AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND

FEDERAL REPUBLIC OF NIGERIA

EXTENSION TO 2011 OF THE 2005-2009 COUNTRY STRATEGY PAPER

REGIONAL DEPARTMENT
WEST AFRICA I

April 2010

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LIST OF ANNEXES

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
AMCON	:	Asset Management Company of Nigeria
CEEDS	:	Community Economic Empowerment and Development Strategy
CPPR	:	Country Portfolio Performance Review
CPS	:	Country Partnership Strategy
CSP	:	Country Strategy Paper
DFID	:	Department for International Development
ECA	:	Excess Crude Account
ECOWAS	:	Economic Community of West African States
EU	:	The European Union
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GNI	:	Gross National Income
ICRC	:	Infrastructure Concession and Regulatory Commission
IMF	:	International Monetary Fund
JICA	:	Japanese International Cooperation Agency
LOC	:	Line of Credit
MDG	:	Millennium Development Goal
MTEF	:	Medium-Term Expenditure Framework
NEEDS	:	National Economic Empowerment and Development Strategy
NDDC	:	Niger Delta Development Commission
NEITI	:	Nigeria Extractive Industries Transparency Initiative
NEPAD	:	New Partnership for Africa's Development
NGFO	:	Nigeria Field Office of the Bank
NGN	:	Nigerian Naira
NNPC	:	Nigeria National Petroleum Company
PHCN	:	Power Holding Company of Nigeria
PIU	:	Project Implementation Unit
PPP	:	Public-Private Partnerships
SLG	:	State and Local Governments
SEEDS	:	State Economic Empowerment and Development Strategy
SME	:	Small and Medium Enterprises
UA	:	Unit of Account
UNDP	:	United Nations Development Program
US	:	United States
USD	:	United States Dollar
USAID	:	United States Agency for International Development

CURRENCY EQUIVALENTS
APRIL 2010

Currency Unit Nigeria = Naira

1 UA =	NGN 225.155
1 UA =	SDR 1
1 UA =	USD1.51824.
1 UA =	EUR 1.12637

FISCAL YEAR

1 January - 31 December

WEIGHTS AND MEASURES

Metric System

EXECUTIVE SUMMARY

1. This report aims to extend, until 2011, the validity of the 2005-2009 Country Strategy Paper (CSP) for Nigeria, which the Boards of Directors approved in July 2005. The strategic thrust of the CSP, including the two strategic pillars of intervention, which are (i) development of human capital through improved service delivery in education and health; and (ii) stimulating private sector-led growth in the non-oil sector through enhanced infrastructure, agricultural and rural development, will remain unchanged. However, the Bank will, in 2010, undertake two important knowledge products involving Nigeria. The first one is a flagship study, which will be undertaken in close collaboration with the Nigerian authorities. The second one is the Regional Integration Strategy Paper for West Africa, a region where Nigeria is a major player. Once completed, these two products will significantly strengthen the knowledge base and enable the Bank to prepare a new CSP for Nigeria, which adequately leverages the opportunities of the country. Therefore, the extension will not only allow the Bank Group to better align its CSP cycle with the Government's own planning cycle, but also to strengthen the alignment of the national development strategy with its clear priority areas. Over the period of the extension, the Bank Group's strategy will be aligned with the Government's long-term development framework articulated in the Vision 2020 document.

2. On the political front, after a long illness, President Umaru Musa Yar'Adua, who was elected in 2007 for a four-year term, died on May 5, 2010 in Abuja. Vice-President Goodluck Jonathan, who had been Acting President, has been sworn in as President to serve out the rest of the current Presidential mandate. The next presidential elections are scheduled for April 2011.

3. On the economic and social front, the recent financial and economic crisis has exerted a toll on the economy, but prospects remain favourable. After falling over 2008 – 2009, GDP growth is expected to rebound in 2010 and 2011, and beyond, buoyed mainly by the non-oil sector, and a slight recovery of oil production.

4. In respect of the implementation of the Bank Group 2005 – 2009 strategy, the mid-term review carried out in 2008 showed a positive Bank Group contribution to the country human development efforts in the health sector and the private sector development on the one hand and some lingering implementation challenges on the other. Results at end 2009 also showed a positive contribution to the country's development efforts. Over the 2010 – 2011 period, the Bank Group's assistance program will have a strong focus on infrastructure development; an area that ranks high on the authorities' priorities and is consistent with the Bank's medium-term strategy (2008-2012). It is clear that infrastructural deficiencies are amongst the main constraints to Nigeria's economic growth. Towards this end, new Bank Group's operations will include the financing, in 2010 of the Capacity Building Project for Public–Private Partnership in Infrastructure. The Bank will also finance a number of studies aimed at better preparing projects for future Bank financing in the infrastructure sectors of water supply and sanitation, power, and transport.

I. INTRODUCTION

1.1 This report aims to extend, until 2011, the validity of the 2005-2009 Country Strategy Paper for Nigeria, which the Boards of Directors approved in July 2005. In August 2008, Management prepared a CSP mid-term review, which was circulated to the Boards (see document ADB/BD/WP/2008/139 and ADF/BD/WP/2008/86 dated September 10, 2008). On that occasion, management updated the Boards on recent developments in the country's context and on progress in the implementation of the strategy, drew lessons for the Bank and the Government from the implementation of the strategy at mid-course, and recommended that there should be no change in strategy going forward. As a prelude to the preparation of its new CSP for Nigeria, the Bank will, in 2010, undertake two major flagship studies involving Nigeria. The first one will focus on the big picture as far as Nigeria's development is concerned and will be done jointly with the Nigerian Government, while the second flagship study will focus on regional integration in West Africa with Nigeria at the centre of it. Once completed, these two studies will significantly strengthen the knowledge base of the Nigerian economy and so enable the Bank and the Nigerian Government to sufficiently articulate the strategic direction in their respective CSP for Nigeria and the national development plans. The CSP extension to 2011 will also allow the Bank to better align its next strategy preparation cycle to the country's own development planning cycle, when a new Government medium-term development plan is finalized before the end of 2010. Over the period of the extension, the Bank Group's strategy will be aligned with the Government's long-term development framework articulated in the Vision 2020 document.

1.2 This report is organized as follows: Following the introduction, Section II reviews the recent developments and medium-term outlook in Nigeria. Section III discusses the status of implementation of the 2005-2009 strategy. Section IV outlines the main thrust of the extension to 2011 of the 2005-2009 strategy, and Section V offers some concluding remarks and recommendations.

II. RECENT DEVELOPMENTS AND OUTLOOK

2.1 Political Developments

2.1.1 After a long illness, President Umaru Musa Yar'Adua, who was elected in 2007, died on May 5, 2010 in Abuja. Vice-President Goodluck Jonathan, who had been Acting President, has been sworn in as President to serve out the rest of the current Presidential mandate. The next presidential elections are expected in April 2011. For some time, the illness and prolonged absence of the President, and the delay in empowering the Vice-President to assume the full powers of the Chief Executive, slowed down progress in the implementation of the government's economic policies and programmes, and stoked fears that a fragile truce in a conflict over the nation's oil wealth could unravel altogether. In the southern Niger Delta, the country's oil-producing center, militants who have observed a cease-fire since August for peace talks are reported to be regrouping with fresh demands.

2.1.2 In 2009 and 2010 there was a spate of sectarian conflicts in the North eastern cities of Maiduguri (Borno State) and in Yola (Adamawa State). During the beginning of 2010, the long-standing ethno-sectarian conflict on the Jos Plateau also exploded, first, in January and later in March, leading to killings. The conflict has arisen due to tensions over land, grazing pastures and citizenship rights between so-called 'settlers' and the 'indigenous' population.

2.2 Economic Developments

2.2.1 ***Economic Growth.*** The country has potentially the largest consumer market on the continent. Despite the uncertainties and political challenges, the fundamentals of the economy are positively improving. The Nigerian economy has witnessed a period of sustained growth over the past five years, averaging 5.6% annually. The International Monetary Fund (IMF) projects 2010 annual growth to attain 7%, higher than the 3% estimated for 2009. During 2009 – 2010, the global financial meltdown had a dampening impact on macroeconomic growth, although the impact was less severe compared to several other African countries. The improvements in the geopolitical situation in the Niger Delta have also led to resumption in growth in the oil and gas sector. Much will depend on how the new administration moves to restore confidence and put the economy back on the path of sustained growth. Foreign Direct Investment (FDI) scored high at USD11bn in 2009.

2.2.2 However, a worrying trend is that much of Nigeria's economic growth is not sufficiently job-creating. This trend of 'jobless growth' has been underlined by a recent World Bank report.[1] While identifying binding constraints such as physical infrastructure, low access to finance, the poor investment climate, and labour skills as major structural challenges to the economy, the World Bank stresses the need to address the critical challenge of employment-creation if growth is to become meaningful to the average citizen. The Bank Group's areas of focus, which include the stimulation of private sector-led growth in the non-oil sector through enhanced infrastructure, will contribute towards addressing this constraint.

2.2.3 ***Macroeconomic stability.*** The authorities have continued to uphold a commitment to macroeconomic stability, helped by strong adherence to the oil price-based fiscal rule. The government has been prudent enough to operate a parsimonious oil price – based fiscal rule over the years, which has led to substantial accumulation of funds in the Excess Crude Account (ECA)[2]. This helped to better manage the recent oil price booms. However, State governments have had to resort to demanding for greater funding from the ECA. During 2007, the ECA peaked at over USD20 billion. By April 2010, however, the account had depleted to USD 3.9 billion. Standing at N3.10 trillion, (US$26 billion) the 2009 budget was about 9 percent over the previous year's. Coming at a time when the global financial meltdown was beginning to take its toll, it came with a deficit of N1.09 trillion or 3.95% of national GDP. Nigeria's balance of payments position has weakened on account of lower oil revenues and net capital outflows as foreign equity investors withdrew from the capital markets and the banking sector. Falling oil revenues have brought the fiscal accounts from surplus to deficit. The overall balance of the consolidated government has fallen from a surplus of 3.7 percent of GDP in 2008 to a deficit of 9 percent of GDP in 2009. A strong argument was made by the Government in favour of greater spending so as to boost aggregate demand in a time of global recession. The authorities financed the deficit through utilisation of funds unspent from the 2008 budget as well as from the retrieval of USD200 million from the Nigerian Trust Fund at the African Development Bank, bonuses from sale of government assets and bond financing from the capital markets. Discussion with the IMF is ongoing on a possible successor program to the successfully completed IMF-backed Policy Support Instrument.

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[1] The World Bank, Employment and Growth in Nigeria, Abuja, November, 2009.

[2] Under on-going reforms, the Excess Crude Account is to become the Sovereign Wealth Fund.

2.2.4 Towards the end of March 2010, the annual budget was passed by National Assembly, and signed into law by the Acting President in April 2010, signalling that government business will continue uninterrupted despite political uncertainties. The 2010 budget marks a substantial increase from the 2009 initial proposal of USD 20.6 billion, which has risen to the current USD 30.7 billion. Whilst the Executive had favoured a lower budget, the Legislative arm was strongly in favour of expansive spending, probably in view of the electoral cycle. Total spending under the 2010 appropriation bill stands at NGN 4.61trn (USD 30.7 billion), of which NGN 2.077 trn (USD 13.8 billion) is devoted to recurrent, non-debt expenditure, while NGN 1.85trn (USD 12.3bn) goes to capital expenditure. Some NGN 180 billion (USD 1.2 billion) has been committed to statutory transfers, while NGN 497 billion (USD 3.31 billion) is earmarked for debt service payments, much of it domestic in origin. With revenue forecasts of NGN 3.086trn (USD 20.6 billion), subtracted from the total budget envelope, there is expected be a deficit of NGN 1.52trn (USD 10.1 billion). An expansionary 2010 budget raises fears about a growing deficit. Government is expecting to close the deficit through bond financing, intensification of revenue collection by the tax authorities, and a round of oil licensing. During the 2010 budget year government is scheduled to raise its first sovereign bond in the London market.

2.2.5 Perhaps the greatest worries regarding the budget relate to slowness of implementation. As of December 2009, the 2009 budget had been implemented only by 50 percent, with even significantly lesser figure for capital expenditure. Late approval of the budget, lack of capacity and bureaucratic gridlock have been the factors that have often been cited for the slowness and low implementation of the budget. Although the Budget Department has announced a new results-based policy framework, budget implementation remains a major challenge.

2.2.6 In terms of price stability, during 2007-2008, rising global food prices put upward pressures on inflation. Ever since the latter part of 2009, it would seem that the monetary authority has been more hawkish about inflation, which fell to 12.0% in December 2009, from 14.8 percent in December 2008. In January 2010, the all item consumer price index was slightly up to 12.3 percent. With a new Monetary Policy Committee in place since the beginning of 2010, it is expected that there would be greater commitment to price discipline by the monetary authority. The monetary authorities have expressed their resolve to give greater attention to price stability. We therefore forecast the inflation rate to be within single digit during 2010-2011.

2.2.7 ***Impact of the financial and economic crisis.*** Global financial meltdown has impacted rather severely on the economy, although Nigeria has tended to be better than the African average. A major impact derives from dwindling petroleum earnings on account of the fall of global oil prices which fell from a peak of 140 USD per barrel in 2008 to a low of 40 USD per barrel during 2009. Given that oil earnings account for a high percentage of government revenues (average of 80% over the last five years), that has meant a substantial decline in revenues accruable. Falling government revenues inevitably mean lower budgetary resources for poverty-related and social development expenditures. External reserves have declined from a peak of USD 62 billion in the third quarter of 2008 to a low of USD 41.5 billion in April 2010. The Naira also depreciated from an average of 118.0 to the US Dollar in the first quarter of 2008 to 150.9 to the US Dollar in the third quarter of 2009. Since then, the Naira has remained fairly stable. The downward pressure on the exchange rate was partly reflective of the reduction in foreign reserves which provide back-up for the currency. With gradual recovery taking place in the world economy and the boost to global aggregate demand, we may see oil prices recovering significantly during 2011, leading to a boost on external reserves and a more stable exchange rate.

2.2.8 The global financial meltdown has also contributed to the challenges facing the banking and financial sector. Before March 2008, the Nigerian capital market was adjudged probably the most attractive in the world by virtue of its high returns on investment. With the worsening shortage of credit, several major foreign investors made a call on their investments, with more than USD18 billion having been taken out of the capital markets and the commercial banks over the last two years. This has compounded the credit squeeze and worsened the capital adequacy ratios of some of the commercial banks. Linked to the foregoing is the massive reduction in capital flows in terms of portfolio investments, FDI and remittances from the Nigerian Diaspora. All these have also translated into reduced opportunities for growth-inducing investments and lower employment prospects. But the trend seems to be reversing as FDI increased to the tune of USD11bn in 2009.

2.2.9 The banking crisis has continued to compound the credit crunch for the real sector. Most analysts accept that this has been one of the worst banking crises in Nigeria. The responses by the central bank have been robust and effective. A supportive monetary policy and government guarantees on interbank placements have forced interbank rates to fall from a high of over 24 percent to the current low of less than 2 percent. Some of the rescued banks have recently declared modest profits by end of March 2010, signalling strong evidence of recovery. A major issue that needs addressing is the fact that the severe credit crunch is yet to abate. The private sector is suffering from severe underfunding as the commercial banks continue to be risk averse under times of uncertainty.

2.2.10 A salutary development has been a fall in interbank call rates, for which the February 2010 average stood at 2.21 percent, down from 5.25 percent in November 2009. Although bank lending rates have fallen overall, they still remain high at a maximum of 23.45 percent in January 2010. The average prime lending rate has fallen marginally from 18.93 percent in December 2009 to 18.38 percent in January 2010. Despite having undergone severe shocks, the capital markets are experiencing some signs of recovery. The All-share Index, which stood at 20,827.17 as at December 2009, has risen by 26 percent to 26,220 on April 2, 2010. The key sectoral drivers are banking, food and beverages and oil and gas.

2.2.11 ***Public debt.*** While Nigeria has a modest external debt outlay, domestic debt is growing. The domestic debt has continued to grow, amounting to over N3.3 trillion in the first quarter of 2010, of which more than 85 percent consists of Federal Government of Nigeria bonds and Nigerian Treasury Bills. During 2005 Nigeria successfully negotiated its exit from the Paris Club, by which its debt of US$36 billion was extinguished after a payment of US$13 billion, by far the largest transfer of cash from a poor country to a group of rich creditors. Given that the authorities are more prudent on external loan financing, they have been more committed to developing the internal bond market, thereby helping to mobilize domestic savings to finance the budget deficit. The Debt Sustainability Analysis carried out by the IMF and World Bank in September 2009 concluded that Nigeria is at low risk of debt distress.

2.2.12 ***Competitiveness***. While growth is improving, national competitiveness is deteriorating. Nigeria has dropped five places in the 2009 survey on global competitiveness carried out by the World Economic Forum, coming 99th out of 133 ranked nations. Placing 13th out of 31 African countries surveyed. In the same survey, Tunisia came top in Africa, followed by South Africa, Mauritius and Botswana, while Ghana came 20th in Africa and 114th globally. It has also performed rather poorly on the various indices of the Ease of Doing Business. Joint donors' analysis has identified three key constraints to non-oil private sector growth and competitiveness: poor-quality infrastructure (power and transport), a difficult business environment and low levels of access to finance. Effective capacity building in Public-Private Partnerships (PPP) in infrastructure can help in addressing these constraints, and assist Federal and State Governments improve the planning, management, implementation and maintenance of infrastructure investments in the energy, power and transport sectors, through public-private partnerships arrangements. This is an area where the Bank is assisting the authorities' efforts.

2.2.13 ***Recent structural reforms*****.** Over the recent past, the Government has made progress on a number of important structural reforms, including in the banking sector, which has been consolidated and strengthened, transparency and improved reporting in respect of public financial management, oil revenues management, and implementation of measures to improve stability and security in the oil producing Niger Delta region. It is also clear that challenges still remain, and that institutional changes continue to be imperative in the financial sector, including a stronger risk-based regulatory framework. In addition, closer attention needs to be given to the microfinance sector to ensure that microfinance institutions operate in accordance with best practices and that they serve the needs of their clients and promote the agenda of local development. In March 2010 the Central Bank announced it was going to phase out universal banking over a phased period. There is also a plan to create a multi-tier banking structure on the American model so that there would be specialized and regional banks that do not have to compete with the big banks.

2.2.14 Legislation has also reached an advanced stage on the creation of the Asset Management Company of Nigeria (AMCON) into which all banks can transfer bad loans. Banks transfer their bad loans into AMCON in exchange for a certain consideration that can be in the form of government bond. The terms of the transfer of bad loans will depend on various factors, including perceived fair value of the bad loans and the risk-sharing arrangement between AMCON and the banks. It is envisaged that AMCON could be used in parallel with other options that are being currently explored by the Central Bank in its efforts to restore financial stability.

2.2.15 The authorities are also intent on reforming the petroleum sector. Towards this end, a Petroleum Industry Bill, which seeks to improve the management of the sector, while maintaining its attractiveness for investments, is being considered (the draft bill is currently before the National Assembly).

2.3 Social Developments

Although some of the socio-economic indices have marginally improved, poverty reduction remains a major challenge. At current trends, the country is unlikely to meet most of the internationally agreed millennium development goals (MDGs) targets, as can be seen in Annex V. It is estimated that half of the population live in absolute poverty, while life expectancy and infant mortality rate are 47.9 years (2008) and 108.7 (per 1000) respectively (source: African Development Bank). It also ranks 158 out of 177 on the Human Development Index. A large segment of the population has limited or no access to the most basic amenities such as clean drinking water, access to basic health and protection against communicable diseases, decent housing and sanitation, reliable infrastructure networks, physical security, and access to sustainable sources of livelihood.

2.4 2010 – 2011 Outlook

2.4.1 Nigeria is undergoing a major test in its democratic experiment. The coming year will prove whether the leadership is able to rise to the occasion in terms of reengineering the constitution, effecting electoral reforms and steering the economy on the path of sustained growth in a time of global financial crisis. The year 2011 is an election year laden with uncertainties. While the North believes that the country must go along with the zoning arrangement by the ruling People's Democratic Party, which conceded the presidential ticket to the North; the South is insisting that the zoning arrangement was a mere party convention that had not anticipated the prolonged illness of the late President Yar'Adua. In spite of the political uncertainties, Nigeria's public institutions appear resilient enough to weather the storms. There is an emerging middle class that has a vested interest in stability. Civil-society groups are also more vociferous in demanding accountability and insisting on the rule of law and good economic and political governance.

2.4.2 The economy can be expected to grow at a rate of 7 percent during 2010, with an even stronger outlook for 2011. Inflation is likely to dampen while the capital markets will witness a gradual recovery. With restoration of confidence, we should be seeing more inwards investment coming into the country, with positive spinoffs on the banking and financial sector. October 2010 marks Nigeria's Golden Jubilee since independence. President Goodluck Jonathan is renewing the hope of most citizens that he will spearhead the reengineering of the constitution and would undertake the necessary electoral reforms to restore hope in the democratic process. In spite of some negative noises, the President can be expected to deftly handle the Niger Delta problem and lay the foundations for a just and lasting peace in the troubled region. The government seems committed to lifting the fuel-price subsidies which have constituted a major drain on public resources, exceeding an annual average of NGN500 billion, and are also the source of some governance problems. International markets are also hopeful that the current reforms in the banking sector will be successfully concluded. In the end, the current crisis may well turn out to be an opportunity.

III. STATUS OF IMPLEMENTATION OF THE 2005 – 2009 BANK GROUP COUNTRY STRATEGY

3.1 About eighteen months ago, in August 2008, Management prepared and circulated to the Boards a mid-term review of the implementation of the 2005-2009 strategy. At the end of the current extension, in 2011, management will prepare a completion report, which will take stock of the implementation of the strategy, including status of achievement of outcomes and outputs, review the Bank Group's and the country's performance, and draw lessons learned for the Bank and for the country towards improving the design and implementation of the next Bank Group's strategy.

3.2 The 2008 mid-term review noted satisfactory Bank contribution to Nigeria's development efforts under Pillars I and II of the strategy. Under Pillar I, the Bank contributed to human development outcomes and under Pillar II, the Bank contributed towards stimulating non-oil growth through enhanced infrastructure, agriculture and rural development outcomes. Under Pillar I, the Bank contributed to education and health sector outcomes and under Pillar II towards improved infrastructure in water supply and power. Progress in delivery of agriculture sector outputs was, however, judged to be slow, and inadequate monitoring and evaluation systems hampered assessment of impact of private sector interventions.

3.3 Since the mid-term review, the Bank's strategy and assistance program over 2008 – 2009 have been implemented as planned, focusing on the two key pillars. Towards this end, the Transport Facilitation Project (the Nigeria – Cameroon Highway), the Urban Water Supply and Sanitation Project in Taraba and Oyo States, and the policy-based loan in support of the power sector (the Economic and Power Sector Reform Program) were processed and approved by the Boards during the 2008 and 2009 period respectively. The planned health system development project and the Abuja Transmission Project were postponed at the request of the authorities, who gave priority to a budget support to finance their economic and power sector reform program. The Capacity Building Project for Public–Private Partnership in Infrastructure is currently being processed and will be presented to the Boards in the third quarter of 2010.

3.4 In respect of planned economic and sector work, the Bank participated in the Investment Climate Assessment (ICA), which was led by the World Bank. In addition, the Bank also completed work on the implications of the ICA for the power sector, and carried out a portfolio review. The public financial management review in Kogi state was prepared in lieu of the planned fiscal decentralization study. The planned skills development study could not be undertaken, because of lack of resources. However, a similar study is planned under the on-going Vocational Education Project. A full CSP completion report will be prepared, and submitted to the Boards for information, at the end of the current extension period in 2011.

3.5 In respect of the private sector, which is a key focus of Pillar II of the strategy, over the 2005 – 2009 period, the Bank has approved five lines of credit to Nigerian banks (Access Bank, Zenith Bank LOC II, United Bank of Africa Trade Finance Initiative, Zenith Bank Plc Emergency Liquidity Facility, Intercontinental Bank Plc), an equity investment in United Bank of Africa, and three public – private partnership infrastructure projects (the Main One Cable System, the Helios Tower Project, and the Lekki Toll Road Project).

IV. BANK GROUP STRATEGY FOR 2010 - 2011

4.1 Bank Group Portfolio Performance

The last Country Portfolio Performance Review Report for Nigeria was presented to the Board of Directors for consideration in March 2009. With an average rating of 2.2 (in 2009) the overall performance of the Bank's portfolio in Nigeria can be judged as satisfactory. It is important to note that the performance of the Nigerian portfolio did not significantly change from that of 2004, which was rated as 2.1. With only one problematic project and six potential problematic projects, the proportion of project-at-risks in the current rated portfolio was 33.3% which is slightly higher than the 10-30% range indicative of satisfactory portfolio performance. However, the current performance of the Nigerian portfolio seems to be related to the unsatisfactory performance of regional operations (rating: 1.72) and the social sector (rating: 1.98). The latter performance was negatively affected by the performance of the Skills Training and Vocational Education Project (rating: 1.65). Annexes III and IV provide the list of Bank Group-financed operations in Nigeria.

4.2 Government Development Agenda

4.2.1 During 2003—2007, the government's development agenda was anchored on the National Economic Empowerment and Development Strategy (NEEDS). It was a medium term strategy that aimed to address the long-term goals of poverty reduction, wealth creation, employment generation and value re-orientation. It had a nationally coordinated framework of action in close collaboration with the State and Local governments (with their State Economic Empowerment and Development Strategy, SEEDS) and other stakeholders. The vision was to build a solid foundation for growth and to make the country the strongest economy on the continent. NEEDS, on the whole, has been quite successful. Significant expansion of the economy has been registered, with marked reforms in the banking and financial system.

4.2.2 Upon assuming office in May 2007, the Yar'Adua Administration sought to build on the foundations laid by NEEDS, focusing on a Seven-Point Agenda as the Administration's economic and public policy thrust. The pillars of the Seven-Point Agenda are: (1) Energy emergency; (2) Agriculture and food security; (3) Wealth creation and poverty alleviation; (4) Land reform; (5) Security of lives and property; (6) Human capital development, including compulsory education for children; and (7) Transport revolution including improved mass transit. It seems clear that the successor administration of President Goodluck Jonathan is likely to refocus government's priorities. The President has reiterated commitment to addressing the power and infrastructure challenges as well as speeding up implementation of Vision 2020. The latter is a new major policy agenda that aims to place the country among the top 20 economies in the world by the year 2020. Among the core elements of Vision 2020 is modernisation of agriculture, rehabilitation of infrastructures and development of the power sector. To implement Vision 2020, the Planning Commission has been charged with the responsibility of developing a New Medium-Term Plan for the period 2010 – 2013. For this purpose, all Ministries, Departments and Agencies are in the process of updating their inputs.

4.3 Bank Group Strategy for 2010 - 2011

4.3.1 Addressing the poverty challenge facing Nigeria will certainly continue to require policy reforms and large-scale investments in many key areas, but most importantly targeted expenditures on infrastructures, including for agricultural production and marketing, rural connectivity, and human capital. This is because one of the biggest impediments to Nigeria's development is the parlous state of its infrastructure and insufficient development of its skills base. The Bank will, therefore, continue to focus on these important areas in its intervention strategy in Nigeria.

4.3.2 Over the period of the extension, 2010 – 2011, the Bank Group's strategy will continue to focus on the two pillars in the CSP: (i) development of human capital through improved service delivery in education and health; and (ii) stimulating private sector-led growth in the non-oil sector through enhanced infrastructure, agricultural and rural development. These two Pillars are be aligned with the Vision 2020 and with the Country Partnership Strategy 2009 – 2013 (CPS II) prepared by Nigeria's development partners, including the World Bank, DFID, USAID, and the Bank Group. Finally, to deepen regional integration, the Bank will enhance its country interventions through the preparation of a regional integration strategy for West Africa.

4.4 Bank Assistance Program for 2010 - 2011

4.4.1 Nigeria's 2010 country allocation under ADF-XI amounts to UA 207 million. Out of this amount, UA 183 have been committed to financing the Economic and Power Sector Reform Program (UA 100 million, approved in October 2009), the Urban Water Supply and Sanitation in Taraba and Oyo States (UA 50 million, approved in September 2009), and the Nigeria – Cameroon Highway (UA 33 million, approved in 2008).

4.4.2 During the 2010 – 2011 period, the Bank assistance program will have a strong focus on infrastructure development; an area that ranks high on the authorities' priorities and is consistent with the core priorities of the Bank Group as per its Medium-Term Strategy for 2008-2012. As already mentioned, infrastructure deficiencies are amongst the main constraints to Nigeria's economic growth. Towards this end, new Bank Group's operations will include the financing, in 2010, of the Capacity Building Project for Public–Private Partnership in Infrastructure (UA 18 million). This project will aim to support the Government and Public Sector in improving the packaging and implementation of PPP projects in the priority infrastructure sectors of power and transport. These sectors are key areas of focus of the Bank in its assistance strategy for Nigeria. The Bank will also continue to make sure the on-going operations achieve their expected development outcomes through enhanced portfolio monitoring (see expected 2011 outcomes in Annex II). With the remaining ADF-XI balance of UA 6.2 million, the Bank will also finance a number of studies aimed at better preparing projects for future Bank financing in the infrastructure sectors of water supply and sanitation, energy, power, and transport. In this context, financing requests from the authorities have already been received for some of the studies, including in power generation and transport sectors.

4.4.3 In respect of private sector operations, the Bank is also intent, in 2010 and 2011, on processing a number of transactions, including providing assistance to the financial sector aimed at deepening financial intermediation in the country and at facilitating the supply of credit to the real sector, which is in line with Pillar II of the Bank strategy on supporting economic growth in the non-oil sector.

4.4.4 In respect of economic and sector work, the Bank will, in 2010, carry out a Flagship Study on Nigeria. The work will be undertaken in close collaboration with the Nigerian authorities. The Bank will also prepare a strategy to support regional integration in West Africa. The regional strategy would be of significant importance to Nigeria as the central player in the West Africa region. Once completed, these two important knowledge products will place the Bank in a better position to prepare a new CSP for Nigeria, which adequately responds to the country's development aspirations.

4.5 Risks and Mitigating Measures

Going forward, 2011 is an election year in Nigeria, and the Government's ability to continue to carry out needed economic and social reforms and required investments will be, to a large extent, determined by political developments. The external environment also may pose some risks as major oil companies operating in Nigeria seem not to be backing the authorities' reform efforts in the oil sector. These risks are however, mitigated by the facts that Nigeria is increasingly establishing itself as a resilient political democracy, enjoying a vibrant debate on most economic and political issues.

V. CONCLUSION AND RECOMMENDATION

5.1 **Conclusion:** The Bank has made progress in the implementation of the 2005 – 2009 strategy since it was approved by the Boards in July 2005. Nigeria is entering an election year. Presidential elections are expected to take place in April 2011. The Bank will carry out in 2010, two important knowledge products, which will provide useful inputs to the new Bank Group strategy for Nigeria. It is also expected that a new Government medium – term national development plan will be finalized, probably before the end of 2010. In this context, and towards better aligning its strategy with the Government agenda, this report has proposed an extension to

2011 of the current 2005 – 2009 Bank strategy. A new Bank strategy, anchored on the Government’s medium – term development agenda, will then be prepared in 2011.

5.2 **<u>Recommendation</u>:** The Boards are invited to approve the extension to 2011 of the 2005-2009 CSP for Nigeria.

Annex I

Selected Macroeconomic Indicators

Indicators	Unit	2000	2004	2005	2006	2007	2008	2009 (e)
National Accounts								
GNI at Current Prices	Million US $	33,449	73,419	87,689	119,713	143,293	175,622	…
GNI per Capita	US$	270	530	620	830	970	1,160	…
GDP at Current Prices	Million US $	46,386.1	87,845.4	112,248.6	145,427.8	165,474.9	216,584.4	173 404.2
GDP at 2000 Constant prices	Million US $	46,386.1	71,000.3	75,622.4	80,182.5	85,169.8	90,504.6	93 225.7
Real GDP Growth Rate	%	6.3	6.6	6.5	6.0	6.2	6.3	3.0
Real per Capita GDP Growth Rate	%	3.8	4.1	4.0	3.6	3.8	3.8	0.7
Gross Domestic Investment	% GDP	20.4	23.5	22.8	23.8	24.0	24.5	29.4
Public Investment	% GDP	9.5	7.5	8.4	8.0	8.0	8.2	9.9
Private Investment	% GDP	10.9	16.0	14.4	15.8	16.0	16.3	19.5
Gross National Savings	% GDP	32.5	28.8	29.4	49.1	41.7	41.3	31.7
Prices and Money								
Inflation (CPI)	%	6.9	15.0	17.9	8.2	5.4	11.2	10.1
Exchange Rate (Annual Average)	local currency/US$	101.7	132.9	131.3	128.7	125.8	118.5	147.1
Monetary Growth (M2)	%	48.1	20.7	22.6	36.4	64.2	52.5	-51.2
Money and Quasi Money as % of GDP	%	22.0	18.3	17.7	19.0	28.1	34.8	17.1
Government Finance								
Total Revenue and Grants	% GDP	42.1	35.4	38.1	34.1	28.3	27.7	20.0
Total Expenditure and Net Lending	% GDP	36.2	27.2	28.7	26.4	27.8	26.3	28.9
Overall Deficit (-) / Surplus (+)	% GDP	5.9	8.1	9.4	7.7	0.4	1.4	-8.9
External Sector								
Exports Volume Growth (Goods)	%	19.4	3.2	-5.0	-3.0	4.7	-6.9	-4.8
Imports Volume Growth (Goods)	%	-11.6	-20.4	15.8	-16.0	21.8	4.5	5.3
Terms of Trade Growth	%	18.6	-1.2	25.7	-16.3	4.8	11.3	-24.4
Current Account Balance	Million US $	4,694.0	4,500.0	8,100.0	12,816.5	5,873.1	8,163.5	-18,001.4
Current Account Balance	% GDP	10.1	5.1	7.2	8.8	3.5	3.8	-10.4
External Reserves	months of imports	8.2	7.7	10.0	16.1	14.3	12.4	12.3
Debt and Financial Flows								
Debt Service	% exports	6.9	8.5	34.9	29.5	1.9	0.7	1.2
External Debt	% GDP	65.2	40.9	18.2	2.4	2.4	2.1	2.8
Net Total Financial Flows	Million US $	1,993.9	1,320.3	7,579.6	3,094.8	312.2	…	…
Net Official Development Assistance	Million US $	173.7	577.3	6,400.9	11,431.8	1,947.5	…	…
Net Foreign Direct Investment	Million US $	1,309.7	2,127.1	4,978.3	13,956.5	12,453.7	…	…

Source : ADB Statistics Department; IMF: World Economic Outlook, September 2009 and International Financial Statistics, October 2009; United Nations: OECD, Reporting System Division. Notes: ….Data not available; (e): Estimations

Annex II (Page 1 of 3)

Results Achieved at End 2009 and 2011 Targets

Expected CSP Outcomes by 2009	Base Year	Progress at CSP End of Period in 2009		Expected Outcomes in 2011
		Value	2009 Assessment	
PILLAR I: Developing Human Resources through Education and Health				
1. Education				
1.1 5 vocational schools rehabilitated & functional. 1.2 Number of girls graduating from vocational and technical education increased by 10%.	- -	0.0 5%	Slow Medium	5 9%
2. Health				
2.1 Proportion of 1 year olds fully immunized against measles to reach at least 60%.	31.4% (2003)	80%	Excellent (outpaced)	
2.2 Infant and under five mortality rates per 1000 live births reduced to 180.	201 (2003)	157	Good	N.A
2.3 Tuberculosis detection rate to reach > 30%	-	28%	Low	30%
2.4 Proportion of births attended by skilled health personnel increased to above 47%.	36.3% (2003)	47% in 2007	NA	
2.5 Access to basic social services increased by 45% in project areas	-	60% (For Health Services in Projects States)		63%
PILLAR II: Stimulating Non-Oil Growth through Enhanced Infrastructure, Agriculture and Rural Development				
1. Agriculture and Rural Development				
1.1 Increase in food production (tons): Rice Other cereals (maize, sorghum, millet)	1,843,000 7,147,000	2,649,000 10,141,000	78,6% 41,9%	79,700 increase 2,028,200 increase
1.2 20,000 Number of farmers trained	-	95% completed	Very Good	21000
1.3 Construction of Rural Infrastructure				
200 Market points (Number) Km of roads (Km) Hydrological structures water conveyance, boreholes, and tube wells to be constructed	- -	60 180 347	Low Good Very Good	100 300 500
1.4 50% of staff of Federal Ministry of Agriculture trained, IT introduced & used to improve sector statistics & management.		90% completed. Training completed, IT introduced, collection, management and dissemination of sector statistics require further improvement	Good	100% completed

2 Infrastructure				
2.1 Population with access to electricity increased from 45% in end-2008 to 55% in end-2010	45% (end 2008)			55%
2.2 - % of rural population served with safe water supply and improved sanitation increased to 66% - Km of water transmission and distribution network rehabilitated and constructed - Boreholes rehabilitated /constructed - Provision of technical services for policy and reform in water supply in Oyo and Taraba States	49% (2004)	55%	Good	60 % 250 km in Jalingo and 450 km in Ibadan 42 in Jalingo Institutional reform study PPP transaction design report
2.3 Number of new power plants by IPPs[1] at advanced construction stage				At least three (3) power plants at advanced construction stage by 2010/2011
PILLAR II: Stimulating Non-Oil Growth through Enhanced Infrastructure, Agriculture and Rural Development				
2.4 50% work completed on 474 km of feeder roads in Cross-River State		0%	Slow procurement for design services; draft design and bidding documents expected in May 2010	50% of works completed
2.5 Baseline studies of road work completed		50%	Mostly at roads identification stage	
2.6 Institutional capacity of line ministry completed		90%	Trained and fully equipped	
3. Private Sector				
3.1 Non-oil real GDP increased by 8.5% in 2009	5%	4.5%	Crisis weighed on non-oil DGP growth.	5%
3.2 Legal and regulatory framework for PPP adopted and implemented by 2009		Preparation of the National Policy on PPP's and then approval by the Federal Executive Council in April 2009	Good	N.A

[1] Independent Power Producers

3.3 Resources catalyzed through PPP increased significantly		Despite numerous PPP's have been launched, the majority of them is stalled due to improper preparation and lack of capacity at the level of Ministries, Departments & Agencies (MDA's)	ICRC is properly staffed and has received support from various donors, it becomes operational. It houses a center of PPP expertise to issue guidance to all public authorities on PPP projects and relevant contracts. Capacity of ICRC is needing reinforcement to improve effectiveness and operations	-PIU for Bank-funded program is staffed and is fully operational and efficient -ICRC created and functioning. -9 workshops for the PPP awareness program undertaken for all 36 states to disseminate knowledge and basic fundamentals of PPP for infrastructure projects -Trainings sessions on PPP projects formulation for MDA's officers completed -Selection of states is agreed for more focused and detailed capacity building activities to be undertaken for the next period until 2010 -First technical assistance activities for well prepared federal entities are taking place

N.A: Not Applicable

Annex III

Bank Group Public Sector Operations (As at May 6, 2010)

PUBLIC SECTOR							
ALL PROJECTS (including those that are not yet disbursement effective)							
Sub-Sector	**Number of Projects**	**Net Amount approved (UA)**	**Average Age (years)**	**Amount disbursed**	**Disbursement rate**	**Average annual disbursement**	**Average annual disbursement rate**
AGRICULTURE	**4**	**60,000,000**	**5.4**	**16,031,051**	**26.7%**	**2,939,155**	**4.9%**
National Fadama Development Project (NFDP)		22,000,000	6.3	9,292,198	42.2%	1,467,189	6.7%
Community based - Agricultural & Rural Development Project (CBARDP)		13,000,000	6.6	1,941,030	14.9%	294,840	2.3%
Agriculture and Rural Institutions Support Project (ARISP)		3,000,000	5.0	2,259,613	75.3%	451,923	15.1%
Support to the National Program for Food Security (SNPFS)		22,000,000	3.5	2,538,211	9.4%	725,203	3.3%
INFRASTRUCTURE	**4**	**236,270,000**	**3.3**	**1,227,190**	**0.5%**	**962,096**	**0.4%**
Rural Water Supply & Sanitation Sub-Programmes (RWSS)		51,000,000	2.7	811,654	1.6%	810,992	1.6%
URBAN WATER SUPPLY AND SANITATION PROJECT FOR OYO AND TARABA STATES (UWSSP)		50,000,000	0.6	-	0.0%	-	0.0%
ECONOMIC AND POWER SECTOR REFORM PROGRAM (EPSERP)		100,000,000	0.5	-	0.0%	-	0.0%
Rural Access and Mobility Project (RAMP)		35,270,000	2.8	415,536	1.2%	151,104	0.4%
MULTI SECTOR	**-**						
SOCIAL SECTOR	**2**	**64,740,000**	**4.1**	**32,777,008**	**50.6%**	**4,418,951**	**6.8%**
Health Systems Development Project (Health IV) (HSDP)		34,740,000	7.6	31,547,533	90.8%	4,160,114	12.0%
Skills Training and Vocational Education (STVEP)		30,000,000	4.8	1,229,475	4.1%	258,837	0.9%
REGIONAL PROJECTS	**8**	**149,914,270**	**5.4**	**15,769,935**	**10.5%**	**7,435,103**	**5.0%**
Integrated management of Invasive Aquatic Weeds Project		1,609,000	5.3	777,575	48.3%	148,110	9.2%
ECOWAS Peace and Development Project (PADEP)		10,000,000	5.3	1,185,386	11.9%	225,788	2.3%
Capacity Building Programme for the Supervision of Aviation Safety in West & Central Africa-COSCAP		4,600,000	5.0	1,355,617	29.5%	271,123	5.9%
Multinational NERICA Rice Dissemination Project (MNRDP)		5,570,000	6.6	2,369,568	42.5%	359,934	6.5%
International Comparison Programme for Africa (ICP-Africa) - ICP/ECOWAS component covers 5 countries: Ghana, Nigeria, Liberia, Gambia, Sierra Leone		1,485,270	5.5	1,309,780	88.2%	238,142	16.0%
TRANSPORT FACILITATION PROGRAMME FOR THE BAMENDA-MAMFE-ABAKALIKIENUGU CORRIDOR - Nigeria		98,250,000	1.4	8,772,009	8.9%	6,192,006	6.3%
TRANSPORT FACILITATION PROGRAMME FOR THE BAMENDA-MAMFE-ABAKALIKIENUGU CORRIDOR - ECOWAS		16,160,000	1.4	-	0.0%	-	0.0%
SUPPORT TO NETWORK OF REGIONAL AFRICAN INSTITUTIONS OF SCIENCE AND TECHNOLOGY (AUST & 2iE) PROJECT		7,000,000	0.7	-	0.0%	-	0.0%
Lake Chad Basin Sustainable Development Programme / Programme de développement durable du Bassin du Lac Tchad (PRODEBALT).		5,240,000	1.3	-	0.0%	-	0.0%
TOTAL PUBLIC SECTOR	**18**	**510,924,270**	**2.7**	**65,805,184**	**12.9%**	**15,755,305**	**3.1%**
TOTAL PUBLIC SECTOR	***USD***	***776,604,890***					

Annex IV

Bank Group Private Sector Operations

As at May 6, 2010

Sub-Sector	Number of Projects	Net Amount approved (US$)	*Net Amount approved (UA)*	*Total Net Amount approved (UA)*	Average Age (years)	Amount disbursed	Disbursement rate
Lines of Credit (LOC):				***304,605,263***			
Access Bank Plc	1	35,000,000	*23,026,316*		3.0	35,000,000	100.0%
Guarantee Trust Bank (GTB)	1	40,000,000	*26,315,789*		4.0	40,000,000	100.0%
Zenith Bank LOC I	1	70,000,000	*46,052,632*		4.8	70,000,000	100.0%
Zenith Bank LOC II	1	100,000,000	*65,789,474*		3.0	100,000,000	100.0%
Fidelity Bank (formerly FSB International Bank)	1	18,000,000	*11,842,105*		8.2	18,000,000	100.0%
United Bank of Africa (UBA) (Trade Finance Initiative)	1	150,000,000	*98,684,211*		0.3	150,000,000	100.0%
Zenith Bank Plc (Emergency Liquidity Facility)	1	50,000,000	*32,894,737*		0.3	-	0.0%
Direct Investments (Equity):				***28,579,407***			
United Bank of Africa (UBA)	1	42,339,413	*27,854,877*		2.6	42,339,413	100.0%
Access Bank Microfinance Nigeria (ABN)	1	1,101,286	*724,530*		-	1,101,286	100.0%
Infrastructure (PPP):				***184,868,421***			
ROAD TRANSPORT: Lekki Toll Road Project	1	85,000,000	*55,921,053*		1.5	85,000,000	100.0%
Main One Cable System	1	61,000,000	*40,131,579*		0.3	30,500,000	50.0%
Helios Towers	1	35,000,000	*23,026,316*		0.3	17,500,000	50.0%
OIL & GAS: Nigeria Liquified Natural Gas	1	100,000,000	*65,789,474*		7.1	100,000,000	100.0%
TOTAL PRIVATE SECTOR	**13**	**787,440,699**	***518,053,092***		**2.7**	**689,440,699**	**87.6%**

Annex V

Status of Progress Towards the MDGs

Goal	Progress	Achievable at current levels of investment?	Challenges	Government Policy Responses
1 – Eradicate Extreme Poverty & Hunger	Among every ten Nigerians, five still live in poverty	May not be achievable without greater efforts	Lack of modern technology in agriculture, Creating economic and employment opportunities.	Commercial Agricultural Development Plan, Infrastructure investment in rural areas, NAPEP Conditional Cash Transfer
2 – Achieve Universal Primary Education	9 out of 10 eligible children in school due to UBE interventions and private schools	Achievable	Completion and literacy rates remain low, Gender and regional inequality, inadequate teacher capacity	Initiatives, such as National Teachers' Corps. Comprehensive policy is a work in progress
3 – Promote Gender Equality	For every 10 boys in school, there are 9 girls in school	Achievable	Social, economic and cultural factors, e.g. early marriage	National Gender Policy Child Rights Law to be passed at State-level Passage of CEDAW bill
4 – Reduce Child Mortality	While substantial improvements have been recorded for 2007, the trend is still worrying and mortality rates are still very high	Greater efforts required	Reluctant health-seeking behaviour	Integrated Maternal and Newborn Child Health Strategy (IMNCHS) National Health Bill being harmonized

Annex V (Cont. and end)

Status of Progress Towards the MDGs

Goal	Progress	Achievable at current levels of investment?	Challenges	Government Policy Responses
5 – Improve Maternal Health	No recent data, but the trend in maternal mortality appears to be worsening and the proportion of births attended by skilled health personnel is improving too slowly	Greater efforts required	Poor state of health infrastructure, lack of skilled manpower, unwillingness of health workers to work in rural areas	Safe Motherhood Programme
6 – Combat HIV/AIDS, Malaria & other Diseases	HIV/AIDS prevalence rate has dropped from 5% to 4%. Malaria rates have dropped but still account for an annual average of 300,000 deaths	Achievable	Restricted acceptability of insecticide treated bed nets, malaria drug-resistance, high cost of ARVs	National Health Policy being harmonized,
7 – Ensure Environmental Sustainability	Mixed; access to safe water has risen from 54% to 60% but access to sanitation fell from 43% to 39%	Achievable	Gas flaring, forest cover and access to sanitation are yet to see significant progress	Ministry for the Niger Delta. Revision of Housing Policy
8 – Develop a Global Partnership for Development	Rapid increases in ICT access and teledensity, many regional initiatives (NEPAD, ECOWAS etc.). ODA rose but from a very low base and primarily as debt relief	Achievable	Poor infrastructure, poor security networks. Unwillingness to scale up funding from development partners	Economic Partnership Agreements

Source: Millennium Development Goals Office, The Presidency, Abuja, February 2010