigeria's reform team. In addition, the Bank has gone about providing its governance support to the federal government in the right way. It started small and expanded its governance support as knowledge was gained and government readiness to act developed. It targeted core economic management functions and designed interventions with the government that were piloted in selected MDAs before being implemented governmentwide. This federal-level support was a good fit for the Bank, given its country office in Abuja and increasingly well-established working relationship with the government.*

*The design of the Bank's support at the state level has the same positive features as its first federal-level operation, the Economic Management Capacity Building Project in 2000. It starts small, is based on some underlying analytical work, and targets core economic management weaknesses. But it is not the kind of intervention that is likely to have much direct impact on the main sectoral ministries and improved service delivery, which is the main challenge facing the states. Moreover, the Bank has not positioned itself well to assist the states. It is not on the ground in the individual states, has not done adequate state-specific analytical work, and has not established close working relationships with state officials at the policy level. A better-defined partnership with DFID, which has offices in several states, is one option for better positioning the Bank.*

# Chapter 4

## Pillar Two: Creating the Basis for Sustainable Non-Oil Growth

*Diversification of the economy continues to be a priority for Nigerian policy makers. Oil accounts for 85 percent of central government revenues and, together with oil-related industries, one-third of GDP and more than 95 percent of exports. Moreover, the dependence of the economy on oil has increased in the last 25 years. Successive governments have given priority to diversification for two main reasons: (i) to reduce the vulnerability of the economy to periodic oil price shocks (the most recent of which occurred at the start of the Obasanjo government, when the oil price collapsed to \$10 per barrel) and (ii) to create employment for the young and growing Nigerian population. Diversification into labor-intensive and small and medium industries is seen as particularly important.*

Bank assistance in support of this pillar can be organized under five strategic subobjectives:

1. Improving the quality of national infrastructure that is most critically associated with the business environment – power, major roads, ports, telecommunications, and railways
2. Improving functioning of the city-state of Lagos as an engine of growth for the non-oil economy and the commercial and industrial hub of the country
3. Improving infrastructure services in selected states other than Lagos that can become new growth centers for industry and commerce
4. Improving the investment climate in the country in order to encourage domestic and foreign private investment and generate employment
5. Helping the government put in place an agricultural strategy support the development of the institutions, policies, and planning needed for pro-poor growth in rural Nigeria.

### Improving National Infrastructure

#### **The Bank's objectives**

*In 1999, Nigeria's infrastructure was in a perilous state. The power situation was dismal: only 36 percent of Nigerians had access to electricity. The power supply was highly unreliable: there were frequent outages and periodic instances of a total system collapse. The ports suffered from severe congestion that, along with poor customs procedures, made Nigerian ports notorious for long waiting times for clearance. The national roads suffered from lack of maintenance despite significant past investments. Only 27 percent of the network was classified as in good condition. The railways had virtually ceased to function: two of the three lines built under British rule had shut down. That inadequacy of infrastructure was the most significant*

obstacle to development was emphasized by businesspeople in various forums, some organized by the president himself.

*The Bank was determined to avoid past mistakes in its infrastructure lending.* Because of its experience in supporting infrastructure development, the Bank was aware that the infrastructure deficiencies were first and foremost a result of poor governance that resulted in major inefficiencies, waste of resources, and considerable corruption. Most of the previous Bank-supported projects in infrastructure had proved unsustainable and had been rated unsatisfactory for these reasons. The power sector epitomized this situation: less than 50 percent of the already-meager capacity of 2,000 megawatts was available, there were high energy losses (45 percent), and collection rates were low (70-75 percent). Consequently, the Bank's strategy emphasized the need for institutional reforms as a critical condition for its involvement.

### **The Bank's program**

*In the power sector, the Bank pushed for restructuring and focused its lending on transmission and distribution.* The Bank continued to advise the government as it went about unbundling the sector, with a view to increasing competition and as a precursor to privatization, and provided technical assistance to establish a regulatory framework for the sector. The Bank decided not to get involved in the government's plans for adding capacity because of concerns about lack of transparency in the award of contracts and concessions for new generation and the belief that the Bank could add more value by helping improve sector management and ensuring that efficient transmission and distribution systems were in place when added capacity came onstream. The Bank moved forward with a \$100 million Transmission Development Project (fiscal 2002) and a project for improving the distribution system (the \$172 million National Energy Development Project; fiscal 2006).

*Regarding national roads, the Bank decided that because of the experience with the failure to maintain roads and the rampant corruption, it would lend only if the government took specific measures to improve management of the sector.* A Road Vision 2000, prepared with Bank support, envisaged the establishment of a lean and autonomous highway authority staffed by professionals selected through a competitive process, with maintenance contracted out to the private sector through performance-based contracts. Funding for maintenance was proposed to come from a road fund, derived from earmarked taxes on fuel, dedicated to maintenance, and overseen by a national roads board representing key stakeholders, including road users.

The government instead created the Federal Roads Maintenance Agency (FERMA), without the necessary operational and financial autonomy. Although FERMA has made some progress in improving maintenance of national highways, the Bank considers it far from adequate and has been pushing for the reforms envisaged in Road Vision 2000. There is now reportedly agreement in principle with the government on this concept. At the time of writing, the Bank expected to appraise a Federal Roads Project (\$250 million), assuming it could reach formal agreement on the envisaged sector reforms.

*The Bank has not had major involvement in other national infrastructure sectors, but it has provided support for privatization. Bank support for ports and telecommunications has been primarily through funding technical assistance under the Privatization Support Project (\$115 million; fiscal 2002).*

The government decided not to seek Bank assistance for railways. Instead, it sought assistance from the Chinese government for upgrading one of the three major railroads (the Western Railway) at a cost of \$8.5 billion. Although not envisaged in the CPS, the Bank has also been involved in aviation. This is through a regional project, the West and Central Africa Air Traffic Safety and Security Project, that was approved recently.

### **Outcomes**

*There have been some successful outcomes in port privatization and restructuring the power sector. The government privatized 21 cargo-handling terminals by awarding concessions to private operators. The awards were made following a competitive and transparent process that attracted some reputable international port operators. Overall, the results have been remarkable, with a dramatic reduction in vessel queuing from a high of 30 days to zero days in some ports.*

Nigeria has adopted a power sector structure that follows a blueprint the Bank advocates to many countries. Under an electricity law passed in 2005, the sector has been unbundled into 11 distribution companies, 1 transmission company, and 6 generation companies. An independent Nigerian Electricity Regulatory Commission has been established with Bank advice and assistance. These reforms, if sustained, provide a good basis to put the power sector on a sounder institutional footing.

*Outcomes are rated as **moderately unsatisfactory**. The situation in the power and roads sectors is no better, and perhaps even worse, today than it was in 1999. Despite having been given the highest priority by President Obasanjo, the power situation continues to be critical. Severe power shortages and frequent outages continue. Electrical current supplies meet less than 40 percent of demand. Availability of plant capacity is still in the range of 50 percent; some plants lie idle because of a lack of availability of gas and fuel, a truly incredible phenomenon for an oil- and gas-rich country. Data show modest improvements in both technical and commercial operations in the past two years, but these improvements have not yet had a discernible impact on the population. Indeed, the small increases in supply may have been more than offset by increases in demand.*

*The power sector restructuring process that has been implemented since 2005 provides a good basis for further progress, but many features must still be worked out. The viability of many of the distribution and generation companies is unclear, raising questions about whether or at what pace these companies could be privatized. The declared intent to privatize the distribution companies without putting in place interim arrangements for their management and without dealing with issues such as redundancy and pension rights, has created uncertainty among management and workers alike and is believed to be a cause of recent further deterioration in operating performance. The Bureau of Public Enterprises (BPE) invited expressions*

of interest for the privatization of power distribution companies, and more than 200 responses were received. However, the process is currently in limbo because the expressions of interest were solicited without adequate preparation. There will be a need for sustained Bank involvement on a larger scale to provide continued advice and technical support to the process.

*Work has only recently begun on preparation of a gas development and utilization strategy.* The recent additions to power generation capacity face the prospect of remaining unused or underused because of the unavailability of gas. The lack of a strategy has meant that the international oil companies in Nigeria have not invested enough in new gas production. In addition, a substantial amount of the gas that is available is being diverted to natural gas exports, rather than being used for power generation, where its economic value is undoubtedly higher.

*Road maintenance remains inadequate because it has not been a priority and because of wasteful and inefficient expenditures.* There has been little improvement in the roads sector since 1999, and some of the data suggest further deterioration (15 percent of federal roads are in good condition currently, compared with 27 percent in 1999). Recent reports, however, suggest that the situation has been stabilized in the three years since the creation of FERMA.

*The privatization of Nigerian Telecommunications Ltd. (Nitel), the state-owned fixed-line telephone company, was conducted poorly.* That resulted in the award of the contract to a less than well-qualified operator. As a result, the improvements that have typically been seen in telecom privatizations in other countries have not materialized in Nigeria. Fortunately, the entry of mobile telephone operators has filled any resulting gap.

*Infrastructure deficiencies, particularly in the power sector, remain the most important constraint to doing business.* Virtually no sector of the economy is unaffected by these deficiencies. The private sector, including small and medium enterprises (SMEs), and even farmers, suffer production losses because of the unreliable power supply. Manufacturers report using small, expensive, oil-based private generators to meet 70 percent of their power needs at a cost, estimated by the Bank, of 35 naira (N) per kilowatt hour (against N6.5–N8.5 per kilowatt hour for power from the grid).

*The Bank has had limited ability to influence these outcomes.* Discussions with government officials indicated a high regard for Bank's work. This does not square with the limited influence the Bank appears to have had on some very important issues, such as the privatization of Nitel over Bank objections, the quality issues of the very large program (\$5 billion) to augment generation capacity, the decision to invite proposals for the privatization of distribution companies without adequate preparation, and the slow progress in the establishment of an autonomous highway authority. Bank staff attribute this to the rapid recovery in oil prices shortly after the program was resumed in 2000, which made it difficult to get officials to focus on the needed structural reforms. Staff also cite a pervasive tendency for rent seeking in decision making, which has made it difficult for the Bank to argue successfully for the best course of action.

*The Bank's efforts have not been commensurate with the importance and scale of the problems.* Despite the intentions of its various interim strategies, the Bank did not carry out any systematic work that could have been used to underpin the sector development strategy. The lack of work in the gas sector is surprising given the centrality of the issue in relation to the power sector. A National Strategic Gas Plan commissioned by the Energy Sector Management Program in 2003 appears to have stayed on the shelf without any follow-up until recently. Overall, the level of Bank effort over the eight-year review period fell far short of what was warranted by the importance of the sector and the Bank's objectives.

*Infrastructure is an area where the Bank could have worked more closely with the International Finance Corporation (IFC) to develop a shared approach to infrastructure development.* Collaboration between the Bank and the IFC has been limited largely to information sharing. The first interim strategy of early 2000 (IS00) stated that joint Bank-IFC teams were to be formed to undertake initial sector reviews in telecommunications, power, transport, and water. If these groups were indeed formed, there is no evidence of any tangible products. In addition, the Bank and the IFC could have been more proactive by helping devise and implement tailor-made strategies for infrastructure privatization and by offering a blend of Bank and IFC instruments to support privatization. As did the Bank, the IFC only recently placed an infrastructure specialist in the field.

## Lagos Metropolitan Development

### **The Bank's objectives**

*Lagos is a megacity of overwhelming economic importance for Nigeria.* It currently accounts for nearly 10 percent of Nigeria's population and its population is growing rapidly (4.8 percent per annum). Lagos is the dominant business and commercial center and the main port of the country. It accounts for almost 60 percent of Nigeria's non-oil economy. Given its size, Lagos is administered as a state government with a single governor and governing body in charge of both state and municipal functions.

The efficient functioning of the city is thus vital to Nigeria's growth prospects in the non-oil sector. Unfortunately, Lagos has the dubious distinction of being one of the most dysfunctional major cities in the world, with severe bottlenecks of infrastructure and services. Almost 70 percent of the city's population lives in slums, and environmental conditions are extremely poor. Flooding is widespread, causing significant property damage each year and creating a serious health risk. Services such as solid-waste collection are totally inadequate.

*Bank country strategy documents have not explicitly included the better functioning of Lagos as a subobjective.* The Bank's desire to improve the governance and infrastructure of Lagos ran up against political obstacles in the period under review. When the Bank wanted to include Lagos under the SGCBP, the federal government complained that there was already too much lending for Lagos State and it was taken out of the project (though the component was later included in the Lagos Metropolitan Development Project.). The fact that Lagos has elected successive governors from the

party that is not in power has made for a difficult dynamic with the federal government with respect to the Bank program in Lagos. The Bank has persisted however, given the key importance of Lagos in the Nigerian economy, while downplaying its role in the city in its strategy documents.

### **The Bank's program**

*Overall, Lagos was the beneficiary of three IDA credits over the review period totaling \$550 million. These credits accounted for 20 percent of total IDA commitments in Nigeria.* Preparation of a comprehensive urban development project with a focus on low-income communities began in fiscal 2002. The concept was abandoned, however, because all components were not ready at the same time. The program was unbundled to allow the Bank to proceed with the Lagos Urban Transport Project (\$100 million; fiscal 2003). An autonomous LMATA was created under the project to operate and maintain the main public transit corridors. The comprehensive LMDGP (\$200 million; fiscal 2007) was approved in July 2006. The project provides for infrastructure upgrading in 9 (of an estimated 42) slum communities, citywide priority drainage rehabilitation and upgrading, and improving solid-waste management. Solid waste would be managed by an autonomous agency to be created specifically for this purpose that would contract out collection and disposal services to the private sector. The "governance" part of the project would improve budget planning and management in the state, drawing on the sector work on state governance carried out by the Bank. Lagos is also the principal beneficiary of the Second National Water Sector Reform Project (\$200 million; fiscal 2006). The project includes investments in transmission and distribution systems, and envisages the major part of the investments to be carried out only if the Lagos water system shows significant operational improvements or if the city privatizes the management of this function.

*The Bank also carried out a number of studies on Lagos.* These included fiduciary studies of the state's procurement and financial management systems and a survey of social and economic conditions in Lagos that was funded by the Cities Alliance. Informal sector work was also undertaken on topics such as the relationships between the state and local governments. Lagos state finance and state and local government relationships. The Bank also participated regularly in the annual Lagos Economic Summit, an initiative of the previous governor that brought together leaders of public and private sector to discuss development challenges in Lagos. These have been ad hoc, discrete pieces without any Bank sector work that would have attempted to pull them together into the "Lagos strategy" that had been envisaged in the country strategy and that could have provided a framework for the Bank's activities in Lagos.

### **Outcomes**

*The outcomes thus far are rated as moderately unsatisfactory.* The urban transport project has shown good results. It has the promise to improve public transportation in some of the key corridors. LMATA appears to be a competent and professional organization, thanks to the autonomy granted to it by law and its independent source of revenues. This, together with the establishment of a dedicated transport

fund, should help ensure adequate maintenance in the future. The project also provides a good basis for planning further improvements and expansion in public transport.

*The water project suffered from inadequate preparation prior to approval.* Engineering designs of major works were not prepared and in large part are still not available. Although private participation is considered critical to avoid past management problems, the necessary preparatory work had not been done. The decision to move forward with investments on the assumption that within two years the system's performance would improve through unspecified means, or that a private operator would be in place, is highly unrealistic and is at odds with past Bank experience in the sector both in general and in Nigeria.

*The LMGDP also suffers from lack of adequate planning and design.* No designs are available for any of the works so far, including the major drainage works. The resettlement issues from the drainage component are yet to be identified and addressed. The slum-upgrading component, which has been at the heart of the Bank strategy, is based on work that was done several years ago, and it needs to be updated. To show progress, the slum-upgrading program envisages moving forward first with simple components such as school upgrading and water wells; infrastructure within the slums is to be tackled later. As a result of this piecemeal approach, the project runs the risk of losing its impact on, and the support of, the community. The most significant missed opportunity is the failure to place LMDGP in the context of a medium-term strategy that identified priority investment and operation and maintenance needs, and linked these with likely financial resources. On the positive side, a dedicated group of Nigerians is in place in the LMGDP Management Unit. These individuals can work to ensure that the project is brought on track, but both they and the Bank must undertake considerable work before this can happen.

*Besides the design weaknesses, the three projects have been developed by three different Bank teams with little apparent collaboration.* Ideally, all three projects should have been developed around a common theme of improving planning and management of infrastructure services in Lagos, with incremental steps pursued under successive operations. Improving state finances and public expenditure management should also have been a critical objective of all three projects, given that inadequate finances has historically been a contributory factor to a lack of sustainability and the poor condition of the infrastructure. The governance component in the LMGDP makes a start in addressing these issues, but its scope is quite narrow and it comes rather late in the Bank's engagement with Lagos.

*Achieving satisfactory outcomes will require a stronger, better coordinated Bank effort.* Given the importance of Lagos for the Nigerian economy, it is appropriate for the Bank to make Lagos a key focus of its assistance strategy and to stay engaged. But this needs a much stronger and better coordinated Bank effort than has been evident so far. There is a need to define clearly the governance and resource planning and mobilization focus, backed by much more intensive Bank involvement. There is a need for significantly more Bank resources for supervision and policy dialogue in

Lagos than in other areas in which the Bank is active. The Bank could also leverage its limited resources by collaborating more closely with the DFID team in Lagos.

## State Infrastructure Development

*Under Nigeria's federal system, state and local governments are responsible for all infrastructure that is not explicitly under federal jurisdiction.* This includes all municipal infrastructure and services in the urban areas, state and local roads, urban and rural water supply, and sanitation. The states and local governments receive, respectively, 50 percent and 15 percent of revenues from oil and value added taxes. States also levy their own taxes; however, with the exception of Lagos, internally generated funds are an insignificant share of total state revenues – 3 percent in Bauchi, for example. Despite the relatively large federal subventions, many state and local governments face a chronic shortage of resources and consequently suffer from infrastructure deficiencies. Many past Bank interventions at the state and local levels have suffered from problems of maintenance and sustainability.

### **The Bank's objectives**

*The Bank sought to improve infrastructure and services in selected states and urban areas as a mechanism for enabling more rapid non-oil growth.* The Bank focused on three areas: support for urban infrastructure, upgrading and expanding municipal water supply systems, and improving state and local roads. In view of past problems with sustainability of Bank-financed projects, the Bank emphasized community and private sector involvement as critical features of its support in this area. The Bank grappled with the issue of how to fulfill these objectives at the state level, beginning by taking an opportunistic approach and then moving in 2005 to the lead states approach.

### **The Bank's program**

*The Bank has four projects covering different aspects of state-level infrastructure.* The Bank carried out no sector work in either the urban or the water sectors. All efforts appear to have been focused on lending. The Community-Based Urban Development Project, or CBUDP (\$100 million; fiscal 2002) was an instrument for reaching the urban poor. The project would provide small-scale infrastructure to poor urban communities in 13 states using the CDD approach. The project was expected to demonstrate viable approaches to infrastructure and delivery of basic municipal services in unserved or underserved settlements. Support for urban water was initiated with a small pilot project for Small Towns Water Supply and Sanitation (\$5 million; fiscal 2000). This was the first investment project to be approved since 1993, when Bank lending to Nigeria was suspended. The project was designed to test the concept of sustainability in small towns through community involvement in project design, financing, and management. There were two follow-on projects focusing on the larger cities: the National Urban Water Sector Reform Project (\$120 million; fiscal 2005) and the Second National Urban Water Sector Reform Project (\$200 million; fiscal 2006). The first national project was designed to expand and upgrade urban water systems in three states (Kaduna, Kano, and Ogun), and the second project focused on systems in the states of Lagos and Cross River. The credit amounts for both projects were increased

substantially at a late stage of processing as a result of increased IDA funding availability. As had the Lagos Water Supply Project, both projects envisaged private sector participation in the management, if not ownership, of the systems. This was seen as key to ensuring the financial viability and sustainability that had eluded the Bank in its previous projects in the sector. The Bank linked major investments to the water companies' ability to improve their operational efficiency significantly or to have private participation in place within two years of approval. This goal proved to be unrealistic.

*In mid-2008 the Bank was preparing a Rural Access and Mobility Project. This was anticipated for approval in fiscal 2008 and would finance rehabilitation and maintenance of rural access roads in four lead states through performance-based contracts whereby the contractor would be responsible for rehabilitation and maintenance over a five-year period, with payments linked to performance. The project will be implemented at the state level.*

## **Outcomes**

*The outcomes are rated as **unsatisfactory**. The CBUDP was the Bank's reentry in the urban sector in Nigeria – an area where the Bank had significant experience. Despite this, the CBUDP was conceived as a demonstration project for slum upgrading. The project suffered from lack of adequate technical preparation, exacerbated by the last-minute increase in IDA credit to \$100 million at appraisal from the previously envisaged \$10-\$20 million credit. The fact that the credit was spread over 15 states has also been problematic. The project appears to have ignored lessons from previous unsuccessful urban infrastructure fund projects in which dispersal of effort was one of the factors contributing to unsatisfactory outcomes.*

*Most fundamentally, the project does not address the issue of sustainability. It has evolved into a project to build municipal infrastructure without clear arrangements for operation and maintenance. The facilities built under the project in one of the cities visited were already falling into disrepair; the Project Management Unit was looking for a follow-on IDA project to upgrade the same facilities.*

*For reasons discussed under Lagos, the two municipal water projects are also problematic. In terms of the institutional structures needed for effective operation, preparation was not even marginally adequate in any of the five states. None of the projects has realistic prospects of improving operational efficiency or of bringing in private participation in the near future, as the Bank had assumed. The proposed Rural Access and Mobility Project, although based on a sound concept, will remain an isolated experiment unless it is placed in the broader context of agricultural development in the selected states and is consistent with the institutional and financial strategies for those states.*

## **Promoting Private Sector Development**

### **The Bank's objectives**

By 1998 Nigeria's business community was facing enormous obstacles. First, there were the problems of infrastructure already discussed. Second, the enforcement of arbitrary and unclear regulations lent itself to widespread corruption and rent seeking among public officials. Third, macroeconomic management was creating an extremely volatile environment for business activity. Fourth, except for the presence of the international oil companies, the economy was dominated by the public sector: some 600 state-owned enterprises (SOEs) accounted for 50 percent of GDP and 66 percent of employment. Fifth, there was the difficulty of obtaining financing for investment, particularly for micro, small, and medium enterprises (MSMEs). In this context the Bank's objectives were to improve the business environment for the private sector, with a particular focus on MSMEs. Although programs to support governance, macrostability, and infrastructure development were critical, there was also a specific effort to improve the legal and regulatory environment for private business, privatize SOEs, and improve access to finance by MSMEs.

### **The Bank's program**

*The Bank initiated its support for PSD through technical assistance for privatization. Even before the Obasanjo government was elected, the previous government had decided to privatize most of the non-oil SOEs, and a high-level working group had been set up to prepare a privatization law and implementation mechanism. Because of this, the Bank was able to move rapidly to support the program. The Privatization Support Project (\$115 million; fiscal 2002) provided funding to the BPE to hire consultants and transaction advisers to implement the program.*

*A second project supported the development of MSMEs. The MSME Project (\$32 million; fiscal 2004) has four components: (i) improving SMEs' access to finance through the establishment of microfinance companies, capacity building of commercial banks for SME lending, establishment of credit bureaus, and provision of technical assistance to firms providing leasing services; (ii) providing funding for business development services for MSMEs identified through value chain analysis in specific states and subsectors; (iii) undertaking studies on registration reforms, commercial dispute resolution, leasing services, credit bureaus, and secured transaction systems; and (iv) promoting public-private partnership development. The project is implemented by the Nigerian Investment Promotion Commission, which has contracted project management to a consulting company.*

*A third Bank project supports the development of the mineral sector. The Sustainable Management of Mineral Resources Project (\$120 million; fiscal 2005) includes (i) strengthening the capacity of the government to manage the country's mineral resources in a sustainable way and (ii) developing artisanal and small-scale mining areas. This project, too, was developed quickly in response to a request from President Obasanjo to Bank President Wolfensohn. It was conceived as a small, \$50 million project, but its size was increased later in response to government insistence.*

*Bank analytic work has been mainly through various Bank-wide and regional assessment programs and project-financed studies. A joint Bank-IFC Private Sector Assessment was carried out early in 2002. It provided a broad overview of the impediments to private*

investment, but not an action-oriented set of recommendations. A joint IMF-Bank review of the financial sector under the Financial Sector Assessment Program focused on vulnerabilities of the system and emphasized regulatory and prudential regulations as the immediate priority. The report did not get much traction; the Central Bank's priorities were the privatization and consolidation of commercial banks. In addition, the indicators collected for the Investment Climate Assessment and Doing Business Reports received widespread press coverage in Nigeria and were carefully reviewed by the president and his cabinet, with some follow-up action to reduce the red tape required in setting up a business. Project-financed studies included state-level manufacturing surveys and value chain analysis for four subsectors. The Bank has also organized a number of meetings at the state level on the business environment. These studies and databases need to be synthesized into a comprehensive assessment of PSD.

### **Outcomes**

*The outcomes are rated as **moderately satisfactory**.* The outcomes in this area are promising, but they are not a direct reflection of the Bank's program. The most significant accomplishment in the PSD agenda has been the privatization program. After a slow start, the pace of privatization picked up in 2005. Some 88 SOEs have been privatized to date and some \$2.5 billion in privatization proceeds realized. This includes virtually all of the commercial and industrial SOEs. Privatization of infrastructure SOEs has, however, proceeded more slowly, and ports and the fixed-line telecommunications company (Nitel) are the only two significant infrastructure privatizations. As noted, the port privatization was highly successful, but the Nitel privatization was seriously flawed. A recent attempt to privatize the refineries had to be aborted because of political uproar over the hasty, and less than transparent, process employed. It is hoped that the setback is only temporary because the publicly owned refineries are either lying idle or operating very inefficiently at a time when the country faces a shortage of refined products. Privatization of power and water does not appear likely in the near future. Unfortunately, the problems with Nitel and the refineries have tainted what otherwise appears to have been a reasonable process.

*The slow privatization of infrastructure is consistent with Bank experience in other countries.* The business community has generally welcomed the privatization program and believes that it has created a positive ambience for foreign and local investment.

*Nigeria has shown improvement in recent years in some of the Doing Business Indicators, but the general business environment remains poor.* The deficiencies in infrastructure, particularly in power, are cited as the most important constraint by all entrepreneurs, irrespective of size. The larger businesses consider public sector corruption the second most important issue. Although tariffs have been substantially rationalized, trade policy remains uncertain because of the imposition of periodic ad hoc bans on imports to protect a specific industry or firm. SMEs also cite access to land, multiple arbitrary taxes at the local level, access to finance, and security as major problems.

*Nevertheless, businesspeople and manufacturers express guarded optimism about the future.* This appears to be explained in large part by the restoration of democracy, greater political stability, and good macroeconomic management, as well as by the business opportunities created by growing oil revenues. Going beyond the current state of business environment will require a complex set of second-generation reforms.

*SMEs cite access to finance as a significant constraint.* The SMEs perceive the privatization and consolidation of the commercial banks and the Central Bank's decision to require all commercial banks to set aside 10 percent of profits for SME finance as positive steps, but banks remain uncomfortable with unsecured lending in the absence of risk-mitigation instruments. The creation of a microfinance bank (ACCION), with IFC assistance, is also a positive step. Although data are not available, discussions with commercial banks indicated support for the government's recently announced program to require subcontracting to SMEs by oil companies. This offers the banks the possibility of lending to SMEs that will have relatively secure markets.

*The Bank's contribution to these outcomes has been modest.* The privatization project was helpful to BPE because it allowed funding of certain types of expenditures that the government would otherwise have had great difficulty in financing (for example, higher salaries for BPE staff). BPE also expressed satisfaction with Bank procurement procedures. However, the Bank's role in the substantive aspects of privatization transactions was limited. The MSME Project has suffered from implementation delays, in part because of its complex design and somewhat diffused focus. The ownership of the project within the government is also unclear, with the government having gone ahead with its own initiatives for SME development independent of the project. The project also appears to be outside the mandate or expertise of the Nigerian Investment Promotion Commission, the implementing agency. Discussions in the field indicated that NIPC is seen as a Bank initiative rather than as an integral part of government strategy.

In retrospect, it appears that the Bank put together the project prematurely and without adequate analysis. In addition, there is a question whether IFC might have been better placed than the Bank to provide support for financing of SMEs, given that it has been very active in the financial sector. The SME project has also suffered delays arising from frequent change of ministers of mining (five ministers in the past two years), each of whom had different ideas about how the sector should develop. In particular, while most ministers welcomed the part dealing with mapping and cadastre, some did not see government (through the project) having a role in promoting artisanal mining. Successful implementation of the project will continue to be challenging given its large size and the effort needed to work effectively with artisanal mining communities and local governments. Even more important, the project, although worthwhile in itself, appears peripheral to the agenda of improving Nigeria's business environment.

*The Bank program does not add up to a coherent strategy for PSD.* Both the Bank's analytic work and its lending for PSD have been opportunistic. Each activity has merit, but there is an absence of synergy and a comprehensive view of what is needed and how to go about achieving it. The emphasis on lending has diverted

significant Bank attention and resources that could have been better used through targeted nonlending services. There is also a question on the balance of activities and whether the Bank should have spent less on PSD and used those resources for a more concerted effort in infrastructure.

## **Agricultural and Rural Development**

*Agriculture currently accounts for about one-third of Nigeria's GDP and employs about 70 percent of the labor force. Nigeria's agricultural GDP grew more than 4 percent annually between 2000 and 2006, a rate higher than that in most countries in Western Africa. This is largely because of increased crop production through area expansion rather than significant yield improvements. This is especially the case for starchy root crops such as cassava and yams, where the quantities produced increased by 34.4 percent between 1998 and 2005, keeping pace with the expansion in area harvested, which grew by 32.3 percent.*

Despite the recent increases of agricultural GDP, the majority of the rural population in Nigeria remains poor. The country's agricultural sector is dominated by smallholders who cultivate land under rain-fed conditions using traditional methods, which essentially limits their productivity to a subsistence level.

*Nigeria faces a daunting task if it is to tackle the challenges associated with unlocking its agricultural potential. Over the years the commercial sector of Nigerian agriculture has been severely constrained by problems related to Dutch disease, which have lowered the prices of competing agricultural imports or made potential agricultural exports less competitive. The government's response has been to intervene periodically in the market through devices such as marketing boards, which were put in place earlier for cocoa and rubber, and the more recent import ban on cassava. Agricultural production is also constrained by other problems: weaknesses in the policy, legal, and institutional framework; ineffective research and extension services; lack of access to rural finance; erratic availability and distribution of farm inputs; poor infrastructure, including the absence of road networks to move goods to the market; an unclear land-tenure-and-acquisition policy; and an unfavorable climate for private sector involvement. Furthermore, less than 1 percent of cultivated area in Nigeria is currently under irrigation. About 80 percent of these irrigated areas consists of private small-scale irrigation schemes; the remaining 20 percent is under public large-scale irrigation schemes, with most of the latter suffering from poor operation and management.*

### **The Bank's objectives**

*The Bank strategy documents do not articulate a clear strategy on support for agricultural productivity improvements. IS00 proposed the Bank's involvement to assist Nigeria's efforts to reduce poverty through the preparation of, among other things, agriculture and environment projects. In IS02, as far as agricultural development was concerned, the Bank's strategic objective was to support agricultural intensification and diversification, but this would depend on the resolution of fiduciary issues related to earlier Bank investments in Nigerian agriculture. In light of the failure to resolve*

these issues, the Bank decided to use a CDD approach to address the issues of agricultural productivity and rural service delivery by preparing the second Fadama Project. IS04 emphasized the delivery of “quick wins” at the grassroots level (that is, democracy and reform dividends) and investments in rural infrastructure to alleviate bottlenecks in agriculture. The CPS, building on NEEDS and SEEDS, reiterates the role of CDD programs but proposes additional activities, starting with rural transport and then expanding into other areas of agricultural development based on in-depth analyses of specific needs of the lead states.

### **The Bank’s program**

*The Bank’s analytic work provides a useful diagnostic but is at too aggregated a level to contribute to the action-oriented national agricultural strategy Nigeria needs.* In 2000, the Bank prepared a major report proposing a rural development strategy for Nigeria, which was published in 2001 (World Bank 2001). The report set forth the following broad priority areas: restructuring of agricultural extension services, agricultural technology development, infrastructure development, monitoring and evaluation systems to track effectiveness of interventions in the sector, and capacity building. In mid-2000 the agricultural growth strategy incorporated most of the recommendations of the report under preparation. The report and the strategy document provide a valuable overview, but they do not offer a clear picture as to which areas should receive immediate attention and for what periods. The Bank also supported a number of other analytical studies, including a review of the rural and agricultural sector institutions (prepared together with the African Development Bank and the International Fund for Agricultural Development), an internal study on agricultural research and extension services, and a report on the forestry sector. An agricultural Public Expenditure Review is under preparation.

These reports and studies appear to have little discernible effect on the government’s policies and actions. Nigeria still lacks a fully developed national agricultural development strategy. Government action appears to rely heavily on special (presidential) initiatives (for example, commodity-based initiatives for such products as such cassava and palm oil) and largely ineffective subsidy schemes for farm inputs and rural credit.

*The Bank’s lending program for agricultural development uses the CDD approach focused on the highly successful Fadama II Project.* Fadama II ( \$100 million; fiscal 2004) is the only major Bank operation that has attempted to tackle the agricultural issues Nigeria faces. The project uses a CDD approach to allow communities on *fadama* land (low-lying flood plains) to determine their own needs and invest in infrastructure needed to raise agricultural productivity – for example, farm-to-market roads, shallow wells along livestock trails, or irrigation improvements. Fadama I encountered significant problems, such as conflicts between livestock herders and cultivators and serious fiduciary problems with the implementing agency, the Ministry of Agriculture.

The Bank’s consultation process was detailed and costly, but it resulted in the creation of a mechanism that has been extremely effective. Indeed, on the basis of the available information (including a recent impact assessment by International Food

Policy Research Institute (box 4.1) and interactions with stakeholders, the project is considered a success story. Beneficiaries, ministry officials, NGOs, and the media are uniformly positive about its impact on incomes and productivity.

#### **Box 4.1: Impact of Fadama II**

An independent, in-depth evaluation undertaken by the International Food Policy Research Institute in 2007 suggests that Fadama II has been extremely successful. The project has been under implementation since 2004, and its contribution to poverty reduction in Nigeria is impressive. The socially inclusive and participatory development planning of the project enhanced group cohesion and is reducing resource access-based conflicts between farmers and herders in all project areas. It is serving as an effective tool for moving resources directly to organized and legally constituted community groups to use for their own development and for community-level development planning. Fadama II has been distinguished by outstanding performance in income generation, social capital enhancement, conflict reduction, and capacity building of about 3 million farm families.

The International Food Policy Research Institute evaluation, which involved the 12 Bank-funded Fadama states, revealed that household incomes of beneficiaries increased by about 60 percent within one year of the initiation of the project. The increase is well above the 20 percent goal that the project set out to achieve in six years for 50 percent of the beneficiaries. The evaluation reported that “project beneficiaries had benefited from reduced travel time to the nearest town and acquired production assets, such as agro-processing equipment and small-scale irrigation equipment, which are likely to continue to increase their incomes. The percent increase in the value of productive assets of the poor was significantly higher than that for other groups, suggesting that the project successfully targeted poor and vulnerable people with its support for productive asset acquisition.”

*Source: IFPRI (2007).*

*The second project in the agricultural sector, the fiscal 2006 Avian Influenza Project, is facing serious problems getting on track. It is a \$50 million emergency project with a three-year implementation horizon. Its objective is to help reduce the health risk to poultry and humans from highly pathogenic avian influenza. The project is attempting to control the disease at the source in domestic poultry by setting up early-detection and response systems for reporting the disease in both poultry and in humans, and by preparing for the medical consequences of a human pandemic. The project is implemented by the Ministries of Agriculture, Health, and Information. In spite of the emergency nature of the project, implementation has been delayed because of poor coordination between the implementing ministries. This lack of coordination is mirrored on the Bank side because the health sector operational staff do not consider this project part of their portfolio. Substantial restructuring may be needed to put the project on track.*

#### **Outcomes**

*Agricultural and rural development outcomes are rated as **moderately unsatisfactory**. Although the outcomes of the Fadama Project thus far merit a satisfactory or even highly satisfactory rating, this is offset by the overall lack of progress in establishing the policies and institutions that could lay the basis for sustainable growth. Recent production increases have reflected area expansion rather than improvements in productivity. As far as the Bank’s contribution is concerned, there have been some*

important positive features. The Bank's analytic work, despite its shortcomings, should provide a solid basis for future operations in the sector, and the results obtained thus far in Fadama II are a major step forward. The Bank did not attempt a more broad-ranging lending program, in part because of its concern about fiduciary issues at the federal level. But the Bank should have made an effort to support agriculture programs in selected states in order to pilot better links between its analytic work, the Fadama II Project, and agriculture development strategies at the state level. In addition the Bank has not been vocal enough about some of the key policy distortions, such as arbitrary bans on imports of agricultural commodities and the fertilizer subsidy and allocation policies. Looking forward, the Bank needs to develop and articulate a longer-term vision of its involvement in the Nigerian agricultural sector and translate this vision into a phased approach in its operations.

## Overall Assessment

*Overall outcomes of the non-oil growth pillar are rated as **moderately unsatisfactory**.* The growth in non-oil GDP averaged 5.9 percent per annum between 2000 and 2005, marginally in excess of total GDP growth; it rose to 7.4 percent in 2005 and to 8.6 percent in 2006 (compared with overall GDP growth of 6.0 percent and 7.2 percent, respectively). These higher non-oil GDP growth rates do not indicate a discernible shift in the structure of the economy. This said, given past experience in Nigeria, it was by no means a foregone conclusion that higher oil prices and production would be associated with rapid non-oil growth over this period.

A number of factors appear to be driving this growth. First, the spillover from the growth of the oil sector provided the budget and foreign exchange resources needed for higher public expenditures and imports while allowing the government to maintain fiscal discipline and a stable exchange rate. Second, compared with the earlier period, this macrostability, particularly lower inflation and the stability of the *naira* in relation to the dollar, undoubtedly created a much more favorable environment for private activity. At the same time, the Obasanjo government was clearly perceived as pro-private sector. A third factor worth noting is the rapid expansion of mobile telephones, which has directly provided income and employment (thousands of youth who would otherwise be unemployed sell telephone cards) and enabled better market intelligence.

*Nigeria has the potential for, and will need, much more rapid growth in the non-oil economy, especially the SME sector, to begin to improve unemployment.* The sound fiscal and monetary policies of the government in recent years, if maintained, provide a solid foundation for future growth; however, the supporting structural measures needed to create sustainable non-oil growth as the engine of future income and employment generation are not yet in place. There have been some achievements in institutional development, for instance, the privatization program, the unbundling of the power sector, and the development of regulatory capacity. The roads sector has the potential for progress if the envisaged reforms are carried through. But performance has been disappointing in the state-level infrastructure, including urban development and municipal water. The risks to sustainability are high. There has been pushback from Parliament on the privatization of the refineries, and unless there is tangible progress on power supply in a year or two, there could be calls for recentralization.

*As far as the Bank's contribution is concerned, where there was political will to undertake reforms, the detailed design tended to follow the blueprint the Bank had laid out. But in key areas such as water, transport, state-level infrastructure, and agricultural policies, the Bank has not been able to secure the consensus needed for reform.*

# Chapter 5

## Pillar Three: Delivering Social Services and Empowering Communities

*Poverty in Nigeria increased sharply between 1980 and the mid-1990s, rising from about 28 percent in 1980 to about 66 percent in 1996. It then fell to about 54 percent by 2004. Nigeria now has more than 70 million poor people, the third-highest number in the world, after China and India. Wide, long-standing regional disparities result in a poverty range from about 34 percent in the southeast to about 67 percent in the northeast. The decline in total poverty between 1996 and 2004 occurred mainly as a result of reduced urban poverty (from 58 percent to 43 percent); rural poverty fell considerably less (from 69 percent to 64 percent).*

*The Bank broadened its poverty reduction goals and engagement during the review period. Its strategy evolved gradually: from a fairly narrow focus in the early 2000 and 2002 interim strategies, which centered on updating its knowledge base, preparing small poverty reduction projects, and a coherent poverty reduction strategy; to general support for Nigeria's NEEDS strategy, including "empowerment for human development and community engagement in service delivery and local infrastructure" in the IS04; to elaboration of a broad-based strategy designed to "strengthen Nigeria's progress on key MDGs and to create a basis for sustainable development" in the CPS (World Bank and DFID 2005). This chapter reviews four components of the Bank's program:*

1. **Education** – Assisting the government's efforts to achieve universal nine-year basic education by 2015, one of Nigeria's MDGs, as well as increasing enrollment of girls, particularly in the northern regions of the country, and improving the quality of education
2. **Health** – Supporting efforts to reduce mortality from the major preventable diseases, including HIV/AIDS, polio, and malaria, and particularly improving infant, child, and maternal mortality
3. **Community empowerment** – Supporting CDD programs designed to create demand for better service delivery, and to achieve results in the short and medium term by funding communities directly
4. **Environmental management** – Working with communities to promote sustainable natural resource management and the building environmental management capacity of government actors at the federal, state, and local levels.

### Education

*Nigeria's educational level and enrollment rates are comparable to those of other sub-Saharan countries but remain low overall. By 2004, even after the significant increase since 2000, net primary school enrollments were barely 60 percent. Junior secondary*

enrollments were 22 percent, and senior secondary enrollments were 21 percent. There are also large income, regional, and gender differences in school enrollments, and although the gap between male and female enrollments has virtually disappeared in the south, it remains significant in the north. The number of girls over 15 years old who complete primary and junior secondary education is much lower than that of boys. Meanwhile, only 66 percent of all Nigerians over 15 years are literate in either English or a Nigerian language.

*The government is committed to universal basic education (UBE).* Nigeria's public education system was badly affected by the political interference, corruption, and weak public governance that characterized the Abacha regime in the 1990s. In 1999 the government initiated a new UBE program that was designed to ensure that all children complete a minimum of nine years (six primary and three junior secondary) of basic schooling by 2015. Achievement of this goal will not be easy, owing to the large and still rapidly growing population, its diversity, its high levels of poverty and income inequality, and the still-confused division of responsibilities between federal, state, and local governments.<sup>1</sup> A recent Bank education Public Expenditure Review indicates that Nigeria spends around 4 percent of its GDP on education, broadly consistent with other African countries but probably not enough to meet the MDGs.

*The NEEDS sets five broad goals for education.* These are (i) increasing access to education and improving its quality at all levels; (ii) ensuring minimum literacy, numeracy, and basic life skills for employment; (iii) reviewing secondary-level curricula to ensure continued relevance for the labor market and higher education; (iv) developing partnerships with the private sector and local communities; and (v) promoting information and communications technology at all levels.

### **The Bank's objectives**

*The Bank's education objectives distinguish between federal and state levels.* At the federal level the goal is to support national strategies for UBE and for science and technology to promote development of a knowledge economy. At the state level the goal in lead states is to improve educational access and quality and promote more efficient public expenditure. In non-lead states and where education indicators are worst, the goal is to address specific MDG-related issues such as girls' education. This differentiated strategy seeks to reconcile the country's national educational priorities with the reality that primary and secondary education is constitutionally a state and local government responsibility.

### **The Bank's program**

*At the federal level, the Bank undertook an extensive program of analytical work.* During fiscal 2002–04, two major education sector studies were undertaken—one to help the government prepare its UBE program (World Bank 2003d) and the other to assess its capacity to deliver basic education services (World Bank 2004e). Both studies employed a participatory approach intended to have a wider-ranging impact than a traditional sector report, and both were subsequently published as Africahuman development working papers. Nigerian and international specialists collaborated

with the Bank team in preparing background papers on priority issues, and the study was conducted with financial support from the Japanese and Norwegian governments. Later, during fiscal 2006–07, a science and technology post-basic education study – comprising six technical reports addressing policy and planning; financing; curricula, teaching, and learning; information and communications technology in teaching and learning; response to the labor market; and technical matters related to connectivity – was prepared by teams of government officials, Bank staff, and national and international consultants (World Bank 2006b). All three studies, especially the science and technology report, have facilitated the Bank’s and other donors’ policy dialogue with Nigeria, and the science and technology studies contributed to the design of the Science and Technology Project approved in fiscal 2007.

*Three of four credits to date have been for federally sponsored and managed operations. These comprise \$55 million for primary education in fiscal 2000, \$101 million for UBE in fiscal 2003, and \$180 million for science and technology post-basic education in fiscal 2007. The goals of the \$55 million Second Primary Education Project, which ostensibly built on lessons learned from the unsatisfactory outcome of the first, were to support the newly elected government’s plans to achieve UBE by enhancing coverage and quality through 740 focus schools (20 in each state and the federal capital territory) and community self-help approaches to school improvements in 900 local government areas (subsequently increased to 1,110 and 9,650, respectively).*

*Despite difficult political and governance conditions and an overly complex original design, whose quality at entry was rated marginally unsatisfactory, IEG’s internal assessment rated the project’s outcome as satisfactory on the basis of its achievement of physical targets and especially its piloting of focus schools and self-help approaches to school development. At the time, these represented a major change from the top-down, centralized style inherited from the military regime. By contrast, implementation of the follow-up 16-state Universal Basic Education Project was disappointing, and, following an unsuccessful midterm restructuring and downsizing, including cancellation of 40 percent of the original credit, it was closed two years early. Its outcome was rated as **unsatisfactory**.*

*Given the failure of the federally managed, geographically scattered, and thinly spread first primary education project in the early-to-mid-1990s, it is surprising that the above two operations adopted essentially the same flawed approach. The \$180 million Science and Technology Project, approved in late fiscal 2007, pilots a new, demand-driven, competitive approach to financing science and technology education. This is probably a high-risk, high-return operation, but it is the product of intensive analytical and project preparation work by teams of Bank staff and Nigerian and international experts over two years. It also supports a priority national strategy that enjoys bureaucratic and political support at the highest level and is consistent with Nigeria’s overall competitiveness, diversification, and growth agenda.*

*At the state level, there has only been one project thus far. The sectorwide design and management of the recently approved \$65 million three-state project (Kaduna, Kano, and Kwara) take fully into account the experience of the aborted Universal Basic*

Education Project as well as of the need for increased focus on northern states. The three-state project is backed by substantial technical assistance financed by DFID. This project appears to be highly relevant to the Bank's objective of supporting improved service delivery at the state level and could serve as a prototype for follow-up projects. A similar state-specific operation was planned for Lagos in fiscal 2008.

## Outcomes

*Education outcomes to date are rated as **moderately unsatisfactory**.* On the positive side, the three sector studies contributed significantly to the education dialogue within Nigeria and among development partners. They are also good examples of collaborative analysis by national and international experts that contributed to important operational outcomes, albeit too late to influence the second primary and UBE projects.

*On the negative side, neither of the two education projects achieved its original strategic goals.* Both operations perpetuated flawed project designs – federally managed, nationwide, thinly spread investments with little state or local government ownership. Moreover, although the self-help approach to school improvements piloted under the primary education project appears to have been well received in the communities, its impact on education access, quality, and outcomes remains to be proven. Fortunately, the recently approved project in Kaduna, Kano, and Kwara adopts a state-owned design that could prove more effective, although it is too soon to judge progress. It is similarly premature to assess implementation of the science and technology post-basic education project.

*The northern states' low education enrollments, quality, and unsatisfactory gender balance argue for explicit targeting of more resources to these areas.* Nigeria's prospects for meeting its education MDGs depend crucially on enhanced outcomes in these states. Because the actual and opportunity costs of basic education services are an important constraint to their use by the poor, fee waiver or exemption programs could be tried to help reduce these access barriers. The successful experience of conditional cash-transfer programs in countries such as Bangladesh, Indonesia, and Mexico to facilitate access by the poor through stipends and other incentives – especially by girls and young women in conservative or traditional communities – suggest that there may be a role for them in northern Nigeria as well.

## Health

*Nigeria's principal health indicators remain poor in absolute terms and in relation to indicators in comparable countries.* Despite slight improvements in recent years, infant, child, and maternal mortality and malnutrition, as well as fertility, have changed little since the late 1980s; indeed, child mortality in the northern states (260/1,000 live births) is among the worst in the world. About 3.5 million Nigerians are estimated to be HIV-positive (third-highest number in the world, after South Africa and India) and more than 700,000 have tuberculosis (fourth highest). Malaria

remains the primary cause of child mortality and a main factor in overall morbidity and mortality.

*Access to and use of basic health services remain very low.* Only 13 percent of 1-year-old children are fully immunized, and barely one-third of all births are attended by a doctor, nurse, or midwife. In retrospect the 1990s were a lost decade in terms of the country's overall health status, and achieving the health-related MDGs by 2015 will be a challenge. Child malnutrition and mortality have decreased only slightly in recent years, while maternal mortality has stagnated or even deteriorated. One important reason for slow progress toward the achievement of the health MDGs is that as of 2003, only an estimated 42 percent of households had access to safe water (UNDP 2000).

*NEEDS defines wide-ranging goals to meet these challenges.* These goals are to (i) increase direct federal support for primary health care through a strengthened National Primary Health Care Development Agency that is funded partly by earmarked taxes on alcohol and tobacco, but mainly by contributions from federal, state, and local governments; (ii) improve coverage of centrally based and strengthened disease-specific or "vertical" programs with proven high impact, such as those that have been launched against HIV/AIDS, malaria, and tuberculosis with funding from the federal government and international partners; (iii) strengthen the role of state governments in supporting the delivery of primary health care by local government authorities; and (iv) establish a national health insurance scheme, initially for civil servants at federal and state levels, later for employees in the formal private sector, and ultimately for informal sector and agricultural workers through community-based insurance arrangements.

### **The Bank's objectives**

*The Bank's objectives are differentiated between the federal and state levels.* As it does in education, and for the same reasons, the Bank makes a distinction between the two levels. At the federal level it supports the elaboration and intensified implementation of national disease control strategies and policies, in particular, definition and design of a comprehensive, multisectoral HIV/AIDS program. At the state level, in lead states the Bank seeks to improve primary health care, especially maternal and child health services; in non-lead states and where health indicators are especially poor, it deals with MDG-related issues such as maternal health, routine immunization, and access to safe water.

### **The Bank's program**

*The Bank's analytic work appears to have had limited impact.* In fiscal 2005 the Bank and the Federal Ministry of Health completed a health, nutrition, and population country status report World Bank and Federal Ministry of Health [Nigeria] 2005). Based mainly on data from the 2003 Nigeria Demographic and Health Survey, the study analyzed the health status of the poor and the health system's performance in meeting their needs. The impact of the study on Nigeria's health and population policy or strategy, and on the design and content of Bank lending before or after, is unclear; however, the importance of the information contained in it should not be

underestimated given the previous dearth of credible health status data. In addition, the study data and the analysis were not used to attempt to reengage the authorities on fertility and related reproductive health issues. Population remains a very sensitive subject in the country overall; however, the failure to address the problem is arguably one of the principal risks underlying the country's longer-term prospects.

*Bank lending for health has been mainly at the federal level through three disease-specific programs.* The health program during the period has been dominated by a sequence of credits totaling \$400.7 million – \$140.3 million for HIV/ AIDS program development, \$80.4 million for polio eradication, and \$180 million for malaria control.

*Given the threat that HIV/AIDS poses to Nigeria's development and the government's weak response during the military regime, Bank (and multidonor) support to the embryonic HIV/AIDS Emergency Action Program in fiscal 2002 was important and timely.* The program supports the rapid scaling up of information, education, and communication activities, the mainstreaming of multisectoral approaches at both federal and state levels, and the development of a long-term curative and preventive strategy. The implementation of the first \$90.3 million credit, which has had its ups and downs, is improving somewhat after a slow and difficult start. Completion of the planned long-term HIV/ AIDS prevention and treatment strategy and a related financing plan, one of the action program's objectives, has been delayed. To ensure continuity, supplementary financing of \$50 million was approved in fiscal 2007.

*Two credits for polio eradication were approved between fiscal 2003 and 2005 as part of the World Health Organization (WHO)-sponsored global effort to eliminate the disease by 2005.* Until then, Nigeria had been the major source of polio virus in Africa and the second major locus of wild polio virus globally. The Bank's contributions helped close an emergency oral polio vaccine financing gap that threatened the success of this global public good. Despite initial controversy in some northern local communities about vaccine quality that stemmed from misunderstanding about the true purpose of the program, both operations were timely and they disbursed rapidly. The Bank's role in these was limited: it simply financed the supply of the vaccine, which had been procured by the United Nations Children's Fund (UNICEF). Other aspects of Nigeria's National Polio Eradication Program, such as program management, logistics, social mobilization, and vitamin A capsule distribution, were financed by the government, with help from WHO and UNICEF. Both operations also offered opportunities for collaboration with private humanitarian sources of funds, such as the Bill & Melinda Gates Foundation, Rotary International, and the United Nations Foundation.

*A \$180 million credit for a malaria control booster project was approved in fiscal 2007.* It targets four states in the north (Bauchi, Gombe, Jigawa, and Kano) and three in the south (Akwa Ibom, Anambra, and Cross River) – where malaria is the main cause of high infant, child, and maternal mortality – and finances procurement of a well-defined set of "malaria-plus package" interventions, including more than 7 million long-lasting insecticidal nets.

*Approved in fiscal 2002, the Health Systems Development Project (\$127 million) was designed to help improve the delivery of primary health care services – especially maternal, child, and reproductive health services – in 18 states. These states were selected on the basis of their financial and procurement capacity, level of indebtedness, and population, but not their health status. About \$65 million, or 51 percent of the credit, was allocated for capacity building in the 18 state ministries of health (\$3.5 million per state); \$9.6 million, or 7.5 percent of the project, went to the federal Ministry of Health. The impact of this program appears limited given how thinly the resources have been spread.*

## **Outcomes**

*Health outcomes are rated as **moderately unsatisfactory**. Although the quality of Bank analytic work was satisfactory, it seems to have had limited impact either on government policy or on the Bank's own strategy, in particular on the design and content of its operations during the period. Indeed, the country status report's skeptical assessment of experience with centrally managed, disease-specific, vertical programs in Nigeria – and its advocacy of a stronger role for state and local governments in integrating management of specific diseases with primary health care services – contrasts markedly with the large share of commitments devoted to these federally managed programs.*

*As for lending, two polio eradication credits have been completed satisfactorily and implementation of the five credits approved since fiscal 2002 is broadly on track, but the projects have thus far had little impact on outcomes defined in the Bank strategy documents. For HIV/AIDS, the transition from emergency action to a long-term curative and preventive strategy remains to be completed. Although the establishment of an autonomous coordinating agency at the federal level has been broadly successful, the attempt to replicate this in all 36 states has yielded mixed results.*

*Nigeria's HIV/AIDS program is heavily influenced by its donors, whose exclusive focus on HIV/AIDS may risk missing opportunities for needed interventions in related areas, such as reproductive health, family planning, and fertility reduction. Staff in the federal HIV/AIDS agency shared this concern. The outcome of the two polio eradication projects was manifestly satisfactory, although, as already noted, the Bank's contribution was limited to financing and monitoring and evaluation. The malaria operation was approved only in fiscal 2007, and it is too early to gauge progress.*

*The outcome of the multistate health systems development project is problematic, especially its large capacity-building component. The project seeks to strengthen existing state ministries' capacity, rather than to create separate PIUs. However, the capacity building was limited in focus (health planning departments and staff development, computerized health management information systems, and consultant advisory services) and in amount (\$3.5 million per state, regardless of individual states' needs). Although the Bank went along with federal authorities' insistence on this equitable allocation of funds, the experience raises questions as to whether this dispersion of resources and standardized approach – essentially computers and consultants – is likely to achieve the projected outcomes.*

*Finally, evidence on the effectiveness of CDD approaches in advancing health outcomes is still coming in.* The approaches undoubtedly have a useful role in helping communities improve clinics, water sources, and other social infrastructure. However, the precision of their targeting, their coordination with local government service providers, and their real impact on outcomes – including their ultimate sustainability – remain to be demonstrated. This is discussed further in the following section.

*The Bank's strategy going forward should combine support for enhanced state-level interventions in the north with promotion of private service provision in the south..* Given the widely varying capacities of state and local governments – with those in most need (that is, rural areas in general and the northern states in particular) usually being the least able – the federal government should focus on providing financing and offering technical and capacity-building assistance to those state and local authorities most in need, especially those in the northern states. At the same time, given private sector providers' increasing significance in filling some of the gaps caused by the weak public health system, the role of these providers should be supported, especially in delivering high-impact interventions in the urban areas where they are most active. This would involve offering training, support, and accreditation, and integrating formal and informal private providers into the overall health system.

*Prospects for relying more on the private sector are particularly promising in southern states.* These two approaches are also mentioned in the Bank's health, nutrition, and population status report (World Bank and Federal Ministry of Health [Nigeria] 2005). For the Bank, this would imply increased focus on state-specific, sectorwide health projects in the northern states with the poorest indicators and programs designed to catalyze and promote public-private partnerships in the southern states that are relatively better off.

## **Improving Social Service Delivery through Community Empowerment**

*The federal government is attempting to increase its effectiveness in poverty reduction by empowering states, local governments, and communities.* In 1999 the newly elected government established a national Poverty Alleviation Council, chaired by the president, to advise the executive arm of government on how best to tackle Nigeria's poverty issues. The government also designated the National Planning Commission to coordinate antipoverty efforts in the country. In 2000 the commission developed a Poverty Reduction Plan with an overall goal of reducing poverty levels to 30 percent in 15 years and sustaining an annual growth rate of 6–10 percent of GDP. Poverty reduction initiatives were to be demand driven, with community participation and decentralized decision making. They would be implemented directly by communities. This represented a major shift of strategy from the past top-down approach, which had been characterized by poor targeting, poor design, and inefficient and incomplete implementation, and had generated increasing frustration among the population.

### **The Bank's objectives**

*The government's and the Bank's search for an effective instrument for reducing rural poverty has converged on community-driven development. The Bank's IS00 proposed the Bank's involvement to assist Nigeria's efforts to rapidly reduce poverty through the preparation of, among other things, "targeted poverty reduction programs." The Bank decided to focus on community empowerment and local-level development as key elements of its overall strategy for poverty reduction. The local empowerment pillar of both NEEDS and the CPS identified the CDD approach as a vehicle for financing social infrastructure across the country and for community participation in achieving the MDGs. The Bank's objectives included providing grants to communities in rural areas, supporting local participation and transparency in budgeting, and building capacity at the community and local government levels. It was envisaged that these interventions would include activities to enhance the voice of communities and their participation in resource allocation decision making, as well as service planning at the local level.*

### **The Bank's program**

*Four Bank operations use, to a greater or lesser extent, the CDD approach in design and implementation. These are the Fadama II Project, the Community-Based Poverty Reduction Project (CPRP), the LEEMP, and the HIV/AIDS Project. The increasing role of CDD in the Bank program in Nigeria is evidence that Bank managers and staff believe it is proving an effective mechanism for ensuring that resources flow for the intended purposes and for circumventing the governance issues that arise in working through the federal, state, and local governments. The Bank has yet to view its CDD-based programs as a portfolio, however. Thus, for example, the restructuring of LEEMP has made its development purposes and method of operation almost indistinguishable from that of the CPRP. There are parallel structures in the same states handling each project. As another example, the salary scales for PIU members differ from one CDD program to another. The Bank needs to set up a CDD team to ensure a more consistent approach to these projects.*

*The CPRP of fiscal 2001 is demonstrating the short-term benefits that a social fund can have for the rural poor. This operation initially provided \$60 million to improve access to education, health care, water and sanitation, and other economic and social services. Community groups identify the needs and type of activities to be financed under the project through a standard social fund approach. Communities provide counterpart funds (in kind or cash) for their respective subprojects. After a slow start (attributed to effectiveness delays, project management, and counterpart funding issues) and some restructuring after the 2004 midterm review, the project has made steady progress. Since 2004 the project has exceeded the targeted development outcomes. Consequently, performance ratings in supervision reports in the past three years have been satisfactory (highly satisfactory in 2006). This success has led to a supplementary financing of \$25 million in 2007 to meet a number of additional requests by participating communities in the targeted states.*

### **Outcomes**

*Outcomes for community empowerment and improving social service delivery are rated as moderately satisfactory. Compared with the Bank's operations in the 1980s and*

early 1990s, which were largely driven by the public sector, the CDD approach in Nigeria was a paradigm shift. The Bank chose this approach to ensure that the funds were effectively channeled to the beneficiaries at the community level in an environment typified by extremely weak governance. The overarching rationale was to catalyze development and poverty reduction from the ground up and rapidly deliver a “democracy dividend” (that is, that the country deserved support because of its successful transition from dictatorship to democracy) in Nigeria.

*The projects appear to be succeeding in helping communities evolve a shared approach to developmental needs. Are these projects helping create a consensus in communities concerning priority investments for development? The evidence thus far is positive. The Nigerian village is a relatively large and complex organizational structure, with traditional tribal authorities and systems, different interests between crop producers and pastoralists, and, in many areas, a subordinate role for women. It was by no means certain that the CDD operations would surmount these hurdles, but they appear to have done so. Facilitation by the PIUs and NGOs has contributed to effective conflict resolution mechanisms and helped ensure that due weight is given to the concerns of women, through, for example, more emphasis on health facilities.*

*Whether the investments financed will promote improvements in social service delivery remains unclear. Are these projects helping the community become a more effective unit in driving demand for services from the bottom up? The picture thus far is mixed. Schools and health facilities are being built, but the provision of teachers, books, desks, blackboards, health workers, and pharmaceuticals is uneven. The programs are reaching the end of their first phase. They now need to begin to meet the more difficult challenge of promoting better service delivery and sustainability through interactions with local governments and the relevant sector ministries of the state governments. This will require much deeper engagement with these authorities, including capacity building. Some evidence suggests (for example, in Ekiti, Kebbi, and Yobe States) that there is a better return on investment in states and in areas where the local government authority and state agencies have provided additional support to the community effort,*

## **Environmental Management**

*Effective natural resource management is crucial to sustainable growth in Nigeria but has not been treated as a priority. NEEDS states that the environment “provides the foundation for all development efforts on Nigeria,” and acknowledges that much more needs to be done to effectively “mainstream” the environmental agenda in Nigeria’s development planning. NEEDS lists a number of environmental constraints the country faces, ranging from waste management to the inadequacy of environmental data to guide policy making. The government has attempted to put in place policies and a regulatory framework to tackle its environmental challenges. The government’s environmental agenda is articulated in its Environmental Renewal and Development Initiative of 1999, which states that the government will “take full inventory of Nigeria’s natural resources, assess the level of environmental damage, as well as design and implement restoration and rejuvenation measures aimed at halting further degradation of our environment.” Nonetheless, implementation of*

stated policies is weak. Environmental management receives low priority and limited budget allocations. There has been no effort to prioritize the issues to be addressed.

*An area of particular environmental concern is the delta region, where most of the oil production and exploration take place. The social and political instability of the region owes in part to the sense among minority communities in the region that they are not receiving a fair share of the benefits of oil, despite substantial allocations by the federal government to the oil-producing states. This is exacerbated by perceptions that residents receive inadequate compensation for loss of livelihood as a result of environmental degradation of ancestral lands. Given the high international visibility of the delta region, the government established a National Oil Spill Detection and Remediation Agency and assigned it responsibility for addressing concerns arising from oil pollution. However, there seems to be confusion as to the mandate of this agency relative to that of other departments of the Ministry of Environment (for example, the Oil and Gas Pollution Unit of the Environmental Assessment Department).*

### **The Bank's objectives**

*In the beginning of the review period, the Bank's strategy gave considerable weight to dealing with environmental degradation. In 2000 the government asked the Bank to provide advice on the organization and potential activities of the newly established Ministry of Environment. In addition to analytical and advisory services, the Bank envisaged the preparation of an environmental management project focusing on microwatersheds using a CDD-type approach, as well as on building environmental management capacity of government actors at the federal, state, and local levels. The Bank also envisaged helping the government mobilize resources from the Global Environment Facility to fund activities in biodiversity conservation, international waters, and climate change. Over time the lack of commitment of the various levels of government to devoting resources to environmental improvement has discouraged the Bank, and its strategy documents devote little space to environmental issues.*

### **The Bank's program**

*The Bank has carried out significant analytic work on environmental issues. The Bank's analytical and advisory assistance attempted to provide a basis for delineating Nigeria's environmental priorities by highlighting the interconnectedness of poverty and natural resources. A Bank study (World Bank 2003c) noted the consistent failure to reinvest part of the earnings from Nigeria's natural capital toward alleviating environmental degradation. This report was followed by a Country Environmental Assessment (World Bank 2005a). That assessment identified the costs of natural resource degradation (including costs related to land degradation, effects on human health, oil pollution, and other environmental degradation issues) to Nigeria's economy at more than 8 percent of GDP annually,*

*The government has shown little interest in borrowing for environmental improvements. The Bank's lending program in the environmental area was limited to the \$70*

million LEEMP (fiscal 2004). The aims of this project were to support community investments to promote sound natural resource management in nine target states and to strengthen the institutional framework for environmental management at the federal, state, local, and community levels. The project was supplemented by a Global Environment Fund subproject that aims to strengthen protected area and biodiversity management in two of the nine target states – Niger and Bauchi – mainly in and around specific protected areas. The two innovative features of the project were the focus on environmental sustainability and the integration of the local government into the program (the funds are lodged with the local governments, which approve the community proposals). LEEMP has had serious implementation problems from the start.

*By October 2005, more than 18 months after the project had become effective, only 12 percent of funds had disbursed and the project was rated as **unsatisfactory**.* Implementation problems included an unclear division of roles and responsibilities between project management levels, elite capture, and irregularities (manipulation of population figures and “facilitator-driven” decision making). The project was restructured in 2005; key changes included interpreting the counterpart funds requirement more flexibly and creating a more independently functioning PIU. The modifications were similar to those of the implementation arrangements of CPRP. This resulted in an increased disbursement in the following years (28 percent and 43 percent in May and December 2006, respectively). The turnaround was achieved by downplaying the innovative features and the environmental focus of the project, which made it indistinguishable in many respects from the CPRP.

### **Outcomes**

*Environmental management outcomes are rated as **unsatisfactory**.* The Bank’s involvement in the environment sector has been limited relative to the major environmental challenges in Nigeria (for example, industrial oil pollution in the Niger Delta, urban waste management in the cities, erosion and desertification, deforestation). The Bank’s flagship operation in environment was the LEEMP, which turned out to be largely ineffective from an environmental standpoint. The Bank has attempted to introduce environmental considerations into other operations, most notably in the Fadama and the Sustainable Management of Mineral Resources Projects, but these are only a small part of these programs and are insubstantial given Nigeria’s overall needs in this area. In addition, the Bank has helped Nigeria access support from the Global Environment Fund to address global environmental concerns, either as a complement to lending operations (LEEMP, Fadama) or as stand-alone grants (for example, the multicountry Africa Stockpiles Program).

*Much more needs to be done to reverse the environmental degradation taking place in Nigeria. Any progress will primarily depend on the commitment of the federal and state governments and their willingness to devote resources to this. The Bank will also need to play a more active role in creating awareness of the various long-term implications of Nigeria’s environmental neglect.*

## Overall Assessment

*Outcomes for community empowerment and social service delivery are rated as **moderately unsatisfactory**.* Social service delivery at the state level remains much the same as it had been when the Obasanjo government first took office in 1999, with little evidence of improvements in capacity and uneven progress in improvement in outcomes. The main area of progress has been in the vertical programs dealing with specific diseases. School enrollment has grown, but the quality of education has not improved.

*There has been progress at the community level and, in those areas covered by CDD programs, some evidence of results.* Agriculture and natural resource management have been given little priority and, if anything, have deteriorated during the period. In general, institutional development has been limited in this pillar. Progress is evident in the work of national agencies covering specific diseases, especially HIV/AIDS, and in some the network of CDD institutions in the program areas. But little or no progress is evident on the core issue of strengthening the institutions for delivery of social, agricultural, and environmental services by the state governments. The risks to sustainability in those few areas where institution building has gone ahead are low. The institutions created to deal with disease are robust, and CDD seems well understood and broadly supported. The Bank's contribution has been significant in the areas of CDD and national disease programs. Bank analytic work has fostered broad discussion and collaboration on education issues in particular. This may, lead to improvements in outcomes down the road, but in other areas Bank analytic work has not been effectively integrated into the overall Bank program. The failure to address issues of state-level capacity to deliver services until the recent three-state education project has been a major gap in the Bank's approach in Nigeria, as has been the failure to support coherent strategies in agriculture, rural development, and natural resource management.

# Chapter 6

## Findings and Recommendations

### Conclusions

*If the Nigeria program had been assessed in 2004, its outcomes would have been rated as **unsatisfactory**. At the present time, it is possible to take a more positive view, reflecting in large part the reforms undertaken between 2004 and 2006. These reforms have cemented the stabilization begun earlier and, if followed through, could result in more efficient and effective federal public expenditures in the years ahead. Although the achievement of macroeconomic stability was not emphasized in the Bank's strategic objectives in country strategy documents, Bank managers clearly saw it as an essential precondition for effective Bank operations, and a great deal of the policy dialogue and analytic work was associated with it. In addition, the CDD programs supported by the Bank are beginning to have a positive impact on the incomes of the poor in the areas they cover, and the programs to deal with major diseases, particularly HIV/AIDS, are beginning to show results that should soon be reflected in improved life expectancy.*

*Disappointing outcomes in a number of key areas, however, lead to an overall rating of **moderately unsatisfactory**. Failure to reverse or halt Nigeria's worsening infrastructure, the slow pace of fiscal reform at the state level, and the failure to slow the deterioration in educational quality are perhaps the most obvious shortcomings of the period under review. All were central to the Bank's objectives and program in Nigeria, and the Bank needs to consider carefully the implications for program design of the lack of traction on outcomes in these areas despite the substantial efforts undertaken.*

*The Bank has made a number of positive contributions to the outcomes. Many of the better functioning programs and institutions in Nigeria have been supported by the Bank.*

*Fadama II is an example of a program that is responsive to client needs and is having an impact. The Bank absorbed the lessons of Fadama I, listened to the clients, designed a program that met their concerns rather than preconceived notions, and brought the credit to the Board only when it was adequately prepared.*

*The Bank's analytic work has generally been of good quality and has contributed to the reform efforts. The analytic work on human development and the fiduciary work – the earlier procurement and financial and accountability assessments and the more recent Public Expenditure Review – have played a particularly important role in helping the government lay out blueprints for reform. Early work on state fiscal issues was also of high quality but has not been followed up*

*A model of institutional reform is evolving that seems effective in the Nigerian context. A number of successful operations have used a model that takes a department or an agency out of the regular government structure and ensures that it gets technocratic leadership, autonomy in staff selection, support for terminating unqualified staff, salaries three or four times as high as regular government salaries, improved physical facilities, and information technology. The Statistics Bureau, the HIV/ AIDS agency, LMATA, and others are emerging as centers of excellence that could have a significant long-term impact on institutional development in Nigeria. The Bank now needs to evaluate the implications of scaling up this model.*

*Questions remain as to whether the program adds up to a coherent effort to achieve the objectives. Of particular concern are the following issues.*

*The program has been dispersed and opportunistic. The Bank has rarely established a deeper dialogue in a particular subsector or region than it has in Nigeria. The Bank found it difficult to resist political pressures to get involved in many different activities and states. The country strategy evaluation carried out by the Sub-Saharan Africa Region in 2004 recognized this problem, but to date there has been no significant improvement (World Bank and DFID 2005).*

*The Bank did not carry out infrastructure and PSD sector work, despite its stated intention, which appeared in even the earliest country strategies, to underpin lending with sector analysis. Each successive strategy document indicated plans for sector work that either did not materialize or was handled informally as technical assistance.*

*Several Bank projects lacked adequate technical preparation, resulting in start-up difficulties. The problem was compounded by Bank management decisions to increase project size or scope at a late stage to accommodate the availability of additional IDA funds. Most areas of support could have benefited from smaller initial projects that could be built on through follow-on projects.*

*The program has not captured cross-sectoral synergies at the state level. The usual Bank sector “silos” have been particularly costly at the state level in Nigeria, where they have not exploited the potential of a coordinated approach to improving governance.*

*The Bank did not make strategic use of its program to support key policy changes. Critical issues such as customs reform, the use of federal transfers to create performance incentives for state governments, and improvements in the agricultural policy framework, should have been the focus of targeted analytic studies as a basis for dialogue.*

*Given the emphasis on private participation in infrastructure, there should have been stronger Bank-IFC collaboration. This collaboration has been largely passive; the focus has been information sharing rather than joint action. IFC has not been proactive in infrastructure, which has contributed to the lack of collaboration.*

*The risks to continued momentum in the growth and reform agenda are substantial. All the major risks at the federal and state levels that were present in 1999 remain risks today. The risks can be categorized in four broad areas.*

1. *Risks to the continuation of policy reform.* The pressures on the federal and state governments *not* to reform – pressures that emanate from vested interests and those who benefit from corruption and poor governance – are much greater than pressures in support of reform. The resistance of the state governments to the Fiscal Responsibility Bill is clear evidence of this.
2. *Risks to the maintenance of economic infrastructure.* The lack of a maintenance culture in Nigeria means that resources allocated to maintenance are inadequate and that even when resources are adequate, corruption often reduces them to unacceptable levels. Part of the reason for the lack of allocation to maintenance is the preference for new capital works, which is unfortunately often linked to a much greater potential for bribes.
3. *Risks to the capacity of the civil service.* Consultants have played a major role in designing and launching reform programs. Over the next several years they will continue to be needed, especially at the state level. But to implement and sustain reforms over the long term requires a skilled, well-trained staff. Training alone, moreover, is not enough to build the capacity needed; the right incentives also need to be put in place to attract and retain competent government workers. Slow progress in civil service reform is, therefore, a cause for concern.
4. *Risks to political and economic security.* It would be remiss not to mention perhaps the most serious risk Nigeria faces – the unsettled situation in the delta region, which threatens the country's political and economic security. Although the Bank will have a limited role in addressing this risk, it is reviewing how it can best contribute to improving the situation in the delta.

## Recommendations

*Nigeria presents an enormously complex set of development problems, both for its own management and for Bank support. The conditions laid out in the first chapter of this report represent a daunting list of obstacles to overcome. All these factors remain in place, with one important exception – the cycle of economic volatility that had characterized Nigeria's history as an independent nation has been broken. Even this welcome development is, however, at some risk owing to the sharp rise in oil prices during 2007. If oil prices remain at their current level, the temptation to set aside the reform agenda and to use the oil resources to pay off the various vested interests is powerful. The Bank needs to be outspoken about its concern that poverty reduction should remain the core of Nigerian policy and the yardstick by which its government's success should be judged.*

*The Bank needs to commit itself to a deep engagement in a limited set of development priorities. It is important that the Bank not trade this depth of engagement for greater*

breadth of program coverage. Full commitment will require continuing the shift of the Bank's focus in Nigeria to the country office.

*The most important task facing the Bank in the short term is to help prevent the loss of fiscal discipline.* This could well occur if the government gives in to political pressures from Nigeria's state governments to increase transfers from the oil surplus account without an assurance of improved governance and expenditure policies and better performance at the state level. To do this, the Bank needs to analyze Nigeria's federal system more carefully and offer assistance to the federal and state governments on how the system of transfers can be reengineered to provide greater incentives to states to spend resources efficiently. In addition, the Bank should consider a series of development policy credits that could leverage federal transfers, with triggers linked to improvements in state-level budgeting, expenditure controls, and service delivery.

*The second priority is to achieve an impact on poverty reduction through better service delivery at the state level.* The Bank should increase its policy engagement with state authorities and expand its analytic work at the state level. As part of this effort, the Bank should fine-tune the lead states approach – it is not well understood, even by Bank staff, and does not yet seem to be operational. A possible first step would identify a group of focus states on the basis of economic importance and adopt a consistent approach to support in these states. The Bank does not have the staff and budget to put teams in each of the focus states, but it could make much more effective use of the partnership with DFID, which is increasingly basing its support at the state level.

*The Bank should scale up its efforts in the power sector.* There has been a focus on a limited set of Bank-supported programs, without much thought as to how these could be scaled up. The Bank needs to work back from the objective of expanding power distribution, see what the implications are, and support a broad-based program geared toward achieving these objectives. This may require that the Bank put a team, rather than an individual, into the field.

*The Bank needs to take a long-term view of its role in Nigeria.* Nigeria is a vitally important country in the overall African context and without sustained growth could well become the country with the largest number of the world's poor. Growth and development will not be a straight line, and there are likely to be difficult periods both politically and economically in the future. The Bank should not repeat the experience of the 1990s and run down its intellectual capital. During periods of weak government and political unrest, it needs to maintain dialogue and continue to design project interventions selectively and on a small scale. Nigeria has a large domestic market by African standards, substantial natural resources, an entrepreneurial population, and a diaspora that could invest and even be attracted back if the conditions were right. The experience of 2004–07 has shown that with effective management the country can achieve high rates of growth and poverty reduction. The Bank has demonstrated in the period covered by this review that it can play a valuable role in supporting a reform-minded government. In the final

analysis, however, it is the government's own commitment to reform that will determine whether Nigeria is able to realize its potential.

# Appendixes

# Appendix A: Statistical Supplement

Table A.1: Nigeria at a Glance

Table A.2: Economic and Social Indicators for Nigeria and  
Comparator Countries

Table A.3: Nigeria: IBRD/IDA-Approved Projects,  
Fiscal 2000–2007

Table A.4: Nigeria: Millennium Development Goals

Table A.5: Internal Bank Study Ratings of Projects that Exited between Fiscal  
1999 and 2007

Table A.6: Aid Flows to Nigeria by Donor (\$ millions)

Table A.1: Nigeria at a Glance

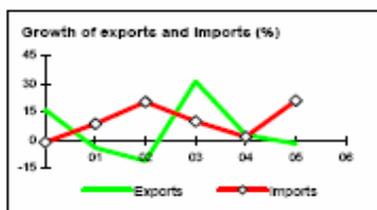
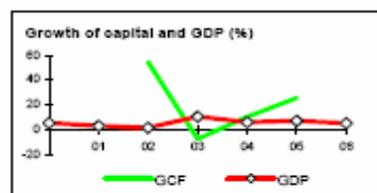
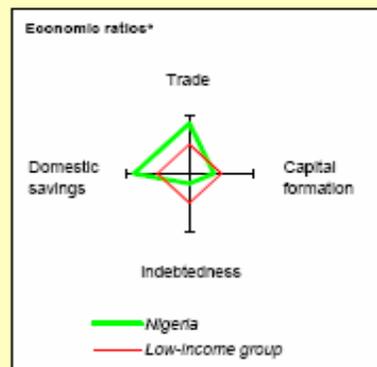
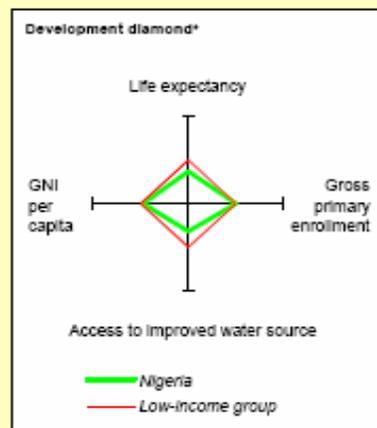
## Nigeria at a glance

9/28/07

POVERTY and SOCIAL	Nigeria	Sub-Saharan Africa	Low-Income		
<b>2006</b>					
Population, mid-year (millions)	144.7	770	2,403		
GNI per capita (Atlas method, US\$)	620	842	650		
GNI (Atlas method, US\$ billions)	89.7	648	1,562		
<b>Average annual growth, 2000-06</b>					
Population (%)	2.5	2.4	1.9		
Labor force (%)	3.6	2.6	2.3		
<b>Most recent estimate (latest year available, 2000-06)</b>					
Poverty (% of population below national poverty line)	..	..	..		
Urban population (% of total population)	49	36	30		
Life expectancy at birth (years)	44	47	59		
Infant mortality (per 1,000 live births)	100	96	75		
Child malnutrition (% of children under 5)	29	30	..		
Access to an improved water source (% of population)	48	56	75		
Literacy (% of population age 15+)	69	59	61		
Gross primary enrollment (% of school-age population)	103	92	102		
Male	111	98	108		
Female	95	86	96		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	1986	1996	2005	2006	
GDP (US\$ billions)	20.2	35.3	98.6	115.3	
Gross capital formation/GDP	15.0	14.2	21.2	22.0	
Exports of goods and services/GDP	17.1	48.1	53.3	56.3	
Gross domestic savings/GDP	11.6	34.9	39.2	43.6	
Gross national savings/GDP	..	29.2	27.1	33.9	
Current account balance/GDP	-22.4	11.2	9.2	11.9	
Interest payments/GDP	2.5	3.0	5.0	..	
Total debt/GDP	109.9	89.0	22.5	..	
Total debt service/exports	28.4	15.2	15.9	..	
Present value of debt/GDP	..	..	22.4	..	
Present value of debt/exports	..	..	39.6	..	
	1986-96	1996-06	2005	2006	2006-10
(average annual growth)					
GDP	4.3	4.5	7.2	5.2	6.8
GDP per capita	1.3	1.9	4.7	2.7	4.7
Exports of goods and services	5.6	2.5	-1.8	..	..

STRUCTURE of the ECONOMY	1986	1996	2005	2006
<b>(% of GDP)</b>				
Agriculture	38.7	30.7	23.3	..
Industry	26.0	49.2	56.8	..
Manufacturing	8.7	4.8	..	..
Services	35.3	20.1	19.9	..
Household final consumption expenditure	74.1	57.1	39.6	..
General gov't final consumption expenditure	14.3	8.0	21.2	..
Imports of goods and services	20.5	27.4	35.4	34.7
<b>(average annual growth)</b>				
Agriculture	3.4	4.8	8.2	..
Industry	3.6	2.9	5.0	..
Manufacturing	3.7	5.1	8.2	..
Services	6.1	5.1	8.0	..
Household final consumption expenditure	-0.5	-11.6	-4.5	..
General gov't final consumption expenditure	3.7	23.0	9.7	..
Gross capital formation	14.0	14.5	25.7	..
Imports of goods and services	2.4	8.9	21.3	..



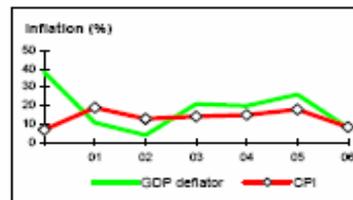
Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

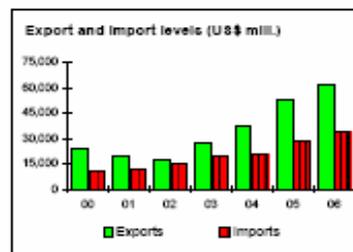
## PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
<b>Domestic prices</b>				
(% change)				
Consumer prices	5.7	29.3	17.9	6.2
Implicit GDP deflator	-1.5	36.9	26.1	7.9
<b>Government finance</b>				
(% of GDP, includes current grants)				
Current revenue	15.5	19.7	43.4	43.4
Current budget balance	4.4	14.3	16.1	17.3
Overall surplus/deficit	..	9.1	10.7	8.5



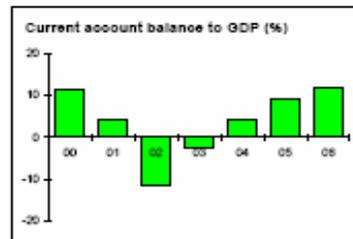
## TRADE

	1986	1996	2005	2006
<b>(US\$ millions)</b>				
Total exports (fob)	6,764	16,117	53,100	61,600
Fuel	6,385	15,830	46,141	..
Liquefied natural gas	..	..	5,898	..
Manufactures	..	47	132	..
Total imports (cif)	10,311	6,881	28,118	34,096
Food	1,382	929	3,658	..
Fuel and energy	73	89	..	..
Capital goods	..	..	..	..
Export price index (2000=100)	53	81	194	..
Import price index (2000=100)	81	116	137	..
Terms of trade (2000=100)	65	70	141	..



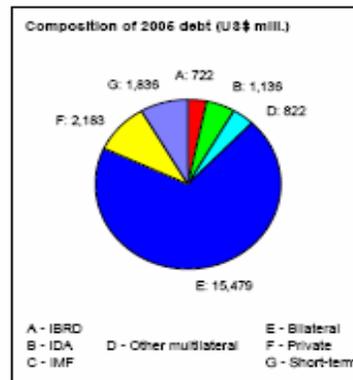
## BALANCE of PAYMENTS

	1986	1996	2005	2006
<b>(US\$ millions)</b>				
Exports of goods and services	7,119	16,246	53,075	65,006
Imports of goods and services	6,536	10,939	34,094	40,100
Resource balance	-1,417	5,307	20,981	24,906
Net income	-2,934	-2,231	-15,300	-14,600
Net current transfers	..	877	3,399	3,400
Current account balance	-4,523	3,953	9,080	13,706
Financing items (net)	3,672	-1,600	2,244	194
Changes in net reserves	651	-2,353	-11,324	-13,900
<b>Memo:</b>				
Reserves including gold (US\$ millions)	1,350	4,329	28,632	42,735
Conversion rate (DEC, local/US\$)	3.6	80.0	131.3	127.4



## EXTERNAL DEBT and RESOURCE FLOWS

	1986	1996	2005	2006
<b>(US\$ millions)</b>				
Total debt outstanding and disbursed	22,212	31,407	22,178	..
IBRD	2,137	2,762	722	534
IDA	33	348	1,136	1,541
Total debt service	2,050	2,509	8,881	..
IBRD	219	597	263	244
IDA	1	3	31	33
<b>Composition of net resource flows</b>				
Official grants	9	24	5,825	..
Official creditors	617	-420	-3,310	..
Private creditors	-545	-690	-171	..
Foreign direct investment (net inflows)	193	1,593	2,013	..
Portfolio equity (net inflows)	0	0	0	..
<b>World Bank program</b>				
Commitments	643	0	702	35
Disbursements	524	229	265	362
Principal repayments	78	371	243	230
Net flows	445	-141	22	132
Interest payments	142	230	51	47
Net transfers	303	-372	-29	65



**Table A.2: Economic and Social Indicators for Nigeria and Comparator Countries**

Series name	1999	2000	2001	2002	2003	2004	2005	2006	Average	Ethiopia	Mozambique	Tanzania	Bangladesh	Indonesia	Pakistan	LIC
<b>Growth and consumption of output</b>																
GDP growth (annual %)	1	5	3	2	11	6	6	6	5	6	8	6	6	4	5	6
GNI per capita, Atlas method (current US\$)	270	270	310	310	360	400	520	640	385	136	250	298	414	930	565	465
GNI per capita, PPP (current international \$)	770	740	800	770	840	860	960	1050	849	928	965	604	1,873	3,194	2,054	2,093
GDP per capita growth (annual %)	-2	3	0	-1	8	4	4	3	2	4	5	3	4	3	2	4
Agriculture, value added (% of GDP)	37	26	31	31	26	17	23	23	27	45	25	45	23	16	24	24
Industry, value added (annual % growth)	-3	6	3	-8	22	5	5	5	4	7	11	9	7	4	6	7
Services, etc., value added (% of GDP)	28	21	22	25	24	26	20	19	23	41	48	38	51	40	52	49
Inflation, consumer prices (annual %)	7	7	19	13	14	15	18	8	13	5	11	5	5	10	5	
<b>Savings, investment, and government accounts</b>																
Gross domestic savings (% of GDP)	19	42	35	25	32	39	40	..	33	3	13	10	18	28	15	22
Gross national expenditure (% of GDP)	104	78	89	101	92	83	82	..	90	117	115	108	106	94	102	
External debt (% of GNI)	87	78	70	75	69	62	26	..	67	75	135	72	33	76	44	38
<b>External balance debt and exchange rate</b>																
Exports of goods and services (% of GDP)	37	54	43	41	50	54	54	..	48	14	27	19	15	34	15	20
Imports of goods and services (annual % growth)	15	-1	9	21	10	2	21	16	12	12	9	3	8	4	8	10
Current account balance (% of GDP)	1	16	5	2	6	23	25	..	11	-6	-17	-4	0	3	1	
Total debt service (% of exports of goods, services, and income)	7	8	12	8	6	4	16	..	9	10	8	8	7	25	21	13
<b>Social Indicators</b>																
<b>Health</b>																
Immunization, DPT (% of children ages 12–23 months)	23	24	24	25	25	25	25	..	24	57	70	87	84	72	65	61
Improved water source (% of population with access)	..	49	..	..	..	48	..	..	49	22	43	60	74	77	90	74
Life expectancy at birth, total (years)	..	..	..	47	..	..	..	..	47	42	42	46	63	67	64	59
<b>Education</b>																
School enrollment, preprimary (% gross)	..	..	..	..	..	15	..	..	15	2	..	27	15	28	52	25
School enrollment, primary (% gross)	93	96	..	..	100	99	103	..	98	76	84	88	108	115	77	95
School enrollment, secondary (% gross)	24	..	..	..	..	35	34	..	31	25	8	6	50	60	26	42
<b>Population</b>																
Population ages 65 and above, male	1,535,886	1,579,631	1,623,819	1,668,300	1,713,472	1,759,903	1,807,952	2,001,498	1,711,307	892,721	262,634	497,270	2,317,975	4,971,652	2,716,197	44,547,033
Population growth (annual %)	3	3	3	3	3	2	2	2	3	2	2	3	2	1	2	2
Population, total (millions)	121.5	124.8	128.0	131.3	134.7	138.0	141.4	144.7	133.1	67.8	18.9	36.2	135.4	213.3	146.8	225.6
Urban population (% of total)	43	44	45	46	46	47	48	49	46	15	33	23	24	45	34	29

Source: World Bank internal database.

Note: .. = data are not available. DPT = diphtheria, pertussis, and tetanus; GDP = gross national product; GNI = gross national income; LIC = low-income country; PPP = public-private partnership.

Table A.3: Nigeria: IBRD/IDA-Approved Projects, Fiscal 2000–2007

Fiscal year	Project	Latest development objective	Latest implementation progress	Date, revised closing	Latest risk rating	Sector board	IDA commitment amount (\$ million)	IDA amount SDR (\$ million)	IBRD/IDA amount (\$ million)	IBRD/IDA average size (\$ million)
2000	Small Towns Water	U	U	06/30/2004	S	Water	5	4	5	5
2000	Economic Management CB	S	HS	12/30/2007	#	Economic Policy	20	14	20	20
2000	Secondary Primary Education	S	S	12/31/2004	#	Education	55	40	55	55
2001	Community-based Poverty Reduction SIL	S	S	12/31/2008	#	Social Protection	60	47	60	60
2001	Privatization Supplement SIL	S	MS	12/30/2008	#	Financial and Private Sector Development	114	90	114	114
2002	Community-based Urban Development	MS	MS	06/30/2009	#	Urban Development	110	88	110	110
2002	Health System Development II	S	S	07/01/2008	#	Health, Nutrition, and Population	127	102	127	127
2002	HIV/AIDS Program Development	S	S	06/30/2009	#	Health, Nutrition, and Population	90	71	90	90
2002	Transmission Development SIL	S	S	06/30/2008	#	Energy and Mining	100	79	100	100
2003	Universal Basic Education	U	U	06/30/2006	#	Education	101	76	101	101
2003	Lagos Urban Transport SIL	S	S	06/30/2009	#	Transport	100	76	100	100
2003	Polio Eradication	S	S	10/30/2007	#	Health, Nutrition, and Population	29	21	29	29
2004	Fadama SIL 2	S	S	12/31/2009	#	Agriculture and Rural Development	100	70	100	100
2004	Local Empowerment & Environmental Management	S	S	06/30/2009	#	Social Development	70	53	70	70
2004	Urban Water Sector Reform 1 SIL	S	S	09/30/2010	#	Water	120	82	120	120
2004	MSME	MS	MS	06/30/2009	#	Financial and Private Sector Development	32	22	32	32
2005	State Governance & Capacity Building TAL	MU	MU	03/31/2010	#	Public Sector Governance	18	12	18	18
2005	Min Res Sustain Management	MS	MS	06/30/2010	#	Energy and Mining	120	80	120	120
2005	Economic Reform & Governance SIL	MS	MS	02/28/2011	#	Public Sector Governance	140	93	140	140
2005	Polio Eradication – Supplement	#	#	#	#	Health, Nutrition, and Population	52	33	52	
2006	National Urban Water Sector Reform SIM 2	MS	MS	06/30/2011	#	Water	200	133	200	200
2006	National Energy Development SIL	S	MS	07/31/2008	#	Energy and Mining	172	114	172	172
2006	Avian Influenza Emergency ERL	MS	MS	06/30/2009	#	Agriculture and Rural Development	50	35	50	50
2007	Lagos Metropolitan Development & Governance	S	S	09/30/2013	#	Urban Development	200	138	200	200
2007	S&T Education in Post-Basic Education	#	#	09/30/2011	#	Education	180	120	180	180
2007	State Education Sector Project	S	S	07/01/2011	#	Education	65	43	65	65
2007	Malaria Control Booster Project	S	S	03/31/2012	#	Health, Nutrition, and Population	180	122	180	180
2007	Lagos Urban Transport Additional Financing	#	#	#	#	Transport	50	34	50	
2007	Community-based Poverty Reduction Additional Financing	#	#	#	#	Social Protection	25	17	25	25
2007	HIV/AIDS APL Additional Financing	#	#	#	#	Health, Nutrition, and Population	50	33	50	50

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*Source:* World Bank internal database.

*Note:* **Ratings:** HS = highly satisfactory; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory. APL = adaptable program loan; CB = Central Bank ; ERL = emergency recovery loan ; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; Min Res Sustain Management = mineral resource sustainable management; MSME = micro, small, and medium enterprises; SDR = special drawing rights; SIL = specific investment loan; SIM = sector investment and maintenance loan; S&T = secondary and tertiary; TAL = technical assistance loan

**Table A.4: Nigeria: Millennium Development Goals**

	Year			
	1990	1995	2000	2005
<b>Goal 1: Eradicate extreme poverty and hunger</b>				
Income share held by lowest 20%	..	<i>3.7</i>	..	<i>5.0</i>
Malnutrition prevalence, weight for age (% of children under 5)	35.3	<i>39.1</i>	<i>27.3</i>	<i>28.7</i>
Poverty gap at \$1 a day (PPP) (%)	..	<i>44.1</i>	..	<i>34.5</i>
Poverty headcount ratio at \$1 a day (PPP) (% of population)	..	<i>77.9</i>	..	<i>70.8</i>
Poverty headcount ratio at national poverty line (% of population)	..	<i>34.1</i>	..	..
Prevalence of undernourishment (% of population)	<i>13</i>	<i>9</i>	..	<i>9</i>
<b>Goal 2: Achieve universal primary education</b>				
Literacy rate, youth total (% of people ages 15–24)	74	..	..	..
Persistence to grade 5, total (% of cohort)	<i>89</i>	..	..	<i>73</i>
Primary completion rate, total (% of relevant age group)	..	..	..	82
School enrollment, primary (% net)	<i>56</i>	..	<i>82</i>	<i>91</i>
<b>Goal 3: Promote gender equality and empower women</b>				
Proportion of seats held by women in national parliament (%)	..	..	<i>3</i>	<i>6</i>
Ratio of girls to boys in primary and secondary education (%)	..	..	<i>83</i>	<i>82</i>
Ratio of young literate females to males (% ages 15–24)	82	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	34.0	..	..	..
<b>Goal 4: Reduce child mortality</b>				
Immunization, measles (% of children ages 12–23 months)	54	44	35	35
Mortality rate, infant (per 1,000 live births)	120	120	107	100
Mortality rate, under 5 (per 1,000)	230	230	207	194
<b>Goal 5: Improve maternal health</b>				
Births attended by skilled health staff (% of total)	31	..	<i>42</i>	<i>35</i>
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	800	..
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>				
Contraceptive prevalence (% of women ages 15–49)	<i>6</i>	..	<i>15</i>	<i>13</i>
Incidence of tuberculosis (per 100,000 people)	105	185	253	283
Prevalence of HIV, female (% ages 15–24)	..	..	..	<i>2.7</i>
Prevalence of HIV, total (% of population ages 15–49)	..	..	..	<i>3.9</i>
Tuberculosis cases detected under DOTS (%)	..	11	13	22
<b>Goal 7: Ensure environmental sustainability</b>				
CO <sub>2</sub> emissions (metric tons per capita)	0.5	0.3	0.4	<i>0.4</i>
Forest area (% of land area)	19	..	14	12
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	1.1	1.1	1.2	<i>1.4</i>
Improved sanitation facilities (% of population with access)	39	..	..	<i>44</i>
Improved water source (% of population with access)	49	..	..	<i>48</i>
Nationally protected areas (% of total land area)	..	..	..	<i>6.0</i>
Aid per capita (current \$)	3	2	1	49
Debt service (PPG and IMF only, % of exports of G&S, excluding workers' remittances)	22.3	14.0	8.2	16.7
Fixed line and mobile phone subscribers (per 1,000 people)	3	4	5	151
Internet users (per 1,000 people)	0	<i>0</i>	1	38
Personal computers (per 1,000 people)	..	5	6	7
Total debt service (% of exports of goods, services, and income)	22.6	13.8	8.2	15.8
Unemployment, youth female (% of female labor force ages 15–24)	..	..	..	..
Unemployment, youth male (% of male labor force ages 15–24)	..	..	..	..
Unemployment, youth total (% of total labor force ages 15–24)	..	..	..	..
<b>Other</b>				
Fertility rate, total (births per woman)	6.7	6.4	5.9	5.5
GNI per capita, Atlas method (current \$)	280	230	280	560
GNI, Atlas method (current \$) (billions)	25.5	23.6	33.5	74.0
Gross capital formation (% of GDP)	14.7	16.3	20.3	20.9
Life expectancy at birth, total (years)	46	45	44	44
Literacy rate, adult total (% of people ages 15 and above)	49	..	..	..
Population, total (millions)	90.6	103.9	117.6	131.5
Trade (% of GDP)	72.2	86.5	86.5	88.4

Source: World Bank internal database.

Note: Figures in italics are for years other than those specified. .. = data are not available. CO<sub>2</sub> = carbon dioxide; DOTS = Development Outcome Tracking System; GDP = gross domestic product; GNI = gross national income; G&S = goods and services; IMF = International Monetary Fund; kg = kilogram; PPG = public and publicly guaranteed; PPP = public-private partnership.

Bank Study Ratings of Projects That Exited between Fiscal 1999–2001

Project name	Date of approval	Approval fiscal year	Sector	Exit fiscal year	Evaluation date	IEG outcome	IEG sustainability	IEG institutional development impact	IEG Bank quality at entry	IEG Bank supervision	IEG overall Bank performance	IEG borrower preparation (discontinued in 2001)	IEG borrower implementation	IEG borrower compliance
Urban	06/26/1990	1990	Urban Development	1999	06/23/2000	U	Unlikely	Modest	S	U	S	U	U	S
Water	05/21/1991	1991	Water	2001	04/24/2002	MU	Unlikely	Modest	U	S	S	S	U	S
Agriculture and Rural Development	06/11/1991	1991	Agriculture and Rural Development	2000	08/10/2000	MU	Unlikely	Modest	S	U	U	U	U	U
Health, Nutrition, and Population	05/07/1991	1991	Health, Nutrition, and Population	1999	08/17/1999	HU	Unlikely	Negligible	U	U	U	U	U	U
Nutrition, and Population	05/21/1991	1991	Nutrition, and Population	2000	08/17/2000	S	Likely	Substantial	U	S	S	U	S	S
Water	05/28/1992	1992	Water	2001	06/11/2001	U	Unlikely	Modest	S	S	U	U	U	U
Education	12/13/1990	1991	Education	2000	05/14/2001	U	Unlikely	Modest	S	S	S	U	U	U
Agriculture and Rural Development	06/09/1992	1992	Agriculture and Rural Development	2000	08/09/2000	MS	Likely	Modest	U	S	U	S	U	S
Agriculture	03/26/1992	1992	Agriculture	1999	04/11/2000	S	Likely	Modest	S	U	S	S	U	S

	2		and Rural Development												
ent tion	04/13/199 3	1993	Education	2000	06/14/2001	U	Nonevaluable	Modest	S	S	S	S	U	S	
ent age ion	11/05/199 2	1993	Economic Policy	1999	05/12/2000	U	Likely	Modest	U	U	U	U	S	S	
s II	06/17/199 3	1993	Water	1999	05/24/2000	S	Uncertain	Negligible	U	S	S	U	U	S	
	04/27/199 3	1993	Transport	2000	03/20/2001	S	Unlikely	Modest	S	S	S	S	S	S	

atabase.

*Note: Ratings:* HU = highly unsatisfactory; MS = moderately satisfactory; MU = moderately unsatisfactory; S = Satisfactory; U = Unsatisfactory. ICR = implementation completion and results; IDF = Institutional Development Facility; IEG = Independent Evaluation Group.

**Table A.6: Aid Flows to Nigeria by Donor (\$ millions)**

Donor type	Country	1998	1999	2000	2001	2002	2003	2004	2005	Total
Bilateral	Australia	0.1	0.0	0.1	0.0	..	0.0	0.1	0.1	0.4
	Austria	1.1	1.1	1.5	1.6	2.1	4.2	9.9	6.4	27.8
	Belgium	0.3	0.4	0.3	0.4	0.4	0.7	1.2	142.1	145.7
	Canada	1.2	4.7	6.8	3.7	22.0	40.9	12.9	25.5	117.8
	Finland	..	..	0.3	0.2	0.3	0.1	0.2	0.4	1.4
	France	3.2	2.9	5.8	13.7	5.4	3.8	5.1	1,446.4	1,486.4
	Germany	0.5	10.2	13.0	17.3	53.9	16.0	28.3	1,187.9	1,327.2
	Greece	..	..	..	..	0.1	0.3	0.5	0.7	1.6
	Ireland	..	..	0.7	1.0	1.3	2.2	1.7	1.9	8.7
	Italy	0.0	0.1	0.9	1.0	1.0	0.1	0.9	529.6	533.5
	Japan	..	0.7	15.1	9.0	30.6	2.7	6.4	110.2	174.7
	Netherlands	0.6	0.1	0.1	3.7	0.7	5.7	0.4	1.0	12.4
	Norway	0.2	0.7	0.2	0.9	2.3	6.0	4.4	3.5	18.3
	Spain	0.1	0.4	0.2	0.4	0.5	0.4	0.6	1.8	4.4
	Sweden	0.0	0.1	0.3	1.1	1.2	0.1	0.3	1.0	4.1
	Switzerland	..	..	0.4	0.1	..	..	0.0	50.1	50.5
	United Kingdom	52.0	29.5	350.6	8.2	46.6	89.8	323.9	2,183.7	3,084.1
United States	2.0	34.2	94.5	89.4	105.4	89.2	121.2	149.2	685.1	
Multilateral	AfDF	..	..	26.4	5.1	44.9	49.0	10.8	8.6	144.8
	EC	3.8	36.0	65.5	64.7	9.1	23.6	369.0	95.3	667.1
	IDA	..	..	140.0	304.6	438.0	238.7	380.0	441.8	1,943.1
	IFAD	..	23.0	..	29.9	15.0	..	..	..	67.9
	UNDP	..	3.9	..	..	..	..	..	..	3.9
	UNICEF	..	..	19.0	22.8	18.3	23.1	26.4	23.7	133.2
	UNAIDS	..	..	..	1.1	0.3	0.9	..	1.1	3.4
	UNFPA	..	..	..	5.5	5.3	10.6	..	..	21.5
<b>Bilateral</b>		<b>61.4</b>	<b>85.0</b>	<b>490.8</b>	<b>151.8</b>	<b>273.8</b>	<b>262.2</b>	<b>517.9</b>	<b>5,841.2</b>	<b>7,684.1</b>
<b>Multilateral</b>		<b>3.8</b>	<b>62.9</b>	<b>250.9</b>	<b>433.6</b>	<b>531.0</b>	<b>374.2</b>	<b>827.6</b>	<b>570.5</b>	<b>3,054.5</b>
<b>Total (Bilateral + Multilateral)</b>		<b>65.3</b>	<b>147.9</b>	<b>741.7</b>	<b>585.4</b>	<b>804.8</b>	<b>636.4</b>	<b>1,345.5</b>	<b>6,411.6</b>	<b>10,738.7</b>

Source: Organisation for Economic Co-operation and Development-Assistance Committee.

*Note:* .. = \$0.00. AfDF = African Development Foundation; EC = European Commission; IDA = International Development Association; IFAD = International Fund for Agricultural Development; UNAIDS = Joint United Nations Programme on HIV/AIDS; UNDP = United Nations Development Programme; UNFPA = United Nations Population Fund; UNICEF = United Nations Children's Fund.

# Appendix B: People Interviewed

## Federal Government

Olesegun Abasanjo	Former President, Nigeria
Prof. Chukwuma Soludo	Governor, Central Bank of Nigeria
Dr. Sarah Omotunde Alade	Deputy Governor, Economic Policy, Central Bank of Nigeria
Dr. J. O. Makaju	Special Adviser to the President on Electric Power, The Presidency
Lawal Y. Aboki	Coordinator, Office of the Senior Special Assistant to the President, The Presidency
Dr. I. J. Daudo	Office of the Senior Special Assistant to the President, The Presidency
Akin Arikawe	Permanent Secretary, Ministry of Finance
Haruna Mahammed	Special Assistant to the Permanent Secretary, Ministry of Finance
M.A. Alao	Director, IERD, Ministry of Finance
Steve Aborishade	Assistant Director, IERD, Ministry of Finance
A. D. Ambode	Permanent Secretary/Accountant General, State Treasury Office, Ministry of Finance
Mr. Olaoye	Deputy Director and Coordinator PET, IERD, Ministry of Finance
C. D. Gali	Director of Expenditure, Federal Ministry of Finance, Budget Office of the Federation
Rotimi Oyekan	Hon. Commissioner for Finance, Ministry of Finance
Mr. Shuaibu	Project Officer, IERD, Ministry of Finance
Dr. Sam Ekpe	Permanent Secretary, Ministry of Agriculture
A.I. Pepple	Permanent Secretary, Federal Ministry of Agriculture and Water Resources
Bolaji Balogun	Assistant Director, Ministry of Agriculture & Co-operatives, Planning, Research and Statistics Department
Hon. Sam Oju	Commissioner, Ministry of Agriculture
O.A. Oyawumi	Project Manager, National Urban Project, Ministry of Environment, Housing & Urban Development
Ibrahim Talba	Permanent Secretary, Ministry of Health
Dr. Jide Idris	Commissioner for Health, Ministry of Health
Ochi Achinivu	Director, Ministry of Commerce
Ben Akabueze	Commissioner for Economic Planning and Budget, Ministry of Economic Planning and Budget
Busari Olalekan Jelili	Project Coordinator, Oyo State Programme Support Unit, Ministry of Local Government. and Chieftaincy Matters
Mabel I. Ozumba	Director, Federal Ministry of Education
Dr. O. P. Obande	Director, Planning, Research & Statistics, Federal Ministry of Science and Technology
David Gende	Bureau of Public Service Reforms
Michael Hugman	Technical Assistant to the Director-General/Special Adviser on Budget, Budget Office of the Federation
Bernard Egba	Auditor General, Office of the State Auditor General

O. R. Ejenavi	Acting Auditor General for the Federation, Office of the Auditor General for the Federation
Nasiru M. Shehu	State Coordinator, Local Empowerment & Environmental Management Project (LEEMP)
Imelda Etape	Acting Chief Registrar, High Court, CRS
El Rufai	Chair, Public Sector Reform Team, National Planning Commission
Alhaji S. D. Kassim	Permanent Secretary, Aviation
Charles E. Achu	State Planning Commission, Office of the Governor
Goke Adegoroye	Director General, Bureau of Public Service Reform
Abdulrahman Ado	Vice Chairman, Nigerian Electricity Regulatory Commission
Engr. A.O. Ahiaba	Director, Highway Planning & Design
L.C. Anikamadu	Engineer, PMU, National Urban Project
Engr. Benson Assegiri	Manager, National Water Sector PMU
Lawal Audi	Manager, Roads Sector Development Team
James Ebutse	Director, Policy Advocacy & External Relations, NIPC
Reg Ihebuzor	Director, Strategy & Planning, Bureau of Public Enterprise
Irene Chigbue	Director General, Bureau of Public Enterprise
Emeka Ile	Access to Finance Specialist, MSME Project
Engr. L.G. Nwaezike	Project Director, Rural Access & Mobility Project
Engr. Ayo Obilomo	CEO, Abuja Electricity Distribution Company
<b>State Government</b>	
<b>Bauchi State</b>	
Bello Uman Gamawa	Head of Civil Service, Bauchi State
Sahya Yusuf	Head of Service, Bauchi State Ministry of Education
Ibrahim Sule	Chairman, Chief Executive, Bauchi State Board of Internal Revenue
Mohammed Aminu Ibrahim	Project Coordinator, Bauchi State Government, State Governance and Capacity-Building Project
Dr. S. A. Ingawa	Director, Project Coordinating Unit
Ayodele A. Adeniyi	Programme Leader, Programme Development & Planning, Project Coordinating Unit
<b>Lagos State</b>	
Ope George	Senior Special Assistant to the Governor on Economic Matters, Lagos State Government
Babatunde Raji Fashola	Executive Governor Lagos State, The Roundhouse, Lagos State Government
T. A. Oluwatayo	Project Coordinator, Lagos State Government, Ministry of Education
Olayemi Cardoso	Adviser
Olumuyiwa Coke	Partner, Deloitte (previously MD, LWC)
Engr. Shayo Holloway	Group Managing Director, Lagos Water Corporation
Adesoji Oyenusi	Director, Statistics, Lagos Central Office of Statistics
Dr. Dayo Mobereola	CEO, Lagos Metropolitan Area Transport Authority
Tayo Orekoya	Director, Corporate & Investment Planning, Lagos Metropolitan Area Transport Authority
Engr. Abiodun Fajobi	Director of Roads, Lagos Metropolitan Area Transport Authority
Gbenga Dairo	Technical Adviser, Public Transport and Traffic, Management, Lagos

Iyiola Adegboye	Metropolitan Area Transport Authority
Benedict O. Kehinde	Director of Finance, Lagos Metropolitan Area Transport Authority
Adegbite M. Olakunle	Slum Upgrade Specialist, Lagos Metropolitan Development and Governance Project
Babutunde A. Oshodi	Project Engineer, Lagos Metropolitan Development and Governance Project
Abiokuye Biodun	Procurement Specialist, Lagos Metropolitan Development and Governance Project
John Barker	Accountant, Lagos Metropolitan Development & Governance Project
Akin Aluko	Lagos State Program Manager, State and Local Government Program
Muda Yusuf	Consulting Manager, Lagos Chamber of Commerce and Industry
Timothy O. Oladipo	Deputy Director General, Lagos Chamber of Commerce and Industry
Nath Olayinka	State Project Coordinator, Oyo State Fadama Development Office
Funde Falola	Advisory Services Officer, Oyo State Fadama Development Office
Yewande Olaopa	Monitoring and Evaluation Officer, Oyo State and Development Office
Dr. Olayiwale Onasanya	Community Development/Gender Officer, Lagos State Fadama Development Office, Agriculture Development Authority
Dr. Adetunji Adeleke Oredipe	State Project Coordinator, Lagos State Fadama Development Office, Agricultural Development Authority
M. N. Uwarie	National Project Coordinator, Projects Coordinating Unit, National Fadama Development Office
<b>Office of the Governor</b>	Project Coordinator, Fadama Development Project, Agricultural & Rural Development Secretariat
Margaret Ebokpo	Deputy State Coordinator, State Planning Commission, Office of the Governor
Nzewi Ikenna	Accountant & Contract Manager, State Planning Commission, Office of the Governor
Afzal Yearoo	State Coordinator, State Planning Commission, Office of the Governor
<b>Abuja State</b>	
John Bob-Manuel	Retail Banking, Ecobank, Abuja
Michael Osode	Zonal Head, SME, Ecobank, Abuja
Gabriel Umoren	Branch Manager, Ecobank, Abuja
Sadisu Ibrahim	Chairman, Business and Economic Development Committee, Karu
<b>Kaduna State</b>	
Engr. David Kaura	Project Manager, State Implementation Unit, Rural Access and Mobility Project
Engr. Hassan Mohamed	Project Coordinator, Assistant General Manager
Engr. Kabiru Ahmed Rufai	Chief Engineer
Bulus James Tallapragada	Adviser to the Governor, previously Permanent Secretary, Economic Planning
James Yaro	General Manager, Kaduna State Water Board
<b>Cross River State</b>	
Engr. Elemi B. Yaro	Managing Director, Cross River State Water Board Ltd.

Dr. Iyam Ugot	Special Adviser, Cross River State, Office of the Governor
Gabriel Undelikwo	Project Manager, Government of Cross River, State of Nigeria
Elder Offiong N. Ekefre	Head of Service, Cross River State, Office of the Head of Service
Mrs. Edak E. Iwuchukwu	General Manager, Cross River State Community-Based Poverty Reduction Agency
Rev. O.E.C. Nyiam-Bisong	Programme Manager, Cross River Agricultural Development Programme
Victor J. Ovat	Project Manager, Cross River State Community-Based Poverty Reduction Agency
Ibrahim Mohammed	Project Coordinator, Economic and Financial Crimes Commission
Nuhu Ribadu	Executive Chairman, Economic and Financial Crimes Commission
Emmanuel Akomaye	Project Director, Economic and Financial Crimes Commission
Sunkanmi Adeoti	Accountant/Administrator, Nigeria Extractive Industries Transparency Initiative
Waziri Adio	Director of Communications, Nigeria Extractive Industries Transparency Initiative
<b>Civil Society</b>	
<b>Private Sector</b>	
<b>Lagos</b>	
Mansur Ahmed	Director General/CEO, Nigerian Economic Summit Group
Patrick Eronobi	Senior Executive, MAN
Rasheed Adegbenro	Assistant Director of Corporate Affairs, Manufacturers' Association of Nigeria
Jide A. Mike	Director General, Manufacturers' Association of Nigeria
Latunji Oluseyi A	Sectoral Executive, Manufacturers' Association of Nigeria
Ambrse Oruche	Senior Manager, Sectoral Department, Manufacturers' Association of Nigeria
Endurance Uhumuavbi	Research Economist, Manufacturers' Association of Nigeria
<b>Media</b>	
Gbenga Abiodun	Head, Northern Operation Abuja, Financial Standard
Everest Amaefule	Senior Correspondent, Punch, Nigeria Limited
Isaac Anumihe	The Sun
Archibong Asuquo	Editor, News Agency of Nigeria
Mathias Ekwe	Reporter, The Guardian
Mr. Joseph Inokotong	Abuja Bureau Chief, The Daily Times of Nigeria
Chidinma Stephanie Ivoko	Bureau Reporter, Africa Business News, CNBC Africa
Ben-Bright Mkpuma	Abuja Bureau Chief, Africa Business News, CNBC Africa
Justus Nduwugwe	Business Editor, LEADERSHIP
Otei Oham	The Nation
Plus Okeosisi	Photo Journalist, Business Day
Mathias Okwe	Reporter, The Guardian
Gbenga Abidodun	Head, Northern Operation Abuja, Financial Standard
<b>Academia</b>	
John B.O. Aregbeyen, Ph .D.	Professor, Economic Development Department, Nigerian Institute of Social and Economic Research

Prof. Tunji Akande	Director General, Nigerian Institute of Social and Economic Research
Roibito Samuel Ekanem, Ph.D	Director General, Management Development Institute
Prof. Ade S. Olomola	Director, Agriculture & Rural Development Department, Nigerian Institute of Social and Economic Research
Dr. Philip Obaji	Member, Board of Management, University of Calabar Teaching Hospital
Prof. Ade S. Olomolo	Director, Agriculture & Rural Development Department, Nigerian Institute of Social and Economic Research
Tunji Akande	Director General, Nigerian Institute of Social and Economic Research
<b>Nongovernmental Organizations and Civil Society</b>	
Engr. David Kaura	Project Coordinator, Rural Access and Mobility Project
T. T. Koleoso-Adelekan	Executive Director, National Primary Health Care Development Agency
Abdulsalami Nasidi	DSD/Chairman, Avian Influenza Control & Human Pandemic Preparedness and Response Project
Dr. Kayode Ogungbemi	Director, Strategic Planning, Monitoring & Evaluation
Zuwaira Gambo	Administrative Secretary, Better Life Programme for the African (Rural) Women
Felicia Iyore Onibon	National Moderator, Civil Society Action Coalition on Education for All
Danjuma Sa'idu	Project Director, Academic Associates Peace Works
Chuma Chinye	Convenor, People Against Corruption
Alhaji Ibrahim Dankwambo	Accountant General of the Federation
James Ubaru	Project Manager, Savanna Conservation Nigeria
Elder Ebri	Team member
Otive Igbuzor	Country Director, Actionaid International Nigeria
Andrew Mamedu	CEF Coordinator, Actionaid International Nigeria
C. N. Ikpechukwu	Coordinating Director, National Planning Commission
Petra Jacobi	Deputy Head of Programme, German Technical Cooperation
Boniface Kassam	Program/Media Officer, Civil Society Legislative Advocacy Centre
Auwal Musa	Executive Chairman, Civil Society Legislative Advocacy Centre
Prof. S. O. Monye	Executive Secretary, NPC
Chris Etim Nyong	Auditor General
Ali Baba	Business Partner Office, Shanono Bureau de Change Nigeria Ltd
Mr. Mike Egboh	Country Representative, Nigeria, Pathfinder International
Anne Ene-Ha	Director, Planning Research Statistics
Dr. Siyan Malomo	Director-General, Nigerian Geological Survey Agency
Dr. Olakunde Odumoso	Social Development Division
Dr. Oyesola O. Oyebanji	Senior Facilitator, National Special Programme for Food Security

#### **Donors**

##### **African Development Bank (ADB)**

Sebastian O. Okeke

Greg Osabor

Agricultural Economist, ADB Field Office, Nigeria

Social Sector Specialist, ADB Country Office, Nigeria

##### **Department for International Development (DFID)**

Sarah Dunn

Deputy Head, DFID Nigeria

Rob Shooter

Dennis Michael Tracey

**International Monetary Fund (IMF)**

Michael W. Bell

**U.S. Agency for International Development (USAID)**

Latanya Mapp Frett, JD

Polly Dunford

Dr. Sandy Oleksy-Ojikutu

**United Nations**

Abhimanyu Singh

Ayalew Abai

**World Bank/International Finance Corporation (IFC)**

**<C> World Bank**

Ngozi Okonjo Iweala

Hafez Ghanem

Anil Bhandari

Michael J. Fuchs

Joseph Gadek

Hassan Kida

Ajay Kumar

Alex McPhail

Peter Mosley

Mohua Mukherjee

Justin Runji

Prasad Tallapragada

Deepali Tewari

Peter van de Ween

Alexandra Le Courtois

**IFC**

Solomon Adegbe-Quaynor

Elam Muchra

Paul Nickson

Senior Programme Coordinator, Human Development, DFID

Senior Health Adviser, Human Development Team, DFID

Senior Resident Representative, IMF Nigeria

Acting Deputy Mission Director, USAID Nigeria

General Development Officer, USAID Nigeria

Senior Education Adviser, USAID Nigeria

Director & Country Representative, United Nations Education,  
Scientific and Cultural Organisation

Representative, United Nations Children's Fund

Managing Director

Former Country Director, Nigeria

Sr. Adviser, AFTTR

Lead Financial Economist, AFTFP

Sr. Sanitary Engineer, AFTU2

Sr. Sanitary Engineer, AFTU2

Sr. Transport Economist, AFTTR

Lead Water and Sanitation Specialist, AFTU1

PSD/Finance

Sr. Energy Specialist, AFTEG

Sr. Transport Specialist, AFTTR

Sr. Energy Specialist, AFTEG

Sr. Municipal Development Specialist, AFTU2

Mining

Consultant, AFTEN

Country Manager, CAFW5

PSD/Finance

Infrastructure

# Appendix C: Guide to IEG's Country Assistance Evaluation Methodology

This methodological note describes the key elements of the Independent Evaluation Group–World Bank's (IEG–WB's) country assistance evaluation (CAE) methodology.<sup>1</sup>

## *CAEs rate the outcomes of Bank assistance programs, not the client's overall development progress*

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the client's development objectives. If a Bank assistance program is large in relation to the client's total development effort, the program outcome will be similar to the client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a client's development by donors, stakeholders, and the government itself. In CAEs, IEG rates only the outcome of the Bank's program, not the client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the client's overall development progress. CAEs have identified Bank assistance programs that had –

Satisfactory outcomes matched by good client development

Unsatisfactory outcomes in clients that achieved good overall development results, notwithstanding the weak Bank program

Satisfactory outcomes in clients that did not achieve satisfactory overall results during the period of program implementation.

## *Assessments of assistance program outcome and Bank performance are not the same*

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and vice versa. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (i) the client; (ii) the Bank; (iii) partners and other stakeholders; and (iv) exogenous forces (for example, events of nature, international economic shocks, and so forth). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

IEG–WB measures Bank performance primarily based on contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy; the design and supervision of the Bank's lending interventions; the scope, quality, and follow-up of diagnostic work and other analytic and advisory activities; the consistency of the Bank's lending with its nonlending work and with its safeguard policies; and the Bank's partnership activities.

## Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEG-WB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right?

Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG-WB's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CAE evaluates the relevance of the objective; the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and nonlending instruments; and the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, and the government, as well as exogenous factors.

Evaluators also assess the degree of client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences in dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts or avoided addressing key client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of client ownership, and/or unwelcome side effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

### Ratings scale

IEG-WB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory (see box C.1).

## Box C.1: Ratings Scale

<i>Highly satisfactory</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (i) did not take into adequate account a key development constraint or (ii) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives and either (i) did not take into adequate account a key development constraint or (ii) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory</i>	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The **institutional development impact (IDI)** can be rated at the project level as *high, substantial, modest, or negligible*. IDI measures the extent to which the program bolstered the client's ability to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the IDI of the program are –

- The soundness of economic management
- The structure of the public sector and, in particular, the civil service
- The institutional soundness of the financial sector
- The soundness of legal, regulatory, and judicial systems
- The extent of monitoring and evaluation systems
- The effectiveness of aid coordination
- The degree of financial accountability
- The extent of building nongovernmental organization capacity
- The level of social and environmental capital.

IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

**Sustainability** can be rated at the project level as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *nonevaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- Technical resilience

- Financial resilience (including policies on cost recovery)
- Economic resilience
- Social support (including conditions subject to safeguard policies)
- Environmental resilience
- Ownership by governments and other key stakeholders
- Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness)
- Resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.<sup>2</sup>

# Appendix D: Comments from the Government

## FEDERAL MINISTRY OF FINANCE

~~DIVISION~~  
INTERNATIONAL ECONOMIC RELATIONS DEPT.,  
CENTRAL AREA, ABUJA

P.M.B. No. 14  
E-mail: FEDMINFIN  
Telephone: 09-6271400



F11373/S34/C47/11/215

Ref. No. \_\_\_\_\_  
**June 30, 2008**  
Date: \_\_\_\_\_

The Director-General,  
Independent Evaluation Group,  
The World Bank,  
1818 H Street, N.W.,  
Washington, D.C. 20433,  
U.S.A.

THE WORLD BANK  
ABUJA  
30 JUN 2008

Attention: Ali Khadr

### **RE: NIGERIA: - COUNTRY ASSISTANCE EVALUATION**

I am directed to write in respect of the Country Assistance Evaluation report dated May 30, 2008 for the period 1998-2007 and to thank your team, especially Basil Karalshy – Task Manager who led the delegation and interacted with us while preparing the report.

2. As you are aware, Nigeria's relations with the World Bank dates back to 1960s when we got our independence and that relationship has become stronger. The World Bank was one of the few donors that remained engaged even during our trying period. It is also worth noting that since the advent of democracy in 1999, the Bank has continued to be one of our important partners. Apart from providing policy advice to both the Federal and State Governments, its investment lending to the

**ADDRESS: CENTRAL Business Area, Ahmadu Bello Way, P.M.B. 14, Abuja - Nigeria**

country now amounts to over \$2.6 billion spanning through various sectors, such as social services, infrastructure, agriculture and economic management.

3. As rightly noted in the report, Nigeria started a series of homegrown economic reforms aimed at promoting the economic recovery of the non-oil sector. A major effort in that regard was the development of National Economic Empowerment and Development Strategy (NEEDS) I & II which were directed at improving the macroeconomic environment, improving public expenditure management and improving human development. The National level reform was also complemented by the State Economic Empowerment and Development Strategy (SEEDS) which was developed by all the States with emphasis on the importance of private sector development for growth and poverty reduction. From the experience of these reforms, it is evident that a number of improvements have been attained but then, significant challenges still exist, particularly in improving the investment climate in the country.

4. The report noted that in the past few years, the Federal Government took various initiatives to enhance transparency and accountability in governance and maintain fiscal discipline and macroeconomic stability, with the overall desire of fast-tracking the growth and development of the economy and improving the well-being of our people. One of the key outcomes of these initiatives was the enactment of the Fiscal Responsibility and Public Procurement Acts.

Both laws were designed to make for prudent management of resources, ensure long term macroeconomic stability, accountability and transparency in fiscal operations and to improve public sector spending behaviour by reducing corrupt practices and inefficiency and tracking of public sector investment spending.

5. In order to consolidate the gains of the on-going reforms and to achieve the objective of making Nigeria one of the twenty largest economies in Year 2020, Government is evolving measures for fiscal and macroeconomic coordination among the three tiers of government through the adoption of Fiscal Responsibility and Public Procurement Legislations by all tiers of government, adherence to budget discipline and due diligence in public procurement. Indeed, with the support of the Bank and other donors a number of States governments are already in the process of developing their own Fiscal Responsibility and Procurement laws.

6. With respect to Country Portfolio Performance, there has been significant improvement in portfolio performance wherein disbursement ratio increased from 12.8% in FY04 to 24.7% in FY07; commitments at risk declined from 66.4% in FY04 to 15% in FY07; and projects at risk dropped from 53.3% in FY04 to 25% in FY07. As you are aware, Nigeria has the largest Portfolio in Sub-Sahara Africa with 26 IDA projects and 2 GEF projects with about US\$2.6 billion in commitments. This represents about 12% of the Africa Region's total commitments. The projects are

well aligned to Government's priorities which includes Human Development, Governance and Non-oil Growth. In fact the average GDP growth of 6.5% achieved between 2005 -2007 came from the non-oil sectors. The Government will continue to address generic issues such as slow project start up, slow disbursements and weak monitoring and evaluation system.

7. The World Bank's investment lending has been very supportive to the Federal Government and the participating States. We appreciate the Bank's quick response to the Government request for support to our Avian Flu project and we wish that the Bank continues to give such quick response to our requests.

8. Moving forward, the Government would like to see more Bank involvement in our infrastructure development. In this connection it is important to state that US\$2.6 billion investment in Nigeria over 10 years is quite small for a country of Nigeria size and need, hence the level of outcomes as reported in your assessment. It is therefore important that the assessment should have taken into consideration the amount of resources which was allocated to the country.

9. The Government is presently working to build its fiduciary capacity and improve procedures. This informed the Government's presentation of the financial management and Audit Bills to the National Assembly and of which approval is being awaited. A cadre for Procurement Officers has also been established in the Civil Service to strengthen public

procurement and ensure value for money. We hope that with these developments and other initiatives of the Government, the country will soon be in position to adopt its own country procurement system for donor operations.

10. The Government notes the existing high level of collaboration between the Bank and other donors in the country, especially with the DFID. We look forward to more of such collaborations with other donors. This effort will enable us to effectively harmonize donor interventions and work toward the Paris declaration.

11. The Government of Nigeria appreciates the role of the Bank in its effort to ensure good governance and macroeconomic stability and affirms its continued commitment to deepening of the reforms and carrying the sub-sovereign entities along in this endeavor.

12. Government recognizes the fact that inadequate infrastructure is a major constraint to the growth of the economy and appreciates the Bank's support in the areas of power reforms (Transmission and Distribution), privatization and transport. There is renewed commitment to bringing about institutional reforms in the transport, power and energy sectors. The on going reforms of the Custom will be accelerated through the broad spectrum of trade facilitation. The Bank is however requested to scale up its assistance for development of infrastructure given the enormity of the nation's needs.

13. Government also recognizes that in order to achieve the Millennium Development Goals, due attention must be paid to Social Service delivery and Community empowerment. In this regard Government appreciates the role of the Bank in the existing Community Driven efforts. The Federal Government will continue to facilitate state level programmes in this regard.

14. Overall, the Government is committed to the deepening the reform program and look forward to continued collaboration with the Bank in the execution of its Seven-Point Agenda and Vision 2020. It is believed that the Bank can continued to be an invaluable partner in Nigerians quest for socio-economy development. The Bank's Country Partnership Strategy should be driven by this objective.

15. Considering the Federal System of Government in Nigeria, there is the need for a careful analysis of the socio-economic dynamics and interrelationships between the Federal, States and Local Governments with a view to packaging developmental assistance which could further help to strengthen the national economy.

16. In conclusion, we wish to reiterate our appreciation to the World Bank Group for its support to Nigeria and look forward to scaling up of the Bank's intervention in other critical areas of our developmental challenge.



**S. K. Aborishade**  
**for: Honourable Minister of Finance**

# Appendix E: Response to the Government

**The World Bank**  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 473-1000  
Cable Address: INTBAFRAD  
Cable Address: INDEVAS

September 9, 2008

Mr. S. K. Aborishade  
Assistant Director  
Federal Ministry of Finance  
International Economic Relations Dept.  
Central Business Area, Ahmadu Bello Way,  
P.M.B. 14, Abuja, Nigeria

Dear Mr. Aborishade:

**Re: Nigeria: Country Assistance Evaluation**

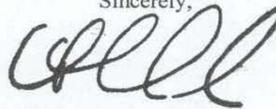
Thank you for your comments on the World Bank's Country Assistance Evaluation (CAE), which IEG received on September 8, 2008.

We are pleased to note that the areas which the Government identifies as priorities for World Bank support are fully consistent with the approach recommended in the CAE. We also find the emphasis on the Government's commitment to continuing reforms very encouraging. In sum, we thank the Government for a statement that is both comprehensive and supportive.

In line with the established protocol, your comments will be distributed to the Committee of Development Effectiveness (CODE) of the World Bank's Board of Executive Directors before the discussion on September 15, 2008.

Once again, thank you for these helpful comments. We hope that the CAE document will prove useful to you and your colleagues in discussing with the World Bank how it can best continue to play an effective role in Nigeria.

Sincerely,



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**The Government Counterparts**

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**The World Bank**

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Ms. Larai Shuaibu, Senior Advisor to the Executive Director for Nigeria  
Ms. Cheryl W. Gray, Director, Independent Evaluation Group  
Mr. Onno Ruhl, Country Director, Nigeria

# Endnotes

## Chapter 1

1. Manufacturing value added stagnated at about \$17 per capita between 1990 and 2002, compared with increases from \$133 to \$273 for Indonesia and from \$600 to \$1,066 for Mexico over the same period.

## Chapter 2

1. The Bank budget allocation for Nigeria rose from an average of \$6.1 million a year in fiscal 2002–04 to nearly \$8.5 million a year in fiscal 2005–07.
2. These included a fiscally sustainable budget, improved systems for budget formulation, progress on privatization, an overhaul of public procurement arrangements, and a coherent poverty reduction strategy.

## Chapter 3

1. The Bank had proposed civil service reform as a component of the Economic Management Capacity Building Project (EMCAP), but the government was not ready at the time to take on that task.
2. The introduction of a government integrated financial management system (GIFMIS) underpins the other areas of PFM reform. Experience in many other countries, including those both inside and outside Africa, shows that the effort to develop and install a governmentwide computerized system has proceeded in phases. In Nigeria, as in most other countries, the process has advanced slowly. The Accounting Transaction Recording and Reporting System was a first, but only partial step. Initial installation of the broader integrated financial management system has now been piloted in three government agencies [check] and a further rollout to other MDAs is under way. But operationalizing a full-scale system will take several years, and there is immediate need to ensure an effective interface between the ongoing implementation of a public service human resource/payroll system (discussed below) and the introduction of the full GIFMIS.
3. This agreement addresses the current “establishment” system, which controls the structure and filling of authorized positions.
4. The Bank has supported the EFCC through the ERGP; it administers a multidonor trust fund of the global EITL, which supports countries such as Nigeria that choose to participate; and it made a grant to the ICPC.
5. Procurement has only recently been added to the SGCBP at the request of the state governments, and there are no targeted anticorruption activities. although there is evidence of major graft at the state level. For example, the current governor of Bauchi State recently announced findings of a higher than expected level of debt (\$237 million) inherited from the previous government, and audited accounts report that some \$64 million of state funds were embezzled.

## Chapter 5

1. Nigeria’s educational system has a complex and overlapping organizational structure. There is both a Ministry of Education and a parastatal Basic Education Commission at the federal level and

Basic Education Commissions in each state. The local government associations that run the schools must relate to all these for funding and accountability. This has constituted a major problem for the design of Bank-supported projects.

### **Appendix C**

1. In this endnote, *assistance program* refers to products and services generated in support of the economic development of a client country over a specified period. *Client* refers to the country that receives the benefits of that program.

2. Risk to Development Outcome. According to the 2006 harmonized guidelines, sustainability has been replaced with a “risk to development outcome,” defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible-to-low, or not evaluable*.

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