

AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND



FEDERAL REPUBLIC OF NIGERIA

COUNTRY STRATEGY PAPER

2005-2009

NB : This document contains errata or corrigenda (see Annexes)

**COUNTRY OPERATIONS DEPARTMENT
WEST REGION**

JUNE 2005

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ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
AIDS	:	Acquired Immuno-deficiency Syndrome
ASYCUDA	:	Automatic System for Customs Data
BOF	:	Budget Office of the Federation
BTU	:	British Thermal Unit
CB	:	Central Bank of Nigeria
CFAA	:	Country Financial Accountability Assessment
CPAR	:	Country Procurement Assessment Report
CPIA	:	Country Policy and Institutional Assessment
CPAR	:	Country Procurement Assessment Review
CSO	:	Civil Society Organizations

CSP	:	Country Strategy Paper
DMO	:	Debt Management Office
DP	:	Development Partners
EFCC	:	Economic and Financial Crimes Commission
EITI	:	Extractive Industries Transparency Initiative
FDI	:	Foreign Direct Investment
FSAP	:	Financial Sector Assistance Program
GDP	:	Gross Domestic Product
GNFS	:	Goods and Non Factor Services
HIPC	:	Highly Indebted Poor Country
HIV	:	Human Immunodeficiency Virus
ICPC	:	Independent Corrupt Practices Commission
IMC	:	Independent Monitoring Committee
IMF	:	International Monetary Fund
LG	:	Local Government
MDG	:	Millennium Development Goal
M&E	:	Monitoring and Evaluation
MRR	:	Minimum Rediscount Rate
MTEF	:	Medium Term Expenditure Framework
NDDC	:	Niger Delta Development Commission
NEPAD	:	New Partnership for Africa's Development
NNPC	:	Nigeria National Petroleum Company
PBL	:	Policy-Based Lending
PRSP	:	Poverty Reduction Strategy Paper
RMC	:	Regional Member Country
SG	:	State Government
SLG	:	State and Local Governments
SME	:	Small and Medium Enterprises
SMIEIS	:	Small and Medium Scale Industries' Equity Investment Scheme
STD	:	Sexually Transmittable Disease
SWAP	:	Sector Wide Approach
US	:	United States
WAMZ	:	West African Monetary Zone

CURRENCY EQUIVALENTS MAY 2004

(Exchange Rate Effective)
Currency Unit Nigeria = Naira

1 UA = 199.96 NAIRA
1 UA = 1 SDR
1 UA = 1.51 US Dollars
1 UA = 1.17 EURO

FISCAL YEAR

1 April - 31 March

EXECUTIVE SUMMARY

1. **Country Context:** Since Nigeria's return to democracy in 1999, the Government has undertaken a wide range of macro-economic and structural reforms. Economic growth during 2000-2004 was satisfactory, averaging 4.8 percent annually, and fiscal deficits continuously declined since 2003, reflecting the Government's prudent monetary and fiscal stance pursued over the recent past. Important structural reforms have been undertaken since 2000 in the areas of privatization and deregulation, governance, civil service and public resource management, thereby improving efficiency, transparency and accountability of the public sector. However, despite progress achieved, Nigeria continues to face significant challenges in accelerating growth, reducing poverty and meeting the Millennium Development Goals (MDGs). Nigeria has the third highest number of poor people in the world, after China and India. With a per capita income of about US\$ 300, around 70 million Nigerians are living on less than one US Dollar a day. Nigeria's reform efforts and development challenges need strong international support. Even with continued high oil prices, Nigeria's development financing gap remains large. Given current levels of debt servicing, Nigeria will require a marked increase in external aid inflows to be able to meet the MDGs.

2. **National Development Agenda:** In May 2004, the Government finalized the National Economic Empowerment and Development Strategy (NEEDS), which together with State level SEEDS forms Nigeria's homegrown strategy for growth and poverty reduction. NEEDS is based on three pillars: (i) empowering people and building a Social Contract; (ii) promoting private enterprise to foster growth of the non-oil sector; and (iii) changing the way the Government works. Nigeria has made good progress in the implementation of key elements of the reform program, particularly in macroeconomic management and in the fight against corruption. However, despite progress made, major economic and structural challenges persist, including the achievement of a more diversified economy away from the oil-sector, reduction of public debt, improvement of education and health service delivery especially to the poor, combating the spread of HIV/AIDS, enhancement of social and economic infrastructure, particularly of water and power supply and transport, and achieving food security.

3. **Bank Group Strategy 2005-2009:** The Bank Group recognizes that Nigeria requires a significant, consistent response from the international community in order to achieve the objectives set forth in NEEDS. In order to support the Government in its efforts to reduce poverty and to contribute to the achievement of the MDGs, the Bank Group's Country Strategy Paper (CSP) 2005-2009 proposes two strategic pillars: (i) *development of human capital through improved service delivery in education and health*; and (ii) *stimulating non-oil growth through enhanced infrastructure and agricultural/rural development*. The CSP will support the Government's reform agenda on the basis of a selective approach that focuses on two specific pillars of NEEDS. The first pillar of the CSP will support the NEEDS pillar "*Empowering People and Building a Social Contract*", aiming at enhancing skills and knowledge of Nigerians through the improvement of basic and higher education as well as improving health service delivery. The second pillar of the CSP will support the NEEDS pillar "*Promoting private enterprise to foster growth of the non-oil sector*", aiming at achieving rapid growth of a

competitive non-oil private sector through the development of an appropriate economic infrastructure and agricultural/rural development.

4. **Bank Group assistance:** Bank Group assistance to Nigeria will combine both project and non-project activities, to be implemented under the CSP's two pillars. Nigeria is classified as a blend ADB/ADF-country and as such has eligibility to ADB loans and to concessionary funding from ADF. In compliance with the strategic orientation of the CSP, funds will be used to finance activities in support of human capital development through improved service delivery in education and health and to stimulate private sector-led growth through enhanced infrastructure and agricultural/rural development. The CSP 2005-2009 covers the entire period of ADF X (2005-2007) and the first two years of ADF XI (2008-2010). With regard to the financial envelope available for the implementation of the CSP, the evaluation of Nigeria's performance has enabled its allocation to be set at a maximum amount of UA xxxx million for the ADF X period 2005-2007. For the first two years of ADF XI, the available amount will be determined on the basis of Nigeria's performance during 2008-2009.

5. **Lessons learnt from previous Bank Group Strategies:** Among the main lessons learnt from the Bank Group's previous CSP 2002-2004 is the need for the Bank to have more sector focus, in view of the limited concessionary resources available for Nigeria and the need to ensure development effectiveness of Bank funded projects. Bank interventions will concentrate on fewer sectors and limit the geographical coverage of a project to a smaller number of States in order to maximize the developmental impact and in order to facilitate effective management and timely implementation of projects.

6. **Partnership and Harmonization:** The Bank Group will pursue broadening partnership with other development partners over the CSP period, further building donor harmonization and aid effectiveness. The operations to be implemented under the CSP will take account of the projects and programs implemented by other donors and ensure complementarity and synergies of interventions. In order to ensure broad participation in the preparation of the CSP, a workshop was held in Abuja on 7-9 June 2005 to which a wide range of representatives from Nigeria's international partners in development, the private sector and the civil society participated.

7. **Risks:** Nigeria has embarked several times since 1960 on political and economic reforms and the results from previous attempts at reform have been mixed. Given Nigeria's history, today's reform efforts are high risk. However, Nigeria's reformers have the necessary political will, with a broadening consensus and constituency for change. Hence, the Bank Group must provide unwavering support to Nigeria's reform efforts to help ensure that the reforms are sustainable. A key risk is that the political landscape and commitment to reform may shift, particularly after the elections in 2007. In order to help mitigate some of the risk, the Bank will maintain a close dialogue with the Government on the implementation of its development program and support it in the continuation of the reforms they have initiated. The Bank will contribute to enhance governance, transparency and institutional capacity through specific projects to be implemented under the CSP. The international community can also help guard against the gains eroding by providing greater moral and financial support to Nigeria. Second, given Nigeria's reliance on oil, it will not be free from the risk of a strong external economic shock. Nigeria is currently building up reserves to help smooth its expenditure profile and

support sustained growth in the longer-term. The Government has built a strong relationship with the IMF on macroeconomic management that will help mitigate risks associated with external shocks.

8. **Conclusions:** Since the return to democracy in 1999, the Government has undertaken a wide range of macroeconomic and structural reforms. In May 2004, Nigeria's homegrown strategy for growth and poverty reduction for 2004-2007, NEEDS, was finalized. While substantial progress has been achieved in recent years, poverty continues to be pervasive and significant challenges persist. The Bank Group's CSP 2005-2009 will assist the Government in its fight against poverty and provide support to the development of human capital through improved service delivery in education and health, and to the stimulation of non-oil growth through enhanced infrastructure and agricultural/rural development. The Bank Group will assist to mitigate potential risks to the implementation of the CSP through a close dialogue with the Government on the implementation of its development program and through financial support for the completion of the reforms initiated.

9. **Recommendations:** The Boards are invited to endorse the Bank Group's CSP 2005-2009 for Nigeria.

1. INTRODUCTION

1.1 This Country Strategy Paper (CSP) for Nigeria (2005-2009) covers the ADF X and part of the ADF XI programming cycle. The Boards of Directors approved the last Nigeria CSP (ADF/BD/WP/2003/20/Rev.1) for the period 2002-2004 in June 2003 and endorsed a CSP update in June 2004. During the CSP discussions, the Boards welcomed the country's progress towards democratic governance and underlined the importance of good governance for Nigeria's economic future. The Boards also expressed concern over the deterioration of the economy and stressed the need to correct macroeconomic imbalances. The Boards urged the Government to return to an internationally acceptable reform program including agreement with the BWIs. It was also observed that Nigeria still had major weaknesses, particularly the heavy dependence on the oil sector. The Boards stressed that any strategy for the country should take due account of the population aspect and the need to diversify the economy with a view to reducing the country's dependence on the oil sector. The Boards also expressed concern about the poor and inefficient infrastructure, which impedes private sector development, and about the HIV/AIDS pandemic, which, if spreading further, would make it difficult for Nigeria to meet the Millennium Development Goals (MDGs). The Boards stressed the need for the Government to show greater commitment to finalize the full PRSP and to encourage State Governments to prepare complementary poverty reduction programs.

1.2 The Government of Nigeria has been making considerable progress in implementing reforms that address the concerns and observations raised by the Boards during the last CSP discussions. Following the second consecutive democratic elections held in April 2003, the President assembled a new economic management team, which has demonstrated an enduring commitment to economic reforms and succeeded in achieving what IMF staff during their last Art. 4 mission to Nigeria in March 2005 hailed as commendable performance. The Government finalized the National Economic Empowerment and Development Strategy (NEEDS) in May 2004 and presented it to the international community as Nigeria's homegrown strategy for growth and poverty reduction for 2004-2007. State Governments have also started the preparation of their own development strategies, SEEDS, complementing NEEDS of the Federal Government. Macroeconomic imbalances have been reduced significantly over the past 18 months, due to a tight overall monetary and fiscal stance at all three tiers of Government. Also, a wide range of structural reforms have been undertaken, including measures to improve governance and diversify the economy, public sector reforms and the launching of a comprehensive privatization program.

1.3 However, despite progress achieved, the Government still faces significant challenges in accelerating growth, reducing poverty and meeting the Millennium Development Goals (MDG). The Bank Group's CSP 2005-2009 will assist the Government in its fight against poverty with a view to achieving the MDGs. The CSP proposes two strategic areas (pillars) of intervention, i.e. (i) development of human capital through improved service delivery in education and health; and (ii) stimulating non-oil growth through enhanced infrastructure and agricultural/rural development. The CSP is based on the strategic orientation of NEEDS, consistent with the sector and thematic priorities of the Bank's Strategic Plan 2003-2007, and complies with the sector priorities of the ADF X Lending Policy. It continues support in the focal areas of the previous CSP 2002-2004, i.e. agriculture and rural development, health and education, and rural

infrastructure. The CSP entails a new paradigm as it represents a programming instrument and a management tool allowing for monitoring implementation progress of the strategy. A comprehensive set of indicators will be used to monitor progress made in the implementation of the strategy.

Box 1: Key features of the country

Geography, climate and natural resources: Covering an area of 924 000 km², Nigeria is located in the tropical zone of West Africa and shares borders with Niger, Chad, Cameroon, and Benin. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. The Sahara desert encroaches upon the extreme northern part of the country. Natural resources include minerals, forest and water resources. Nigeria is the most populous country in Sub-Saharan Africa with about 133 million people (2002), i.e. nearly 25 percent of Sub-Saharan Africa's population, and has been growing at an annual rate of around 2.8 percent since 1991. The population of Nigeria is predominantly rural, with about one quarter living in urban areas.

Political and structural: By independence in 1960, Nigeria was a Federation of three largely autonomous and powerful regions, Northern, Western and Eastern. In 1963, Midwestern State was created, increasing the number of regions to four. A republican constitution and a Federal system of Government with a three-tier Government structure made up of the Federal, State and Local Government Upon was adopted in the same year. The country now has 774 Local Governments in 36 States, and the Federal Capital Territory, Abuja. In May 1999, Nigeria ushered in a new democratic administration, which started a second five-year term in 2003 when Nigeria successfully held its second consecutive free elections. With regard to Nigeria's socio-political situation, civil unrest is frequent in some of the country's regions, particularly in the oil-rich Niger Delta where increased participation in oil-revenue is claimed. Occasional ethnic (around 200 different groups) and religious tensions also are a source of social and political conflict, notably in the northern parts of the country with its predominantly Muslim population.

Poverty: Nigeria has the third highest number of poor people in the world, after China and India. With a per capita income of about US\$ 300 (2003; Sub-Saharan average: US\$ 450), around 70 million Nigerians are living on less than one US Dollar a day. The UN Human Development Index 2004 ranks Nigeria 151 out of 177 countries and 22 out of 45 African countries. Given annual population growth and an average GDP-growth rate of around 4.8 percent during 2000-2004, poverty remains pervasive. The last assessment of progress towards the MDGs of 2004 found that 6 out of the 8 MDGs are unlikely or at risk to be attained if current trends continue.

2. COUNTRY CONTEXT

2.1 POLITICAL CONTEXT

2.1.1 Nigeria gained independence in 1960. After many years of military rule, the country returned to civilian rule in 1999. The country returned to multi party democracy with three parties contesting the general elections held in February 1999. The Peoples Democratic Party (PDP) won most seats in the bicameral Federal legislature (House-Senate) and 21 of the 36 State gubernatorial seats. The All Nigeria Peoples Party (ANPP) became the largest opposition party and the Alliance for Democracy (AD) took the rear. While the PDP victory cut across the six geopolitical zones of the country, the other two parties were more regional in nature; the ANPP victory concentrated in the northern part of the country, while the AD had a complete monopoly of the South West winning the general elections in the six States that constitute the zone. In April 2003, Nigeria successfully held its second consecutive national elections, consolidating the democratic transition to civilian rule. Although 30 political parties contested the elections, the PDP capturing 62 percent of the vote cast increased its majority in the Federal houses and the number of States to 28. ANPP still maintained the position of foremost opposition party but with

a diminished majority both in the legislature and in the number of States under its control, which declined from nine to seven. The AD suffered the most losses with the number of States under its control declining from 6 to only 1 and significantly reduced representation in the legislature. Apart from the APGA (All Peoples Grand Alliance), which won a few seats in the National Assembly, the remaining political parties did not win any seats.

2.1.2 The elections were assessed by the international donor monitoring groups as being generally free and fair, even though there were some areas where irregularities were noted. The opposition parties, however, refuted the outcome of the elections and claimed vote rigging, fraud and vote buying. Observers believe that the PDP's control of the two houses of the National Assembly should give the executive room to be able to enact the required bills in support of the reform agenda. The 2007 national elections are already an underlying factor in the internal squabbling of the main parties, and are likely to become the central focus of politics from early 2006. However, given the dominance of the PDP at all tiers of Government, it would seem likely that the party will remain the most important political force in the forthcoming elections.

2.1.3 Nigeria has been challenged in recent years by outbreaks of ethno-religious violence. It is estimated that 50,000 people have been killed in various incidents of ethnic, religious and communal violence and that an additional 800,000 people have been displaced as a result of the clashes. Probably the most serious challenge to the Government's authority has come from rebellious groups in the oil-producing Niger Delta. In 2004, with the fighting escalating, the Government substantially increased its military presence in the region. In addition, it has sought to agree ceasefires between the various groups and with the Government itself. The worst fighting of ethno-religious origin, that between mainly Christian local farmers and predominantly Muslim settler herdsmen, has taken place in the middle-belt Plateau State. Acts of violence involving Christians and Muslims followed the introduction of the Islamic Sharia law in 12 predominantly Muslim States in the north.

2.1.4 Political stability and continuity, Government commitment to reform and broad-based ownership are important pre-requisites for the successful implementation of NEEDS. NEEDS was developed through a strongly Nigerian owned process, based on a public consultation phase in which the Nigerian civil society, including the private sector and other stakeholders participated. Acknowledged by the International Community as a coherent strategic framework to effectively reduce poverty, NEEDS represents an ambitious reform program covering all sectors/areas relevant to poverty reduction in Nigeria. A central role in the Strategy has been assigned to the private sector, which the Government intends to promote as the country's major engine of non-oil economic growth. Increased assistance from the International Community will, however, be critical for the attainment of the objectives set forth in NEEDS, both in terms of financial resources and institutional support in order to enhance the public sector's capacity to implement the Strategy.

2.2 MACROECONOMIC AND STRUCTURAL CONTEXT ISSUES¹

2.2.1 Economic growth and composition of GDP: During 2000-2004, real GDP grew by an annual average rate of 4.8 percent, with oil GDP recording an annual average growth rate of 4.9

¹ Figures for 2004 are projections (IMF Staff Report, November 2004).

percent and non-oil GDP of 4.8 percent. Real output has been increasing continuously since 2000 but recorded particularly strong growth in 2003 at 10.9 percent due to a sharp increase in oil-GDP of 26.5 percent, which was mainly on account of higher production quota granted by OPEC. Non-oil growth peaked in 2002 at 8.0 percent due to strong growth of manufacturing and services, particularly telecommunications and selected consumer goods. Within the non-oil sector, agriculture grew by an annual average rate of 4.4 percent, the industry sector by 6.7 percent and the services sector by 5.0 percent respectively during 2000-2004. GDP growth during the period under review has been sustained by domestic demand and exports of oil products. Domestic demand in 2003 consisted to 75 percent of consumption and to 25 percent of investment, the latter of which was primarily of private origin. Savings in 2003 amounted to around 20 percent of GDP, remaining slightly below investments of 22.8 percent of GDP. This relation reversed in 2004, with savings amounting to 22.4 percent of GDP and investments to 21.5 percent. The composition of GDP shows that Nigeria's economy continues to heavily depend on the oil sector, with around 44.7 percent of GDP in 2003. Within the non-oil sector, agriculture continues to play a key role as it contributed around 26.4 percent of GDP in 2003, followed by the service sector with around 24.2 percent and the industrial sector with around 4.7 percent in the same year.

2.2.2 Public Finance: While the period of 2000-2002 and part of 2003 was marked by expansionary fiscal policies, the Government has pursued a more prudent stance since end-2003. As a reflection of this, the overall fiscal balance deteriorated from a surplus of 6.4 percent of GDP in 2000 to a deficit of 4.9 percent in 2001, widening to 5.4 percent in 2002. A turnaround was achieved in 2003 when the Government managed to reduce the overall deficit to 1.3 percent, mainly attributable to measures implemented by the Federal Government to restrain spending and enhance revenue collection. The deficits were financed mainly by credits from the domestic banking system, no privatization proceeds were realized in 2001-2003. The policy of fiscal restraint continued in 2004 when the Government managed to persuade all States to save oil revenue windfalls, which resulted in a surplus of the overall balance of 5.0 percent of GDP².

Box 2: Fiscal Federalism

The Nigerian 1999 Constitution mandates the Federal Government to allocate approximately one third of Federal revenues to State and Local Governments (SLG) and devolves the primary responsibility of providing education, health and other basic services to these entities. Oil-producing States receive additional allocations from what is known as the 'derivation' formula. While over 90 percent of SLG revenues come from the Federation Account, the existing legal framework governing fiscal policy in Nigeria does not enable the Federal Government to impose fiscal restraint on the SLGs once the funds have been allocated. The Fiscal Responsibility Bill, which is currently under consideration by the National Assembly, addresses this shortcoming and is expected to contribute to fiscal and macroeconomic stability.

2.2.3 As regards public revenue, total revenue amounted to 36.5 percent of GDP in 2003, increasing to 40.9 percent in 2004. Oil revenue continues to contribute the major share of total revenue, corresponding to 28.0 and 33.2 percent of GDP in 2003 and 2004, respectively. Accordingly, non-oil revenue in these years contributed 8.5 and 7.7 percent of GDP, respectively. As regards public spending, total consolidated expenditure decreased from 47.0

² Among the four primary convergence criteria for the creation of the ECOWAS second West African Monetary Zone (WAMZ) is the achievement of a 'fiscal deficit amounting to less than 5 percent', which Nigeria has met in 2004. Section 4.5 outlines the current status of fulfillment of the convergence criteria by Nigeria in 2004.

percent of GDP in 2001 to 35.9 percent in 2004. In line with this trend, Federal Government recurrent spending decreased from around 23 percent in 2001 to 15.5 percent in 2004, on account of lower personnel cost, interest payments and transfers. While Federal Government capital spending has already been at a low level during the past years, it recorded a downward trend since 2001, from 8.3 percent of GDP to 3.2 percent in 2004, thereby neglecting necessary investments in the country's social and economic infrastructure. Social sector spending has also been low, amounting to 3.1 percent of GDP (of which 1.9 percent for education and 1.2 percent for health) on the basis of the 2004 budget, which is insufficient to effectively enhance social service delivery to the poor.

2.2.4 Monetary policy: Expansionary fiscal policies during 2000-2002 and part of 2003 have given rise to large liquidity injections in the real sector, resulting in inflationary pressures and a fall in international reserves as the Central Bank tried to absorb excess liquidity through the sale of Government T-bills and foreign exchange. While inflation almost doubled from 12.2 percent in 2002 to 23.8 percent in 2003, international reserves fell from 7.6 to 3.8 months during this same period. Furthermore, credit to the Government expanded rapidly during 2000-2003, i.e. at an average rate of 20 percent per year, as the Government borrowed heavily from the banking system. The lax monetary stance also permitted a rapid expansion in private sector credit and broad money supply, and resulted into negative real short-term interest rates by end-2003. Notwithstanding inflationary pressures, the Central Bank gradually reduced the Minimum Rediscount Rate (MRR) from 20.5 percent in 2001 to 15.0 percent in 2003. In 2004, a tighter monetary policy accommodated the Government's more prudent fiscal stance outlined in the previous paragraphs. As a result, interest rates have increased since end-2003, turning positive in real terms, and net credit to the Government and to the rest of the economy declined. Broad money supply dropped from a 30 percent average growth during 2000-2003 to 16.0 percent in 2004 and inflation decreased to 10.1 percent at end-2004. The real exchange rate remained relatively stable, recording a slight appreciation of 0.8 and 0.7 percent in 2003 and 2004, respectively. Also, the differential in the parallel exchange market since end-2003 has remained relatively stable at around 5 percent.

Box 3: The exchange rate regime in Nigeria

Nigeria's current exchange-rate regime is a managed float with no pre-announced target for the exchange rate of the Naira. The inter-bank foreign exchange (forex) market is segmented into two sub-markets: (i) the Central Bank of Nigeria (CB) sells forex to eligible end-users through banks that bid and have to provide supporting documentation; (ii) the NIFEX is Nigeria's open inter-bank market for forex obtained from other sources than the CB, including non-oil exports and personal transfers; the NIFEX-rate is freely negotiable among commercial banks and customers. Exchange rate policy in Nigeria is based on the Dutch Auction System (DAS), which was introduced in July 2002 in the face of a rapid decline in international reserves and a depreciation of the Naira. The DAS is a sealed-bid multiple price auction system, with auctions taking place twice a week. The Central Bank announces the amount to offer the day before the auction. Successful bids are satisfied at the bid-price. Banks are not allowed to transfer funds obtained in the auction to the wholesale inter-bank market. While the DAS has proved effective in achieving market stability, additional reforms are warranted to unify the foreign exchange markets. The market remains segmented and administrative procedures are cumbersome.

2.2.5 Balance of Payments: Nigeria recorded its biggest trade surplus for more than a decade in 2004 when the trade balance amounted to 22.3 percent of GDP, compared to 9.4 and 18.1 percent in 2002 and 2003, reflecting a significant surge in oil exports due to the high global price of oil. Oil and gas exports continue to contribute the major share of the country's total exports,

with over 97 percent in 2004, or 46.5 percent of GDP. Total imports have been slightly decreasing since 2002, from 29.0 percent to 25.5 percent of GDP in 2004, reflecting the introduction of import restrictions and the increase of tariffs by the Government in 2002. Imports are primarily geared towards capital goods and raw materials, which accounted for about 60 percent of total imports in the past years, with the rest mainly accounted for by non-durable consumer goods. As the real exchange rate remained relatively stable in 2003 and 2004, the impact on exchange rate fluctuations on non-oil trade remained low. While the trade surplus is traditionally offset by deficits in the services and income account, official transfers contributed only marginally to the current account during 2001-2004 (by average around US\$ 21 million). In contrary, private transfers, including remittances from the large Nigerian diaspora, averaged to about US\$ 1.57 billion during the same period. The external current account recorded deficits in 2002 and 2003, while a slight surplus of 0.9 percent of GDP was attained in 2004. Foreign Direct Investment in Nigeria compares relatively well to other African countries, ranging between 3-4.6 percent of GDP during 2002-2004, compared to 3-4 percent in South Africa and 2-3 percent in Cote d'Ivoire. International reserves have recovered from 3.8 months of imports at end-2003 to 6.6 months at end-2004, largely on account of increased oil revenue.

2.2.6 Public debt: Nigeria's total public sector debt has been declining continuously in recent years, from 85.3 percent of GDP in 2000 to 64.0 percent in 2004, supported by the build-up of fiscal savings due to a more prudent fiscal stance as of end-2003. External debt makes the bulk of total public sector debt, amounting to 48.7 percent of GDP (equivalent to Naira 4.54 trillion) in 2004. Domestic public debt accounted for 15.3 percent of GDP (equivalent to Naira 1.42 trillion) in the same year, consisting of T-bills and bonds, most of which are short-term and largely held by the Central Bank. The general downward trend also applies to the external debt to exports ratio (from 150.2 percent in 2001 to 119.2 percent in 2004) and to the external debt to consolidated revenue ratio (from 147.9 percent in 2001 to 115.5 percent in 2004), largely due to the continued increase of exports and revenue during this period. The bulk of Nigeria's external debt is bilateral, with 83.5 percent owed to bilateral creditors, while the remainder is owed in almost equal shares to multilateral creditors and commercial banks. Also, debt service due has declined continuously in recent years, from 6.4 percent in 2002 to 4.5 percent in 2004.

2.2.7 Debt sustainability³: On the assumption of sound macroeconomic policies, notably a continued prudent fiscal stance, and the implementation of market-friendly reforms that favor non-debt creating capital inflows, both total public and external debt are expected to be gradually reduced in the medium-term. By end-2009, the stock of total public and external debt is projected to decline to 42.6 percent and 39.0 percent of GDP, respectively. Also, the external debt to exports ratio and the public sector debt to revenue ratio are expected to further decline to 97.5 percent and 73.0 percent of GDP respectively by end-2009, projecting a continuous increase of public revenue and a decrease of exports. Stress tests (including exchange rate depreciation, slow down of GDP growth, deterioration of the current account, and rising interest rates) suggest that with policies along the lines described above and favorable oil prices, Nigeria's ratio of external debt to GDP would remain on a downward trend over the medium-term, irrespective of the nature of the shock. However, despite the general downward trend of Nigeria's debt over the past years, which is projected to continue over the medium-term, the debt burden remains high. Budgeted debt service in 2004 exceeded social sector spending by more than 2.4 times,

³ Based on a debt sustainability analysis carried out by the IMF in June 2004.

amounting to around 40 percent of total budgeted non-debt expenditure. Annual debt service payments are expected to broadly remain at their current levels, thus slowing down the pace at which external arrears and the external debt ratio are reduced. Furthermore, as public debt figures do not contain domestic arrears, debt of State and Local Governments and public enterprises, the actual debt burden is likely to be higher than the above scenario suggests⁴.

Box 4: Debt sustainability and achievement of MDGs

In order to achieve the MDGs by 2015, Nigeria would need to substantially increase capital expenditure over the long-term. Total MDG-cost until 2015 are estimated at US\$ 137.18 billion (memorandum item: total consolidated expenditure in 2004 amounted to around US\$ 23.84 billion). The analysis projects the external financing gap to average US\$ 6.4 billion annually during 2005-2008, continuously increasing from US\$ 3.7 billion in 2005 to US\$ 11.2 billion in 2008. Under the assumption of strong non-oil growth of around 7-8 percent per year until 2015, supported by substantial investment, both private and public, as well as structural reforms to ensure efficient use of resources and prudent macroeconomic policies and improved governance, public debt and deficit are projected as follows: (i) as a result of increased MDG capital spending, the non-oil primary deficit is projected to exceed oil revenues as of 2008; significant fiscal gaps occur as of 2012, growing rapidly until 2015; (ii) while public debt is projected to fall below 60 percent of GDP in 2005, further decreasing by 2007, it reverses course in 2008 and returns to 60 percent of GDP by 2012. Under the assumption of an oil-price shock, the fiscal gap appears as early as 2008, i.e. four years earlier than with high oil prices, and public debt reaches 60 percent of GDP already by 2008. The analysis concludes that *“it will be virtually impossible for Nigeria to meet the MDGs and simultaneously lower indebtedness to manageable levels, even with outstanding future economic performance and sustained good luck in the form of high oil prices, unless external aid is increased significantly”*

2.2.8 Structural Reforms: The Government in 1999 has embarked upon a comprehensive **privatization** program, under the guidance of the Bureau of Public Enterprises (BPE). About 75 public enterprises have been identified to be privatized and nine to be commercialized. To date, some progress has been achieved in the oil sector (see paragraph 2.3.2.6), in industry, manufacturing, telecommunication and the banking sector, as the Government succeeded to sell an 80 percent holding of the Delta Steel Company and divested the National Trucks Manufacturing. The sale of Government equity stakes in cement and banking companies was undertaken by open, competitive bidding to foster transparency, and the televised auction of digital mobile licenses was hailed as one of the most transparent license auctions in the world. However, little progress has been made with the sale of the larger Government parastatals, such as the Nigeria Telecommunications NITEL, the National Fertilizer Company of Nigeria (Nafcon) and the Aluminium Smelter Company (Alcson). The overall pace of privatization to date has been slower than planned, in part due to capacity constraints on the level of the BPE. In addition, frequent changes in the BPE's top management in the recent past have hampered a smooth performance and effective fulfillment of its mandate. In July 2004, the Government dissolved the National Council on Privatization (NCP), the body that oversaw the divestiture program, due to slow progress. A new council under the terms of an amended Privatization Act, which is currently awaiting presidential assent, will be appointed.

2.2.9 As regards **public sector reform**, the Government has embarked upon a two-phase reform process that comprises the restructuring of five key ministries/agencies⁵ on a pilot basis

⁴ According to preliminary World Bank estimates of April 2005, public debt at end-2004 stood at 72 percent of GDP, of which external debt amounted to 50 percent and domestic debt to 22 percent of GDP.

⁵ Including the Ministry of the Federal Capital Territory (MFCT), Ministry of Finance/Budget Office of the Federation (BOF), National Planning Commission (NPC), Ministry of Information, and the State House.

and the subsequent extension to other ministries/agencies, including payroll surveys to eliminate ghost workers, assessing skills to identify redundancies and training needs and streamlining the organizational structure. The reform entails a review of the civil service in Nigeria and recommends both organizational and incentive structures for performance improvement through professionalization. While the first phase has well advanced to date, the second phase, focusing on the financing of severance packages and training programs is scheduled for 2005. Furthermore, in order to increase transparency and accountability of the public sector, the Government has enrolled the country on the Extractive Industries Transparency Initiative (EITI) and the G8 Transparency Initiative. The Government has also established various anti-corruption bodies, including, among others, the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC).

2.2.10 In the area of **public finance**, a Fiscal Responsibility Bill, intended to codify the responsibilities of the three tiers of Government so as to ensure fiscal prudence in line with the national goals, is currently with the National Assembly for consideration. The Fiscal Responsibility Bill will help provide the legal underpinning for a prudent consolidated fiscal policy and policy coordination and establishes clear rules for budget formulation, execution, reporting and auditing at all levels of Government, including the application of an oil price-based fiscal rule to manage oil revenue and insulate the economy from sharp movements in oil prices. Another reform bill aiming at improving transparency and accountability of public finance management is the Public Procurement Bill, which is also with the National Assembly for consideration. The Bill provides the legal underpinning to the 'Due Process' which was introduced at end-2003 in all line ministries, requiring capital projects to be consistent with the national development priorities and the application of standard procurement procedures, including competitive bidding. Other measures have improved the process of budget formulation and enhanced the transparency of public spending. The notion of the Medium Term Expenditure Framework (MTEF) has been introduced to the budget 2005 and all tiers of Government are obliged to prepare during budget formulation a fiscal strategy paper, specifying priorities and indicative capital budget ceilings for ministries/agencies, thereby increasing target orientation of public spending and hence effectiveness. The Government has also embarked on the monetization of fringe benefits for public servants and sale of Federal Government assets.

2.2.11 Concerning **public debt**, main elements of the Government's external debt strategy comprise the negotiation of favorable terms for debt rescheduling and restructuring under traditional debt relief mechanisms in the short term and more substantive debt reduction in the medium term, as well as limiting new borrowing through the establishment of a set of criteria for Federal and State agencies to access external loans. As Nigeria has not been eligible for debt relief under the HIPC Initiative⁶, the Government has engaged in an intensive dialogue with the Paris Club, to which it owes the bulk of its external debt. The Debt Management Office (DMO), located under the Presidency, is in charge of debt management. The Fiscal Responsibility Bill introduces rules on debt management for the three tiers of Government and on their borrowing operations. The most important rules stipulate that no external loan shall be approved or obtained by the Minister unless its terms and conditions have been laid before the National Assembly and approved by its resolution. Furthermore, all three tiers of Government can only borrow for

⁶ Nigeria does not meet the debt ratios to qualify under the Initiative and has not concluded a formal program with the IMF. Nigeria has, however, benefited from a non-concessionary debt rescheduling by the Paris Club in 2000.

investments and are subject to a debt limit; the CB is prohibited from purchasing new issues of Government securities on the primary market and is not allowed to guarantee loans on behalf of the Governments of all three tiers. Overall, the reforms represent a significant break from past practices and are broadly in line with best practice recommendations as reflected in the Guidelines for Public Debt Management.

2.3 SECTORAL CONTEXT ISSUES

2.3.1 AGRICULTURE

2.3.1.1 Together with the oil sector, agriculture is the most important sector in Nigeria, as it accounts for around 26.4 percent of GDP, almost 90 percent of non-oil foreign exchange earnings, and provides employment to about 63.5 percent of total labor force. Main sub-sectors are crops, livestock, forestry, and fisheries. It is estimated that 70 percent of Nigeria's poor live in rural areas and are primarily engaged in smallholder agriculture. It is generally believed that efforts to reduce mass poverty should focus on raising the performance of smallholder peasants. Yet, the financial rewards of farming have eroded over the years and the country, once a large exporter of agricultural produce, has become a large importer. Compared to the average production over the 1989-91 period, Nigeria's average total agricultural production increased by about 28 percent between 1990 and 2000. However, in per capita terms, total production increased by only 8.5 percent, with crops recording an estimated 9.6 percent increase while livestock suffered a slight decline of 0.3 percent.

2.3.1.2 One of the main issues in the agricultural sector is the low productivity, as technology in Nigerian agriculture has remained virtually stagnant for decades. The small, traditional farmers who produce over 90 percent of Nigeria's food still operate in the age-old fashion. As a consequence, productivity is very low. With stagnant or low productivity and diminishing opportunities for extensive agriculture, the rate of output growth remains low. This issue is compounded by several institutional constraints. By and large, the marketing of agricultural and food products in Nigeria has been left in the hands of millions of traders of various sizes and categories. This system worked well in the past, but with the increasing monetization of the economy, the task seems to have become too great for the traditional, unregulated agricultural and food marketing system to support. The inadequacy of the infrastructure, poor marketing services, and the absence of government regulatory policies have combined to reduce marketing efficiency. As a consequence of these problems, the cost of marketing is high, producer prices are relatively low, and the farmers' market risk is high. At the same time, the costs of farm labor and other essential inputs have been rising. Under these circumstances, the incentive to produce more food and agricultural products has weakened considerably.

2.3.1.3 Nigeria's agricultural policy has aimed at restoring agriculture to its former status as a leading sector in the economy in terms of its contribution to the GDP, supply of raw materials, employment generation and increasing food production to enhance food security. Recent Presidential initiatives in the sector focused on rice, vegetable oil, sugar, cassava, livestock, tree crops, cereal crops, fishery and aquaculture and processing and marketing, which constitute an integral part of government's policy. According to NEEDS, the Government seeks to increase agricultural exports, a major component of which will be cassava, to US\$ 3 billion annually by 2007. This goal, however, is very ambitious, considering that the figure for Nigeria's total annual

non-oil exports is currently less than US\$ 1 billion. As of recent, the Government has invited Zimbabwean farmers to invest in commercial agriculture in Nigeria. The objective is to make use of the knowledge of Zimbabwean farmers in commercial large-scale agriculture to boost agricultural production in the country. Furthermore, the Government is currently preparing a land preparation scheme aimed at increasing cultivable land by 10 percent annually.

2.3.1.4 As regards rural finance, most of the poor in Nigeria do not require large amounts for their small and micro businesses. Small farmers usually do not need more than Naira 15,000-30,000 for rain-fed agriculture. Since 1970, there have been numerous lending programs of the Government, which were, however, regarded by farmers as invitation to borrow without repayment, as their share of the oil revenues and ‘national cake’, or as the ‘democracy dividend’. Community banks in Nigeria had 57 percent of their loan portfolio in arrears and their bad debt provisions amounted to 19 percent in 2003 of their loans outstanding. The very high incidence of default makes lending not attractive for banks. They tend to select clients with good collateral and wage earners, reduce lending to the minimum and invest in other sectors with safer returns. In most cases, the poor, small-scale farmers, petty traders and craftsmen do not have such collateral, and are, therefore, not eligible for loans from formal financial institutions.

Box 5: Overview on rural finance services in Nigeria

The three major providers of rural financial services in the formal and semiformal financial sectors are commercial banks, community banks and NGO-type Micro-Finance Institutions (MFI). As Commercial banks have shown little interest in rural finance, the Central Bank has insured agricultural loans under the Agricultural Credit Guarantee Scheme Fund. The number of insured loans grew from 341 in 1978 to a peak of 34,518 in 1989, and fell to 24,303 in 2003, with an average loan size of Naira 49,400. The 774 community banks, of which two-thirds are rural, have about 1 million clients - which is equal to their saver outreach - but a borrower outreach of only 70,000. Their rural outreach is estimated at around 25,000 borrowers and 350,000 savers. Total borrower outreach of the banking sector is estimated at around 100,000, its saver outreach is estimated at slightly above one million. To these figures, registered MFIs add around 150,000 borrowers, and a much smaller number of savers. Total rural outreach is estimated at roughly 250,000 borrowers and 1.1 million savers.

2.3.1.5 As regards Nigeria’s land tenure system, State Governors have been the legal custodians of all land since 1978. However, the de-facto land tenure rights follow the traditional usufruct system, which is governed by customary law. Under the customary land tenure system, the village headman maintains the traditional community control of the land and founding families have the customary rights to use the land once they have cleared it. The land will revert to the community only when it is left fallow for a very long time and upon the death of an heirless cultivator. For women, in particular, the access to land is through men (husband, father, etc.). Customary rights are not registered and depend on the testimony of the village head and his deputy. Land can also be bought, leased or acquired through pledging. In fact, about 40 percent of farmers, use a combination of these tenure systems to improve their access to land. Herdsmen remain outside the land tenure system and generally have no security of tenure.

2.3.2 INFRASTRUCTURE

2.3.2.1 **Water sector:** Despite the fact that Nigeria has abundant surface and ground water resources, the temporal and spatial distribution of water and high variability in precipitation have led to scarcity in some regions of the country. Water shortage is developing in the far north and in the southwest, where water transfer between States is necessary. In the Delta region and near

major cities insufficient control of water pollution and serious erosion are experienced. The rapid growth of population has not been matched with an increase in the delivery of water supply and sanitation facilities. It is estimated that only 72 percent of urban population have access to reliable water supply of acceptable quality. Sanitation coverage is estimated at 48 percent. Except for Abuja and limited areas of Lagos, no urban community has a sewerage system. In rural areas, about 49 percent of the population have access to safe water and 30 percent to improved sanitation facilities. The efficiency of both water supply and sanitation systems is low. Many water agencies lack capacity and financial resources, which is partly due to high amounts of unaccounted for water. On the physical side, the aging infrastructure frequently results in breaks. Unstable supply of electricity and irregular availability of water treatment chemicals aggravate the situation. Thus, many water agencies are finding it difficult to meet the existing demand for safe water and sanitation within their respective areas.

2.3.2.2 Past Government efforts in water supply have been fragmented and policies in place did not approach management of water resources from a holistic perspective. The legal and jurisdictional roles and functions of all sector agencies remain yet to be better defined to assure delivery of good service to the population. The Government recognises the need to manage water supply in an integrated and sustainable manner. Several standards and guidelines have been produced, aiming at a sustainable management of the sector services. The Water Decree 101 is in place since 1993, providing the legal underpinning of the development of water resources in the country. A National Water Resources Master Plan for the period 1995-2020 was developed in 1995. Thereafter, a National Water Supply and Sanitation Policy was developed in 2000. The Government is now developing a National Water Resources Management Strategy to ensure proper development and management of its water resources⁷.

2.3.2.3 **Transport Sector:** The domestic movement of goods and people is dominated by the road sub-sector. Aviation and maritime transport are the main means of international transport. Nigeria has a road network of about 195,200 km, comprising Federal trunk roads with a total length of 34,100 km, State roads accounting for 30,500 km and Local Government roads around 130,600 km. The road network of Nigeria is undergoing rapid deterioration due to excessive high axle loads applied by overloaded trucks. A related issue is poor maintenance due to inadequate allocation of funds and, in some cases, faulty design and construction due to lack of institutional capacity or poor contract administration. Rural access and mobility is severely constrained. By 2007, NEEDS foresees the completion of 3,000 km of road construction, and 14 percent of the Government capital budget are planned to be allocated to the roads sub-sector. Major issues are the lack of a coherent National Transport Policy, the absence of a road maintenance program and a privatization bill covering in particular railways and port privatization. Private participation in the sector is still insufficient. The Government has in the past provided insufficient funds for the sector that is fragmented and lacks sufficiently motivated and well-qualified human resources. The Government is currently preparing a National Transport Policy that exists in a draft final form. In 2002, a Masterplan for an Integrated Transport Infrastructure (MITI) has been prepared,

⁷ In order to address the challenge of providing access to safe drinking water supply and sanitation to rural population of Africa, the Bank developed the Rural Water Supply and Sanitation Initiative (RWSSI). The initiative is one of the Bank Group's contributions to achieving the Millennium Development Goals (MDGs) for water supply and sanitation and the African Water vision. The initiative will help in reducing poverty and providing sustainable social and economic developments in conformity with NEEDS. The overall objective of the initiative is to assist the country to achieve the target of 80 percent of adequate water and sanitation by the year 2015

which contains a four-phases reform program aimed at achieving inter-modal coordination and integration of various means of transport. However, implementation of the MITI has yet to start.

2.3.2.4 Energy sector: The energy sector plays a vital role in Nigeria's economy since the country is abundantly endowed with energy resources. These include, among other things, 34 billion barrels of oil or 4,835 million tons of oil equivalent (toe), 5.3 trillion cubic meters of gas (4,700 million toe), 639 million tons of coal (320 million toe) and hydro resources (3 million toe annually). The oil sector contributed 44.7 percent of GDP, around 81.2 percent of total public revenue and over 97 percent of total exports, which implies a high volatility of Government's fiscal position owing to shifts in the international oil prices. Daily crude oil and gas production were, respectively, 2.46 million barrels and 165 million cubic meters in 2004. At that rate, oil reserves would last 40 years and gas reserves 100 years. Reflecting the export orientation of the energy sector, more than 90 percent of oil production and 50 percent of gas production are exported. Around 42 percent of the gas production is flared because gas that exists in fields associated with oil cannot be fully recovered during oil extraction. Government policy is to end gas flaring by 2008.

2.3.2.5 The power sector is essentially constituted by the National Electric Power Authority (NEPA), which until recently had a monopoly over electricity transmission and distribution in Nigeria. As a part of the Government's privatization program, NEPA has been unbundled into 18 companies in early 2005. While NEPA's installed generation capacity is 4,200 MW, the maximum available capacity is limited to 3300 MW, mainly due to a lack of maintenance. The transmission system is unable to deliver power to a major part of the country and is unreliable because it does not have adequate capacity and backup lines. Currently, only 10 percent of rural households and approximately 40 percent of Nigeria's total population have access to electricity. The Government has adopted a National Electric Power Policy in 2001 and an Electricity Power Sector Reform Act in March 2005 to enable more effective participation of the private sector in the provision of electricity services in Nigeria. The Act implies the creation of the National Electricity Regulatory Commission (NERC) to enforce compliance to industrial standards and regulations by companies operating in the power sector. The Government with these initiatives aims at ensuring regular and adequate power supply, which to date remains a major challenge in this sector.

2.3.2.6 The downstream oil sector, i.e. the industry providing processed oil products, has long been dominated by the State-owned Nigeria National Petroleum Company (NNPC). The sector has until recently been tightly regulated, with a de facto import monopoly for NNPC, fixed retail margins and administered retail prices. NNPC became therefore the only wholesale supplier of oil products, both through refining and imports. The Government started to liberalize and deregulate the oil sector in 2003, including the phasing out of subsidies to NNPC on the purchase of Domestic Crude (DC). As NNPC has been chronically indebted and encountering difficulties to meet its financial obligations, the Government has started to privatize NNPC properties. The privatization of four State-owned refineries is in progress and at least one private refinery is expected to begin operations by mid-2005. Meanwhile, entry into the refining sector has been liberalized and eighteen licenses have been awarded. Major challenges in the petroleum sector include the need to establish a regulatory regime for a private petroleum products market in order to attract foreign investors and the sale of the refineries, pipelines and storage depots.

2.3.3 SOCIAL SECTORS

2.3.3.1 **Health sector:** Nigeria's health sector is characterised by poor quality and inefficiencies in the provision of public sector health services, resulting in poor health outcomes. Life expectancy at birth is 54 years while the infant mortality rate is 77 per 1000 live births. It is estimated that by 2010, about 25 million children will be born in Nigeria, and in the same period about 5 million children will die before they reach the age of five, representing about 10 percent of global childhood deaths. High infant and child mortality and morbidity rates; poor nutritional status and high fertility rates are the indicators of the adverse effects of poor sanitation, low incomes and other determinants of poverty in Nigeria. Other indicators show that only about 10 percent of Nigerians have access to essential drugs, fewer than 30 physicians per 100,000 people. Less than 30 percent of children under five years of age are fully immunized against vaccine preventable diseases. Access to safe drinking water in 1999 was limited to about 50 percent of the population (less than 40 percent for the rural and 80 percent for the urban population).

2.3.3.2 The poor health outcomes mainly stem from a lack of appropriate targeting strategies for reaching poor and under-served populations and low levels of public funding (in 2003, around 3.3 percent of the total budget were allocated towards health). In response to the above issues, the health sector in Nigeria has been going through a reform process aimed at restoring the capacity of the public health services to deliver quality health care to all Nigerians. The Government adopted a primary health care approach as the principal health sector development strategy with a particular focus on moving towards programmatic support, promoting public/partnerships, and broadening health financing options. Nigeria's National Health Policy affirms the importance of health to social and economic development and acknowledges primary health care as the foundation of the national health system. The Government is implementing programs aiming at the development of health systems, strengthening control of communicable diseases and reproductive health, and the provision of quality primary health care. Tertiary health care services have also been provided by the health sector, including various other health intervention programs aimed at promoting, protecting and preventing ill health of all Nigerians. Within the framework of NEEDS, a comprehensive review of the sector has been undertaken, culminating in the Health Sector Reform Program, 'Strategic Thrusts with logical Framework and Plan of Action' and the program on Achieving Health-related Millennium Development Goals in Nigeria. While the latter are yet to be implemented, the Government has launched at the beginning of June 2005 a National Health Insurance Scheme⁸, which is expected to make health care services more accessible to poor Nigerians.

2.3.3.3 **Education sector:** Nigeria's formal education system follows a 6-3-3-4 structure, with primary education starting at six years of age. Secondary education is for six years, comprising two three-year cycles and tertiary for an average of four years. Projected enrolment figures for 2005 stood 22.2 million for primary, 12.4 million for junior secondary, 8.6 million and 18.8 million for senior secondary and tertiary education respectively. Among the main issues in education are inadequate curricula and accessibility to educational facilities as well as a lack of

⁸ The Scheme is planned to cover all segments of the society through different programs, including, among others, a Formal Sector Social Health Insurance Program, a Children Under-five and the Physically Disadvantaged Social Health Insurance Program. The Government will meet all costs for civil servants for the first two years and planned to be gradually extended until coverage of the entire society is achieved. Employees are expected to contribute 5 percent of their basic salary while the employer pays 10 percent, bringing the total to 15 percent of the beneficiary's basic salary.

equality and equity. Books and uniforms are expensive, costing as much as US\$ 200 in public schools which most parents cannot afford. School infrastructure is also poor, with over 50 percent of classrooms requiring extensive rehabilitation. This is partly due to the low level of budget allocations towards the sector. Quality of schooling is adversely affected by large class size, limited pupil-teacher contact due to high pupil/teacher ratios, lack of teaching materials and equipment, and widespread lack of qualified teachers (23 percent of teachers do not have Teachers Grade 2 Certificate). Of those students who do complete secondary education, only 11 percent are admitted into tertiary education. Tertiary education is offered in universities, polytechnics and teacher training institutions. University education suffers from poor funding, enrolment expansion beyond the capacity of facilities, low educational quality and examination malpractices.

2.3.3.4 To address the above issues, the Government has articulated a National Policy on Education, which was revised in 2004. Major goals are to provide equal access to educational and to provide trained manpower for all sectors including the provision of technical knowledge and vocational skills to enable the country to be economically self-reliant. The main thrusts of the policy are the Universal Basic Education, focusing on increasing access to basic education and make formal primary and junior secondary education universal, free and compulsory as well as Education for All programs focusing on a participatory approach to ensure full participation through social mobilization and public enlightenment. The Government in 2003 has also conducted an Education Sector Analysis and is rehabilitating educational infrastructure facilities. However, skills development still needs attention in order to enhance the Government's efforts of improving the citizenry's skills and knowledge. Responsibility of primary and secondary educational institutions is shared between Federal, State and Local Governments and communities and private organizations. Local Governments bear responsibility for primary school management, under the guidance of higher levels of government. State Governments control most secondary schools and a considerable proportion of the tertiary institutions. In 2001, the total education budget represented 7.0 percent of the Federal Government annual budget. Approximately 80 percent of the budgetary provisions meet personnel costs. Private sector and NGOs play an important role in education development in Nigeria. Private education is available at all educational levels and of higher quality than public, but prohibitively costly for most Nigerians (US\$ 1000-2000 for secondary education).

2.3.4 FINANCIAL/BANKING SECTOR

2.3.4.1 **Financial/banking sector:** The Nigerian financial system comprises regulatory authorities, banks, non-bank financial institutions and money and capital markets. The Central Bank of Nigeria (CB) is the apex regulatory authority of the Nigerian financial/banking sector. The CB exercises supervisory control over financial institutions to ensure compliance with the guidelines and prescribed standards⁹. The CB, beyond its mandate to regulate and monitor the financial system, has also been entrusted with a developmental role. It has been instrumental to the establishment of some specialized financial institutions and special schemes and funds, aimed at channeling long-term financial resources to specific sectors of the economy. The CB also continues to influence interest rates, among other things, through putting a cap of 4 percent

⁹ According to the Central Bank, 61 out of 87 banks supervised in 2004 were rated "sound" (10) or "satisfactory" (51), while 26 were rated "marginal" (16) or "unsound" (10).

above the Minimum Rediscount Rate (MRR). As commercial banks' lending rates are, thus, determined by the MRR, they have responded with two strategies: charging additional commissions and fees and lending but a fraction of their funds, while depositing the rest in treasury bills and government papers instead. The same applies to Community Banks. The overall result of this interest rate policy is that financial intermediation between savers and investors is curtailed and access to credit restricted.

2.3.4.2 The Financial System Stability Assessment (FSSA) undertaken by the IMF in 2002 highlighted a number of weaknesses of the financial system in Nigeria, including weak corporate governance; widespread insider lending; high levels of non-performing loans; dependence on Government for business and deposits; persistent misreporting by many banks; and weak supervisory framework, with a heavy reliance on direct controls. Also, a clear sector policy remains to be articulated. Since end-2002, the Government has undertaken several measures to strengthen the banking sector. Consolidated banking supervision was enhanced through the establishment of the Financial Services Coordination Committee (FSCC) and the development of a common manual for supervision. The CB has strengthened regulations governing insider lending and large shareholders with stiffer penalties for misreporting and non-compliance. The CB has also required banks to increase their minimum capital base to Naira 25 billion by end-2005, from Naira 1 billion at end-2003. The objective of this measure is to consolidate the banking sector, reducing the number of small banks and the risks attached to them and to encourage the banking sector to play a developmental role instead of focusing on short-term transactions. As at end-2004, there were seven banks that complied with this minimum requirement. Twenty banks out of the country's 89 have formed five different groups and are working on arrangements to merge. It is expected that another nine groups might make public their merger schemes shortly.

Box 6: Structure of the Nigerian financial/banking sector

Financial/banking institutions: The Nigerian financial/banking sector is relatively well developed compared to other sub-Saharan countries, given the large number of financial/bank institutions, the fact that many of them are private-owned, and the reasonable range of financial products offered. It has 89 deposit money banks with 3,300 branches, 5 discount houses, 774 community banks, 6 specialized development banks and mortgage institutions. The Nigerian banking sector is characterized by a concentration of 55.3 percent of total assets and 56.2 percent of total deposit liabilities (2003) at the top ten deposit money banks. Analysis of the sectoral allocation of the bank's credit showed that 40.2 percent of the total credit granted went to agriculture, solid minerals, exports and manufacturing. As at end-December 2003, the average liquidity ratio for deposit money banks stood at 49.7 percent, compared with the stipulated minimum of 40.0 percent. The average loan to deposit ratio was 70 percent, compared with the maximum prudential limit of 80 percent. As at end-December 2003, 45 banks or 50.6 percent of the banks in operation, however, recorded a net loan to deposit ratio of 100 percent and above. The ratio of Broad Money (M2) to nominal GDP stood at 26.4 percent at end-2003, which translates into a relatively low degree of monetarization of the Nigerian economy.

Non-bank financial institutions (NBFI): Nigeria has 185 finance companies, 118 insurance companies, 85 bureaux de change, primary mortgage institutions and the Nigeria Social Insurance Trust Fund, established in 1993 to provide health insurance for both private and public sector employees. Nigeria has also a Stock Exchange in Lagos (LSE) and a Commodity Exchange in Abuja. While some areas of this segment of the financial system have grown in the recent years, its part of the market remains very small compared to that of the banks. At end-December 2002, NBFIs represented 4.9% of the total assets of the financial system, provided 13.4% of total loans/advances and 5% of total deposit liabilities.

2.3.4.3 Micro-Finance: The Micro-Finance (MF) sector in Nigeria is largely dominated by private players, a few public owned institutions and some State agencies, which were established specifically for that purpose¹⁰. There are a few mature and robust players with considerable portfolio sizes and an experience longer than a decade, about a dozen of medium-size Micro-Finance Institutions (MFI) with an experience of about 5-10 years, and about 50-80 smaller ones with little experience. The biggest 8 MFIs have an average number of 42,360 borrowers and an average outstanding portfolio of around US\$ 835,500, compared to 106 borrowers and an outstanding portfolio of around US\$ 135,000 respectively of the Community Banks. This suggests that MFIs operate with larger loan portfolios and service a larger number of people with small loans that are of interest to lower income and poor rural households.

2.3.4.4 Main issues related to MF in Nigeria are a largely unregulated MFI landscape, a lack of umbrella institutions and support mechanisms for self-regulation, the dependence of MFIs on donor funding and the limited expansion potential out of self-generated or donor funds, and the absence of a clearly defined ownership structure for MFIs planning to mobilise deposits from the public. Against this background, the CB in 2004 as part of its broader financial sector reform program has embarked on the development of a national policy and regulatory framework for the MF sector. The draft policy envisages a minimum capital requirement of Naira 30-50 million for deposit mobilising MFIs (equivalent to US\$ 230,000 to 380,000), and the definition of roles and responsibilities of new (National Microfinance Policy Committee) and existing institutions. The draft policy proposes that the CB will have the overall responsibility to coordinate and implement the MF policy. CB Board approval of the policy is expected before end-2005.

2.4 PRIORITY CROSS-CUTTING ISSUES

2.4.1 Governance: The 'Core Economic Reform Program' of NEEDS contains a detailed action plan to fight corruption, improving transparency and accountability. As part of it, the Government has in the recent past implemented a wide range of measures: *accountability* has been enhanced through the introduction to the budget 2005 of an MTEF and the harmonization of the budget classification with a new chart of accounts, including the cleaning-up of capital and recurrent budgets in line with the new codes; the obligation of all tiers of Government to prepare during budget formulation a fiscal strategy paper, specifying priorities and indicative capital budget ceilings for ministries/agencies; and the strengthening of the capacity of the Accountant General's Office. Currently ongoing initiatives to enhance accountability include the Fiscal Responsibility Bill and the Public Procurement Bill, which will provide the legal underpinning to the 'Due Process' introduced at end-2003 in all line ministries, requiring capital projects to be consistent with the national development priorities and the application of standard procurement procedures. The Government has also established a Budget Monitoring and Price Intelligence Unit (BMPIU) in charge of oversight of public sector contracting and procurement.

2.4.2 Reform measures that have enhanced *transparency* include the publication of budgets and allocations of Federal revenue to all three tiers of Government and the preparation of quarterly reports on budget implementation and outcomes. Auditor General reports will be

¹⁰ In 2001, the Central Bank launched the 'Small and Medium Scale Industries' Equity Investment Scheme' (SMIEIS) to provide equity for business activities for SMEs. The Central Bank also adopted a Rediscounting and Refinancing Facility (RRF) at concessionary interest rates to encourage medium to long term lending to the productive sectors of the economy. Other development finance institutions include the Nigerian Export-Import Bank (NEXIM) and Community Banks.

published. The Government's participation in the G8 Transparency Initiative and the Extractive Industries Transparency Initiative (EITI), under which full audits of the annual oil accounts of relevant agencies (Central Bank, NNPC etc.) will be implemented and published, is expected to increase transparency in the petroleum sector.

2.4.3 As part of the Government's campaign to combat *corruption*, the Anti-Money Laundering (AML) Act was reviewed and a revised version passed to the National Assembly for consideration. The Government has also established various anti-corruption agencies, such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC). Recent action taken by the Government to discipline or to remove high ranking civil servants from office on grounds of corruption have confirmed its firm commitment to fight corruption. As regards *stakeholder participation*, the political interests of Nigerian citizens are represented through deputies in the National Assembly. The preparation of NEEDS entailed a broad public consultation phase in which the Nigerian civil society and other stakeholders participated. This approach is also foreseen within the context of the preparation of the SEEDS. Concerning the *legal and judicial framework*, the Government has recently completed a draft strategy for legal and judicial reform, aiming at strengthening the rule of law and speed-up court cases, and developed an Implementation Plan.

2.4.4 The World Bank in 2002 conducted a *Country Financial Accountability Assessment* (CFAA). While many of the CFAA recommendations have been or are being addressed by the Government, others remain yet to be taken into account or invigorated. This includes, among others, the establishment of legal provisions that require the public disclosure of assets and other valuable interests of public officials and politicians and the recovery of public sector assets illegally acquired; ensure rigorous and centralized application by the Budget Office of the Ministry of Finance of the 'Due Process' system; replace the dual budget process by a consolidated budget where the formulation of capital expenditure takes account of related recurrent expenditure; full application of the MTEF including program budgeting; improving fiscal reporting, with one single agency assuming the lead role in presenting timely fiscal data to policy makers. Also, the technical capacity of the DMO needs to be strengthened so as to ensure efficient debt management

2.4.5. The World Bank in 2002 also undertook a *Country Procurement Assessment* (CPAR). It was recommended that the practice of using registration lists as eligibility for tendering should be discontinued and that bidding should be open to all qualified eligible bidders. Negotiations of contracts in open competitive tenders should be discontinued and all major contract awards be published. Tender boards, to be chaired by Accounting Officers, should be streamlined and empowered to approve tenders and the Departmental and Federal Tender Boards be abolished. Furthermore, the Government should fully implement the customs clearing system ASYCUDA (Automated System for Customs Data), which provides accurate processing of import, export and transit declarations leading to reduction of time for clearing commodities and increased revenues.

2.4.6 **Labor Market:** Data available¹¹ suggest that total labor force in Nigeria amounted to about 54.7 million (2003), corresponding to around 40 percent of the total population. The bulk

¹¹ UN Database, FAOSTAT, December 2004.

of labor force was employed in the agricultural sector, i.e. 63.5 percent (1996), while 23.0 and 13.0 percent were employed in the industry and services sectors, respectively. According to the Nigerian Federal Office of Statistics, the unemployment rate stood at 10.8 percent in 2003, with urban unemployment amounting to 12.3 percent and rural unemployment to 7.4 percent. Child labor force accounted for 23.3 percent of the total number of 10-14 years old children. Nigeria has enacted several laws to protect children in the work place, and ratified three ILO conventions, setting the minimum age for the employment of children at sea, in industry and underground. Nigeria has also signed and ratified the UN Convention on the Rights of the Child. However, Nigeria has not yet ratified two important ILO conventions on child labor, setting a minimum age for hazardous work and targeting the elimination of the 'worst forms of child labor', which include all forms of slavery and practices similar to slavery. Despite the above efforts, child labor is still widespread in Nigeria. Estimates for 2003 suggest that 15 million children are working, of which up to 40 percent is said to be at risk of being trafficked for forced labor, forced prostitution and armed conflict. About 6 million children are estimated to not attend school and 2 million work more than 15 hours per day¹². Also, trafficking of children into Nigeria for the purpose of forced labor is a widespread phenomenon.

2.4.7 From a gender-specific perspective, female workforce accounted for 35.9 percent of total labor force (2003). Women hold only 3 percent of administrative and managerial positions in formal employment. While the Nigerian Labor Act contains provisions to protect women's employment rights, incidences of gender-based discrimination in employment opportunities continue to occur. In 2002, the Ministry of Women's Affairs and Youth Development reported that some banks require single women to sign contracts to postpone marriage by three years, and those married to delay having children to after three years of their appointment.¹³ Another labor-related problem for women in Nigeria is the increasing trend of trafficking in women and children. In search of jobs and opportunities, increasing number of Nigerian young women and children leave the country illegally often falling into a situation harsher than they left behind. The passing of the Trafficking in Persons (Prohibition) Law Enforcement and Administration Act in 2003, and establishment of a national agency are measures taken by the Government to combat trafficking in person activities. The effectiveness of these measures, however, remains to be witnessed in the coming years.

2.4.8 **Regional Integration:** Nigeria is a member to several continent-wide and regional initiatives, such as the African Union (UA), the New Partnership for Africa's Development (NEPAD) and the Economic Community of West African States (ECOWAS). The ECOWAS regional integration agenda consists of several components, including the free movement of persons and of goods, monetary cooperation, and the harmonization of economic and financial policies with a view to the creation of a second West African Monetary Zone (WAMZ). Despite progress achieved to date, the process of regional integration has been lagging behind, particularly with regard to macroeconomic convergence: while six non-UEMOA Regional Member Countries (RMC) of ECOWAS - The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone - signed an agreement in December 2000 to merge the second WAMZ with the UEMOA¹⁴ by 2004, ECOWAS decided in May 2005 to shift the launch of its common currency

¹² International Confederation of Free Trade Unions (ICFTU), 2005.

¹³ Federal Ministry of Women's Affairs and Youth Development: 4th and 5th Periodic Country Report 2002.

¹⁴ UEMOA is the French acronym for the West African Economic and Monetary Union, set up in 1994 by eight mainly francophone countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo).

to 2009, as many RMCs had not fulfilled the convergence criteria¹⁵. In addition to enhance the harmonization process of economic and financial policies, there is also a need to accelerate the integration of regional markets of RMCs, including through improved infrastructure services. The latter include road transport, air transport, telecommunications and energy. ECOWAS is, among other things, responsible for the coordination and monitoring of the NEPAD Program in West Africa, a key element of which is the NEPAD Infrastructure Short Term Action Plan. The Bank Group, whose mandate includes the promotion of regional integration and cooperation among RMCs, has been actively participating in the implementation of regional integration initiatives, including NEPAD, the African Union and ECOWAS. The Bank will provide support to RMCs within the context of a Regional Integration Assistance Strategy (RIAS) for West Africa, which is currently under preparation.

2.4.9 Population: Nigeria's population was estimated at around 133 million in 2002, compared to 54.9 million in 1975. While the annual population growth rate during 1975-2000 is estimated at 2.8 percent, it is projected to decline to 2.5 percent by 2015. Nigeria's total population in that year is projected at 165.3 million. The age structure of the Nigerian population is typical of that of a developing country with a high proportion of the population belonging to the 'dependant' ages: the share of the population under 15 years is estimated at 45.1 percent of the total population in 2002; it is projected to decline to 41.4 percent by 2015. While in 1975 only 23.4 percent of Nigerians lived in cities, the ratio increased to 44.1 percent in 2002; it is expected to further increase to 55.5 percent by 2015. The population's youthful age structure has major implications for employment, education and the provision of other government services. Social and economic pressures on the nation's limited resources are likely to increase, implying additional strain on the Government's fiscal position, as the demand for basic social and infrastructure services will rise. Nigeria adopted a National Population Policy in 1989 with the main objectives of harmonizing population dynamics with the country's national development goals. However, success has been limited so far, as the annual population growth rate remained high. Urban population growth outperforms rural population growth by far, with 4.5 percent and 0.8 percent, respectively. This tendency aggravates the social situation in the cities, including pressure on urban labor markets.

2.4.10 Nigeria over the last two decades has been characterized by emigration, as well as substantial amounts of internal migration. As elsewhere in the region, this has involved considerable rural-urban migration, as the above-mentioned figures on urban population growth suggest, including both permanent and temporary moves for work, education and to escape drought conditions in the northern Sahel areas. In contrast, there has been relatively little circular migration between rural areas. Aside from rural-urban migration, internal migration in recent years has been characterized by forced displacement by conflicts over crude oil mining and refining and conflicts related to the democratization process. It is estimated that the number of forced internal migrants in Nigeria is currently as high as 1.2 million. As regards emigration, nearly 15,000 Nigerians are reported to have migrated legally to Europe and North America from 1995-2001, while there are estimated to be some 200,000 to 300,000 first and second generation Nigerians living in the US. In Europe, it is estimated that 45,000 Nigerians live in the UK, 17,000 in Italy and 15,000 in Germany. The education of the large majority of the emigrants is reported to be high. Emigration also implies positive economic effects, notably through

¹⁵ Section 4.5 presents Nigeria's performance with regard to macroeconomic convergence.

remittances from abroad, which are generally around US\$ 1.5 billion per year, including around US\$ 1.3 billion per year from the United States alone (around 1.9 percent of GDP in 2004).

2.4.11 Gender: The gender dimension of poverty is linked to gender-based inequalities that differentially determine men's and women's access to and control over productive assets, and inequalities leading to deprivation of options to escape from poverty, lack of protection, limited education and training, low participation and powerlessness. Women head 14.4 percent of the households (5.6 percent in the North and 24.5 percent in the South). About 26 percent of men and 36 percent of women are in polygamous unions. In 1997, only 14 percent of adult women owned land, as opposed to 80 percent of adult men. Female Headed Households (FHH) constitute about 80 percent of the landless and near landless population in Nigeria. Women receive less agricultural extension services and credits as compare to male farmers. In some areas, customary and religious laws prohibit women from inheriting property, and they often lose much of family assets during divorce or death of spouse. Cultural and customary practices such as early marriage (49.6 percent of women were married at the ages of 15-19 years), Female Genital Mutilation (prevalence rural, 18.2 percent and urban, 8.2 percent) wife inheritance, and heavy workload have severe consequences on women's education, health, and economic status. In 2004, 21 percent of female dropout was attributed to marriage, engagement and pregnancy. Literacy rate (66.6 percent for men and 47.6 percent for women) stands low. Fifty-eight percent of women had first pregnancy between the ages of 10-19 years. This coupled with women's limited access to health services, are major contributing factors to the country's high Maternal Mortality Ratio of 704 per 100,000 live births, compared to an African average MMR of 641 per 100,000 live births during the same period.

2.4.12 Although more women have been appointed to key Government positions recently, the gender gap in participation in decision-making is indicative of the slow change in traditional perceptions about women's role in society. In 2003, women's representation was 2.8 percent in the Senate, 5.8 percent in the House of Representative, 2.3 percent in State House of Assembly and 14.3 percent as cabinet ministers. NEEDS recommends putting an affirmative action measure that guarantees 30 percent of elective and appointed positions to women. Nigeria ratified the Convention on the Elimination of all Forms of Discrimination against Women in 1985. Although implementation has been constrained due to low institutional capacity, lack of strategic planning and allocation of sufficient resources, the Policy on Women (2000) seeks to improve women's economic and political status. Nigeria is making strides in reforming its legal framework for protecting women's and girls' rights. The Federal Child Rights Act (2003) protects the girl-child from early marriage and betrothal, and outlaws any forms of child sexual exploitation. Decision on a proposed Bill on Violence Against Women is pending at the National Assembly. Government's commitment to protect women's rights is also articulated in NEEDS. Putting these legal instruments and policies in place is a major step in the right direction. Greater challenge, however, remains in harmonizing customary and religious laws with the non-discriminatory spirit of the Constitution of 1999, and the reformed statutory laws. Unless efforts for eliminating gender-based discriminations and practices are strengthened, the existence of legal instruments alone may not lead social justice and equity, which are pre-requisites to succeed in reducing poverty.

2.4.13 HIV/AIDS and Communicable Diseases: Although Nigeria has a lower HIV/AIDS prevalence rate than the Eastern and Southern African countries, the magnitude of the potential impact because of the large population base and the rising prevalence rate calls for urgent action. The prevalence rate of HIV/AIDS has increased from 1.8 percent in 1991 to 6 percent in 2003. Projections suggest that the number of HIV/AIDS infected adults will reach five million by 2010. In Nigeria, there are growing concerns that the rapidly rising HIV/AIDS and TB co-epidemic, the resurgence in malaria, and continuing morbidity and mortality losses due to childhood communicable diseases (e.g. measles, diarrhea) will further erode the gains in national health development. Nigeria is at a state of the HIV/AIDS epidemic where an accelerated spread of the virus is certain, unless effective control effort is put in place with high priority. It is projected that an epidemic would dramatically reverse the gains of various child survival activities as vertical transmission and the number of HIV/AIDS orphans significantly increase. Recognizing the need for action, the Government in 2001 established the supra-ministerial and sectoral National Action Committee on AIDS (NACA) and launched a national policy on AIDS in 2002. The policy has focused on containing the epidemic and preventing new infections through advocacy, information and education campaigns. It also focuses on treatment and care of people living with HIV/AIDS. The Government has also articulated a medium term HIV/AIDS Control Action Plan that seeks to provide free Voluntary Counseling and Testing Services, and expand subsidized treatment for HIV/AIDS cases and other opportunistic infections, among other things. Public knowledge about the disease is very low.

2.4.14 The major causes of mortality and morbidity of children under 5 years are vaccine-preventable communicable diseases. Less than 30 percent of the children of this age group are fully immunized against these diseases, which account for over 90 percent of morbidity and 80 percent of mortality in children. Nigeria has the highest prevalence rate of poliomyelitis in Africa. Diarrhea-related diseases are the second and third main causes of infant and under-5 mortality respectively. The high prevalence of communicable diseases poses a major challenge to Governments efforts to reduce child mortality and combat other diseases. Accordingly, Government has adopted a Medium Term Plan of Action, which calls for the implementation of cost-effective health development interventions in an integrated manner to address the priority health problems. It emphasizes the control of communicable diseases (malaria control, STD/HIV/AIDS, TB), reproductive health (essential antenatal and obstetric care, and family planning), and the Integrated Management of Childhood Illness (IMCI).

2.4.15 Environment: Environmental degradation and poverty in Nigeria are inextricably linked. Around 75 percent of the rural population depends on natural resources for their livelihood. In urban areas, the poor live in slums where they are exposed to overcrowded living quarters, unsafe water, improper waste disposal and other health risks. Population growth, poverty and poor governance are reflected in pressures on natural resources and the decline in environmental indicators in Nigeria. Soil erosion and infertility, deforestation, droughts in north severely affecting agricultural activities, water scarcity and pollution, biodiversity loss, municipal and hazardous waste are primary areas of concern. One of the major environmental problems are the effects of oil and gas development on environmental conditions, including constant oil spills and air pollution resulting from the flaring of gas.

2.4.16 In recent years, the Government has taken various measures to address these issues, including environmental risk assessments prior to project initiation, tighter regulation and enforcement of existing environmental laws. NEEDS focuses on ensuring a safe and healthful environment that secures the economic and social well-being of the population on a sustainable basis. The specifics of the agenda are enunciated in the Environmental Renewal and Development Initiative, the primary objectives of which are to take full inventory of Nigeria's natural resources, assess the level of environmental damage, as well as design and implement measures aimed at halting further degradation of the environment. In order to implement the environmental reform program, several bills are envisaged to be adopted, among which the National Forestry Bill, the National Oil Spill Contingency Bill, the National Environmental management Bill, and the Environmental Impact Assessment Decree. With the country's oil production slated to rise and the country's population continuing to increase, the pressure on Nigeria's environment is likely to continue. As such, there is a need for the Government, non-governmental organizations and international oil companies to cooperate in order to reduce the degradation of Nigeria's environment.

Box 7: Environmental overview¹⁶

- Total energy consumption: 0.94 quadrillion BTU (0.2 percent of world total energy consumption);
- Per capita energy consumption: 7.8 million BTU (vs. US value of 339.1 million BTU);
- Energy-related carbon dioxide emissions: 91.94 million metric tons (0.4 percent of world carbon dioxide emiss.);
- Per capita carbon dioxide emissions: 0.76 metric tons (vs. US value of 19.97 metric tons);
- Fuel share of energy consumption: oil (67.3 percent), gas (25.1 percent), hydroelectric (7.5 percent);
- Fuel share of carbon dioxide emissions: gas (50.9 percent), oil (48.9 percent);
- Status in climate change negotiations: non-annex I country under the UN Framework Convention on Climate Change (ratified in August 1994); not a signatory to the Kyoto Protocol;
- Major international environmental agreements: a party to conventions on biodiversity, climate change, desertification, endangered species, hazardous wastes, law of the sea, marine dumping, marine life conservation, ozone layer protection, and wetlands
- Environmental laws: Harmful Waste (Special Criminal Provisions) Decree; Oil Mineral Producing Areas Dev. Comm. Decree; Oil Pipelines Act; Federal Environmental Protection Agency Act; Federal Environmental Protection Agency Decree No. 58; Endangered Species (Control of International Trade and Traffic) Act; Environmental Impact Assessment Decree

2.4.17 **Participation:** The Bank Group acknowledges that NEEDS was developed on a participatory approach, based on a public consultation phase in which the Nigerian civil society, including the private sector and other stakeholders participated. The Bank Group considers the participation of stakeholders, including the civil society, the private sector, NGOs and other institutions and associations, in the preparation of its strategies and projects as essential, in order to ensure a broad-based ownership and effective contribution towards poverty reduction. For the preparation of the CSP 2005-2009, the Bank organized a consultative workshop in Abuja during 7-9 June 2005, in which representatives of the international community and a wide range of private sector organizations and NGOs participated. The Bank in the finalization of the CSP has taken into account their comments and observations. The principle of broad-based consultation and participation will also be applied within the framework of the Bank Group's Mid-term Review of progress made under the CSP, tentatively scheduled for end-2006 or beginning of 2007.

¹⁶ Figures for 2002; EIA Energy Information Administration, US Government, April 2005.

2.4.18 Informal Sector: The informal sector in Nigeria can be categorized into the following sub-sectors: (i) the productive sector, including agricultural production, mining and quarrying (excluding petroleum), small-scale manufacturing, and building and construction; (ii) the service sector, including repairs and maintenance, education and health services, counseling services as well as labor for menial work; and (iii) the financial sector, including rotating fund associations (the so-called 'Esusu' associations), money lenders, saving and credit associations and credit unions. While money lenders are considered highly exploitative with high rates of interest, the saving and credit associations as well as credit unions operate in more formalized ways than the rotating fund associations as they have to be registered under the Co-operative Association Act. Estimates on the size and employment structure in the informal sector suggest that the sector accounts for as much as 70 percent of the country's economic activities and up to 60 percent of the urban labor force¹⁷. From a gender specific point of view, about 70 percent of Nigerian women are employed in the informal sector. With regard to child labor, despite the ratification by the Government of several international conventions to protect children at work, child labor remains a common phenomenon in the Nigerian informal sector.

2.4.19 Recognizing the importance of the informal sector in terms of economic activity and employment, the Government has initiated specific programs to support the sector. With the help of MFIs such as the People's Bank of Nigeria (PBN) and the Family Economic Advancement Program (FEAP), a number of petty traders have turned their livelihood supporting activities into credible small businesses. In addition, the Government in 2001 launched the 'Small and Medium Scale Industries' Equity Investment Scheme' (SMIEIS) to provide equity for business activities of SMEs. The latter play a major role in Nigeria's economy: about 95 percent of the firms in manufacturing are SMEs, accounting for about 70 percent of industrial employment but only about 10-15 percent of total manufacturing output. SMEs suffer from various constraints such as infrastructure deficiencies, ill-defined property rights and enforcement of contracts insecurity, and particularly from low access and high cost of finance. The SMIEIS Scheme foresees that 10 percent of the profit of every bank is allocated to equity investment in SMEs. However, evaluation of the Scheme indicates that less than 10 percent of SME projects have directly been financed through this program. Although there is a widespread realization about the need to effectively integrate the sector into the national development strategy, the Government's reform agenda provides little strategic approach (with the exception of formalizing the informal mining sector) on ways of transforming some of these economic activities into solid income generating entities. Given the importance of the sector in terms of economic activity and employment, the Government should develop a strategy for harnessing this sector as a means to push people out of poverty.

2.5 POVERTY, SOCIAL CONTEXT AND ISSUES

2.5.1 Poverty in Nigeria has many dimensions and manifestations, notable ones being joblessness, economic dependence at adult age, lack of freedom, inability for provide the basic needs of life for oneself and family, over-indebtedness, inability to save or own assets and lack of access to credit and land. The causes of poverty are traced to insufficient GDP growth, compounded by high population growth. This is compounded by the volatility of the oil sector as it impacts a whole range of activities in the economy. Other factors include limited growth of

¹⁷ Federal Office of Statistics, Nigeria, 1999.

investment and technological innovations, growing income inequality, weak governance, economic and social dislocations caused by internal conflicts, gender inequalities and inter-sectoral factors such as relative shortage of social and economic infrastructure in rural areas, low productivity of rural production especially agriculture, and migration of the educated work force from the rural to the urban areas.

2.5.2 It is estimated that around 52 percent of Nigerians live in poverty¹⁸, with significant regional variations (see Box 8). As a consequence of poverty, Nigeria's human development indicators are poor: in 2003, net primary school attendance stood at 60 percent (64 percent for boys versus 57 percent for girls). In the northwest region, only 34 percent of girls are attending school. Literacy is low, with 45 percent of urban and 19 percent of rural primary school age children able to read part of a simple phrase. Infant mortality rate is one of the highest in Africa - 10 percent of live births (Ghana 6 percent, Burkina Faso 8 percent, Benin 9 percent), with marked regional disparities. Around one million Nigerian children under the age of five died in 2004. Inequality in Nigeria is high - for instance, the child mortality rate among children living in the poorest 20 percent of households is three times that among children living in the richest 20 percent. Malaria is the biggest killer of under-fives in Nigeria. Infant and child mortality rates among children in the poorest 20 percent of households are more than 2.5 times as high as the rates among children in the richest 20 percent.

Box 8: Poverty characteristics Nigeria

Nigeria is a poor country that has the third highest number of poor people in the world, after China and India. With a per capita income of about US\$ 300 in 2003 (well below the Sub-Saharan average of US\$ 450), around 70 million of Nigeria's 133 million people are living on less than 1 dollar a day. The UN Human Development Index 2004 ranks Nigeria 151 out of 177 countries and 22 out of 45 African countries. Significant geographic disparities are the characteristic of Nigeria's poverty. Income poverty is higher in rural areas (64 percent), where almost 75 percent of the population live, than in urban areas (35 percent). The last assessment of progress towards the MDGs undertaken by the World Bank in 2004 concluded that many out of the 8 MDGs are unlikely or at risk to be attained by 2015 if current trends continue. With regards to the first MDG "halve extreme poverty between 1990 and 2015", available data suggest that currently 52 percent of Nigerians live on less than US\$ 1 per day, compared to around 70 percent in 1995. With regard to the fourth MDG "reduce child mortality", including the reduction of the mortality rate of children under five by two thirds to 49 per 1000, available data suggest a current rate of 217 per 1000. Concerning the fifth MDG "improve maternal health", including the reduction of maternal mortality by 75 percent between 1990 and 2015, the maternal mortality rate in Nigeria in 2003 stood at 704 deaths per 100,000 live births. Concerning the sixth MDG "combat HIV/AIDS, malaria and other diseases", the HIV/AIDS prevalence rate is estimated at 5 percent.

2.5.3 Health outcomes are worse than in other similarly poor countries, and insufficient access to basic health services is a significant factor. The referral system is fragmented and uncoordinated (primary, secondary, and tertiary services are the responsibilities of Federal and State and Local Governments respectively), with insufficient public funding and support reaching the most basic services. In better-off regions, people have turned to the private sector, but quality public or private services are often not available to the poorest, so that there are significant socio-economic and regional disparities. Immunization coverage has fallen from around 30 percent in the early 1990s to 13 percent in 2003 - and as low as 4 percent in the

¹⁸ According to preliminary World Bank estimates of April 2005.

northwest. Only one third of deliveries are assisted by skilled professionals, and access to emergency obstetric care is low.

2.5.4 Poor access to infrastructure also affects a large percentage of the population. Less than half of all Nigerian households have access to safe drinking water (around 42 percent). Estimates suggest that some 35,000 children under five die each year due to lack of safe water and sanitation. Debilitating non-fatal cases of diarrhea are estimated at around 21 million per year. Access to all weather roads is also very limited. Only about one in every three households in rural areas has electricity compared to 85 percent of city dwellers, though even when available it is often unreliable. Despite recent explosive growth in cellular subscribers, Nigeria continues to have very low teledensity levels, especially in rural areas.

2.6 MEDIUM TERM ECONOMIC OUTLOOK AND EXTERNAL ENVIRONMENT

2.6.1 **Constraints:** There are two major external constraints that loom large in every discussion of Nigeria - debt and oil. Nigeria's high level of external public debt weighs heavily on the country's capacity to allocate an adequate level of financial resources towards human capital development and poverty reduction and to invest in infrastructure to create a more enabling environment for private sector growth. Nigeria's high public debt represents a major obstacle to the achievement of the MDGs, as the analysis in previous sections has shown. Another major constraint is Nigeria's insufficiently diversified economy that heavily relies on the petroleum sector, implying a high oil-price related volatility of the Government's fiscal position. Closely related to this is the weak competitiveness of the Nigerian economy. Competitiveness has declined steadily over the years, and while Nigeria is the second largest economy in sub-Saharan Africa, it is one of the least competitive, ranking 93 out of 104 countries on the global competitiveness index. The weak competitiveness reflects several other critical constraints, including a lack of infrastructure, a restrictive trade regime that represents a disincentive to trade, the absence of a conducive regulatory framework for business development, including cumbersome administrative procedures, and the country's problematic security situation, all of which adversely affects private sector initiative and investment.

2.6.2 Major institutional constraints include the lack of accountability, transparency and capacity of the public administration as well as the absence of clearly articulated sector policies, guidelines and regulatory frameworks in the financial/banking sector, public finance and other key sectors of the Nigerian economy. Main constraints with regard to human resources include the insufficient availability of adequately skilled work force and productive human capital required by the economy, mainly due to low public spending in the sector, lack of access to education and the weak institutional capacity of educational institutions. The country's human resource base is also adversely affected by low public spending on health, implying inequalities in access to primary health care, persisting gender inequality, and shortage of appropriately trained health personnel.

2.6.3 Major constraints which adversely affect the environment for private sector activity and non-oil economic growth pertain to the country's poor infrastructure: this includes a low national water supply and sanitation coverage, which is estimated at 60 percent for water and 38 percent for sanitation, being the result of a variety of other related constraints, including institutional

weaknesses, poorly trained manpower and under investment. Furthermore, the level of power generation is low and delivery of electricity unreliable, partly due to high-energy losses of 30-35 percent from generation to billings and low collection rates (75-80 percent), leading to inadequate cash generation. As a result, NEPA depends on fuel subsidies to meet its operating cost and Government funding for capital projects. In addition, NEPA's transmission network is inadequate and prevents a reliable and efficient transfer of power to all parts of the country. The country's poor transport infrastructure is another bottleneck to economic activity, especially in rural areas, which is mainly due to inadequate financial resources for the maintenance of the infrastructure network. With specific regard to agricultural activity, the aforementioned constraints are compounded by limited access by farmers to quality financial services and modern technology and in order to improve agricultural productivity. Further constraints to rural development are a land tenure system that inhibits acquisition of land for mechanized farming as well as inefficient marketing and inadequate agricultural incentives systems.

2.6.4 Prospects: Nigeria has a great potential to move to a higher, more diversified, and stable growth path. It has a considerable resource base across almost all of its non-oil sectors: agriculture, on which most of the poor depend for their livelihoods, manufacturing, services such as communications, banking, tourism. Nigeria's substantial solid mineral deposits are also largely unexploited. The Government's macroeconomic projections indicated in NEEDS suggest an average annual GDP growth rate of 6.3 percent during 2005-2007, based on non-oil sector growth of 8.8 percent and a Zero-growth of the oil sector. Within the non-oil sector, annual average growth in agriculture is projected at 6.0 percent. The Government's assumption for this scenario is strong growth in the primary and secondary sectors, particularly in agriculture and manufacturing, while output in the oil and gas sector is expected to remain unchanged. Inflation is expected to remain below 10 percent during 2005-2007. In the long-term, the Government projects an average annual GDP growth rate of 7.0 percent during 2005-2015, which is expected to reduce the incidence of poverty to 35 percent and increase annual per capita income to US\$ 556 by 2015.

2.6.5 In view of an average GDP growth rate during 2000-2004 of 4.9 percent per year, the assumption of an annual average growth rate of 6.3 percent during 2005-2007 seems realistic, provided the Government manages to stimulate private sector led growth through accelerated privatization, an improved business environment through continued deregulation, a liberalized foreign trade regime and increased inflows of FDI. The Government's macroeconomic and structural reforms currently under way and foreseen to be undertaken in the near future give reason to expect accelerated economic growth in the years to come. However, the Government's assumed medium-term growth scenario implying a Zero-growth of the oil sector seems to be optimistic, as the average GDP growth during 2000-2004 of 4.9 percent per year was largely attained by oil sector growth.

2.6.6 The projected fiscal deficit for 2005-2007 of 3.0 percent of GDP per annum is based on a prudent fiscal stance that implies gradual decreases of total expenditure by 2007. The envisaged cut in public spending will be accompanied by increased revenue collection through tax reforms and strengthening the tax collection machinery. The public investment program is planned to give priority to health, education, agriculture and power supply. The introduction in the 2005 budget of a Medium Term Expenditure Framework approach, supported by the international

donor community, reflects the Government's poverty oriented fiscal policy as each ministry/agency is required to prepare a fiscal plan that outlines projects and activities to be undertaken in line with the strategic objectives of NEEDS. In view of the continued improvement of the fiscal deficit during the last years, including the achievement of a surplus of 5.0 percent in 2004, the above-mentioned projections of the fiscal deficit, including increased capital spending, seems realistic. However, key to the achievement of the Government's medium-term fiscal objectives is the application of an oil-price based rule and pro-active policies to increase revenues. This will allow the Government to save windfall revenue and to increase allocations towards the social sectors required to reduce poverty and help achieve the MDGs.

2.7 PRIVATE SECTOR BUSINESS CLIMATE AND ISSUES

2.7.1 Nigeria is one of the few African countries with a well-established and diversified private sector, consisting of enterprises of all sizes, ranging from predominantly informal micro- and small-scale enterprises to medium and large-scale enterprises. The larger private enterprises are mainly corporate in structure, urban-based, and generally have joint ownership between Nigerians and foreigners. The informal sector, on the other hand, is characteristically small scale and owner-operated. Activities covered by the private sector in Nigeria range from agriculture to industry, financial services, physical and social infrastructure, and trade and commerce. Agriculture is essentially a private sector activity with small private holders dominating agricultural production, growing food mainly for their own consumption. Next in importance in private sector activity is the industrial sector, to which manufacturing in 2003 contributed to about 85 percent of production. The development of the private sector in Nigeria has yet to achieve its full potential and recent performance has been sluggish. Whereas Foreign Direct Investment compares relatively well to other African countries (see paragraph 2.2.5), private sector investment in Nigeria has fallen in recent years, from 15.9 percent in 2002 to an estimated 12.5 percent of GDP in 2004. One of the main constraints for private sector activity in Nigeria is the high cost of doing business, mainly in view of ill-defined property rights and enforcement of contracts insecurity, administrative barriers and lengthy procedures of business registration, inadequate infrastructure, lack of skilled labor, weak marketing and security problems. Furthermore, weaknesses in the financial sector impede private sector activity, evidenced by the low level of financial intermediation (see paragraph 2.3.4.1), which in turn is associated with a weak financial infrastructure.

2.7.2 NEEDS has taken cognizance of these impediments and spells out several policy measures in order to improve the private sector business climate and to spur non-oil economic growth. Specific strategies include to substantially increase investment in infrastructure, especially in water, electricity and transport, facilitate access to finance, direct low-cost credit to the productive sectors, create fiscal and legal incentives, impose selective import restrictions, and to launch a comprehensive privatization and liberalization program. Supplementary strategies aim at removing administrative barriers to private sector activity. To date, the Government has already taken several measures to create a more stable business environment, including the establishment of several anti-corruption agencies (see paragraph 2.4.3), such as the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), which have contributed to improve transparency and accountability in the public

administration, thereby reducing cost of doing business. Progress has also been achieved with regard to privatization, but the process has been lagging behind (see paragraph 2.2.8).

3. NATIONAL DEVELOPMENT AGENDA AND MEDIUM TERM PROSPECTS

3.1 KEY ELEMENTS OF THE GOVERNMENT DEVELOPMENT AGENDA

3.1.1 The Government finalized NEEDS in May 2004, but implementation of key elements had already begun in mid-2003. To date, several State Governments have also completed their SEEDS or are advanced in preparation. Together, NEEDS and SEEDS form the national framework of Nigeria's homegrown poverty reduction strategy. Entailing three strategic pillars, NEEDS sets out a vision for wealth creation, employment generation, poverty reduction and value reorientation.

3.1.2 **Pillar 1: Empowering people and building a Social Contract.** This pillar focuses on improving the access of Nigerians to public health, education, welfare, employment and security through empowerment and participation. It proposes a social charter, which recognizes the right of Nigerians to public services that provide the basic needs for life. In education, the policy thrust includes the provision of unhindered access to Universal Basic Education to all children of school going age and establishment and maintenance of quality standards through appropriate curricula and effective quality control. In health, key elements of the policy thrust include reducing the disease burden attributable to communicable diseases, malaria, tuberculosis, reproductive health related illnesses and improved availability and management of health resources. The policy thrust on HIV/AIDS is to control its spread, provide equitable care and support for the infected and mitigate its impact to the extent that it is no longer a public health, social or economic concern. While targeting broad progress in providing better social services to the poor, NEEDS also pays particular attention to the needs of groups that are particularly vulnerable through the creation of a strong safety net program. The poverty assessment undertaken in NEEDS can be considered thorough, honest and holistic in nature due to its careful diagnosis of the present poverty situation and its causes. It also traced past interventions and why these could not bring the desired results.

3.1.3 **Pillar 2: Promoting private enterprise to foster growth of the non-oil sector.** NEEDS gives particular attention to improved performance in agriculture and SME development. Private sector led growth and a sound macroeconomic framework are considered key for economic redress of the country. The document highlights the need for reducing the influence of Government in the economy, and accelerating the privatization, de-regulation and liberalization program. NEEDS emphasizes the importance of a conducive business environment, including adequate economic infrastructure, in order to foster private sector led growth. The policy thrust on infrastructure development includes the rapid privatization of key infrastructure services and enforcement of laws to improve competition and protect consumer welfare in industries providing infrastructure services. NEEDS also focuses on improving access to financial services, including the deepening of the financial system in terms of asset volume and instrument diversity, strengthening assistance initiatives such as the SME Equity Investment Scheme (SMEIS), and the development of a structure of incentives to enable the financial sector

effectively support growth of the real sector. It commits the Government to diversification of the economy, away from oil, a gradual liberalization of imports and moving towards the ECOWAS tariff system.

3.1.4 Pillar 3: Changing the way Government works. NEEDS places a special focus on value reorientation, emphasizing that NEEDS is not “business as usual”. It spells out an ambitious agenda for fighting corruption and addressing the issues related to a large and under-performing public sector. The strategy States clearly that the Government must change to allow space for the private sector to function effectively and invest in people, in the delivery of services. Government institutions are to be key in making Government perform. Economic coordination will be improved both across the Federal Government and between the different tiers of Government. State Governments are following suit and are addressing the issue of more effective Government in their own SEEDS. Improved functioning of Government will require strengthening of monitoring and evaluation systems, including the generation, analysis and dissemination of information and a better coordination among tiers of Government.

Table 1: Summary of key elements of the Government development agenda and expected outcomes

Priority objectives and performance indicators/targets	Baseline		Expected outcomes				
	Year	Value	2007	2008	2009	2010	2015
Poverty Reduction							
- People living in poverty (percentage of total population)	1999	> 70					35
- Reduction in poverty incidence (percent)	2004	5	5				
- Per capita income	2003	300					556
Economic growth (in percent)							
- Real GDP growth	2004	5.0	7.0				
- Real non-oil GDP growth	2004	7.3	9.5				
- Real oil GDP growth	2004	0.0	0.0				
- Export growth	2004	10.0	30.0				
- Earnings from non-oil exports (of total exports)	2003	< 5.0	> 10.0				
Macroeconomic stability							
- Inflation rate (percent)	2004	10.0	9.0				
- Overall fiscal balance (percent of GDP)	2004	-1.9	-3.2				
- Current account balance (percent of GDP)	2004	-2.9	0.3				
- External reserves (US\$ million)	2004	7,687	10,867				
Social (in percent)							
- Adult literacy ratio	2002	33.3	65.0				
- Transition rate from Primary to Junior Secondary School	2003	45.0	80.0				
- Access to good quality vocational and entrepreneurial education	2000	34.0	50.0				
- Adult HIV-prevalence (reduction)						25.0	25.0
- HIV/AIDS prevalence rate	2003	6.05	5.0				
- Reduce Sexually Transmitted Diseases (reduction)			50.0				
- Reduce mother-child transmission of HIV			50.0				
- Routine immunization coverage	2003	39.0	60.0				
Infrastructure							
- Rural water supply coverage (percent)	2004	30.0	60.0				
- Power generation capacity (MW per day)	2004	4,200	10,000				
- Power transmission capacity (Mega Volts)	2004	5,838	9,340			14,500	
- Rural power supply coverage (percent)	2004	10.0	20.0				
- National power supply coverage (percent)	2004	40.0	65.0			85.0	
- Road network in a poor state (percent)	2001	50.0					
- Priority road network rehabilitation (cumulative km)	2005	2,150				4,950	
- Priority road network construction (cumulative km)	2005	750				1,200	
Agriculture and Rural Development							
- Minimum annual growth rate in agriculture (percent)	2002	4.3	6.0				
- Food imports (percent of total imports)	2001	14.5	5.0				
- Agricultural exports (US\$ billion)			3				
- Increase cultivable land (percent)			10.0				

Source: Government of Nigeria, NEEDS, May 2004.

3.1.5 The institutional framework for the implementation of NEEDS recognizes the importance of coordination among the Federal Government and the SLGs for achieving the national development goals. For this reason, State Governments through the National Economic Council

(NEC) and the National Council on Development Planning constitute an integral part of the implementation and monitoring/evaluation framework. A key institution is the Independent Monitoring Committee (IMC) - composed of Government officials, representatives of the private sector and the civil society - which is in charge of periodical monitoring and evaluation of NEEDS and SEEDS programs and projects. It informs the National Assembly of its findings and reports to the President and the NEC for appropriate action. The IMC is also in charge of developing detailed Implementation Guides for NEEDS. Each ministry is expected to send a quarterly report on its implementation to the IMC for evaluation.

3.2 ASSESSMENT OF IMPLEMENTATION PROGRESS OF THE AGENDA

3.2.1 NEEDS represents a comprehensive document that contains a large number of strategies and measures, covering all sectors and areas of relevance to Nigeria's development and poverty reduction. However, NEEDS lacks operationality, as a concrete action plan (or 'Implementation Guide') exists only for macroeconomic and structural policy in form of the Core Economic Reform Program. For priority sectors such as agriculture, the social sectors and infrastructure, NEEDS does not contain such action plans - including a prioritization and sequencing of interventions as well as a coherent set of quantitative and qualitative higher level objectives, expected outcomes and outputs to achieve these goals, targets and indicators - which remain to be formulated in order to allow for an adequate assessment of progress achieved. Furthermore, the Government should attach particular importance to the establishment of a sound monitoring and evaluation system, which is needed to assess the progress achieved in the implementation of the strategy and to take corrective action, if required. In this context, the Government recognizes that Nigeria's weak statistical system needs to be improved, including the production of reliable statistics, which are critical to effective monitoring and evaluation of performance.

3.2.2 Despite progress achieved by the Government in the implementation of its reform program in recent years, significant macroeconomic, structural and sectoral challenges persist. Most importantly, the Government needs to increase efforts to diversify the economy away from the dependence on the oil sector, make the domestic economy more competitive and scale-up efforts to stimulate private sector led growth. A good example for existing potentials for diversification is the solid minerals sector. Nigeria has large deposits of untapped various minerals across the federation, potentially more profitable than oil. Also, agriculture provides good opportunities, particularly cassava cultivation, which has a high potential to create employment opportunities and inject significant foreign direct investment into the economy.

3.2.3 Nigeria continues to face significant challenges in reducing poverty and meeting the Millennium Development Goals (MDGs). Poverty remains pervasive, with around 52 percent of Nigerians living in poverty, and many out of the 8 MDGs are unlikely or at risk to be attained by 2015, if current trends continue. In order to effectively reduce poverty and to attain the MDGs, the Government needs to accelerate reforms, supported by the International Community, notably through increased financial assistance. As a consequence of poverty, many social indicators in Nigeria are low. The infant mortality rate is one of the highest in Africa - 10 percent of live births (Ghana 6 percent, Burkina Faso 8 percent, Benin 9 percent). Immunization coverage has fallen from around 30 percent in the early 1990s to 13 percent in 2003 - and as low as 4 percent in the northwest. Concerning HIV/AIDS, the national prevalence is estimated at around 5

percent, compared to an average of 1.2 percent for developing countries and 7.7 percent for sub-Saharan countries. The adult alphabetization rate in 2002 stood at 66.8 percent, which is low but higher than the sub-Saharan average of around 63 percent.

3.2.4 As regards agriculture, the sector has registered improved performance over the last years. From 2000-2004, the sector recorded average growth of 4.4 percent. Recent growth has been due to expansion of cropped area (32 percent) by smallholder farmers. Output however increased by only 20 percent, due to decreased yields. Overall, total factor productivity in agriculture has declined. Farmers have increased cropped area with limited technical change in an attempt to produce more and maintain living standards as prices of their crops have not kept pace with inflation. The resulting economic growth is unsustainable and a turn-around in productivity gains will be necessary. With regard to infrastructure, the national water supply and sanitation coverage remains at a rather low level, power supply is frequently interrupted and the transport infrastructure in a poor state, thus impeding private sector activity and non-oil economic growth.

3.2.5 While NEEDS recognizes gender inequality in accessing productive resources, education and training, social services and employment as causes of poverty, it does not identify gaps, constraints and challenges and lacks the setting of targets across relevant sectors for reducing poverty among women. The document notes that a gender plan of action will be developed as the implementation of NEEDS proceeds. The realization of this gap prompted donors such as DFID, to assist the four States in which they work, develop their respective SEEDS with greater gender sensitivity. Other donors are said to be likely to follow this approach.

3.3 THE PARTNERSHIP FRAMEWORK

3.3.1 Following the country's return to democracy in 1999, cooperation between Nigeria and its international partners in development has gained a marked impetus. As of recent, with the launch of NEEDS, cooperation between the Government and the international community has further intensified, with NEEDS providing the platform for coordinated donor support and alignment of approaches and interventions. NEEDS differs from the previous development programs, as it involved a broad public consultation phase, in which the Nigerian civil society and the international community participated. Acknowledging the Government's full ownership of NEEDS and firm commitment to reform, the international community recognizes that this presents a shift in the country's agenda and an opportunity and coherent framework for increased engagement.

3.3.2 International partners in development have supported the Government in the implementation of NEEDS, mainly through operations in specific sectors on a project-by-project basis, rather than through the implementation of sector wide programs (SWAPs) or the provision of budget support. Reflecting the broad spectrum of developmental needs in Nigeria, donors intervene in a wide range of different sectors and thematic areas, ranging from education and health, to energy, water supply, transport, mining, telecommunication, environment, agriculture and food security, community development as well as macroeconomic and debt management, public sector reform, privatization, trade, governance and institutional capacity building, participation, rights, democracy, conflict prevention, security and justice, and the creation of an

enabling business environment. Focal sectors of support have been health, particularly HIV/AIDS and other STDs, infrastructure, centering on power and water supply, as well as governance and public sector reform. The education sector, where interventions concentrate on universal basic education, and especially the agricultural sector are comparatively less well served. Interventions of donors have been in line with the strategic orientation of NEEDS, focusing on human development, the creation of private sector led growth through the creation of a conducive environment, and on governance, accountability and transparency in the public.

Table 2: Donor interventions by sector

Sector	Donor interventions
Health	<ul style="list-style-type: none"> • WB: Second Health Systems Development Project; Polio Eradication; HIV/AIDS Program Development • CIDA: Polio Eradication; School of Health Technology and Primary Health Care; Routine Immunization Initiative; Safe Motherhood Initiative; National Primary Health Care Personnel Audit; Strengthening Primary Health Care; Support to UNICEF HIV-AIDS; Nigeria AIDS Responsive Fund • DFID: Partnership for Transforming Health Services; Health Commodities; Health Change Agents Program; Health MDG's UN Support; Malaria; Promoting Sexual and Reproductive Health for HIV/AIDS Reduction; Strengthening Nigeria's Response to HIV/AIDS; HIV/BBC World Services Trust; HIV Health Sector/Multi Sector Response • EC: Partnership to Reinforce Immunization Efficiency (Routine Immunization Component) • JICA: Environmental Sanitation and Malaria Control; Infectious Disease Prevention for Children; Enhancing Capacity for the Prevention and Treatment of Obstetric Fistula; Women's Initiative for Sex Education and Economic Empowerment; Enhancing Human Security through Gender Equality in the Context of HIV/AIDS • UNDP: Response to Fight HIV/AIDS • UNICEF: Maternal, Infant & U5 Mortality Reduction; Immunization Plus; Early Child Nutrition and Care; HIV/AIDS Prevention and Care • USAID: Reduced Impact of HIV/AIDS in Selected States • ADB: Health Systems Development project (<i>co-financed with WB</i>)
Education	<ul style="list-style-type: none"> • WB: Universal Basic Education; Post Basic Education & Knowledge Economy • DFID: Universal Basic Education; Program for the Advancement of Girls' Education • JICA: Construction Classrooms Primary School; Nigeria Education Sector Analysis • UNICEF: Learning/Girls Education; Planning and Communication Program (<i>Alliance Building</i>)
Infrastructure, Water and Sanitation	<ul style="list-style-type: none"> • WB: Transmission Development; IFC off grid electricity projects; National Energy; Lagos Urban Transport; Lagos Metropolitan Development; Federal Roads; National Urban Water Sector Reform; Second National Urban Water Sector • DFID: Ekiti Rural Access Program; Water and Sanitation Program; Jigawa Urban Water Supply and Sanitation • UNDP: Energy and Environment Program • EC: Water Supply and Sanitation State Reform Program; Small Towns Water Supply and Sanitation Program • UNICEF: Water and Environmental Sanitation • ADB: Multi State Water Supply; Ibadan Emergency Water Supply; Olokola Deep Seaport study
Agriculture and Rural Development	<ul style="list-style-type: none"> • WB: Fadama II • CIDA: African Stockpiles Program; Agriculture Policy Support Facility; Promoting Sustainable Agricult. in Borno State • DFID: Promoting Pro-poor Opportunities from Commodity and Service Markets; Growth Strategy • IFAD: Community-based Agricultural and Rural Development project • ADB: National Fadama Agricultural project (<i>co-financed with WB</i>); Community-based Agricultural and Rural Development project (<i>cofinanced with IFAD</i>); Institutional Support to the Ministry of Agriculture and Rural Development project; Niger Delta Environmental and Social study
Community Development	<ul style="list-style-type: none"> • WB: Community Based Poverty Reduction; Community Based Urban Development; Local Empowerment and Environmental Management; Social Community Development • UNICEF: Community Development Program • ADB: Community-based Poverty Reduction project (<i>co-financed with WB</i>)

3.3.3 The Bank Group maintains close relationships with the main donor agencies represented in Nigeria, notably with the IMF, the World Bank, the European Commission, UNDP, DFID, CIDA and USAID. This includes ongoing dialogue and exchange of information on current and planned interventions/activities. The Bank Group's Country Office in Nigeria (NGCO) is playing an effective role in coordinating the Bank's activities with the international community. NGCO has actively participated in donor coordination and thematic group meetings held regularly in Abuja concerning NEEDS, the White Paper on Education, the Agricultural Policy Facility, the Rural Transportation Program, and in monitoring progress of the privatization program. The Bank has also been participating in consultative group meetings, the last of which was the Informal Donor Meeting on NEEDS, held in Brussels in April 2004. The Bank is also working

closely with other donors in the NEEDS process and is currently co-financing with the World Bank and IFAD three projects in the areas of health, poverty reduction and agriculture.

3.4 CHALLENGES AND RISKS

3.4.1 Challenges: Among the main economic challenges are the achievement of strong GDP growth over a long-term period, allowing for a significant increase of per capita income and reduction of poverty. On the structural side, among the most pressing challenges are the achievement of an efficient, transparent and accountable public sector, a more diversified and competitive economy with a strong private sector and reduced unemployment, and a reduction of the public debt burden that continues to create a high volatility of the Government's fiscal position to external shocks and restrains public spending for social development. The country's decentralized Federal structure and huge distances pose additional challenges to effective coordination between the three tiers of Government.

3.4.2 Main challenges with regard to human development are to ensure adequate service delivery to the poor, improved living conditions and progress towards the Millennium Development Goals. A particular challenge in this context is to halt the spread of AIDS/HIV. The provision of adequately skilled labor to the public and private sector is an additional challenge. With regard to infrastructure, key challenges are to halt the degradation of water resources including watersheds and watercourses. Concerning energy, one of Nigeria's main challenges is the provision of energy in a sustainable manner. As regards transport, a main challenge is the transformation of the sector into a public-private partnership initiative and to ensure proper maintenance of the road system. The main challenge in agriculture is to improve productivity and output as well as the policy and regulatory environment. Fundamental to meeting the complex requirements of the agriculture sector in Nigeria is the need to coordinate interventions and to support policies, institution strengthening and programming at the three levels of Government.

3.4.3 Risks: The greatest risk is related to the Government's commitment and capacity to implement NEEDS. While it is fully owned by the Federal Government, enjoying a strong political backing from the President, commitment at State level seems to be weak. Although 10 of the 36 States have prepared a SEEDS as a complement to the Federal Government's NEEDS, conflicting political interest, notably in opposition-led States, may undermine effective implementation of the reform agenda in the country. Furthermore, as the President's term will come to an end with the next elections in 2007, there is a risk that the impetus of economic reforms during the recent past will unravel. However, the Government has shown strong commitment in the implementation of reforms and it is expected that these reforms will be consolidated during the period up to 2007 and be sustained thereafter, with strong donor support. The ongoing restructuring of five key ministries/agencies on a pilot basis and the subsequent extension to other ministries/agencies is expected to increase the public sector's capacity. Another risk is related to the Government's stance vis-à-vis its debt obligations. A recent initiative by the House of Representatives suggested a repudiation of Nigeria's external debt. This would seriously undermine the Government's prospects for debt relief, adversely affect Nigeria's international credit rating and investor confidence, and represent a major setback for the cooperation with the country's partners in development. The Government has, however,

emphasized that it does not consider debt repudiation as an option and underlined its commitment to service debt obligations. Another risk pertains to shifts in the international prices for oil and the related volatility of the Government's fiscal position. This risk is mitigated by the recent build-up of international reserves as well as by the Government's strong commitment to implement fiscal reforms under the Fiscal Responsibility Bill.

3.4.4 Corruption and the abuse of positions and privileges continue to pose a risk for effective policy implementation, public service delivery and the reduction of poverty. The Government has demonstrated its commitment to fight corruption through the establishment of several anti-corruption institutions, which have demonstrated that they rigorously fulfill their mandates, as well as recent action taken to discipline or to remove high ranking civil servants from office on grounds of corruption. As regards health, a major risk is Nigeria's advancing HIV/AIDS epidemic, which, if not controlled, is likely to reverse social gains achieved to date and to reduce the productive section of the population. The Government has recognized this risk and made the fight against HIV/AIDS a national top priority. NEEDS contains a comprehensive strategy to control the spread and to mitigate the impact of HIV/AIDS, including awareness and sensitization programs, foster behavior change, provide access to support and care to people with HIV/AIDS, remove all barriers to HIV/AIDS prevention, and the establishment of an appropriate legal and institutional framework for the implementation of the strategy.

4. BANK GROUP COUNTRY ASSISTANCE STRATEGY

4.1 COUNTRY CONTEXT AND STRATEGIC SELECTIVITY

4.1.1 Progress on democratic governance since 1999 is providing a more open political environment conducive to change and development at all levels of the Nigerian society. In April 2003, Nigeria successfully held its second consecutive national elections, further consolidating the country's democratic transition. In May 2004, the Government finalized NEEDS, which, together with the SEEDS, forms Nigeria's homegrown strategy for growth and poverty reduction. On the basis of extensive discussions held with the Government in February and June 2005 on priority areas for Bank support under the CSP 2005-2009, and taking into account the interventions of other donors in Nigeria, the Bank's strategy will support the Government's reform agenda on the basis of a selective approach that entails the following two pillars:

Pillar I Development of human capital through improved service delivery in education and health; and

Pillar II Stimulating non-oil growth through enhanced infrastructure and agricultural/rural development.

4.1.2 Pillar I of the CSP will support the NEEDS pillar "Empowering People and Building a Social Contract", aiming at enhancing skills and knowledge of Nigerians through better basic and higher education as well as improving health service delivery to the population through the strengthening of preventive and curative primary health services. Pillar II of the CSP will support the NEEDS pillar "Promoting private enterprise to foster growth of the non-oil sector", aiming at achieving rapid growth of a competitive non-oil private sector through the provision of an

adequate infrastructure and agricultural/rural development. The pillars selected under the CSP are, thus, directly linked to the strategic priorities of NEEDS and aligned with the Millennium Development Goals.

4.1.3 Within **Pillar I**, the CSP foresees the implementation of interventions that aim at improving the country's human resource base. The interventions will enhance the citizenry's skills and knowledge and improve the health status of Nigerians. The planned operations in the area of skills development and vocational training cover a niche, as no other donor is active in this area. They are supplementary to the World Bank's Universal Basic Education project and JICA's projects, aiming at the improvement of the educational infrastructure. The CSP under Pillar I will also focus on strengthening efforts to combat communicable diseases such as tuberculosis, malaria and HIV/AIDS. Bank operations in this area will complement support of other donors in the health sector, which are centering on HIV/AIDS, polio, malaria and immunization. The support will take into consideration efforts to be selective in the scope as well as geographical spread of the interventions.

4.1.4 Within **Pillar II**, the CSP foresees the implementation of interventions that will contribute to a more conducive environment for private sector activity through improved water supply and sanitation, power supply and enhanced road transport and mobility. Bank operations to improve water supply and sanitation will ensure partnership and synergy with other donor's operations, particularly with the EU's Water Sector Reform program in six States and UNICEF/DFID's Focus project in eight States. Interventions to enhance the road transport infrastructure are planned to be co-financed with the World Bank and complement DFID's Rural Access Program implemented in Ekiti State. Bank operations geared towards the improvement of power supply foresee the erection of a transmission line in the northeast of the country where it will electrify water supply installations provided within the framework of the Bank's interventions to improve water supply. It will also complement the ongoing World Bank's Transmission Development project in other parts of the country. Bank interventions to foster private sector activity will also focus on increased agricultural productivity and output. They will be carried out in southern States, where no other donor is implementing agricultural activities. They are supplementary to agricultural projects carried out by the World Bank and DFID in other States, focusing on increased agricultural production, infrastructure and employment, and complement CIDA's project to promote sustainable agriculture in Borno State.

4.2 PORTFOLIO MANAGEMENT AND LESSONS FROM PREVIOUS CSP

4.2.1 The Bank Group commenced its lending operations in Nigeria in 1971 and since then has approved a total of UA 2,204.9 million for 58 operations. As at mid-May 2005, 13 projects were ongoing, of which 5 in the private sector. The 8 public sector projects involved net commitments of UA 255.46 million. Two of them are within the social sector, two public utility projects, two agricultural projects, one environmental study and one multi-sector project. Total cumulative disbursements for the 8 ongoing operations as mid-May 2005 amounted to UA 139.61 million, corresponding to about 55 percent of net commitments. In April/May 2005, two projects have been approved and signed in the infrastructure and agricultural sector, within the framework of ADF IX. Annex I presents a summary statement of Bank Group public sector operations in Nigeria as at mid-May 2005.

4.2.2 The previous CSP 2002-2004 focused on agriculture and rural development, health and education, and rural infrastructure, which areas were confirmed by the 2004 CSP up-date. During the period of the previous strategy, the Bank had under implementation three projects in the health sector, which have contributed to the improvement of health service delivery in nine States. Over 50 secondary health care facilities were rehabilitated, re-equipped and functional and the skills of over 300 health care personnel have been upgraded through training programs. In addition, the provision of essential drugs was strengthened in these States. The Bank's operations in the health sector have contributed to the achievement of some of the MDGs, including the reduction of child mortality, improvement of maternal health and to combat HIV/AIDS, malaria and other diseases. In the agricultural sector, two projects were approved under the CSP 2002-2004. As regards infrastructure, three projects were under implementation during 2002-2004, and have enhanced the supply of potable water in a number of States as well as in the city of Ibadan.

4.2.3 The latest Country Portfolio Performance Review (CPPR) undertaken in December 2004 concluded that overall performance has slightly improved ("satisfactory"), compared to the rating of the previous portfolio review ("less than satisfactory") carried out in 1996. At that time, the Bank had under implementation 16 projects, as opposed to 8 currently on-going projects. The decision to reduce the number of projects in recent years was based on the experience that large portfolios have proved difficult to manage, notably due to capacity constraints of executing agencies, thereby contributing to delayed project implementation. The reduction of the number of projects was also based on the conclusion that available funds should be allocated towards less projects with larger amounts, so as to ensure a greater developmental impact.

4.2.4 While the aforementioned measures are expected to positively impact on the quality of the portfolio in the longer term, the CPPR 2004 found that various obstacles to smooth project implementation persist. These include delays in fulfillment of Bank loan/grant conditions, non-conformity by executing agencies and project implementation units with Bank procedures, and ineffective communication channels between the Bank, the Federal Government, and State Governments. A Country Portfolio Improvement Plan taking these obstacles into account has been prepared. From a regional perspective, the 2002-2003 Annual Portfolio Performance Review classified Nigeria in one group of 17 countries, which recorded a Commitment-at-Risk (CAR) or Projects-at-Risk¹⁹ (PAR) ratio of more than 45 percent. Africa-wide, only Gabon recorded a 100 percent CAR/PAR ratio. Within the West Africa region, Sierra Leone, Niger, Ghana and Cote d'Ivoire figured in the same country group as Nigeria, however with CAR/PAR ratios between 47.8 percent (Niger) and 87.8 percent (Cote d'Ivoire).

4.2.5 Among the main lessons learned from the previous CSP 2002-2004 is the need for the Bank to have more sector focus, in view of the limited concessionary resources available for Nigeria and the need to ensure development effectiveness of Bank funded projects. Given that poverty reduction continues to be the major concern of the Government, future Bank interventions should concentrate on fewer sectors and limit the geographical coverage of a project to a smaller number of States in order to maximize its developmental impact and in order

¹⁹ A PAR is a project that is either problematic (PP) or potentially problematic (PPP). A PPP is a project whose Implementation Progress (IP) and Development Objectives (DO) is rated better or equal to 1.5 ('less than satisfactory') *but* to which two or more of a set of 11 criteria are applicable. A PP is a project whose average rating of DO *or* IP is less than 1.5.

to facilitate effective management and timely implementation of projects. For example, the Bank's First Multi-State Water Supply Project or the Health Systems Development Project encountered significant implementation delays as a result of coordination and management difficulties due to its large geographical coverage of 8 and 12 States, respectively. Hence, the projects foreseen under the CSP will focus on a limited number of States, taking into account the interventions of other donors and the performance of the States, in order to ensure complementarity and synergies. The States where the Bank will intervene will be carefully selected, based on well-established performance criteria (see section 4.7). The Bank will also strengthen cooperation with lower Government levels, including the beneficiary SLGs and Communities.

4.2.6 Another important lesson is the need to accord greater importance to review potential operations at entry point, including sound analysis of managerial and technical capabilities of the executing agency (EA) and project implementation units (PIU). Also, future Bank projects should have an appropriate package of institutional support and technical assistance. The role of the Bank's Country Office (NGCO) is critical in providing technical advice and guidance to EAs/PIUs on the Bank's loan administration procedures, particularly procurement and disbursement procedures. In line with the recommendations of the Bank Action Plan to Improve the Implementation of ADF Operations, measures taken recently include the strengthening of the capacity of NGCO through the recruitment of additional staff (i.e. a disbursement and procurement officer; the recruitment of further staff is currently underway), the cancellation in 2004 of loan balances of infrastructure and agriculture projects with a commitment amount of UA 57.45 million, the implementation of a loan administration workshop in Abuja in June 2004 and of a CPPR workshop in December 2004.

4.3 CSP RESULTS FRAMEWORK

4.3.1 The Thematic Results Matrix in Table 3 overleaf provides an overview on the link between the pillars of the CSP and the pillars of NEEDS and the national development objectives. The Matrix establishes a results-chain between Bank interventions, intermediate indicators, outputs and outcomes to be achieved under the CSP in order to contribute to the attainment of Nigeria's longer-term development objectives. In most cases these indicators are quantified with expected targets, in some cases, more qualitative information needs to be derived. Where there are gaps in information, the Bank will work with the Government in identifying specific measurements during the first year of CSP implementation. As regards the monitoring of progress achieved by Bank interventions implemented under Pillar I, the Bank will closely cooperate with the Federal Ministries of Education and Health as well as with relevant line ministries and agencies in beneficiary States. With regard to Pillar II, regular monitoring and evaluation of activities at Federal, State and Local Governments will be undertaken in cooperation with the Federal Ministries of Water Resources, Power and Transport. The Ministry of Agriculture and Rural Development will play a key role in the monitoring of progress achieved in agriculture. At State level, information will be collected with the assistance of Local Governments that would be used to monitor progress in terms of the requirements of SEEDS. Monitoring and evaluation will be undertaken within the framework of supervision missions, project appraisal missions, project audits, project completion reports and assessment studies, where required.

Table 3: Thematic results matrix

Longer-term strategic goals of NEEDS	Shorter term outcomes of the Bank's CSP 2005-2009				Bank priorities and performance	
	Sector-related issues	Expected CSP outputs and outcomes by 2009	Intermediate indicators By 2007	Strategy/actions	Bank operations and donors intervening in related areas	Instruments to measure performance
PILLAR I Empowering people and building a Social Contract <ul style="list-style-type: none"> • Unfettered access to education, including vocational training and elimination of gender disparity in education • Improve quality of education at all levels • Improve life quality through skill acquisition and job creation • Improve health status of Nigerians in order to reduce poverty • Strengthening preventive and curative primary health care services • Delivery of effective, efficient, good quality and affordable health services • Increase access to the provision of quality primary health care • Reduce the disease burden attributable to communicable diseases 	1. Inadequately skilled labor force and lack of access to vocational education 2. High educational gender disparity	1.1 10 vocational schools rehabilitated and functional 2.1 Number of girls graduating from Vocational & Technical Education increased by 20 percent	1.1 5 vocational schools rehabilitated and functional 2.1 Number of girls graduating from Vocational & Technical Education increased by 10 percent	<ul style="list-style-type: none"> • Rehabilitation of schools • Training of vocational education teachers • Supply of books and equipment 	Enhance skills and vocational education <u>Other donors:</u> - WB - DFID - JICA - UNICEF	Regular supervision missions (jointly with those donors who are parallel-financing projects) Project appraisal missions
	1. Lack of access to primary health care 2. Shortage of trained health personnel 3. Lack of access to basic social infrastructure 4. Insufficient capacity for analyzing and monitoring poverty policies at the National Planning Commission	1.1 Utilization of Primary Health Care facilities increased by 25 percent 1.2 Proportion of children under one year and under two years fully immunized increased by 20 percent 1.3 Maternal, infant and under-five mortality rates reduced 1.4 Tuberculosis detection rate increased by 20 percent 2.1 Proportion of births attended by skilled health personnel increased by 30 percent 3.1 Access to basic social services increased by 60 percent in the project area 4.1 All staff of the National Planning Commission's Poverty Alleviation Unit trained in poverty policy analysis and monitoring	1.1 Utilization of Primary Health Care facilities increased by 15 percent 1.2 Proportion of children under one year and under two years fully immunized increased by 10 percent 1.3 Maternal, infant and under-five mortality rates reduced 1.4 Tuberculosis detection rate increased by 10 percent 2.1 Proportion of births attended by skilled health personnel increased by 15 percent 3.1 Access to basic social services increased by 30 percent in project areas 4.1 Half of the staff of the National Planning Commission's Poverty Alleviation Unit trained in poverty policy analysis and monitoring	<ul style="list-style-type: none"> • Rehabilitation of health facilities and training institutions • Provision of drugs; equipment and supplies • Provision of training to enhance the skills of health personnel • Advocacy and training on poverty reduction initiatives at community level • Establish Social Fund Agencies to implement poverty reduction initiatives at State level • Provision of training to strengthen the management and planning capacity of Ministry of Health (Federal and State levels) • Capacity building of the National Planning Commission, including training of staff of its Poverty Alleviation Unit on poverty policy analysis and monitoring 	Combat communicable diseases Continuation of the Bank's Health Systems Development project Continuation of the Community-based Health and Poverty Reduction project <u>Other donors:</u> - WB - CIDA - DFID - EC - JICA - UNDP - UNICEF - USAID	Project completion reports Project audits Studies Mid-term Review

Longer-term strategic goals of NEEDS	Shorter term outcomes of the Bank's CSP 2005-2009				Bank priorities and performance	
	Sector-related issues	Expected CSP outputs and outcomes by 2009	Intermediate indicators By 2007	Strategy/actions	Bank operations and donors intervening in related areas	Instruments to measure performance
PILLAR II Promoting private enterprise to foster growth of the non-oil sector <ul style="list-style-type: none"> • Modernization of production and increase rural employment • Reverse trends in food importation • Provision of incentives for private investment in agriculture • Foster linkages with the industry to increase value added for export • Integrated development and management of water resources • Protecting and optimization of water resources • Involving the private sector in sustainable water management • Complete the ongoing construction of a 3,000-kilometer network of roads • Road rehabilitation • Strengthening of the newly created Roads Maintenance Agency • Develop a seaport by encouraging private sector participation • Improve power supply; increase electrification • Increase generation, transmission and distribution capacity 	<p>1. Low production and productivity of crops</p> <p>2. Dependence on rain fed agriculture and low development of Fadama farming</p> <p>3. Weak agricultural marketing system, investment in farm inputs and poor rural infrastructure</p> <p>4. Weak institutional capacity of Ministry of Agriculture and Rural Development</p>	<p>1.1 Food production will increase to substitute food imports: rice increase by 35,000 MT, other cereals increase by 15,000 MT, and 6,000 MT vegetables</p> <p>1.2 Decrease imports of rice by 5 percent</p> <p>2.1 50,000 farmers trained in production related subjects</p> <p>2.2 Construction of small-scale hydrological structures: some 450 water conveyance, boreholes, and tube wells.</p> <p>3.1 Adequate storage, rural roads, marketing facilities: construction of 500 market points, sheds, and collection stores, and 660 km rural roads</p> <p>4.1 70 percent of staff of the Federal Ministry of Agriculture trained, IT introduced and used for better agriculture statistics and sector management</p>	<p>1.1 Agriculture produces increase by 15,000 MT of rice, 6,000 MT other cereals and 2,000 MT vegetables</p> <p>1.2 Decrease imports of rice by 2 percent</p> <p>2.1 20,000-farmers trained in production related subjects</p> <p>2.2 Hydrological structures include 200 water conveyance, boreholes, and tube wells</p> <p>3.1 Construction of 200 market points, sheds, and collection stores, and 250 km rural roads</p> <p>4.1 50 percent of staff of the Federal Ministry of Agriculture trained, IT introduced and used for better agriculture statistics and sector management</p>	<ul style="list-style-type: none"> • High yielding crop varieties and better livestock breeds made available to farmers • Introduction of new variety of 'Nerica' rice and dissemination at national level • Community skills for planning strengthened and civil work contractors procured • Training needs assessment carried out and consultants recruited • Soil conservation and land improvement measures adopted by communities • Staff career development strategy developed, information technology introduced and staff trained on new agricultural monitoring and management system 	<p>Promote introduction and dissemination of improved rice seed variety</p> <p>Continuation of the Community-based Agriculture and Rural Development project</p> <p>Continuation of the Fadama Agricultural Development Project</p> <p>Start of the Institutional Support project to the Ministry of Agriculture and Rural Development (approved in April/May 2005)</p> <p><u>Other donors:</u> - WB - DFID - CIDA - IFAD</p>	<p>Regular supervision missions (jointly with those donors who are parallel-financing projects)</p> <p>Project appraisal missions</p> <p>Project completion reports</p> <p>Project audits</p> <p>Studies</p> <p>Mid-term Review</p>
	<p>1. Unreliable power transmission system with insufficient capacity</p> <p>2. Rapid deterioration of the road network; about 50 percent of road network deteriorated</p> <p>3. Insufficient water supply and sanitation systems to meet the existing demand</p>	<p>1.1 Transmission line has been erected and a countrywide power transmission grid loop has been created</p> <p>1.2 Reduction by 50 percent of the annual number of countrywide power system failures</p> <p>1.3 Increase the countrywide transmission capacity by 60 percent.</p> <p>2.1 More efficient road sector management and financing</p> <p>2.2 Institutionalization of participatory approaches to the identification of project interventions</p> <p>2.3 Employment and income generating opportunities created</p> <p>2.4 Improved ability to coordinate and manage rural transport issues</p> <p>3.1 Percentage of rural population served with safe water supply increased from 49% to 66% and with improved sanitation from 30% to 66%</p>	<p>1.1 Erection of 10 percent of transmission line</p> <p>2.1 Critical links of rural road system rehabilitated and maintained</p> <p>2.2 Institutional strengthening and capacity building measures of rural stakeholders undertaken</p> <p>2.3 Enabling environment for private rural transport services created</p> <p>3.1 Increased rural access to safe water and sanitation facilities with greater choice of technology and service option to 60%</p>	<ul style="list-style-type: none"> • Construction of a transmission line to create a countrywide power transmission grid loop • Establishment of a road maintenance fund • Investments in the rural road system • Create an enabling environment for private sector provision of transport services • Provision of loans and micro-credits for establishing revolving funds at the community level • Create an institutional framework for the sustainable development of water and sanitation operations • Increase water supply coverage through rehabilitation, expansion and construction of low cost facilities following decentralization, ownership and community management 	<p>Strengthening the country's transmission infrastructure</p> <p>Enhance rural transport, access and mobility</p> <p>Enhance rural water supply and sanitation</p> <p>Continuation of the Ibadan Water Supply project</p> <p>Continuation of the Multi State Water Supply project</p> <p>Start of the Olokola Deep Seaport Study (approved in April/May 2005)</p> <p><u>Other donors:</u> - WB - DFID - UNDP - EC - UNICEF</p>	

4.4 CSP PILLARS OR AREAS OF FOCUS

4.4.1 The two pillars of the CSP are (i) *development of human capital through improved service delivery in education and health*; and (ii) *stimulating non-oil growth through enhanced infrastructure and agricultural/rural development*. The two pillars are in compliance with the priorities spelled out in NEEDS as well as with the Bank's priority areas for support specified in the Strategic Plan 2003-2007 and the ADF X Lending Policy. The choice of the two pillars is based on the analysis of the constraints to and potentials for the development of Nigeria, which has shown that in order to achieve the MDGs and to effectively reduce poverty improved access to basic social services and accelerated economic growth are imperative. More specifically, the CSP will focus on the improvement of public service delivery to the poor and the creation of a conducive environment for private sector growth through an improved infrastructure. Within the second pillar, the Bank strategy will also provide support to agricultural development in order to stimulate growth in rural areas where the majority of Nigerians live and where poverty is particularly pervasive. Within both pillars, the Bank will address the cross-cutting themes 'gender' and 'capacity building', in order to improve the position of women in the Nigerian society and to enhance the institutional capacity of the public sector.

Pillar I Development of human capital through improved service delivery in education and health

4.4.2 One of the main objectives of the Government is to ensure unfettered access to education, including vocational training, the elimination of gender disparity, improve the quality of education at all levels, and to improve the quality of life through skill acquisition and job creation. Targets include that 50 percent of secondary school students have access to good quality vocational and entrepreneurial education and that 50 percent of tertiary education graduates acquire sufficient technical and entrepreneurial skills. The objectives are expected to be achieved through the implementation of the Universal Basic Education program, re-tooling and repositioning of technical schools to be able address manpower needs of the economy and diversification funding of tertiary education. The CSP will contribute to the achievement of these objectives by improving access to quality vocational training and education in Nigeria, thus enhancing the Bank's contribution to empowering the citizenry to acquire skills and knowledge to prepare them for the world of work. The expected outcomes of Bank interventions will include the rehabilitation of schools, improved educational equity, training of teachers, supply of books and equipment and management capacity building. Specific outcomes of the CSP by 2009 include the rehabilitation of 10 vocational schools and an increase by 20 percent of the number of girls graduating from vocational and technical education.

4.4.3 The Government's main objectives also include the improvement of the health status of Nigerians, to strengthen preventive and curative primary health care services, to increase access to the provision of quality primary health care, to reduce the disease burden attributable to communicable diseases and to enhance the delivery of effective, efficient quality and affordable health services, to be achieved through a comprehensive health sector reform and the implementation of the action plan for achieving health-related Millennium Development Goals. Targets include the reduction by 2010 of the adult HIV-prevalence rate by 25 percent, the reduction of Sexually Transmitted Diseases by 50 percent by 2007 and the achievement of

routine immunization coverage of 60 percent. The Bank strategy will contribute to the achievement of these objectives through strengthening the capacities for health system management at the State level, improving delivery of primary health care services and strengthened capacities for health system management at the Federal level, thus enhancing the Bank's contribution to the delivery of effective, efficient quality and affordable health services. Expected outcomes of Bank interventions include the rehabilitation of health facilities and training institutions, provision of drugs, equipment and supplies, training of health personnel and strengthening the management and planning capacity of the Ministry of Health (both at State and Federal levels). By 2009, it is expected that the CSP will have increased the utilization of primary health care facilities by 25 percent, that the proportion of children under one year and under two years fully immunized increased by 20 percent and that the proportion of births attended by skilled health personnel will have increased by 30 percent. The on-going Health Systems Development project also contributes to the achievement of the abovementioned goals by improving access to and coverage of quality primary health care in selected States. Through the promotion of income generating activities and provisions of education and health services, the on-going multi-sectoral Community-based Health and Poverty Reduction project complements the Bank's abovementioned interventions and contributes to the reduction of poverty among women and girls in the targeted areas.

Pillar II Stimulating non-oil growth through enhanced infrastructure and agricultural/rural development

4.4.4 Availability of adequate infrastructure in the amounts required and in a reliable manner, including water and sanitation, transport and power, will help reduce poverty and stimulate economic growth, supported through private sector participation. Under Pillar II, the Government's objective is to provide an enabling environment for infrastructure needs in terms of policy framework and institutional reforms. The key objectives of the Government's water policy are to ensure integrated water management and development, protection of water resources and environment, building public-private partnership for a sustainable development of water resources, and optimize the use of water resources at all times. The Government's objective is to attain rural water supply coverage of 60 percent by 2007. The CSP will contribute to consolidate, increase and sustain universal access to adequate quantities of affordable and safe water and hygienic sanitation facilities in rural areas through a three-pronged approach of rehabilitation, expansion and construction of low-cost water schemes and sanitation facilities. Intermediate outcomes of the Bank's interventions to improve water supply will be indicated by the number of facilities installed and the rate of revenue collection. The Bank will continue to support the achievement of the above objectives under the ongoing Multi-State Water Supply project and the Ibadan Emergency Water Supply project, which have contributed to improve water supply in urban areas of three States and restored water supply systems in six States, respectively.

4.4.5 The Government's main objectives with regard to power supply is to increase the percentage of the population having access to electricity from 40 percent presently to 65 percent in 2007 and to increase rural power supply from 10 percent to 20 percent, to be achieved through increased generation, transmission and distribution capacity. The objective of the Bank strategy is to reinforce the transmission infrastructure in order to contribute to an efficient and reliable

transfer of an increased amount of power from generating stations to all parts of the country. The outcome of the Bank's intervention will be indicated by the length of the transmission line that would have been erected. The Government's objectives also include the completion of the ongoing construction of a 3,000-kilometer network of roads, road rehabilitation, strengthening the newly created Roads Maintenance Agency and the development of a seaport by encouraging private sector participation. Bank interventions in this area aim at improved transport and mobility through efficient road sector management and at the creation of employment and income generating opportunities. The recently approved Bank funded Olokola Deep Seaport and Free Trade Zone Development Study assesses the feasibility of building a deep seaport and free trade zone complex on the border of Ogun and Ondo States, with a view to promote private non-oil sector growth.

4.4.6 The Government recognizes that agriculture remains the mainstay of Nigeria's economy. Against this background, its main policy thrusts are to provide the right policy environment and incentives for private investment in the sector, to foster effective linkages with the industry to achieve a maximum value addition/processing for export, to create more agricultural and rural employment opportunities to increase the income of farmers and rural dwellers through modernization of production, and to reverse trends in food importation through progressive programs of agricultural expansion. Specific targets are to achieve a minimum annual growth rate of 6 percent per annum in agriculture, to attain agricultural exports of US\$ 3 billion annually, to reduce food imports to 5 percent by 2007, and to increase cultivable land by 10 percent annually.

Table 4: CSP results-based framework

Longer-term/higher order country outcomes (NEEDS)		Expected CSP outcomes by 2009	CSP links to NEEDS
Outcome	Target		
PILLAR I - Empowering people and building a Social Contract			
<ul style="list-style-type: none"> • Unfettered access to education, including vocational training and elimination of gender disparity in education • Improve quality of education at all levels • Improve life quality through skill acquisition and job creation 	50 percent of secondary school students have access to vocational and entrepreneur. education 50 percent of tertiary education graduates acquire sufficient technical and entrepreneurial skills Rehabilitate vocational basic technology	10 vocational schools rehabilitated and functional Number of girls graduating from Vocational and Technical Education increased by 20 percent	Pages 35-37 of NEEDS
<ul style="list-style-type: none"> • Strengthening preventive and curative primary health care services • Delivery of effective, efficient, good quality and affordable health services • Increase access to the provision of quality primary health care • Reduce the disease burden attributable to communicable diseases 	Reduction by 2010 of the adult HIV-prevalence rate by 25 percent Reduction of STDs by 50 percent by 2007 Routine immunization coverage of 60 percent	Utilization of Primary Health Care facilities increased by 25 percent Proportion of children under one year and under two years fully immunized increased by 20 percent Maternal, infant and under-five mortality rates reduced Tuberculosis detection rate increased by 20 percent Proportion of births attended by skilled health personnel increased by 30 percent Access to basic social services increased by 60 percent in the project area All staff of the National Planning Commission's Poverty Alleviation Unit trained in poverty policy analysis and monitoring	Pages 38-40 of NEEDS

PILLAR II - Promoting private enterprise to foster growth of the non-oil sector			
<ul style="list-style-type: none"> • Modernization of production and increase rural employment • Reverse trends in food importation • Foster linkages with the industry to increase value added for export 	<p>Achieve a minimum annual growth rate of 6 percent per annum in agriculture</p> <p>Attain agricultural exports of US\$ 3 million annually</p> <p>Reduce food imports to 5 percent by 2007</p> <p>Increase cultivable land by 10 percent annually</p>	<p>Food production will increase to substitute food imports: rice increase by 35,000 MT, other cereals increase by 15,000 MT, and 6,000 MT vegetables</p> <p>Decrease imports of rice by 5 percent</p> <p>50,000 farmers trained in production related subjects</p> <p>Construction of small-scale hydrological structures: some 450 water conveyance, boreholes, and tube wells.</p> <p>Adequate storage, rural roads, marketing facilities: construction of 500 market points, sheds, and collection stores, and 660 km rural roads</p> <p>70 percent of staff of the Federal Ministry of Agriculture trained, IT introduced and used for better agriculture statistics and sector management</p>	<p>Pages 69-70 of NEEDS</p>
<ul style="list-style-type: none"> • Integrated development and management of water resources • Protecting and optimization of water resources • Improve power supply and increase electrification • Increase generation, transmission and distribution capacity • Road rehabilitation • Strengthening of the newly created Roads Maintenance Agency • Develop a seaport by encouraging private sector participation 	<p>Rural water supply coverage of 60 percent by 2007</p> <p>Increase percentage of the population with access to electricity to 65 percent in 2007</p> <p>Increase rural power supply from 10 percent to 20 percent by 2007</p> <p>Complete the ongoing construction of a 3,000-kilometer network of roads</p>	<p>Percentage of rural population served with safe water supply increased from 49% to 66% and with improved sanitation from 30% to 66%</p> <p>Transmission line has been erected and a countrywide power transmission grid loop has been created</p> <p>Reduction by 50 percent of the annual number of countrywide power system failures</p> <p>Increase the countrywide transmission capacity by 60 percent.</p> <p>More efficient road sector management and financing</p> <p>Institutionalization of participatory approaches to the identification of project interventions</p> <p>Employment and income generating opportunities created</p> <p>Improved ability to coordinate and manage rural transport issues</p>	<p>Page 64 of NEEDS</p> <p>Pages 60-61 of NEEDS</p> <p>Page 59 of NEEDS</p>

4.4.7 The Bank strategy will contribute to the achievement of the Government's objectives in agriculture through the introduction and dissemination of improved seed variety (NERICA rice), thereby increasing agricultural productivity and output. The establishment of hydrological structures under the ongoing Fadama project will also contribute to enhanced productivity and agricultural production. The increase of food supply will facilitate industry development and thus create employment opportunities. Training and capacity building of communities in planning and production-related agricultural activities undertaken under the ongoing Community-based and Rural Development Project have contributed to the creation of an enabling environment for private sector development. In addition, the supply of quality produce and agribusiness will create more jobs and reduce poverty. Specific outcomes of the Bank strategy by 2009 include, among other things, increased rice production by 35,000 metric tons and 50,000 farmers trained in subjects related to agricultural production.

4.5 REGIONAL DIMENSIONS OF BANK GROUP ASSISTANCE

4.5.1 As mentioned in previous sections, Nigeria has since independence played a pivotal role in a number of continent-wide and regional initiatives, most notably the Organization of African Unity (OAU), the Economic Community of West African States (ECOWAS) and, more recently,

the African Union (AU). Nigeria hosts the ECOWAS Secretariat, which is, among other things, responsible for the coordination and monitoring of the NEPAD Program in West Africa. A key element of the latter is the NEPAD Infrastructure Program, which was developed with the support of the Bank Group, including a Short Term Action Plan (STAP), which covers the period 2002-2007²⁰. Other initiatives in which Nigeria plays a key role include the peacekeeping arm of ECOWAS, i.e. the ECOWAS Monitoring Group (ECOMOG), which restored peace in Liberia and Sierra Leone.

4.5.2 Nigeria has been actively supporting the West African integration process since the outset. It is one of the founding members of ECOWAS and signatory of most of its treaties and protocols. In 1976, the Government of Nigeria established the Nigerian Trust Fund (NTF) to provide assistance to Regional Member Countries (RMC) whose economic and social conditions require financing for projects and programs on concessionary terms. In April 2004, the Nigeria Technical Cooperation Fund (NTCF) was established to provide grants to RMCs for technical assistance and capacity building programs. The NTCF has recently allocated US\$ 1.41 million to help finance the NEPAD medium to long-term strategic framework study. In early 2005, Nigeria played a key role in the diplomatic resolution by ECOWAS of the political crisis in Togo. This has impressively demonstrated that Nigeria is willing and able to play a key role in promoting political stability and peace in West Africa.

4.5.3 However, Nigeria's overall performance concerning the implementation of the ECOWAS priority programs for regional integration has been mixed. Concerning the free movement of persons, Nigeria has abolished the visa requirement for ECOWAS nationals. However, in practice, immigration to Nigeria remains cumbersome, especially via land, as border authorities are often not aware of the immigration regulations in place. With regard to the free movement of goods, tariff and trade measures approved in 2002 have set back efforts to liberalize the tariff regime in line with the ECOWAS provisions of a four-band tariff structure (0, 5, 10 and 20 percent). Tariffs have been increased, including peak tariffs ranging from 100 percent to 150 percent, and new import restrictions on a number of products for either balance of payments reasons or health and safety concerns have been introduced.

Box 9: Status of WAMZ convergence criteria for Nigeria in 2004²¹

Primary criteria:	Target	Result 2004
(1) Inflation rate (end period)	< 10 percent	10.1 percent
(2) Fiscal deficit/GDP (excluding grants)	< 4 percent	5.0 percent (surplus)
(3) Central Bank financing of fiscal deficit as percentage of previous year's tax revenue	< 10 percent	0.0 percent
(4) Gross external reserves (months of imports)	> 3 months	6.6 months
Secondary criteria:		
(5) Change in arrears	< 0.0	n.a.
(6) Tax revenue/GDP	> 20.0 percent	43.6 percent
(7) Salary mass/total tax revenue	< 35.0 percent	11.3 percent
(8) Public investments from domestic receipts	> 20.0 percent	7.4 percent
(9) Real interest rate	> 0.0	-5.6
(10) Exchange rate (+ depreciation; - appreciation)	+/- 15.0 percent	-3.1

²⁰ To date, Nigeria has benefited from two NEPAD projects in the transport and energy sector, with total cost of US\$ 55.5 million, including total Bank Group commitments equivalent to US\$ 22.29 million.

²¹ No information is available on the sixth criterion "change in arrears".

4.5.4 Analysis of trade flows during the last years suggests that less than 5 percent of total imports originate from ECOWAS member States. Less than 10 percent of Nigeria's exports go to ECOWAS member States. Nigeria's largest trading partner is the United States, which absorb about 40 percent of the country's exports and supply 10 percent of its imports. Nevertheless, Nigeria's traditional links with Europe, and the UK in particular, remain strong. Imports from the EU have traditionally represented nearly 50 percent of total imports.

4.5.5 While the general thrust of policies is to increase tariff protection for manufacturers and food processors in the light of high unused domestic capacity and to spur investment through reducing tariffs to the range of 5-15 percent for capital equipment, the tariff code is increasingly complex. With over 15 tariff bands and with over 150 products carrying tariffs of 100 percent or higher, there is significant scope for smuggling and misconduct of customs administration. With regard to macroeconomic convergence, Nigeria's efforts to harmonize its economic and financial policies with those of other RMCs, aiming at the creation of the second West African Monetary Zone of regional non-UEMOA Member States, have had a positive impact on the country's macroeconomic performance: three of the four primary convergence criteria and three of the six secondary criteria were achieved in 2004. However, convergence performance in previous years lagged behind the achievements registered in 2004.

4.6 BANK GROUP ASSISTANCE

4.6.1 Bank Group assistance to Nigeria will combine both project and non-project activities, to be implemented under the CSP's two pillars. Nigeria is classified as a blend ADB/ADF-country and as such has eligibility to ADB loans and to concessionary funding from ADF. In compliance with the strategic orientation of the CSP, funds will be used to finance activities in support of human capital development through improved service delivery in education and health and to stimulate private sector-led growth through enhanced infrastructure and agricultural/rural development. The CSP 2005-2009 covers the entire period of ADF X (2005-2007) and the first two years of ADF XI (2008-2010). With regard to the financial envelope available for the implementation of the CSP, the evaluation of Nigeria's performance has enabled its allocation to be set at a maximum amount of UA xxxx million for the ADF X period 2005-2007. For the first two years of ADF XI, the available amount will be determined on the basis of Nigeria's performance during 2008-2009.

4.6.2 Analysis of Nigeria's performance has revealed a number of weaknesses, including in the areas of governance and transparency, public finance management and civil service reform. Measures that the Government intends to undertake to tackle these weaknesses include, among other things, the *implementation of audits of Government oil accounts*, including the Ministry of Finance, Nigeria National Petroleum Company, Central Bank and the Niger Delta Development Commission, and the publication of the audit results. In addition, the Government envisages the *extension of the currently ongoing restructuring program in five pilot ministries/agencies to other ministries*. Weaknesses in performance have also been identified in the area of building human resources. In order to improve skills and vocational education of Nigerians, the Government intends to *develop and implement a technical vocational education master plan in all technical colleges*. A number of weaknesses also persist with regard to the management of the Bank Group portfolio in Nigeria. These include, most notably, a frequent lack of counterpart

funds, delays in fulfillment of Bank loan/grant conditions and non-conformity by executing agencies and project implementation units with Bank procedures. In order to improve the management of the Bank portfolio, the Government should undertake a *regular monitoring and evaluation of progress made under each project* so as to ensure that loan/grant conditions are fulfilled in a timely manner, including adherence to project reporting and audit requirements. In addition, *counterpart funds should be made available* in the required amount when needed.

4.6.3 Lending Program 2005-2009: During ADF X, six projects are envisaged. The *Skills Training and Vocational Education project* aims at improving the skills of the citizenry, thereby increasing the chances of the beneficiaries of the training courses on the labor market. It will also contribute to private sector development through the availability of trained personnel. The *Communicable Diseases project* is focusing on enhanced delivery of primary health care services, thus contributing to better health of the population. Both projects will contribute to the development of human resources in Nigeria. While the *Rural Water Supply and Sanitation Initiative* aims at improving water supply, the objective of the *Rural Access and Mobility project* is to enhance rural mobility and access to markets and services. Together with the *Transmission Line project*, aiming at enhancing electricity supply, these operations contribute to the creation of a more conducive environment for private sector activity and non-oil economic growth. The *Niger Delta Rice Irrigation project*, aiming at enhanced rice cultivation, improves food security and contributes to private sector led growth in the agricultural sector. In addition, an Institutional Support Project to Strengthen Public Sector Management could be financed under ADF XI during the period 2008-2010. Furthermore, a possible Policy-Based Lending Program could support the Government in the implementation of macroeconomic and structural reforms.

4.6.4 Non-project activities: For the period of 2005-2007, envisaged non-project activities include the preparation of a Governance Profile of Nigeria. The profile will cover areas such as public finance management, including public procurement, fiscal decentralization, budget control, as well as the political and electoral process, legal and judicial reform, and human rights. The Governance Profile will identify areas in need of reform. The Bank Group also plans to undertake a transport sector review in order to identify potential interventions that would address the fragmentation of the Nigerian transport sector and to improve mobility in the country. The Bank also intends to carry out a fisheries farm and catch assessment survey to assess the existing stock of fisheries and its rate of growth by region as well as prices, demand, supply, imports, exports, processing, private sector role, and marketing aspects.

4.7 PARTNERSHIP AND HARMONIZATION

4.7.1 Cooperation with the Government and among donors has intensified over the past years, particularly since the NEEDS process was launched. NEEDS was developed on the basis of a broad public consultation phase, in which the Nigerian civil society and the international community participated. Interventions of development partners (DP) in Nigeria are aligning behind NEEDS/SEEDS and the majority of donors are selective in their strategies and operations. The Government's current benchmarking process of States, supported by DPs, is expected to further increase alignment and selectivity of strategies and interventions (see box 10 overleaf). Once the benchmarking approach has been fully developed, it is expected to provide the basis for coordinated donor support to a limited range of States - the so-called 'lead' States -

which have demonstrated firm commitment to reform and good performance. The Bank will continue to closely cooperate with the Government and DPs on the benchmarking process and take into consideration a possible concentration of its activities in selected lead States, while maintaining the option of intervening in non-lead States where developmental needs require specific support.

Box 10: SEEDS benchmarking

The SEEDS benchmarking exercise will foster a competitive approach that will help to shift incentives towards reform. The benchmarking process is managed by the National Planning Commission and overseen by the National Council on Development Planning and the National Economic Council - as a consensus instrument of Federal and State Governments. Participation of States in the benchmarking exercise is entirely voluntary and based on commitment to reform and performance. The four key areas in which the benchmarking criteria will be defined are: (i) Policy: ensuring that State Governments develop and implement a strategy that advances its policy targets; (ii) Fiscal Management/Budget Process; (iii) Service Delivery; and (iv) Communication, Transparency and Corruption. Benchmarking will take place on an annual basis, to measure States' trajectory of reform and enable other States to come on board. Where groups of similar performing States emerge, a limited number of States will be selected on the basis of their levels of poverty and population size. States which do not have satisfactory performance in the first year can take effective action to raise performance to become eligible in later years. The partnership with States will be driven by building a long-term strategic partnership aligned to a common agenda of achieving the MDGs, including the development of initial time-bound action plans; the provision of enhanced resources transfers, relative to a State budget, that can leverage change; working towards providing budget support and SWAPs; and supporting effective collaboration among tiers of Government.

4.7.2 In order to enhance harmonization of interventions and procedures, cooperation between the Government and development partners is taking place on a regular basis. Furthermore, the Bank Group is currently co-financing four projects with the World Bank and IFAD in the areas of agriculture, health and Community-based poverty reduction. With regard to the harmonization of procedures, progress has been achieved in that the Bank in certain multi-state projects co-financed with the World Bank uses the same project staff certified by the World Bank to prepare disbursement requests. The World Bank and UNDP to a certain extent assume a coordinating function for donor cooperation in Nigeria. As mentioned in previous sections, the Bank Group maintains close relationships with the main DPs represented in Nigeria. This includes an ongoing dialogue and exchange of information on current and planned interventions and activities. The Bank Group's Country Office in Nigeria is playing an effective role in coordinating the Bank's activities in Nigeria with the international community.

Box 11: Consultations on the Bank Group Strategy 2005-2009

A multidisciplinary Bank team undertook a mission to Abuja during 14-28 February 2005 and held discussions with the Government and DPs concerning the preparation of the CSP 2005-2009 for Nigeria. The main findings of the mission are captured in an Aide Memoire, signed by the Bank and the Ministry of Finance. Based on the discussions with the Government and DPs, key areas identified for possible Bank support under the CSP were human development, including gender and institutional capacity building, infrastructure development, focusing on power, transport and water supply, and agricultural development and food security. The Minister of Finance during the meetings held agreed on the above areas for Bank support under the CSP. She also made clear that the instrument of Policy Based Lending is currently not considered as a viable option for the Government. A follow-up consultative CSP dialogue workshop was held on 7-9 June 2005 with the Government, DPs and Civil Society Organizations (CSO) to further discuss the CSP prior to its finalization. The main outcome of the workshop was that participants endorsed the pillars selected under the CSP. Main comments and recommendations include that the Bank should strengthen cooperation with SLGs as well as with CSOs; involvement of CSOs in Bank project appraisal, implementation and monitoring/evaluation; need for improvement of the management of Nigeria's education system; need for capacity building and strengthening of good governance, the rule of law and the judiciary; need for enhancing the land tenure system; importance of a sound monitoring system to assess the impact of Bank interventions; and the need for sectoral plans of action for NEEDS/SEEDS.

5.1 MONITORING OF CSP OUTCOMES AND BANK GROUP PERFORMANCE

5.1.1 The CSP 2005-2009 is linked to specific objectives and strategies of NEEDS. The monitoring of progress achieved will take place on the basis of the intermediate indicators, outputs, outcomes and longer-term strategic goals specified in the Thematic Results Matrix on pages 38-39. While an in-depth evaluation of progress made under the CSP/NEEDS will take place during the Mid-term Review tentatively scheduled for end-2006 or the beginning of 2007, the Government should prepare annual or semi-annual progress reports that make specific reference to each one of the intermediate indicators, outputs, outcomes and longer-term strategic goals specified in the Thematic Results Matrix. This would allow for a monitoring of trends from an early stage, so that the Government would have time to take corrective measures, if required. In case of a discrepancy between a target and an actual outcome of an indicator, an analysis of the reasons and specific remedial action and measures including a time-line should be presented.

5.1.2 In order to keep the administrative burden to the Government as low as possible, the preparation of the annual/semi-annual progress reports should be harmonized with similar exercises required by other donors, especially with regard to the Country Partnership Strategy (CPS) of the World Bank and DFID currently under preparation. The CPS foresees capacity strengthening and building of in-country monitoring and evaluation capacity. It envisages to build poverty monitoring systems and capacities and to strengthen the overall capacity for statistical data collection and processing and economic monitoring, including at the States' level. In this context, the Bank Group will closely cooperate with the World Bank and take into consideration potential supplementary measures to strengthen the country's monitoring and evaluation capacity. The Bank Group will also liaise with the IMF who is undertaking close monitoring of the country's macroeconomic and financial performance within the framework of an enhanced surveillance.

5.2 MANAGING RISKS

5.2.1 The risk analysis undertaken in previous sections has revealed that the achievement of the Government's overarching goal of poverty reduction faces a number of political, economic and sectoral risks. Potential risks for the implementation of the Bank Group Strategy 2005-2009 are a possible lack of commitment to the implementation of NEEDS after the Presidential elections in 2007, inadequate institutional capacity to effectively implement NEEDS, failure to implement prudent macroeconomic policies, including fiscal discipline on all tiers of Government, lack of commitment to service external debt obligations, and insufficient accountability and transparency, thereby undermining the effectiveness of anti-poverty policies. In order to mitigate these risks, the Bank will maintain a close dialogue with the Government on the implementation of NEEDS and the implementation of sound macroeconomic policies, including the servicing of debt obligations. The Bank will contribute to improve accountability, transparency and institutional capacity through specific projects to be implemented under the CSP 2005-2009. Furthermore, the Bank will mitigate risks related to the implementation of its project portfolio through a number of actions, most notably a possible concentration of interventions in fewer sectors and a limitation of the geographical coverage of a project to a smaller number of States so as to maximize its developmental impact. The Bank will also enhance the quality of potential

operations at entry point through enhanced project assessments and studies and include appropriate packages of institutional support and technical assistance into the project design.

5.3 COUNTRY DIALOGUE ISSUES

5.3.1 Macroeconomic, fiscal and debt management: The Government is implementing macroeconomic reforms in a broad range of areas. A key area of focus is reducing risks of macroeconomic instability from fiscal expansion financed through oil revenue windfalls. The system of fiscal decentralization makes it incumbent on the Federal Government to distribute revenues in accordance with a set formula that is enshrined in the constitution. This presents a significant challenge in Nigeria's Federal system given the increased autonomy of SLGs. While the Federal Government in 2004 has succeeded in persuading the States to save windfall revenue, a challenge remains as to what extent the prudent fiscal stance will be pursued by the States in the coming years. It is expected that the Fiscal Responsibility Act, once adopted by the National Assembly, will foster greater discipline in fiscal policy at all levels of Government. Strong dependence on oil revenues, uncertainty over the price of oil, the challenge of fiscal restraint will be key in determining Nigeria's medium term economic outlook. The Bank will therefore maintain a close dialogue with the Government on the implementation of sound macroeconomic and fiscal policies and debt management.

5.3.2 Structural Policies: To date, the Government has made good progress on its structural reform agenda. However, in certain areas reform effort needs to be invigorated, such as privatization, including the application of transparent privatization procedures; the liberalization of the foreign trade regime and the application of the ECOWAS' regime. The Bank will maintain a dialogue with the Government on the implementation of its structural reform agenda.

5.3.3 The CPIA 2004 revealed a number of sectors/areas where room for improvement persists. In this context, the Bank will enter into dialogue with the Government, particularly with regard to public sector management, building human resources and gender equality.

5.3.4 Governance: The current Government has made some laudable efforts in consolidating governance in Nigeria. However challenges persist, particularly with regard to the establishment of an efficient civil service at the Federal and State levels as well as the administration of justice. The Governance Profile to be prepared by the Bank in the second half of 2005 will be used to guide Bank discussions on all aspects of governance. The Bank will also maintain a close dialogue with the Government on the progress achieved in the implementation of the legal and judiciary reform strategy, on land tenure issues, as well as on the implementation of audits of Government oil accounts and their publication, and the extension of the ongoing public sector restructuring program in five pilot ministries/agencies to other ministries.

5.3.5 NEEDS/SEEDS: Implementation of NEEDS to date is encouraging but should be put into a more coherent operational framework, particularly with regard to sectoral strategies. While the Core Economic Reform Program formulates concrete objectives, specific time-bound reform measures and targets, expected impacts, specifying the ministry/agency in charge, similar operational programs should be elaborated especially for the social sectors, infrastructure and agriculture, as they are key to poverty reduction. This should include the formulation of concrete

quantitative sector objectives, expected outcomes, targets and indicators, in order to allow for an effective monitoring of progress made. Also, SEEDS should be fully consistent with NEEDS of the Federal Government. The Bank will engage in a close dialogue with the Federal and State Governments on the currently ongoing benchmarking process and ensure that its interventions and activities are consistent with the objectives of NEEDS/SEEDS.

5.3.6 Portfolio Management: Ongoing projects continue to suffer from lack of counterpart funds and poor management. There is therefore need to strengthen project management in Nigeria and Government should manifest commitment by providing counterpart project funds. The Government should also put in place effective monitoring and evaluation systems that would allow for a regular follow-up of project progress and of the recommendations made by Bank Group audits. Also, with regard to new projects, staff of project management units should be accorded performance-based contracts. The Bank's office in Nigeria will take a lead role in this context and provide the necessary guidance and support to launching and supervision missions and continue to pursue proactive initiatives to improve the performance of the portfolio.

5.3.7 The dialogue between the Bank and the Government on the above issues would take place within the framework of the Annual Meetings of the Governors, CSP assessment missions, supervision missions, project appraisal missions, dialogue missions and other Bank missions to Nigeria. The Bank's Country Office in Nigeria plays a crucial role in this context, maintaining a regular dialogue with the Government within the framework of its monthly meetings with ABER.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 After long periods under military rule during the post-independence era, Nigeria returned to democracy in 1999. Following the second consecutive democratic elections of April 2003, the re-elected Government has put in place a new economic management team with a strong commitment to economic reforms. The Government finalized NEEDS in May 2004, as Nigeria's homegrown strategy for growth and poverty reduction for 2004-2007. NEEDS is based on three pillars: (i) empowering people and building a Social Contract; (ii) promoting private enterprise to foster growth of the non-oil sector; and (iii) changing the way the Government works. Macroeconomic imbalances have been reduced significantly over the past two years, due to a tight overall monetary and fiscal stance on all three tiers of Government. Also, a wide range of structural reforms have been undertaken to date, including measures to improve governance, public sector reforms and a comprehensive privatization program. However, despite the good performance during the recent past, poverty continues to be pervasive and significant challenges persist, notably the achievement of a more diversified economy, reduction of public debt, improvement of social service delivery, enhancing infrastructure, particularly of water and power supply, and food security.

6.2 The Bank Group's CSP 2005-2009 will support NEEDS on the basis of two pillars: (i) development of human capital through improved service delivery in education and health; and (ii) stimulating non-oil growth through enhanced infrastructure and agricultural/rural development. Bank Group assistance to Nigeria will combine both project and non-project activities, to be implemented under the CSP's two pillars. The CSP has a strong sector and

geographical focus, given the limited concessionary resources available for Nigeria and the need to ensure development effectiveness of Bank funded projects. The Bank Group will pursue broadening partnership with other development partners over the CSP period, further building donor harmonization and aid effectiveness.

6.3 The Bank Group has identified a number of risks that may adversely affect the implementation of the CSP and undermine the sustainability of reforms. A key risk is that the political landscape and commitment to reform by the Government may shift, particularly after the elections in 2007. Other main risks are related to Nigeria's heavy dependence on oil and the Government's capacity to implement NEEDS. In order to help mitigate some of the risk, the Bank will maintain a close dialogue with the Government on the implementation of its development program and support the completion of the reforms initiated. The Bank will contribute to enhance governance, transparency and institutional capacity through specific projects to be implemented under the CSP 2005-2009.

6.4 The Boards are invited to endorse the Nigeria CSP 2005-2009.

Bank Group Operations as at end-May 2005

ANNEX 1

Status	Project Title	Approval Date	Date Signed	Date final Disburs.	Date Entry Into Force	Date latest Disburs.	Approved UA	Committed UA	Cancelled UA	Net Comm. UA	Undisbursed	Disbursed	Disburs. Ratio
COMP	RIVERS STATE RICE DEVELOPMENT (GRANT)	02/25/1991	12/04/1991	12/31/2003	08/18/1992	11/21/2003	1,381,578.00	1,381,578.00	719.29	1,380,858.71	0.00	1,380,858.71	100.00
ABAN	ANIMAL VACCINE AND DRUG PRODUCTION STUDY	12/18/1992	05/13/1994	12/31/1995			520,000.00	520,000.00	520,000.00	0.00	0.00	0.00	0.00
OnGo	NATIONAL FADAMA DEV. PROJECT	12/10/2003	12/12/2003	12/31/2011	05/03/2004		22,000,000.00	22,000,000.00	0.00	22,000,000.00	22,000,000.00	0.00	0.00
LEND	MIDDLE RIMA VALLEY STUDY (GRANT)	05/21/1991	12/19/1991	06/30/1996	05/25/1992	05/27/1997	1,722,367.00	1,722,367.00	65,219.29	1,657,147.71	0.00	1,657,147.71	100.00
COMP	BACITA SUGAR EXPANSION	11/21/1989	10/21/1990	12/31/2003	03/05/1991	01/26/1999	67,480,000.00	67,480,000.00	7,203,399.95	60,276,600.05	0.00	60,276,600.05	100.00
APVD	COMMUNITY-BASED AGR. & RURAL DEVELOPMENT	09/11/2003	12/12/2003	12/31/2011			13,000,000.00	13,000,000.00	0.00	13,000,000.00	13,000,000.00	0.00	0.00
COMP	FORESTRY DEVELOPMENT	10/28/1986	10/23/1987	06/30/2002	12/21/1988	10/18/2002	69,550,000.00	69,550,000.00	26,240,321.33	43,309,678.67	0.00	43,309,678.67	100.00
APVD	NERICA DISSEMINATION PROJECT -NIGERIA	09/26/2003	10/14/2004	12/31/2010			5,570,000.00	5,570,000.00	0.00	5,570,000.00	5,570,000.00	0.00	0.00
COMP	AGRO-CLIMAT.AND ECOLOGICAL ZONES STUDY	03/23/1992	09/11/1992	07/31/1997	01/06/1993	09/27/1994	782,894.00	782,894.00	1,002.21	781,891.79	0.00	781,891.79	100.00
COMP	ENYONG CREEK SWAP RICE STUDY	08/28/1991	05/08/1992	06/30/1996	10/20/1993	07/05/1996	1,418,420.00	1,418,420.00	83,488.33	1,334,931.67	0.00	1,334,931.67	100.00
ABAN	RIVER BASINS IRRIGATION PLANNING STUDY	06/24/1992	11/04/1992	12/31/1996	03/31/1993		3,684,208.00	3,684,208.00	3,684,208.00	0.00	0.00	0.00	0.00
COMP	INSTITUTIONAL STRENGTH. PROJECT TO NACB	04/21/1992	10/09/1992	12/31/1997	03/10/1993	05/27/1997	4,605,260.00	4,605,260.00	1,521,352.86	3,083,907.14	0.00	3,083,907.14	100.00
COMP	FORESTRY RESOURCES STUDY	10/21/1993	05/13/1994	06/30/1999	01/19/1996	10/06/1999	2,717,000.00	2,717,000.00	122.21	2,716,877.79	0.00	2,716,877.79	100.00
COMP	SUGAR EXPANSION PROGRAMME	03/22/1971	03/24/1972	06/30/1982	04/15/1972	07/19/1974	1,600,000.00	1,600,000.00	170,562.58	1,429,437.42	0.00	1,429,437.42	100.00
COMP	SAVANNAH SUGAR REHABILITATION	09/23/1991	06/20/1994	12/31/2000	12/19/1994	06/26/2001	45,800,000.00	45,800,000.00	154,251.75	45,645,748.25	0.00	45,645,748.25	100.00
COMP	SAVANNAH SUGAR REHABILITATION	09/23/1991	11/04/1992	12/31/2000	08/16/1993	01/10/2001	6,447,364.00	6,447,364.00	46,132.82	6,401,231.18	0.00	6,401,231.18	100.00
TERM	HADEJIA VALLEY IRRIGATION	11/25/1991					36,842,080.00	0.00	0.00	0.00	0.00	0.00	0.00
Agriculture Total							285,121,171.00	248,279,091.00	39,690,780.62	208,588,310.38	40,570,000.00	168,018,310.38	80.55
OnGo	NIGER DELTA SOCIAL AND ENVIRONMENT STUDY	06/30/2004	07/29/2004	04/30/2007	07/29/2004		1,700,000.00	1,700,000.00	0.00	1,700,000.00	1,700,000.00	0.00	0.00
Environment Total							1,700,000.00	1,700,000.00	0.00	1,700,000.00	1,700,000.00	0.00	0.00

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COMP	AGRICULTURAL LINE OF CREDIT	03/24/1987	10/23/1987	06/30/1995	08/12/1988	06/21/1995	73,000,000.00	73,000,000.00	359,912.47	72,640,087.53	0.00	72,640,087.53	100.00
ABAN	NIDB LINE OF CREDIT	03/23/1989	05/30/1989	03/31/1999	09/29/1989	03/24/1999	80,000,000.00	80,000,000.00	10,355,330.92	69,644,669.08	0.00	69,644,669.08	100.00
COMP	SMALL AND MEDIUM ENTERPRISES	01/29/1991	07/11/1991	12/31/1995	09/26/1991	12/29/1995	100,000,000.00	100,000,000.00	0.00	100,000,000.00	0.00	100,000,000.00	100.00
COMP	NACB LINE OF CREDIT II	12/18/1990	07/11/1991	12/31/1995	08/02/1991	06/01/1995	100,000,000.00	100,000,000.00	176,233.14	99,823,766.86	0.00	99,823,766.86	100.00
COMP	NBCI LINE OF CREDIT	09/23/1986	05/04/1987	12/31/1994	09/22/1987	09/19/1994	40,000,000.00	40,000,000.00	5,215,722.24	34,784,277.76	0.00	34,784,277.76	100.00
OnGo	LINE OF CREDIT TO UNITED BANK FOR AFRICA	12/20/2000	05/29/2001	12/31/2003	12/11/2002	01/21/2004	19,508,008.04	30,000,000.00	0.00	30,000,000.00	0.00	30,000,000.00	100.00
OnGo	CITIBANK NIGERIA	12/08/1999	01/08/2000	12/31/2005			32,513,346.73	0.00	0.00	0.00	0.00	0.00	0.00
OnGo	LINE OF CREDIT TO FSB INTERN. BANK	10/18/2001	03/05/2002	02/28/2004	07/01/2003	10/28/2003	11,704,804.82	18,000,000.00	0.00	18,000,000.00	0.00	18,000,000.00	100.00
APVD	LINE OF CREDIT - CITIBANK NIGERIA	09/04/2002	02/06/2003	08/31/2004			32,513,346.73	0.00	0.00	0.00	0.00	0.00	0.00
APVD	LINE OF CREDIT TO ZENITH BANK PLC	03/02/2005					45,518,685.42	0.00	0.00	0.00	0.00	0.00	0.00
Finance Total							534,758,191.74	441,000,000.00	16,107,198.77	424,892,801.23	0.00	424,892,801.23	100.00
ABAN	BANKNOTE AND SECURITY PAPER PROJECT	08/24/1994					57,060,000.00	0.00	0.00	0.00	0.00	0.00	0.00
TERM	INDUSTRIAL EXPORTS SUPPORT PROJECT	03/03/1993	06/20/1994	12/31/1997			150,000,000.00	150,000,000.00	150,000,000.00	0.00	0.00	0.00	0.00
COMP	LOAN TO CONOIL DEVELOPMENT OF BELLA OIL FIELD	09/16/1993	07/29/1994	12/31/1995	03/27/1995	05/09/1995	6,502,669.35	10,000,000.00	1,350,000.00	8,650,000.00	0.00	8,650,000.00	100.00
COMP	SPINTEX MILLS LTD	10/30/1992	09/23/1993	12/31/1994	01/06/1994	01/18/1994	3,251,334.67	5,000,000.00	276,139.00	4,723,861.00	0.00	4,723,861.00	100.00
Ind/Mini/Quar Total							216,814,004.02	165,000,000.00	151,626,139.00	13,373,861.00	0.00	13,373,861.00	100.00
OnGo	INST. SUPPORT FOR GOVERNANCE, CAPACITY	10/18/2001	12/07/2001	12/31/2006	04/26/2002	12/27/2004	4,000,000.00	4,000,000.00	0.00	4,000,000.00	2,973,975.79	1,026,024.21	25.65
COMP	ANAMBRA STATE RURAL INFRASTRUCTURE	04/21/1989	12/18/1989	12/31/2001	02/15/1990	05/02/2002	81,700,000.00	81,700,000.00	20,295,956.66	61,404,043.34	0.00	61,404,043.34	100.00
COMP	EXPORT STIMULATION PROJECT	06/26/1987	05/30/1989	06/30/1994	08/15/1989	01/27/1992	180,000,000.00	180,000,000.00	68,845.65	179,931,154.35	0.00	179,931,154.35	100.00
Multi-Sector Total							265,700,000.00	265,700,000.00	20,364,802.31	245,335,197.69	2,973,975.79	242,361,221.90	98.79
OnGo	INVEST. PROPOSAL ABUJA INTERN. DIAGNOST. CENTRE	10/30/1996	01/31/1997	06/30/1998	01/31/1997	09/19/1997	1,950,800.80	3,000,000.00	0.00	3,000,000.00	0.00	3,000,000.00	100.00
COMP	BAUCHI STATE HEALTH SERVICES REHABILITATION PROJECT	01/16/1990	07/04/1990	12/31/1995	12/17/1990	06/01/1995	22,547,353.00	22,547,353.00	0.00	22,547,353.00	0.00	22,547,353.00	100.00
COMP	HEALTH SERVICES REHABILITATION PROJECT	10/29/1992	05/12/1993	09/30/2003	09/17/1993	09/11/2003	55,263,120.00	55,263,120.00	7,088,769.78	48,174,350.22	0.00	48,174,350.22	100.00

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COMP	KWARA STATE HEALTH PROJECT	12/18/1990	07/11/1991	03/31/2005	02/25/1994	03/17/2005	13,078,938.00	13,078,938.00	800,000.00	12,278,938.00	57,038.64	12,221,899.36	99.54
OnGo	HEALTH SYSTEMS DEVELOPEMENT PROJ.(IV)	09/11/2002	10/15/2002	12/31/2008	12/16/2003	03/02/2005	34,740,000.00	34,740,000.00	0.00	34,740,000.00	32,695,724.72	2,044,275.28	5.88
OnGo	COMMUNITY-BASED POV. REDUCTION PROJECT	11/03/2000	02/02/2001	12/31/2007	09/11/2002	07/16/2003	20,000,000.00	20,000,000.00	0.00	20,000,000.00	19,896,311.55	103,688.45	0.52
Social Total							147,580,211.80	148,629,411.00	7,888,769.78	140,740,641.22	52,649,074.91	88,091,566.31	62.59
OnGo	NIGERIA LIQUIFIED NATURAL GAS	11/20/2002	12/18/2002	06/15/2005	03/28/2003	09/29/2004	65,026,693.46	100,000,000.00	0.00	100,000,000.00	0.00	100,000,000.00	100.00
TERM	RECONSTRUCTION OF IBADAN-ILORIN ROAD	12/15/1994					107,800,000.00	0.00	0.00	0.00	0.00	0.00	0.00
COMP	ENUGU AIRPORT RECONSTRUCTION	01/26/1972	03/24/1972	09/30/1978	12/31/1972	09/18/1978	3,400,000.00	3,400,000.00	244,203.92	3,155,796.08	0.00	3,155,796.08	100.00
COMP	CALABAR AIRPORT RECONSTRUCTION	06/27/1974	11/06/1974	12/31/1979	12/31/1974	09/12/1978	4,750,000.00	4,750,000.00	2,403,925.82	2,346,074.18	0.00	2,346,074.18	100.00
COMP	NIGER STATE WATER SUPPLY	04/17/1990	11/27/1990	12/31/1997	03/14/1991	12/29/1998	61,690,000.00	61,690,000.00	2,896.36	61,687,103.64	0.00	61,687,103.64	100.00
COMP	NIGER STATE WATER SUPPLY	04/17/1990	11/27/1990	12/31/1997	02/24/1991	02/04/1997	1,961,841.00	1,961,841.00	-3,424.49	1,965,265.49	0.00	1,965,265.49	100.00
COMP	BENDEL STATE WATER SUPPLY	06/12/1990	01/18/1991	12/31/1995	06/03/1991	07/17/1995	78,740,000.00	78,740,000.00	0.00	78,740,000.00	0.00	78,740,000.00	100.00
COMP	THE BENDEL STATE WATER SUPPLY(GRANT)	06/12/1990	01/18/1991	12/31/1997	06/03/1991	01/13/1998	2,413,156.00	2,413,156.00	138,192.03	2,274,963.97	0.00	2,274,963.97	100.00
COMP	BAUCHI TOWNSHIP WATER SUPPLY PROJECT	10/18/1988	05/30/1989	06/30/1994	10/25/1989	10/01/1993	44,950,000.00	44,950,000.00	-835.21	44,950,835.21	0.00	44,950,835.21	100.00
TERM	GOMBE WATER SUPPLY	08/24/1994					51,100,000.00	0.00	0.00	0.00	0.00	0.00	0.00
COMP	IBADAN WATER SUPPLY II	05/02/1991	12/19/1991	12/31/2002	05/29/1992	01/23/2004	74,140,000.00	74,140,000.00	3,502,150.18	70,637,849.82	0.00	70,637,849.82	100.00
COMP	IBADAN WATER SUPPLY II	05/02/1991	12/19/1991	12/31/2000	06/09/1992	04/03/2001	3,205,261.00	3,205,261.00	25,602.26	3,179,658.74	0.00	3,179,658.74	100.00
COMP	PLATEAU STATE WATER SUPPLY	05/02/1991	12/19/1991	06/30/2004	07/03/1992	05/21/2004	90,170,000.00	90,170,000.00	0.00	90,170,000.00	221,613.08	89,948,386.92	99.75
COMP	PLATEAU STATE WATER SUPPLY	05/02/1991	12/19/1991	06/30/2004	07/03/1992	05/20/2004	3,831,576.00	3,831,576.00	0.00	3,831,576.00	54,198.65	3,777,377.35	98.59
OnGo	IBADAN WATER SUPPLY	12/23/1986	05/04/1987	12/31/2003	10/28/1987	12/31/2003	26,000,000.00	26,000,000.00	0.00	26,000,000.00	9,819,516.18	16,180,483.82	62.23
OnGo	FIRST MULTI-STATE WATER SUPPLY PROJECT	10/02/1992	06/29/1994	12/31/2005	01/11/1995	03/16/2005	119,100,000.00	119,100,000.00	0.00	119,100,000.00	7,831,237.50	111,268,762.50	93.42
OnGo	FIRST MULTI-STATE WATER SUPPLY	10/02/1992	06/29/1994	12/31/2005	01/11/1995	01/17/2005	14,921,042.00	14,920,000.00	0.00	14,920,000.00	5,935,217.61	8,984,782.39	60.22
Infrastructure Total							753,199,569.46	629,271,834.00	6,312,710.87	622,959,123.13	23,861,783.02	599,097,340.11	96.17
TOTAL							2,204,873,148.02	1,899,580,336.00	241,990,401.35	1,657,589,934.65	121,754,833.72	1,535,835,100.93	92.65

Bank Group Strategic Framework Matrix 2005-2009

ANNEX 2

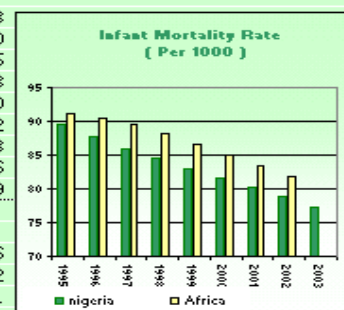
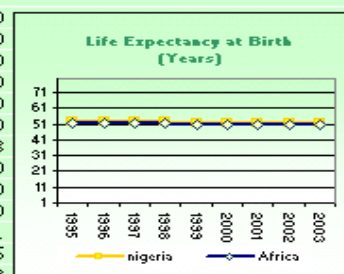
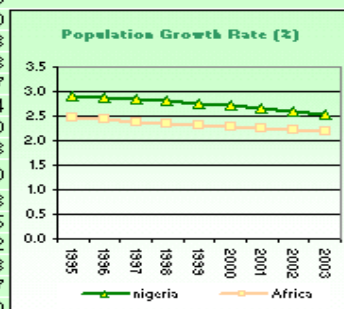
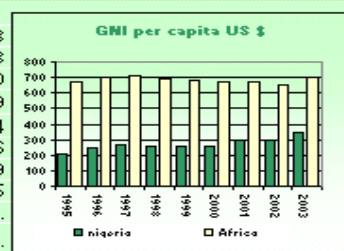
Country issues	Government Agenda NEEDS	Bank Group Strategy CSP	Bank Group Strategy/Activity		Other donors	Benchmarks		
			Ongoing	Proposed		MDGs	CSP	NEEDS
Pillar I - Empowering people and building a Social Contract								
<ul style="list-style-type: none"> Inadequately skilled labor force and lack of access to vocational education High educational gender disparity Lack of access to primary health care Shortage of trained health personnel Lack of access to basic social infrastructure Insufficient capacity for analyzing and monitoring poverty policies at the National Planning Commission 	<ul style="list-style-type: none"> Unfettered access to education, including vocational training and elimination of gender disparity in education Improve quality of education at all levels Improve life quality through skill acquisition and job creation Improve health status of Nigerians in order to reduce poverty Strengthening preventive and curative primary health care services Delivery of effective, efficient, good quality and affordable health services Increase access to the provision of quality primary health care Reduce the disease burden attributable to communicable diseases 	<ul style="list-style-type: none"> Rehabilitation of vocational schools Supply of books and equipment Training of vocational education teachers Rehabilitation of health facilities and training institutions Provision of drugs; equipment and supplies Provision of training to enhance the skills of health personnel Advocacy and training on poverty reduction initiatives at community level Establish Social Fund Agencies to implement poverty reduction initiatives at State level Provision of training to strengthen the management and planning capacity of Ministry of Health (Federal and State levels) Capacity building of the National Planning Commission, including training of staff of its Poverty Alleviation Unit on poverty policy analysis and monitoring 	<p>Health Systems Development project</p> <p>Community-based Health and Poverty Reduction project</p>	<p>Enhance skills and vocational education</p> <p>Combat communicable diseases</p>	<ul style="list-style-type: none"> WB CIDA DFID EC JICA UNDP UNICEF USAID 	<p>All children to complete primary education</p> <p>Eliminate gender disparity in primary and secondary education by 2005</p> <p>Reduce mortality rate of children under five by two thirds to 49 per 1000</p> <p>Reduce maternal mortality due to child bearing by three quarters between 1990 and 2015</p> <p>Stop the spread of AIDS</p>	<p>10 vocational schools rehabilitated and functional</p> <p>Number of girls graduating from Vocational & Technical Education increased by 20 percent</p> <p>Utilization of Primary Health Care facilities increased by 25 percent</p> <p>Proportion of children under one year and under two years fully immunized increased by 20 percent</p> <p>Maternal, infant and under-five mortality rates reduced</p> <p>Tuberculosis detection rate increased by 20 percent</p> <p>Proportion of births attended by skilled health personnel increased by 30 percent</p> <p>Access to basic social services increased by 60 percent in the project area</p> <p>All staff of the National Planning Commission's Poverty Alleviation Unit trained in poverty policy analysis and monitoring</p>	<p>50 percent of secondary school students have access to vocational and entrepreneur education</p> <p>50 percent of tertiary education graduates acquire sufficient technical and entrepreneurial skills</p> <p>Rehabilitate vocational basic technology</p> <p>Reduction by 2010 of the adult HIV-prevalence rate by 25 percent</p> <p>Reduction of STDs by 50 percent by 2007</p> <p>Immunization coverage of 60 percent</p>

Country issues	Government Agenda NEEDS	Bank Group Strategy CSP	Bank Group Strategy/Activity		Other donors	Benchmarks		
			Ongoing	Proposed		MDGs	CSP	NEEDS
Pillar II - Promoting private enterprise to foster growth of the non-oil sector								
<ul style="list-style-type: none"> • Low production and productivity of crops • Dependence on rain fed agriculture and low development of Fadama farming • Weak agricultural marketing system, investment in farm inputs and poor rural infrastructure • Weak institutional capacity of Ministry of Agriculture and Rural Development • Unreliable power transmission system with insufficient capacity • Rapid deterioration of the road network; about 50 percent of road network deteriorated • Insufficient water supply and sanitation systems to meet the existing demand 	<ul style="list-style-type: none"> • Provision of incentives for private investment in agriculture • Foster linkages with the industry to increase value added for export • Modernization of production and increase rural employment • Reverse trends in food importation • Integrated development and management of water resources • Protecting and optimization of water resources • Involving the private sector in sustainable water management • Complete the ongoing construction of a 3,000-kilometer network of roads • Road rehabilitation • Strengthening of the newly created Roads Maintenance Agency • Develop a seaport by encouraging private sector participation • Improve power supply; increase electrification • Increase generation, transmission and distribution capacity 	<ul style="list-style-type: none"> • High yielding crop varieties and better livestock breeds made available to farmers • Introduction of new variety of 'Nerica' rice and dissemination at national level • Community skills for planning strengthened and civil work contractors procured • Training needs assessment carried out and consultants recruited • Soil conservation and land improvement measures adopted by communities • Staff career development strategy developed, information technology introduced and staff trained on new agricultural monitoring and management system • Construction of a transmission line to create a countrywide power transmission grid loop • Establishment of a road maintenance fund • Investments in the rural road system • Create an enabling environment for private sector provision of transport services • Provision of loans and micro-credits for establishing revolving funds at the community level • Create an institutional framework for the sustainable development of water and sanitation operations • Increase water supply coverage through rehabilitation, expansion and construction of low cost facilities following decentralization, ownership and community management 	<p>Community-based Agriculture and Rural Development project</p> <p>Fadama Agricultural Development Project</p> <p>Strengthening the country's transmission infrastructure</p> <p>Ibadan Emergency Water Supply project</p> <p>Multi State Water Supply project</p> <p>Start of the Institutional Support project to the Ministry of Agriculture and Rural Development (approved in April/May 2005)</p> <p>Start of the Olokola Deep Seaport Study (approved in April/May 2005)</p>	<p>Promote the development of rice cultivation</p> <p>Strengthening the country's transmission infrastructure</p> <p>Enhance rural transport, access and mobility</p> <p>Enhance rural water supply and sanitation</p>	<p>- WB</p> <p>- CIDA</p> <p>- DFID</p> <p>- IFAD</p> <p>- UNDP</p> <p>- EC</p> <p>- UNICEF</p>	<p>Reduce by 50 percent the proportion of people living with less than US\$1 a day</p> <p>Halve by 2015 the proportion of people without safe drinking water</p>	<p>Food production will increase to substitute food imports: rice increase by 35,000 MT, other cereals increase by 15,000 MT, and 6,000 MT vegetables</p> <p>Decrease imports of rice by 5 percent</p> <p>50,000 farmers trained in production related subjects</p> <p>Construction of small-scale hydrological structures: some 450 water conveyance, boreholes, and tube wells.</p> <p>Adequate storage, rural roads, marketing facilities: construction of 500 market points, sheds, and collection stores, and 660 km rural roads</p> <p>70 percent of staff of the Federal Ministry of Agriculture trained, IT introduced and used for better agriculture statistics and sector management</p>	<p>Achieve a minimum annual growth rate of 6 percent per annum in agriculture</p> <p>Attain agricultural exports of US\$ 3 million annually</p> <p>Reduce food imports to 5 percent by 2007</p> <p>Increase cultivable land by 10 percent annually</p> <p>Rural water supply coverage of 60 percent by 2007</p> <p>Increase percentage of the population with access to electricity to 65 percent in 2007</p> <p>Increase rural power supply from 10 percent to 20 percent by 2007</p> <p>Complete the ongoing construction of a 3,000-kilometer network of roads</p>

Nigeria

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Nigeria	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		924	30 061	80 976	54 658
Total Population (millions)	2002	133.0	849.5	5,024.6	1,200.3
Urban Population (% of Total)	2003	44.9	39.2	43.1	78.0
Population Density (per Km ²)	2003	134.2	28.3	60.6	22.9
GNI per Capita (US \$)	2003	350	704	1 154	26 214
Labor Force Participation - Total (%)	2003	40.0	43.3	45.6	54.6
Labor Force Participation - Female (%)	2003	35.9	41.0	39.7	44.9
Gender -Related Development Index Value	2002	0.458	0.476	0.655	0.905
Human Develop. Index (Rank among 174 countries)	2003	154	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	1997	70.2	46.7	23.0	n.a.
Demographic Indicators					
Population Growth Rate - Total (%)	2003	2.8	2.2	1.7	0.6
Population Growth Rate - Urban (%)	2003	4.1	3.8	2.9	0.5
Population < 15 years (%)	2003	45.5	42.0	32.4	18.0
Population >= 65 years (%)	2003	3.2	3.3	5.1	14.3
Dependency Ratio (%)	2003	90.6	86.1	61.1	48.3
Sex Ratio (per 100 female)	2003	101.5	99.0	103.3	94.7
Female Population 15-49 years (% of total population)	2003	22.8	24.0	26.9	25.4
Life Expectancy at Birth - Total (years)	2003	51.4	50.7	62.0	78.0
Life Expectancy at Birth - Female (years)	2003	51.6	51.7	66.3	79.3
Crude Birth Rate (per 1,000)	2003	38.6	37.0	24.0	12.0
Crude Death Rate (per 1,000)	2003	13.7	15.2	8.4	10.3
Infant Mortality Rate (per 1,000)	2003	77.3	80.6	60.9	7.5
Child Mortality Rate (per 1,000)	2003	130.2	133.3	79.8	10.2
Maternal Mortality Rate (per 100,000)	1992	1,000	661	440	13
Total Fertility Rate (per woman)	2003	5.3	4.9	2.8	1.7
Women Using Contraception (%)	1995	6.0	40.0	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	1993	21.2	57.6	78.0	287.0
Nurses (per 100,000 people)	1989	76.1	105.8	98.0	782.0
Births attended by Trained Health Personnel (%)	1998	15.0	44.0	56.0	99.0
Access to Safe Water (% of Population)	2002	60.0	64.4	78.0	100.0
Access to Health Services (% of Population)	1991	67.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2000	63.0	42.6	52.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2003	6.3	6.4	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2000	22.7	109.7	144.0	11.0
Child Immunization Against Tuberculosis (%)	2002	63.0	81.0	82.0	93.0
Child Immunization Against Measles (%)	2000	30.0	71.7	73.0	90.0
Underweight Children (% of children under 5 years)	1999	27.3	25.9	31.0	...
Daily Calorie Supply per Capita	2002	2 726	2 444	2 675	3 285
Public Expenditure on Health (as % of GDP)	1998	0.8	3.3	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2001	96.0	88.7	91.0	102.3
Primary School - Female	2001	86.0	80.3	105.0	102.0
Secondary School - Total	1996	34.0	42.9	88.0	99.5
Secondary School - Female	1996	31.1	41.3	45.8	100.8
Primary School Female Teaching Staff (% of Total)	1996	47.9	46.3	51.0	82.0
Adult Illiteracy Rate - Total (%)	2003	31.9	36.9	26.6	1.2
Adult Illiteracy Rate - Male (%)	2002	25.6	28.4	19.0	0.8
Adult Illiteracy Rate - Female (%)	2003	39.1	45.2	34.2	1.6
Percentage of GDP Spent on Education	1996-98	...	5.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2003	31.0	6.2	9.9	11.6
Annual Rate of Deforestation (%)	1995	0.9	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1990	3.0	10.9	...	...
Per Capita CO2 Emissions (metric tons)	1998	0.6	1.2	1.9	12.3



Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.

Notes: n.a. Not Applicable ; ... Data Not Available.

Key Economic Indicators 2001-2005

	2001	2002	2003	2004		2005
				Est.	CR 04/239 Proj.	
(annual percentage changes, unless otherwise specified)						
National income and prices						
Real GDP (at 1990 factor cost)	3.3	1.4	10.9	4.1	3.6	7.5
Oil GDP	1.4	-11.6	26.5	3.3	1.9	12.9
Non-oil GDP	4.3	8.0	4.4	4.5	4.5	4.9
Agriculture	3.9	4.3	6.5	4.3	4.3	4.7
Industry	8.7	8.9	6.4	6.0	6.0	7.0
Services	3.6	13.0	1.2	4.2	4.2	4.5
Real GDP per capita	0.6	-1.3	7.9	1.3	0.8	4.6
Non-oil GDP per capita (in U.S. dollars)	199	180	201	204	204	224
GDP deflator (period average)	10.8	3.9	20.8	17.7	19.4	17.0
Non-oil GDP deflator (period average)	20.5	5.5	15.8	15.6	14.3	10.8
Consumer price index (annual average)	18.0	13.7	14.0	16.5	15.1	11.5
Consumer price index (end of period)	16.5	12.2	23.8	11.5	10.1	9.1
External sector						
Exports, fob. 1/	-17.5	-9.8	54.6	14.7	21.1	32.7
Imports, f.o.b.	8.8	16.2	26.5	3.4	4.5	32.9
Non-oil export volume	4.7	9.3	2.7	9.5	-4.4	11.3
Oil export volume 1/	-6.0	-14.1	33.7	-2.3	-3.9	11.0
Volume of import of goods and non-factor services	10.3	11.9	10.8	-3.3	-1.2	25.1
Terms of trade	-10.4	-0.5	2.5	7.2	15.3	18.5
Nominal effective exchange rate (end of period; - indicates depreciation) 2/	-3.3	-18.3	-17.0	2.6		
Real effective exchange rate (end of period; - indicates depreciation) 2/	11.2	-10.4	0.8	0.7		
Consolidated Government operations 3/						
Total revenue and grants	13.1	-9.7	35.5	50.4	38.2	37.7
Oil revenue	5.3	-14.8	42.7	58.7	46.8	43.0
Capital expenditure and net lending 4/	61.2	-11.6	23.0	34.5	18.9	26.0
Money and credit						
Net foreign assets 5/	15.3	-3.5	5.5	28.8	37.6	55.6
Net domestic assets 5/	12.6	25.0	19.0	-21.4	-23.2	-41.6
Net domestic credit 5/	34.6	48.3	27.2	-21.4	-20.6	-41.6
Net credit to consolidated government	11.4	37.6	11.4	-32.4	-33.5	-54.9
Net credit to the federal government	9.5	38.5	11.2	-31.8	-27.8	-61.1
Credit to the rest of the economy	23.0	10.8	15.7	13.8	12.9	13.2
Broad money	27.2	21.6	24.1	16.0	16.0	14.0
Velocity (non-oil GDP as a multiple of end-of-period broad money)	2.2	2.1	2.0	2.1	2.1	2.1
Treasury bill rate (percent; end of period)	20.0	14.9	17.3			
Discount rate (percent; end of period)	20.5	18.5	15.0			
(in percent of GDP; unless otherwise specified)						
Investment and saving						
Investment	22.8	26.1	22.8	21.8	21.5	21.6
Public fixed investment	12.1	10.2	9.3	10.3	9.0	9.0
Private fixed investment	10.7	15.9	13.4	11.6	12.5	12.6
Gross national savings	25.4	15.0	20.0	22.8	22.4	26.8
Public	15.6	11.3	13.2	19.9	18.0	24.3
Private	9.8	3.6	6.7	2.9	4.4	2.4
Consolidated government operations 3/						
Total revenues and grants	42.1	36.1	36.5	44.8	40.9	44.8
Of which oil and gas revenue	32.5	26.2	28.0	36.2	33.2	37.8
Total expenditure and net lending (commitment basis)	47.0	41.4	37.9	39.5	35.9	33.5
Overall balance (commitment basis)	-4.9	-5.4	-1.3	5.3	5.0	11.4
Non-oil primary balance (in percent of non-oil GDP, commitment basis)	-43.2	-31.9	-33.8	-40.9	-37.2	-37.5
Gross domestic debt	19.0	20.7	17.7	15.1	15.0	11.9
External sector						
Current account balance	2.6	-11.1	-2.8	1.0	0.9	5.2
External debt outstanding (in billions of US. dollars)	29.7	31.0	32.8	32.7	32.7	32.5
External debt service due after rescheduling, 2000-01 (in percent of exports of goods and non factor services)	5.2	6.4	5.2	4.7	4.5	3.8
(in millions of U.S. dollars, unless otherwise specified)						
Current account balance	1,255	-5,115	-1,611	681	654	4,410
Overall balance of payments	-98	-4,503	-1,606	3,062	4,328	7,386
Gross international reserves (end of period) (equivalent months of imports, c.i.f.)	10,423	7,681	7,468	12,474	13,672	22,494
Price of Nigerian oil (U.S. dollars per barrel)	7.6	4.9	3.8	6.1	6.6	8.6
Production of crude oil (million barrels per day)	24.3	25.0	28.9	33.5	35.8	42.8
Including oil and gas equivalent	2.26	1.96	2.45	2.50	2.46	2.71
Including oil and gas equivalent		2.15	2.72	2.81	2.77	3.12
Inter-bank Foreign Exchange Market DAS exchange rate (Naira per U.S. dollar; average)	112.0	122.2	130.9			
Nominal GDP at market prices (in billions of Naira) 6/	5,339	5,632	7,533	9,235	9,309	11,685

1/ Export volumes fall more than total production because of an increase in the domestic allocation of crude oil to NNPC.

2/ 2004 data are based on end-July 2004 over end-2003.

3/ Consists of the federal, state, and local governments.

4/ Assumes that two-thirds of state and local government expenditure is recurrent expenditure.

5/ In percent of broad money at the beginning of the period.

6/ The GDP series was updated in 2003 and incorporates changes by the authorities to take account of developments in real activity and structural changes

Source: IMF Staff Report February 2005

ANNEX 5

National Accounts (Oil and Gas Sector) 2002-2005

	2002	2003	2004		2005
			CR 04/239	Proj.	
Physical balances					
(in millions of barrels per day, unless otherwise indicated)					
Crude oil					
Oil price (in U.S. dollars per barrel)	25.0	28.9	33.50	35.8	42.8
Production of crude oil	1.96	2.45	2.50	2.46	2.71
Crude	1.83	2.30	2.37	2.39	2.62
Condensates	0.13	0.15	0.13	0.07	0.09
Domestic allocation to NNPC	0.44	0.43	0.44	0.44	0.44
Domestic refining	0.22	0.12	0.22	0.22	0.22
Exports of crude oil	1.74	2.33	2.28	2.24	2.49
Of which exports out of domestic allocation	0.23	0.31	0.22	0.22	0.22
OPEC quota	1.79	2.01	2.02	2.02	2.06
(in billions of cubic feet, unless otherwise indicated)					
Natural gas					
Total production	1,772	1,819	2,039	2,007	2,205
For Nigeria Liquefied Natural Gas (NLNG)	279	438	530	530	636
For natural gas liquids production (NGL)	104	104	104	104	214
Other	248	255	286	281	309
Re-injection	273	257	263	259	284
Flaring	667	864	857	833	762
Gas sales (LNG and NGL feed; in millions of barrels per day oil equivalent.)	0.19	0.26	0.31	0.31	0.41
Flaring (in percent of total gas produced)	37.6	47.5	42.0	41.5	34.6
Financial Balances					
(in millions of U.S. dollars, unless otherwise indicated)					
National accounts and balance of payments					
Crude oil					
Production of crude oil (including condensates)	17,853	25,903	30,665	32,226	42,282
Exports	15,878	24,611	27,951	29,348	38,813
Exports of federation crude	4,163	7,302	10,517	10,096	13,064
Foreign partner exports	7,677	11,124	14,711	15,489	20,295
Domestic use	1,974	1,279	2,701	2,863	3,469
Recurrent costs	2,862	3,492	3,097	3,097	3,723
Investment	3,870	5,326	3,637	4,929	4,488
Foreign direct investment	1,362	2,185	1,811	3,103	2,148
Profit remittances 1/	4,434	5,856	7,025	8,115	8,853
Gas					
Gas sales	575	558	659	696	1,308
NGL 2/	362	221	256	293	825
NLNG 3/	213	337	403	403	483
Recurrent costs	153	217	254	254	340
Investment	726	863	1,983	1,983	2,500
Foreign direct investment	370	440	1,011	1,011	1,275
Profit remittances 4/	488	940	1,192	1,259	1,887
Oil and gas GDP (percentage change)	-11.6	26.6	3.3	1.9	12.8
Production of crude oil (percentage change)	-13.3	25.1	1.9	0.3	10.2
Gas sales (LNG and NGL feed; percentage change)	10.5	41.4	17.0	17.0	33.9
Government revenue					
Oil					
Export of federation crude	4,163	7,302	10,517	10,096	13,064
PPT	1,852	3,369	5,204	4,877	7,851
Royalties, incl. rent	1,391	1,899	2,482	2,497	3,591
Domestic crude & tax on petroleum products	2,381	2,813	5,456	5,463	6,775
Miscellaneous oil revenue (pipeline fees)	172	254	259	255	280
Gas					
NGL	177	108	126	192	404
LNG feed gas	105	165	209	209	251
Flaring 5/	33	37	61	62	55
Government share of costs	3,088	3,500	3,200	3,200	4,230
Net oil and gas revenue	7,186	12,448	21,114	20,451	28,041

Source: IMF Staff Report February 2005.

1/ Calculated as foreign partner exports minus PPT and royalties minus foreign partner share of operating costs.

2/ NNPC data for 2002-03. Projection calculated as NGL export revenue minus operating and capital cost (netback value for feed gas).

3/ NNPC data for 2002-03. Projection assumes price of US\$0.68 per cubic feet of feed gas.

4/ Calculated as foreign partner share of dividends for LNG; foreign partner share in feed gas delivery for NGL.

5/ NNPC data for 2002-03. Projection calculated as residual and assuming a price of NIO per cubic feet.

Public Finance 2000-2004

Consolidated Fiscal Accounts (in billions of Naira)	2000	2001	2002	2003	2004 (est.)
A. Total revenue and grants	2,027.2	2,534.0	2,036.5	2,635.2	3,922.9
A I. Total revenue (excl. grants)	2,027.2	2,534.0	2,036.5	2,635.2	3,922.9
A. 1. Current Revenue	2,027.2	2,534.0	2,036.5	2,635.2	3,922.9
A. 1.1. Tax revenue	769.2	1,016.7	781.6	1,130.2	1,689.1
Taxes on income, Profits and Capital Gains	576.2	707.9	481.3	798.3	1,313.6
Social Security Contributions	7.5	16.2	10.3	0.0	0.0
Taxes on payroll or Work Force					
Taxes on property					
Taxes on Goods and Services	84.0	122.0	108.6	136.4	158.4
Taxes on International Trade and Transactions	101.5	170.6	181.4	195.5	217.1
A. 1.2. Nontax revenue	1,167.6	1,228.4	1,013.6	1,451.7	2,233.8
A. 1.3 Share of/Draw Down on Reserve Accounts	90.4	288.9	241.3	53.3	
A. 2. Capital Revenue	0.0	0.0	0.0	0.0	0.0
A. II. Grants	0.0	0.0	0.0	0.0	0.0
B. Total Expenditure and Lending minus Repayments	2,131.0	2,755.1	2,337.8	2,837.8	4,064.9
B.I. Total expenditure	2,131.0	2,755.1	2,337.8	2,837.8	4,064.9
B.1. Current expenditures	1,891.5	2,316.4	2,016.4	2,596.1	3,750.3
Wages and salaries	278.7	285.1	369.2	368.0	442.6
Overhead Cost	71.4	118.0	109.1	146.4	128.1
Interest Payments	108.5	155.4	203.9	366.6	397.3
Statutory Transfer to States, Local Govts & Others	695.7	934.1	1,193.9	1,146.7	1,519.1
Deductions 3/	734.1	804.1	125.7	563.5	1,263.2
Others	3.1	19.6	14.6	4.9	0.0
B.2. Capital expenditures	239.5	438.7	321.4	241.7	314.6
B.II. Lending minus Repayments	0.0	0.0	0.0	0.0	0.0
108.5					
C. Balance (A-B) 3/	-103.8	-221.1	-301.2	-202.6	-142.0
D. Arrears					
E. Overall Balance (C+D) /4	-103.8	-221.1	-301.2	-202.6	-142.0
F. Financing (F.I + F.II) = E	103.8	221.1	301.2	202.7	142.0
F.I. Domestic Financing (F.1 + F.2)	103.8	221.1	301.2	202.7	142.0
F.1 Bank Financing	73.1	136.7	60.8	105.6	-41.6
F.2 Non Bank Financing	30.3	-18.0	88.2	58.1	82.3
F.3 Others	0.3	102.3	152.2	39.0	101.3
F. II External Financing					
Memorandum items:					
Overall deficit(commitment basis excl. grant) / GDP	-2.1%	-4.0%	-5.1%	-2.8%	-1.7%
Tax revenue/ GDP at Current Market Prices	15.9%	18.3%	13.2%	15.4%	20.4%
Wages and Salaries/Tax revenue	36.2%	28.0%	47.2%	32.6%	26.2%
Domestic investment expenditure/ tax revenue	-13.5%	-21.7%	-38.5%	-17.9%	-8.4%
Domestic arrears stock					
Central Bank Financing/Previous year's tax revenue	0.0%	29.3%	0.0%	12.0%	0.0%
GDP at current market prices	4,842.2	5,545.4	5,902.0	7,335.3	8,265.0

Source: Central Bank of Nigeria, April 2005

Fiscal Operations 2001-2005

	2001	2002	2003	2004	2005
(Commitment basis)			Est.	Proj.	
	(in percent of GDP unless otherwise indicated)				
Total revenue	42.1	36.1	36.5	40.9	44.8
Petroleum revenue	32.5	26.2	28.0	33.2	37.8
Government crude receipts	17.9	12.8	12.8	16.3	15.3
Petroleum profit tax and royalty	11.5	7.0	9.1	9.8	13.4
Petroleum profit tax	7.6	4.0	5.8	6.9	9.2
Royalty	3.9	3.0	3.3	2.9	4.2
Upstream gas and NLNG	0.5	0.6	0.4	0.5	0.8
Other oil revenue	0.1	0.4	0.5	0.2	0.4
Domestic crude	2.5	5.4	5.1	6.3	8.0
Non-petroleum revenue	9.6	9.8	8.6	7.7	7.0
Tax revenue	8.8	8.6	7.9	6.8	6.1
Taxes on international trade and transactions	3.6	3.6	3.1	2.5	2.3
Taxes on net income, profits and capita gains	2.9	3.1	2.9	2.6	2.4
Domestic taxes on goods and services	2.3	1.9	1.8	1.7	1.5
Non-tax revenue	0.8	1.2	0.7	0.9	0.9
Total consolidated expenditure	47.0	41.4	37.9	35.9	33.5
Total Federal expenditure	31.2	27.1	22.5	18.6	19.2
Federal Government recurrent expenditure	22.9	22.3	19.2	15.5	15.2
Goods and services	7.5	8.5	6.8	5.8	5.6
Personnel cost	5.3	6.5	4.9	4.7	4.7
Overhead cost	2.2	1.9	1.9	1.1	0.9
Pension arrears clearance	0.0	0.0	0.0	0.0	0.0
Interest payments due	6.1	6.4	4.6	3.6	3.0
Domestic	2.9	3.0	2.3	1.9	1.6
Foreign	3.2	3.4	2.4	1.7	1.3
Transfers	9.3	7.4	7.7	6.0	6.7
NNPC cash calls	7.3	6.1	6.0	4.6	5.0
NNPC priority projects	0.7	0.1	0.0	0.0	0.0
National Judicial Council	0.3	0.3	0.3	0.4	0.3
Transfer to Niger Delta Dev. Comm.	0.2	0.2	0.1	0.1	0.1
Customs levies	0.5	0.4	0.5	0.4	0.2
Education Fund	0.3	0.2	0.1	0.1	0.1
Federal Government extra-budgetary funds		0.1	0.6	0.4	0.8
Federal Government capital expenditure	8.3	4.7	3.3	3.2	4.0
Domestic financed	8.1	4.5	3.2	3.0	3.8
Foreign financed	0.1	0.2	0.1	0.2	0.2
State and Local Governments	15.8	14.3	15.4	17.2	14.2
Primary expenditure	15.8	14.3	14.9	16.6	13.8
External interest payment due			0.4	0.6	0.4
Overall balance (commitment basis) 2/	-4.9	-5.4	-1.3	5.0	11.4
Financing	5.3	6.7	3.3	-6.9	-11.4
External	-1.1	0.8	-0.3	-0.2	0.0
Borrowing	0.1	0.2	0.1	0.2	0.2
Amortization due	-3.6	-3.0	-2.4	-2.3	-2.0
Federal Government			-2.0	-1.7	-1.5
States			-0.4	-0.6	-0.5
Arrears, rescheduling, and debt buyback	2.3	3.5	1.9	1.9	1.8
Domestic	2.6	6.6	3.4	-7.5	-11.5
Privatization proceeds	1.6	0.3	0.0	0.0	0.2
Recovered funds	0.0	0.0	0.4	0.8	0.0
Carryover of unspent capital mandates 3/	2.3	-1.0	-0.2	0.0	0.0
Statistical discrepancy	0.4	1.3	1.9	-1.9	0.0
Memorandum items					
Non-oil balance (in percent of GDP)	-30.0	-25.4	-23.3	-23.6	-21.5
Non-oil primary balance (in percent of non-oil GDP) 4/	-43.2	-31.9	-33.8	-37.2	-37.5
Primary balance (in percent of GDP)	1.2	1.0	3.3	9.2	14.8
Target for overall balance (permanent price rule, in percent of GDP)	7.8	2.8	9.0	15.7	21.5
Deviation from target (permanent price rule, in percent of GDP)	-12.8	-8.2	-10.4	-10.7	-10.1
Nominal GDP (in billions of Naira)	5,339	5,632	7,533	9,309	11,685
Non-oil GDP (in billions of Naira)	2,955	3,365	4,069	4,856	5,642

Source: IMF Staff Report February 2005.

1/ State and Local Government collect their own revenue (such as income tax and property tax).

2/ External debt service in on a commitment basis. Capital spending for 2002 excludes the cash overhang of Naira 160 billion accumulated in 2001.

3/ This reflects the draw-down of unspent capital mandates to finance capital expenditure committed in previous years. Insufficient data prevent the inclusion of actual commitments in 2000-01.

4/ Excluding oil revenue, cash call payments and interest payments.

Monetary Survey 2001-2005

	2001	2002	2003	2004		2004	2005
				June			
				Est.	Gov. Prog.			Est.	Proj.
(in billions of Naira, end of period)							
Net foreign assets	1,433	1,387	1,476	1,801	1,943	2,221	3,502
Central Bank of Nigeria (net)	1,145	1,008	1,059	1,382	1,523	1,802	3,083
Commercial and merchant banks (net)	288	379	417	418	419	419	419
Net domestic assets	-91	238	541	327	215	81	-877
Net domestic credit	830	1,329	1,765	1,546	1,485	1,355	397
Consolidated government (net) 3/	2	391	573	295	112	-93	-1,356
Central Bank (net, consolidated government)	-179	-41	254	-212	-331	-545	-2,056
Commercial banks (net, federal government)	154	415	298	507	422	431	679
Commercial banks (gross, states and local governments)	27	17	20		21	20	20
Non-financial public enterprises	1	0	0		0	0	0
Other financial institutions	6	5	7		12	7	7
Claims on private sector	821	933	1,185	1,251	1,361	1,441	1,746
Other items (net)	-921	-1,092	-	-1,220	-1,271	-1,274	-1,274
			1,223				
Broad money	1,316	1,599	1,985	2,127	2,113	2,303	2,625
Bonds and money market instruments (of banks)	26	25	32		44		
(contribution to broad money growth unless otherwise stated)							
Net foreign assets	15.3	-3.5	5.5	17.2	23.9	37.6	55.6
Net domestic assets	12.6	25.0	19.0	-18.8	-24.1	-23.2	-41.6
Net domestic credit	34.6	48.3	27.2	-5.9	-8.8	-20.6	-41.6
Net credit to the consolidated government 3/	11.4	37.6	11.4	-15.4	-24.0	-33.5	-54.9
Net credit to the federal government	9.5	38.5	11.2	-15.6	-13.3	-27.8	-61.1
Claims on private sector	23.0	10.8	15.7	10.1	15.3	12.9	13.2
Other items (net)	-22.0	-13.0	-8.2	-13.0	-15.4	-2.6	0.0
Broad money (percent change since year's end)	27.2	21.6	24.1	7.2	6.5	16.0	14.0
Claims on private sector (percent change since years end)	40.9	13.6	27.0	5.6	14.9	21.7	21.1
Velocity (non-oil GDP over broad money)	2.2	2.1	2.0	2.3	2.3	2.1	2.1
Money multiplier	2.4	2.7	2.9	3.4	3.4	3.1	3.2
Non-oil GDP at market prices (in billions of Naira)	2,955	3,365	4,069	4,913	4,913	4,856	5,642
Reserve money (in billions of Naira)	542	591	689	630	630	745	820
Memorandum item							
Gross international reserves (in millions of U.S. dollars)	10,423	7,681	7,468	10,164	11,441	13,672	22,494

Source: IMF Staff Report February 2005.

1/ Consolidated accounts of the Central Bank, commercial banks, and merchant banks.

2/ Based on the revised money and banking time series constructed by the CBN beginning in 1992.

3/ Consolidated Government includes the Federation account, Federal, State and Local Governments and Special Funds. The Government in their presentation of the first half 2004 outcomes have included sub-national Government deposit accumulation in other items net.

ANNEX 9

Balance of Payments 2001-2005

	2001	2002	2003	2004	2005	
			Est.	CR 04/239	Revised	Proj.
	(in millions of U.S. dollars)					
Trade balance	8,116	4,325	10,435	13,985	15,449	20,457
Exports	19,598	17,672	27,321	31,451	33,093	43,898
Oil	18,031	15,878	24,592	27,860	29,313	38,813
Gas	896	1,056	1,918	2,688	2,876	4,117
Other	671	738	811	903	903	969
Imports	-11,482	-13,347	-16,885	-17,466	-17,644	-23,442
Oil-related	-,891	-3,941	-5,188	-3,918	-4,732	-4,782
Gas-related	-507	-538	-658	-1,382	-1,382	-1,783
Other	-9,084	-8,868	-11,039	-12,166	-11,530	-16,877
Services and incomes balance	-8,138	-10,839	-13,703	-15,164	-16,654	-18,021
Factor services balance	-4,258	-6,401	-8,400	-9,742	-10,898	-11,958
Oil-related	-2,712	-4,434	-5,856	-7,025	-8,115	-8,853
Gas-related	-193	-488	-940	-1,193	-1,259	-1,887
Non oil-related	-1,353	-1,479	-1,604	-1,524	-1,524	-1,218
Of which interest due on public debt	-1,535	-1,557	-1,619	-1,539	-1,539	-1,496
Non-factor services balance	-3,880	-4,438	-5,303	-5,422	-5,756	-6,063
Oil-related	-1,261	-1,530	-1,978	-1,400	-1,735	-1,661
Gas-related	-213	-225	-272	-579	-579	-746
Non oil-related	-2,407	-2,683	-3,053	-3,443	-3,443	-3,656
Private transfers (net)	1,303	1,421	1,677	1,878	1,878	1,990
Official transfers (net)	-25	-22	-20	-18	-18	-16
Current account balance	1,255	-5,115	-1,611	681	654	4,410
Official capital (net)	-1,642	-1,268	-1,291	-1,476	-1,476	-1,572
Disbursements	70	106	76	111	111	168
Amortization due	-1,713	-1,373	-1,368	-1,587	-1,587	-1,740
Other capital flows (net)	2,051	2,484	3,246	3,508	4,800	4,548
Direct and portfolio investment	2,051	2,484	3,246	3,508	4,800	4,463
Oil sector	566	1,362	2,185	1,811	3,103	2,148
Gas sector	351	370	440	1,011	1,011	1,275
Non-oil sector	1,134	752	620	686	686	1,040
Private borrowing (net)	0	0	0	0	0	85
Short-term capital (net)	-648	-431	-39	350	350	0
Capital account balance	-239	785	1,916	2,382	3,674	2,976
Errors and omissions	-1,114	-173	-1,911	0	0	0
Overall balance	-98	-4,503	-1,606	3,062	4,328	7,386
Financing	98	4,503	1,606	-3,062	-4,328	-7,386
Net reserves (increase -)	-1,023	2,742	213	-5,006	-6,204	-8,822
Exceptional financing	1,121	1,761	1,393	1,944	1,876	1,436
Net accumulation of arrears (decrease -)	375	1,900	1,177	1,326	1,326	1,436
Recovered funds/ Debt buyback (net)		-139	216	618	550	
	(in percent of GDP; unless otherwise indicated)					
Memorandum items:						
Gross official reserves (in millions of US dollars)	10,423	7,681	7,468	12,474	13,672	22,494
(in months of imports (GNFS))	7.6	4.9	3.8	6.1	6.6	8.6
Current account	2.6	-11.1	-2.8	1.0	0.9	5.2
Non-oil current account (in percent of non-oil GDP)	-41.3	-39.6	-42.5	-40.2	-38.0	-45.7
Primary balance	-0.6	-14.5	-5.6	-1.3	-1.3	3.4
Primary balance (in percent of non-oil GDP)	-1.1	-24.2	-10.4	-2.4	-2.5	7.1
Trade balance	17.0	9.4	18.1	20.8	22.3	24.0
Non-oil trade balance (in percent of non-oil GDP)	-31.9	-29.5	-32.9	-31.5	-29.4	-38.6
Oil and gas sector exports	39.7	36.7	46.1	45.5	46.5	50.3
Total imports	-24.1	-29.0	-29.3	-26.0	-25.5	-27.5
Stock of external debt (in millions of US dollars)	29,686	30,993	32,818	32,669	32,669	32,533
Total external debt	62.3	67.2	57.0	48.7	47.2	38.1
Total external debt (in percent of exports (GNFS)) 2/	150.2	144.7	144.5	121.5	119.2	89.5
Total external debt (in percent of consolidated revenue)	147.9	186.5	156.1	108.5	115.5	85.1
Debt service due	5.2	6.4	5.2	4.7	4.5	3.8
Oil export price (U.S. dollars per barrel)	24.3	25.0	28.9	33.5	35.8	42.8
GDP (at factor cost; in millions of US dollars)	46,246	44,632	56,151	65,740	67,760	83,801

Source: IMF Staff Report, February 2005

1/ For 2003, actual recovered funds received by CBN. In 2004, anticipated funds recovered by Swiss Government

2/ Three-year moving average of exports.

Balance of Payments Projections 2005-2009

ANNEX 10

	2001	2002	2003	2004	2005	2006	2007	2008	2009
			Est.	Projections					
	(In millions of U.S. dollars)								
Trade balance	8,116	4,331	10,531	13,985	11,888	10,781	10,245	10,199	10,070
Exports	19,598	17,672	27,416	31,451	30,901	29,803	29,630	30,156	30,776
Oil	18,031	15,878	24,683	27,860	26,342	24,870	24,463	24,443	24,499
Gas	896	1,056	1,925	2,688	3,590	3,895	4,045	4,494	4,960
Other	671	738	809	903	969	1,037	1,123	1,219	1,317
Imports	-11,482	-13,342	-16,885	-17,466	-19,013	-19,022	-19,385	-19,958	-20,705
Oil-related	-1,891	-3,935	-5,188	-3,918	-4,194	-4,266	-4,318	-4,240	-4,198
Gas-related	-507	-538	-658	-1,382	-1,783	-1,670	-1,559	-1,589	-1,619
Other	-9,084	-8,868	-11,039	-12,166	-13,036	-13,085	-13,508	-14,129	-14,889
Services and incomes balance	-8,138	-10,836	-13,746	-15,164	-15,477	-15,308	-15,489	-16,013	-16,547
Factor services balance	-4,258	-6,401	-8,444	-9,742	-9,541	-9,156	-9,069	-9,293	-9,483
Oil-related	-2,712	-4,434	-5,897	-7,025	-6,902	-6,786	-6,800	-6,921	-6,962
Gas-related	-193	-488	-944	-1,193	-1,387	-1,310	-1,309	-1,493	-1,700
Non-oil related	-1,353	-1,479	-1,603	-1,524	-1,251	-1,060	-960	-879	-820
Of which: interest due on public debt 1/	-1,535	-1,557	-1,619	-1,539	-1,496	-1,473	-1,444	-1,418	-1,389
Nonfactor services balance	-3,880	-4,436	-5,302	-5,422	-5,936	-6,152	-6,420	-6,719	-7,064
Oil-related	-1,261	-1,528	-1,977	-1,400	-1,534	-1,580	-1,606	-1,573	-1,554
Gas-related	-213	-225	-272	-579	-746	-696	-648	-659	-669
Nonoil-related	-2,407	-2,683	-3,053	-3,443	-3,656	-3,876	-4,166	-4,488	-4,841
Private transfers (net)	1,303	1,421	1,677	1,878	1,990	2,110	2,236	2,371	2,513
Official transfers (net)	-25	-22	-20	-18	-16	-15	-13	-12	-11
Current account balance	1,255	-5,107	-1,559	681	-1,614	-2,432	-3,021	-3,455	-3,974
Official capital (net)	-1,642	-1,268	-1,291	-1,476	-1,572	-1,355	-1,056	-1,210	-1,295
Disbursements	70	106	76	111	168	225	250	243	204
Amortization due	-1,713	-1,373	-1,368	-1,587	-1,740	-1,579	-1,306	-1,453	-1,499
Other capital flows (net)	2,051	2,481	3,246	3,508	5,058	4,975	5,026	4,817	4,823
Direct and portfolio investment	2,051	2,481	3,246	3,508	4,973	4,858	4,726	4,539	4,494
Oil sector	566	1,358	2,185	1,811	2,657	2,530	2,486	2,331	2,266
Gas sector	351	370	440	1,011	1,275	1,148	1,046	1,046	1,046
Non-oil sector	1,134	752	620	686	1,040	1,180	1,195	1,162	1,182
Private borrowing (net)	0	0	0	0	85	117	299	278	329
Short-term capital (net)	-648	-431	-39	350	0	0	0	0	0
Capital account balance	-239	782	1,916	2,382	3,486	3,620	3,970	3,607	3,528
Errors and omissions	-1,114	-177	-1,963	0	0	0	0	0	0
Overall balance	-98	-4,503	-1,606	3,062	1,871	1,188	949	152	-447
Financing	98	4,503	1,606	-3,062	-1,871	-1,188	-949	-152	447
Net reserves (increase -)	-1,023	2,742	213	-5,006	-3,308	-2,440	-1,899	-1,223	-641
Exceptional financing	1,121	1,761	1,393	1,944	1,436	1,252	950	1,071	1,088
Net accumulation of arrears (decrease -)	375	1,900	1,177	1,326	1,436	1,252	950	1,071	1,088
Rescheduling 2/	746	0	0	...	...	...	...	...	...
Recovered funds 3/	...	...	216	618	...	...	...	...	...
Debt buyback (net)	...	-139	...	...	...	...	...	...	...
	(In percent; unless otherwise indicated)								
Memorandum items:									
Gross official reserves (in US\$ millions)	10,423	7,681	7,468	12,474	15,782	18,222	20,121	21,344	21,986
(in months of imports (GNFS))	7.6	4.9	3.8	6.1	7.1	8.1	8.8	9.0	8.9
Current account (in percent of GDP)	2.6	-11.1	-2.7	1.0	-2.3	-3.4	-4.1	-4.4	-4.9
Non-oil current account (in percent of non-oil GDP)	-41.3	-39.6	-42.6	-40.2	-38.0	-35.6	-34.4	-33.5	-32.9
Primary balance/GDP	-0.6	-14.5	-5.5	-1.3	-4.4	-5.4	-6.0	-6.3	-6.6
Primary balance/Non-oil GDP	-1.1	-24.2	-10.2	-2.4	-7.9	-9.3	-10.0	-10.3	-10.5
Trade balance/GDP	17.0	9.4	18.3	20.8	16.8	14.9	13.7	13.1	12.3
Non-oil trade balance/Non-oil GDP	-31.9	-29.5	-32.9	-31.5	-30.6	-28.8	-27.8	-27.2	-26.7
Oil and gas sector exports/GDP	39.7	36.7	46.1	45.5	42.3	39.8	38.2	37.1	36.0
Total imports/GDP	-24.1	-28.9	-29.3	-26.0	-26.9	-26.3	-26.0	-25.6	-25.3
Stock of external debt (in U.S. dollar millions)	29,686	30,993	32,818	32,669	32,533	32,430	32,325	32,183	31,976
Total external debt/GDP	62.3	67.2	56.9	48.7	46.0	44.9	43.3	41.3	39.1
Total external debt/Exports (GNFS) 4/	150.2	144.7	144.3	121.5	103.4	100.2	101.6	101.7	99.7
Total external debt/Consolidated revenue	147.9	185.9	156.0	108.5	112.2	115.8	115.4	112.7	108.6
Debt service due/GDP	5.2	6.4	5.2	4.7	4.6	4.2	3.7	3.7	3.5
Oil export price (U.S. dollars per barrel)	24.3	25.0	29.0	33.5	30.5	28.0	27.0	26.3	25.8
GDP (at factor cost; in U.S. dollar millions)	46,246	44,632	56,244	65,740	69,344	70,847	73,161	76,457	80,398

Source: IMF Staff Report, June 2004

1/ Including penalty interest on arrears.

2/ In 2000-01, reflects the Paris Club rescheduling agreement of December 13, 2000.

3/ For 2003, actual recovered funds received by CBN. In 2004, anticipated funds recovered by the Swiss Government.

4/ Three-year moving average of exports.

	Actual			Projections							
	2004	2005	2006	2005	2006	2007	2008	2009			
Baseline Projections											
Gross external financing need in billions of U.S. dollars 1/	5.3	-3.0	0.5	6.4	2.9	0.9	3.4	4.0	4.3	4.9	5.4
(In percent of GDP)	14.2	-6.5	1.0	13.8	5.1	1.3	4.8	5.6	5.8	6.3	6.7
II. Stress Tests											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2005-09 3/					0.9	0.9	1.6	1.2	0.5	0.0	-0.8
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 4/					0.9	0.9	7.6	8.8	9.3	10.2	11.1
B. Bound Tests											
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006					0.9	0.9	4.4	5.2	4.5	5.1	5.6
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006					0.9	0.9	3.4	3.9	4.0	4.5	4.9
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006					0.9	0.9	2.7	1.8	1.3	1.3	1.1
B4. Noninterest current account is at historical average minus two standard deviations in 2005 and 2006					0.9	0.9	10.9	11.5	5.5	6.1	6.8
B5. Combination of 2-5 using one standard deviation shocks					0.9	0.9	5.9	5.5	4.6	5.2	5.8
B6. One time 30 percent nominal depreciation in 2005					0.9	0.9	3.1	3.3	3.5	3.8	4.2
Gross external financing need in percent of GDP 2/											
A. Alternative Scenarios											
A1. Key variables are at their historical averages in 2005-09 3/					1.3	1.3	2.1	1.4	0.5	0.0	-0.7
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 4/					1.3	1.3	11.7	13.3	13.7	14.9	14.9
B. Bound Tests											
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006					1.3	1.3	6.3	7.2	6.0	6.9	6.9
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006					1.3	1.3	5.2	6.4	6.5	7.2	7.2
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006					1.3	1.3	9.7	15.3	10.8	8.5	8.5
B4. Noninterest current account is at historical average minus two standard deviations in 2005 and 2006					1.3	1.3	15.5	16.0	7.4	8.2	8.2
B5. Combination of 2-5 using one standard deviation shocks					1.3	1.3	12.1	15.2	12.3	14.1	14.1
B6. One-time 30 percent nominal depreciation in 2005					1.3	1.3	5.9	6.2	6.3	6.9	6.9

Sources: Nigerian authorities, and staff estimates and projections.

1/ Defined as non-interest current account deficit, plus interest and amortization on medium- and long-term debt, plus short-term debt at end of previous period.

2/ Gross external financing under the stress-test scenarios is derived by assuming the same ratio of short-term to total debt as in the baseline scenario and the same average maturity on medium- and long term debt. Interest expenditures are derived by applying the respective interest rate to the previous period debt stock under each alternative scenario.

3/ The key variables include real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP.

4/ The implied change in other key variables under this scenario is discussed in the text.

Map of Nigeria



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37. Bank Group Action Plan to Improve the Implementation of ADF operations, 2004
38. Bank Group 2002-2003 Annual Portfolio Performance Review, 2004
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40. Bank Group Vision Statement

Annex

NIGERIA

COUNTRY STRATEGY PAPER 2005-2009

CORRIGENDUM

Following recent amendments of the Annotated Format for Bank Group Results-based CSPs, the determination of the amount of resources allocated to Nigeria under ADF X, as well as discussions of the Boards of Executive Directors on benchmarks and reforms to be undertaken to improve the performance of countries, please find hereafter corrections to the Nigeria CSP 2005-2009 which has been distributed to the Boards on 16 June 2005:

1. Page vi, paragraph 4 is amended as follows:

With regard to the financial envelope available for the implementation of the CSP, the evaluation of Nigeria's performance has enabled its allocation to be set at a maximum amount of UA 138,0 million for the ADF X period 2005-2007.

2. Page 8, footnote 6 is amended as follows:

Nigeria does not meet the debt ratios to qualify under the Initiative and has not concluded a formal program with the IMF. Nigeria has, however, benefited from a non-concessionary debt rescheduling by the Paris Club in 2000. In June 2005, the Paris Club agreed to provide debt relief to Nigeria. The terms of the agreement include clearance by Nigeria of arrears of about US\$ 6 billion on its US \$30 billion Paris Club debt, following which there would be a stock reduction on Naples Terms and a buyback of the remainder so as to provide an exit from the Paris Club. The agreement foresees debt relief of about 60 percent of Nigeria's current Paris Club debt. The balance of about 40 percent is expected to be paid-off through a buyback operation. Nigeria's recent reclassification by the World Bank into an IDA-country allowed it to become eligible for debt relief on Naples terms. The Paris Club recognizes Nigeria's implementation of its home-grown reform program, NEEDS, under the IMF intensified surveillance as a legitimate instrument that fulfils the requirements for debt relief. This approach is expected to be encapsulated in a new instrument modeled on Nigeria and known as IMF 'Policy Support Instrument'. Nigeria has been invited to conduct negotiations and prepare a Memorandum of Understanding with the Paris Club by September 2005. Starting from fiscal year 2006, the Government intends to invest an additional US \$1 billion in Education, Health, Agriculture, Water and Power, with a view to achieving the MDGs.

3. Page 45, section 4.6 is amended as follows:

4.6 BANK GROUP ASSISTANCE

4.6.1 Bank Group assistance to Nigeria will combine both lending and non-lending activities, to be implemented under the CSP's two pillars. Nigeria is classified as a blend ADB/ADF-country and as such

has eligibility to ADB loans and to concessionary funding from ADF¹. In compliance with the strategic orientation of the CSP, funds will be used to finance activities in support of human capital development through improved service delivery in education and health and to stimulate private sector-led growth through enhanced infrastructure and agricultural/rural development. The CSP 2005-2009 covers the entire period of ADF X (2005-2007) and the first two years of ADF XI (2008-2010). With regard to the financial envelope available for the implementation of the CSP, the evaluation of Nigeria's performance has enabled its allocation to be set at a maximum amount of UA 138,0 million for the ADF X period 2005-2007. For the first two years of ADF XI, the available amount will be determined on the basis of Nigeria's performance during 2008-2009. In addition, Nigeria has access to Bank resources to finance multi-national projects, with a view to support the process of regional integration through improved infrastructure services, notably in road and air transport, telecommunications and energy. Furthermore, Nigeria's private sector could continue to benefit from non-concessionary resources available under the Bank Group's private sector window, focusing on key sectors of the Nigerian's economy, such as agriculture, transport and export industries, as well as financial intermediaries to strengthen their lending capacity and improve their effectiveness.

4.6.2 Analysis of Nigeria's performance within the context of the Bank's Country Policy and Institutional Assessment (CPIA) for the year 2004 has revealed a number of weaknesses, including in the areas of governance, accountability and transparency, public finance management and debt policy, civil service reform, regional integration and trade, gender equality, human resource development and environment. Measures that the Government intends to undertake to tackle these weaknesses include, among other things, the *implementation of audits of Government oil accounts* of the Ministry of Finance, Nigeria National Petroleum Company, Central Bank and the Niger Delta Development Commission and the publication of audit results. Other measures aimed at enhancing governance, accountability and transparency and improving public finance management include the *adoption of a Public Procurement Bill and a Fiscal Responsibility Bill*. With regard to external debt policy, the Government intends to *conclude a formal agreement with the Paris Club for debt relief on Naples terms*. In the area of civil service reform, the Government envisages to *extend the currently ongoing public sector restructuring program in five pilot ministries/agencies to other ministries/agencies and to continue privatization*. As regards regional integration and trade, the Government intends to carry out a *reform of the external tariff structure*, including the streamlining of tariffs in compliance with the ECOWAS provisions of a four-band tariff structure (0, 5, 10 and 20 percent). The Government also envisages reforms geared towards *mainstreaming gender into development planning and programs* through the implementation of a Gender Plan of Action as well as to *strengthen the country's human resource base* through the implementation of the Technical Vocational Education Master Plan in technical colleges and of the Program to achieve the health-related MDGs. The Government also envisages measures to *protect the environment*.

4.6.3 Weaknesses also persist with regard to the management by the Government of the Bank Group portfolio. Most notably, these include delays in the fulfillment of loan/grant conditions, non-conformity by executing agencies and project implementation units with Bank procedures, low disbursement ratios of certain on-going projects as well as ineffective communication channels between the Bank, the Federal Government, and State Government ministries/agencies. In order to improve the quality of the Bank portfolio, the Government should ensure that Bank procedures are respected and loan/grant conditions are fulfilled in a timely manner. The Government should also put in place adequate mechanisms to ensure smooth communication between the Bank and Federal and State Government ministries/agencies involved in project implementation. The Bank's Country Office (NGCO) plays a critical role in providing technical advice and guidance to executing agencies and project implementation units on the Bank's loan

¹ The Bank is presently in the process of re-considering Nigeria's current blend ADB/ADF status and will shortly submit a proposal to the Boards for a possible re-classification of the country into an ADF-only country.

administration procedures, particularly procurement and disbursement procedures. The following table presents weaknesses identified by the CPIA 2004 and the last Country Portfolio Performance Review (CPPR) 2004, reforms and actions envisaged by the Government to tackle the weaknesses, as well as time-bound performance indicators and benchmarks to measure progress made in the implementation of the reforms:

Table 5: Reforms and benchmarks to improve country performance

Weaknesses identified	Structural reforms and actions envisaged	Performance indicators and benchmarks	
		2007	2009
CPIA 2004			
Transparency, accountability and corruption in the public sector	<ul style="list-style-type: none"> - Audit of oil accounts of the Ministry of Finance, Nigeria National Petroleum Company, Central Bank and the Niger Delta Development Commission - Enactment into law of the Public Procurement Bill 	<ul style="list-style-type: none"> - Publication of audit results and implementation of the recommendations of the audit has been undertaken - Set-up of Due Process teams in all Federal line Ministries/agencies and parastatals 	<ul style="list-style-type: none"> - Continued publication of audit results and recommendations of the audit - Effective application of Due Process in all line Ministries/agencies and parastatals; State and Local Government Ministries
Quality of budgetary and financial management	<ul style="list-style-type: none"> - Enactment into law of the Fiscal Responsibility Bill 	<ul style="list-style-type: none"> - Budget formulation in all line Ministries/agencies based on a Medium-Term Expenditure Framework - An oil-price based fiscal rule on all three tiers of Government has been undertaken 	<ul style="list-style-type: none"> - Budget allocations in all line Ministries/agencies based on a programmatic approach - Continued application of an oil-price based fiscal rule on all three tiers of Government
Debt policy	<ul style="list-style-type: none"> - Conclude agreement with the Paris Club on debt relief on Naples terms and increase capital spending in priority sectors 	<ul style="list-style-type: none"> - Capital expenditure in priority sectors increased by 10 percent per year 	<ul style="list-style-type: none"> - Capital expenditure in priority sectors increased by 10 percent per year
Quality of public administration	<ul style="list-style-type: none"> - Enhance efficiency of the public sector through civil service reform - Implement privatization agenda 	<ul style="list-style-type: none"> - Accomplish the restructuring program in five pilot Ministries/agencies - NEPA and NITEL are privatized 	<ul style="list-style-type: none"> - Extension of the restructuring program to all line Ministries/agencies - Continued progress in the implementation of the privatization agenda
Regional integration and trade	<ul style="list-style-type: none"> - Streamline external tariff structure in line with the ECOWAS provisions 	<ul style="list-style-type: none"> - Adoption of the ECOWAS common external tariff together with an additional higher tariff band of 50 percent 	<ul style="list-style-type: none"> - Phase out all import bans and fully implement the ECOWAS common external tariff
Building human resources	<ul style="list-style-type: none"> - Enhance education and skills - Improve health service delivery 	<ul style="list-style-type: none"> - Implementation of the Technical Vocational Education Master Plan in 50 percent of all technical colleges - Finalization and adoption of the Program to accelerate the achievement of the health-related MDGs 	<ul style="list-style-type: none"> - Implementation of the Technical Vocational Education Master Plan in all technical colleges - Implementation of the Program to accelerate the achievement of the health-related MDGs
Gender Equality	<ul style="list-style-type: none"> - Enhance gender mainstreaming into development planning and programs 	<ul style="list-style-type: none"> - Development of a National Gender Plan of Action 	<ul style="list-style-type: none"> - Implementation of the National Gender Plan of Action
Environment	<ul style="list-style-type: none"> - Improve the legal framework for protection/conservation of the environment 	<ul style="list-style-type: none"> - Adoption of the National Environment Bill and the Oil Spill Contingency Bill 	<ul style="list-style-type: none"> - Implementation of the National Environment Bill and the Oil Spill Contingency Bill
CPPR 2004			
Delays in fulfillment of loan conditions and lack of compliance with Bank procedures	<ul style="list-style-type: none"> - Ensure timely fulfillment of loan conditions and respect of Bank procedures 	<ul style="list-style-type: none"> - Implementation by the Africa & Bilateral Economic Relations Department (ABER) of the Ministry of Finance of quarterly review/monitoring of the Bank portfolio - Loan conditions for all on-going projects are fulfilled in less than 1 year - Implementation of annual workshops on Bank procedures and of recommendations made during the workshops - Award of performance-based contracts to PIU project staff for new projects and performance evaluation undertaken 	<ul style="list-style-type: none"> - Implementation by ABER of quarterly review/monitoring of the Bank portfolio - Loan conditions for all on-going projects are fulfilled in less than 12 months - Implementation of annual workshops on Bank procedures and of recommendations made during the workshops - Award of performance-based contracts to PIU project staff for new projects and performance evaluation undertaken
Low disbursement ratios	<ul style="list-style-type: none"> - Improve disbursement ratios of ongoing projects with particularly low disbursement ratios 	<ul style="list-style-type: none"> - National Fadama Development project: attain disbursement ratio of 50 percent - Community-based Agricultural and Rural development project: attain disbursement ratio of 50 percent 	<ul style="list-style-type: none"> - National Fadama Development project: attain disbursement ratio of 80 percent - Community-based Agricultural and Rural development project: attain disbursement ratio of 80 percent
Existence of problem projects	<ul style="list-style-type: none"> - Eliminate problem projects in the on-going portfolio 	<ul style="list-style-type: none"> - Community-based Poverty Reduction project is no longer rated a problem project due to accelerated project implementation 	<ul style="list-style-type: none"> - No problem project in the on-going portfolio

4. Page 46, paragraph 4.64, last sentence is deleted.

5. Page 49, paragraph 5.3.2, 2nd sentence is amended as follows:

However, in certain areas reform efforts need to be enhanced, such as privatization, including the application of transparent privatization procedures; the liberalization of the foreign trade regime and the application of the ECOWAS tariff structure; public sector management; building human resources, gender equality and environmental protection. The Bank will maintain dialogue with the Government on the implementation of its structural reform agenda.

6. Page 49, paragraph 5.3.3 is deleted.

7. Page 49, paragraph 5.3.4, last sentence is amended as follows:

The Bank through its representation in Nigeria (NGCO) will also maintain a close dialogue with the Government on the implementation of the legal and judiciary reform strategy, on land tenure issues, as well as on the implementation of audits of Government oil accounts and their publication, the extension of the ongoing public sector restructuring program in five pilot ministries/agencies to other ministries and the adoption of the Public Procurement Bill.

8. Page 49, paragraph 5.3.6 is amended as follows:

Weaknesses also persist with regard to the management of the Bank Group portfolio in Nigeria. The Bank will maintain a close dialogue with the Government on measures to improve portfolio performance, notably the timely fulfillment of loan/grant conditions. The Government should also put in place effective monitoring and evaluation systems that allow for a regular follow-up of project progress and of the recommendations made by Bank Group audits. Furthermore, with regard to new projects, staff of project management units should be accorded performance-based contracts. The Bank's office in Nigeria will take a lead role in this context and provide the necessary guidance and support to launching and supervision missions and continue to pursue proactive initiatives to improve the performance of the portfolio.