

# INDEPENDENT EVALUATION GROUP

## APPROACH PAPER

### NIGERIA: COUNTRY ASSISTANCE EVALUATION

#### The Historical Background

1. *A record of development failure.* Until recently, Nigeria had been one of the most disappointing development stories of the modern era—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 secular stagnation of GDP per capita (in constant 2000 U.S. dollars), which stood at 430 in 2004 compared with 444 in 1977, with a significant fall in non-oil GDP per capita. This was associated with a substantial increase in the numbers of the poor and their proportion of the population. From approximately 28 percent nationally in 1980, poverty incidence had risen to 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, that lack Nigeria’s substantial endowment of natural resources (see Tables 1 and 2).

**Table 1: Selected Social Indicators (2003-04)**

	Nigeria	Low-income countries
GNI per capita, Atlas Method (current US\$)	430	507
Immunization, measles (percent of children ages 12 to 23 months)	35	63
Improved sanitation facilities, urban (percent of urban population with access)	53	61
Improved water source (percent of urban population with access)	48	75
Mortality rate, infant (per 1,000 live births)	101.4	79
Mortality rate, under 5 (per 1,000)	196.6	122

Source: World Bank (World Development Indicators, 2004)

**Table 2: Selected Data on Infrastructure**

	Nigeria	SSA	LIC
Electric power consumption kW per capita (2001)	82	456	317
Road-to-Population Ratio 1000 km per million people (1995-2001)	1.1	2.6	—
Paved primary roads—percent of roads (1995-2001)	30.9	13.5	16
Telephone—main lines per 1000 people (2002) <sup>1</sup>	6	15	28
Access to sanitation—percent of population (2000)	54	54	43
Access to safe water—percent of population (2000)	62	58	76

Source: World Bank (World Development Indicators, various years)

1. The number of GSM lines in Nigeria, however has increased significantly in recent years to about 32 million. Nigeria has the fastest growing GSM market in the world after China.

2. 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 this were as follows:

- **Political instability.** From 1967 to 1970 Nigeria experienced one of Africa's most damaging civil wars as the Igbo population of Eastern Nigeria sought independence in their traditional lands in the Niger delta, the location of most of Nigeria's oil resources, through the creation of a breakaway state of Biafra. This ushered in a series of military regimes with the occasional democratically elected government unable to serve out its term until the election of President Obasanjo in 1999. The primary interest of most of these regimes was to access the largest possible share of the oil wealth for themselves and their supporters.
- **Lack of a clear national identity and commitment.** Nigeria is a coalition of three dominant tribal groups, who together constitute about 70 percent of the total population, with many smaller groups interspersed among them. The dominant theme of Nigerian politics since independence has been the need to balance the interests of the various tribal groups and this in turn has required a balance between the interests of the federal government (located in Lagos until 1991 and Abuja thereafter) and the state governments.
- **The impact of hydrocarbon exports on the real exchange rate.** Prior to the buildup of oil and gas exports, Nigeria had a diversified economy with substantial agricultural production and exports. Nigeria presents a classic case of Dutch disease. Oil and gas accounted for about 50 percent of GDP, 70 percent of budget revenues, and 95 percent of total exports in 2005. Exchange rate appreciation has made local agricultural commodities and manufactures uncompetitive. Manufacturing value added stagnated at around \$17 per capita between 1990 and 2002, compared with increases from \$133 to \$273 for Indonesia and \$600 to \$1,066 for Mexico over the same period.
- **Weak economic management.** With pressure to spend surpluses in times of high oil prices and then pressures to continue those spending levels when oil prices dropped, the Nigerian economy has been characterized by high volatility, fiscal deficits and rapid inflation which have resulted in a poor environment for the growth of the private and financial sectors and the viability of long term investments. High spending was associated with large foreign borrowing and the build-up of a substantial debt burden which was estimated at US\$32.3 billion, equivalent to 83 percent of GDP, at the end of 2000.
- **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 remains at about 2.4 percent per year at present. With little labor absorption in manufacturing, subsistence farms have been established on increasingly marginal lands leading to declining yields, pressure on the environment, and the spread of disease. This has also put a great deal of stress on

available infrastructure and social services. The oil revenues have contributed to a rapid pace of urbanization, stretching the largest city, Lagos, to breaking point with more than 10 million inhabitants.

- **Widespread prevalence of corruption and weak governance.** Nigeria is consistently ranked at the bottom or close to the bottom in international comparisons of corruption. Most of the military dictatorships were associated with large-scale corruption, but this has also extended throughout the civil service and the private sector. Until recently Nigeria had few institutions designed to address issues of corruption and better governance.

### **Recent Signs of a Turnaround**

3. *A return to democracy.* Against this historical background there have been important developments in recent years. In 1999 President Obasanjo was elected in a democratic election and reelected in 2003—the first instance of successive democratic elections in Nigerian history. The importance of breaking the cycle of military dictatorships cannot be overestimated. Nor of course can it be assumed that democracy is institutionalized in Nigeria. It remains fragile, as the April 2007 State and Presidential elections, deemed deeply flawed by international observers, have demonstrated.

4. *Better management to reduce volatility.* In 2003, at the start of his second term, President Obasanjo brought in a team of technocrats to head up the economic reform. In 2004, the government introduced a system of basing the budget on a conservative reference price for oil, with excesses saved in a special account. This de-linked government expenditures and changes in oil prices. The deficit of 3.5 percent of GDP in 2003 turned into surpluses of 10 and 11 percent in 2004 and 2005. From 2003 to 2006 foreign reserves increased fivefold from \$7.5 billion to about \$38 billion. Inflation has been brought down to about 10 percent per annum (as compared to an average of 40 percent per annum from 1992-1998). By 2006, Nigeria's exchange rate had been unified and imports liberalized, with a reduction in average unweighted tariffs from 29 percent to 18 percent.

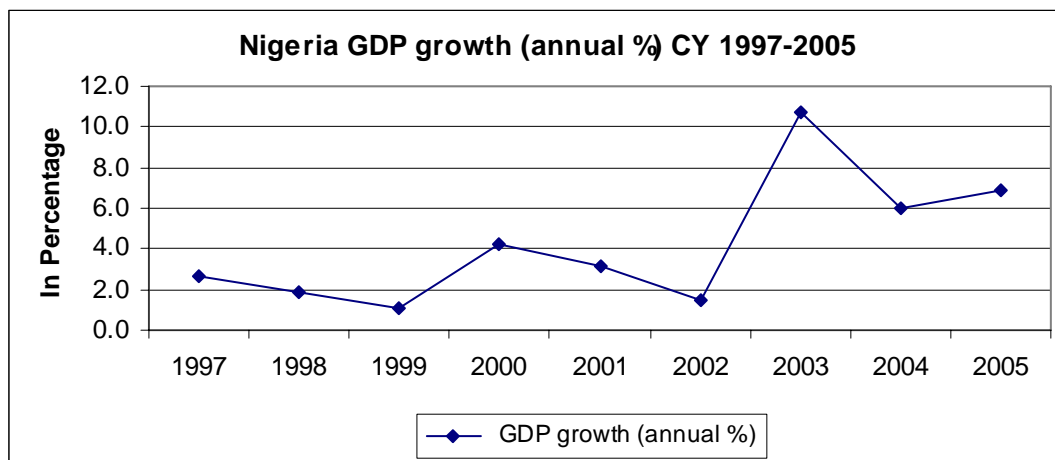
5. *Reforms in government finance.* Steps have also been taken on the long road toward improving governance through better public sector management and control of corruption. The budget process has been strengthened and a Cash Management Committee has been put in place to ensure that expenditures relate to the amounts budgeted—this has not been the case in the past. A key feature of the reforms has been increased transparency with increased accessibility of budget and expenditure data.

6. *Structural reforms.* 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 undertaken with 35,700 officials severed from the civil services and an estimated 8,000 ghost workers expunged from the government payroll. Salaries were increased and the structure

simplified with most allowances being incorporated in the basic salary payment. To improve public procurement, the government introduced a Value for Money audit and promoted an open tender process with competitive bidding for government contracts. This is estimated to have saved about \$1.5 billion since 2001.

7. *Steps to combat corruption.* In 2003, Nigeria was among the first countries to adopt the Extractive Industries Transparency Initiative (EITI) to help improve governance of the oil and gas sector. An independent audit of the oil and gas sector from 1999 to 2004 was commissioned. The government also introduced two new institutions to tackle corruption: the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC). There have been a number of high-profile convictions for corruption, including that of a former Inspector General of the Police; a number of ministers and judges have been dismissed; and assets worth over \$5 billion have been seized, confiscated, and refunded to the state. The consequence has been some improvement in corruption perceptions as measured by the WBI index, albeit from a very low base.

8. *Promising results.* As a consequence both of these measures and the increase in oil prices, Nigeria's GDP growth has accelerated. From 2003 to 2006 GDP growth averaged 7.1 percent per year, as compared to 2.25 percent in the preceding 10 years. Perhaps most importantly, the non-oil sector which had languished in the preceding years made progress during the period, also averaging 7 per cent growth per annum. In addition, 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.



9. *But these measures need to be sustained and built upon.* There is general agreement among observers of Nigeria that, while these are significant achievements, they remain fragile and the challenge in the coming years will be to consolidate and build upon them. The progress that has been made has been at the federal level, and there has been very little improvement in transparency or efficiency at the state level, where half of public expenditures take place. At the federal level, there is now a period of uncertainty

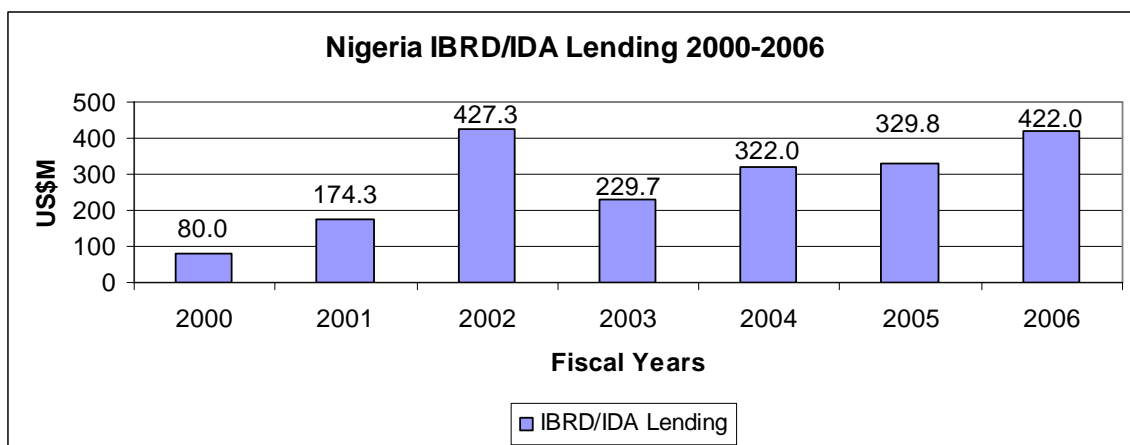
after the Presidential elections in late April. Will a new government sustain the commitment to the reforms? Or will Nigeria slip back into the old pattern of pro-cyclical government expenditures, associated with high inflation and stagnation of the real economy?

### **The Bank in Nigeria**

10. *From 1993 to 1998 the Bank maintained a low profile.* Because of Nigeria's importance to the future of sub-Saharan Africa, the World Bank has been actively involved in the country for many years, with periods of frustration and pulling back alternating with attempts to re-engage. In 1993, under the regime of General Abacha, the relationship with Nigeria reached its nadir and the Bank determined that it could no longer do business there. While it maintained a small presence in the country, the Bank stopped lending, though it continued to undertake some analytic work.

11. *A major increase in Bank support accompanied the restoration of democracy and improved economic management.* With the death of General Abacha in 1998 and the return to democracy the following year, the Bank decided to reestablish its program in Nigeria. The Bank resumed lending with its first loan in FY00 and produced a new Country Strategy for the first time in many years. In FY02, the Bank took the important step of appointing a Country Director (CD) to the field—Nigeria was until then the largest borrowing member country that did not have its CD located in the Country Office. This also led to an expansion of the staff of the Country Office associated with the expanded Bank program. This enabled the Bank to forge a close relationship with the Economic Reform Team in the Government and engage in an active dialogue on key policy and implementation issues.

12. *Bank lending to Nigeria has been in the form of investment loans.* Since FY00, Nigeria has received 25 credits from IDA for a total of nearly \$2.4 billion (see figure below). Given Nigeria's access to budgetary resources from oil exports, there has been no adjustment lending in the review period.



13. *The Bank has supported Nigeria's poverty reduction strategy.* In 2004 the Nigerian government issued a poverty reduction strategy, which it called NEEDS (National Economic Empowerment and Development Strategy). The strategy identified three major objectives, or pillars: (i) empowering people and improving social service 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 Bank has organized its own strategy to support these three pillars. Eighty percent by number of the Bank's credits are directed at the first and second of the NEEDS pillars (40 percent each); the remaining 20 percent are specifically directed at increasing the efficiency of government and improving governance. However, almost all of the credits provided under the first two pillars also have components directed at more efficient public expenditure management and better governance.

14. *The Bank has also been active in providing support at the state level.*<sup>2</sup> The NEEDS was in turn followed by State Economic Empowerment and Development Strategies (SEEDS). Because of the importance of the state level in the implementation of the strategy, particularly in the area of social service delivery, the Bank has focused much of its activity there. Given the difficulty of operating simultaneously in 36 states, some of them with governors who were relatively weakly committed to development goals, the Bank decided, with the agreement of the federal government, to focus on a limited number of lead states, and concentrate programs in these. The objective of this strategy was to provide a critical mass of support to reforming states that could serve as a model for others. The Bank continued to support the poorest states through Human Development and Community Development Programs.

15. *The Bank has worked closely with the donor community.* An important element of the Bank's work in Nigeria has been its partnership with other donors. Because the total of donor efforts in Nigeria relative to the country's size and its own resources, donors need to coordinate effectively in order to leverage the impact of their resources. The Bank has entered into a formal partnership with the UK DFID and prepared the first joint Country Partnership Strategy with DFID in 2005. USAID has associated itself informally with the joint strategy. There is also extensive coordination with UNDP, the EU, and the African Development Bank, which is cofinancing a number of projects with the World Bank.

### **The Country Assistance Evaluation**

16. *An IEG review in 2005 rated the outcomes of Bank assistance unsatisfactory.* IEG prepared a strategy completion report review on the Nigeria program in June 2005. The review concluded that although Bank objectives were relevant, they were not attained to any significant degree. Fiscal decentralization has undermined efforts in improvements attained in governance and economic management at the federal level: half

---

2. In 1967, the then military ruler, General Gowon established 12 states, partly as a means of preempting a possible breakup of the country. The number of states has since grown to 36, with revenues divided roughly equally between the central and state governments. Most developmental expenditures, other than major national infrastructure programs, fall under the authority of the state governments.

of total government spending takes place at state and local levels, where controls are inadequate, monitoring is weak, and progress on improving economic management has not been commensurate with that at the federal level. Although there was some privatization of state owned enterprises, private sector development, consisting of privatization, removing infrastructure bottlenecks and promoting agriculture, was not achieved. Finally there was little progress toward empowerment and local community development. Overall, the outcome of Bank assistance is rated unsatisfactory. The CAE will provide an opportunity for IEG to revisit this assessment through an in-depth review covering a longer period.

17. *The CAE will cover the strategy, program and outcomes of Bank assistance over nine years.* The period starting on July 1, 1998 and ending on June 30, 2007, will be the focus of the CAE. This is the period of the restoration of democratic government in Nigeria following the death of General Abacha. The Bank strategy in Nigeria is embodied in informal notes during the lead-up to the elections and the first year of the Obasanjo presidency and then in a series of strategy documents between 2000 and 2005, starting with the strategy note, then three interim strategy updates in the early 2000s, and finally the Country Partnership Strategy of June 2005.

18. The first part of the CAE will examine the evolution of the Bank strategy, and the results and outcomes for the approach defined in the strategy. The second part of the CAE will evaluate the Bank program in Nigeria, looking at whether it was an appropriate follow-up to the strategy in terms of design and whether it was implemented effectively. Finally, the CAE will examine outcomes achieved in the areas targeted by the Bank's objectives and followed through in the Bank's program. A particularly important issue for the CAE, given the record of earlier Bank efforts in Nigeria, will be an assessment of the risks to the sustainability of Bank program outcomes.

19. *The CAE review of the strategy, program and outcomes, will be organized along the lines of the three pillars of the government strategy.* Even though the timing is different, the various Bank strategy documents are broadly consistent with the NEEDS strategy, and can be organized using the same three pillars.

20. *Empowering people and improving social service delivery.* Has the Bank paid sufficient attention to Nigeria's worsening poverty situation? Has its analytic work in this area provided a diagnostic that can form a basis for program development? The Bank has made extensive use of community development to channel funds directly to communities in Nigeria and have the communities themselves monitored the use of these funds. Have these community-based interventions been effective? Are any gains in income or poverty reduction achieved through these programs likely to be sustainable? To what extent have these programs improved the quality of services for the poor? Have they avoided the elite capture that is sometimes seen in these programs? Have they created local institutions that can be sustained after the project ends? Are they being closely monitored and evaluated? With regard to the health sector, starting in FY03, the Bank's lending has been organized through separate operations for polio, avian influenza, HIV/AIDS, and malaria. Has this approach been effective in building the capacity of the health system to deal with these problems or would a more holistic approach have been

preferable? For education, the Bank's focus over the period has been on primary education. Should the Bank have done more to support secondary and tertiary education?

21. *Fostering economic growth, in particular in the non-oil private sector.* A prior question for review is whether the Bank could and should have done more to support the development and governance of the oil sector in Nigeria and the Government's handling of the oil revenues. With regard to the non-oil private sector, the major constraint to development cited in Bank analytic work and survey data is inefficiencies in the supply of power. The Bank strategy has been to support the unbundling of the Nigerian Power Holding Company, to privatize some of its operations and allow access to new private investors. Has this strategy been implemented effectively and has it helped establish the basis for a breakthrough in Nigeria's efforts to address the energy problem? Is there a sequencing issue here in efforts to deal with problems at the sectoral level on the one hand and more systemic country-wide approaches to problems of public sector management and governance on the other? Other infrastructure support by the Bank has focused on urban transport and water in Lagos, Nigeria's primary commercial center, with a separate project for urban infrastructure upgrading in seven other cities. How effective have these urban infrastructure programs been? Bank Group support for private and financial sector development has been spearheaded by IFC. Have the Bank and IFC coordinated effectively in providing support in these areas and also in infrastructure, and have there been synergies from their analytic work and lending operations? An important question for the Bank is how to support agricultural growth in Nigeria. The focus here has been on the *fadama* projects—originally set up in the Niger wetlands (the *fadamas*), but now being expanded to other areas. This program supports agricultural growth through community-driven development. How effective has it been and can it form the basis for the expansion of commercial agricultural production that Nigeria needs for sustained poverty reduction?

22. *Enhancing the effectiveness and efficiency of government and improving governance.* The Bank has used its entire program as an instrument for improving the efficiency of public expenditures and governance. In addition, a number of targeted operations at both the federal and state levels have sought to help improve budget systems, cash management, medium-term expenditure planning, and public procurement. The Bank has supported major training and capacity building efforts in these areas. How effective has this support been and has it contributed to the ability of the new economic team to introduce and build the sustainability of the key reforms described earlier? Because of the importance of the state level in Nigeria's development program, the Bank is increasingly focusing its interventions at that level. As mentioned above, with 36 states, this presents considerable operational difficulties for the Bank and the strategy has been to try to provide a critical mass of support for a small group of lead states, where there is evidence of better governance and more efficient public expenditure management. Is the strategy appropriate given regional inequalities in income and social service delivery? Is the strategy being followed through in practice, given the pressures from the Nigerian government to spread activities across a large number of states? How effective have programs to support social service delivery in the poorer states been, given the weakness of institutions and lack of commitment to reform in many of them?



23. *In addition the CAE will address a number of important process issues.* Nigeria raises some important process issues for the Bank. Has the informal policy dialogue been an effective instrument in supporting the Nigerian government and has the Bank achieved the right balance between just-in-time advice and more formal operational activities? Has the Bank given sufficient emphasis to its analytic work as a basis for program development, knowledge-sharing with the client, and capacity building? How successful has the attempt been to establish a formal partnership with DFID through a joint Country Partnership Strategy and what has changed in practice as a consequence of this? Have the lessons of the 2005 internal bank review been utilized for the subsequent design of the Bank strategy? How important has the upgrading and expansion of the Bank presence in Abuja been to the Bank's effectiveness in the policy dialogue and program implementation in Nigeria?

### **Logistics**

24. The CAE will be carried out under the general supervision of Ali Khadr (IEGCR). The task team will consist of Basil Kavalsky (TTL—Macro-economy and governance), Catherine Gwin (Capacity Development), David Pearce (Poverty and Human Development), Inder Sud (Infrastructure, Private and Financial Sector Development) and Omar Lyasse (Agriculture and Community Driven Development). Jane Hwang and Rupa Ranganathan will provide statistical support and Cecilia Tan will provide administrative support. The peer reviewers are Steve O'Brien (Consultant - Chief Economist for the Africa Region prior to the period covered by the CAE) and Prof. Peter Lewis (Director, School of African Studies at Johns Hopkins University), and Dr. Rotimi Suberu (Senior Lecturer, Department of Political Science at the University of Ibadan and Senior Fellow, the US Institute of Peace). The CAE team plans to visit Nigeria from July 18 to August 8, 2007. The CAE is expected to be delivered to CODE in March, 2008.