

Federal Republic of Nigeria
Aide Memoire
Third Lagos State Development Policy Operation – Implementation Support Mission
May 23-25, 2016

1. A mission comprising Jariya Hoffman (Sr. Economist and Task Team Leader), Ismaila Ceesay (Lead Financial Management Specialist), and Adebayo Adeniyi (Sr. Procurement Specialist) visited Lagos State during May 23-25 to conduct an implementation support mission for the Third Lagos State Development Policy Operation (TLSDPO) that was approved by the Board on June 25, 2015. The key tasks of the mission were to (a) discuss progress in implementing the 2016 budget; and (b) review progress in implementing TLSDPO prior actions and identify emerging issues related to the implementation. The mission held meetings with relevant government counterparts in various MDAs and briefed the Honorable Commissioner for Finance of its key findings. The team is grateful to the Ministry of Finance and Lagos Debt Management Office for their collaboration and facilitation of meetings during the mission. This Aide Memoire summarizes the mission's key findings, highlights key issues for management's attention/actions, and outlines next steps.

Summary of Key Findings

2. **Implementation progress is satisfactory.** The government has successfully adjusted its fiscal position in response to the oil price collapse. It strengthened IGR collection; initiated closer control and monitoring of payroll costs, overheads and transfer expenditure; and restructured commercial bank domestic debt and state bonds.¹

3. **The reforms that formed the basis of the DPO are on track without any roll-back.** The new Administration is in fact endeavoring to scale up the reforms to ensure full and sustainable achievement of the development outcomes of the operation. The following summarizes progress achieved under each of the pillars (supporting details are provided in Annex 1).

- *The government has successfully implemented some fiscal measures in response to the oil price shock.* The budget performance for the first quarter 2016 shows stable IGR collection by the Lagos Internal Revenue Service amidst declining economic activities, lowered personnel cost and overhead, a reduction in debt service payments as a result of domestic debt restructuring, and reduced transfers to MDAs and parastatals through restructuring of government agencies. The coverage for land use charge collection has increased as 3 consulting companies were contracted to collect revenue.² These

¹ Commercial banks' loans were restructured (increasing their maturities to 20 years and lowering the interest rate to 12 percent) to reduce the debt service burden. The existing two state government bonds were restructured through pre-payments of principal to lower interest payments.

² The contract that the previous government signed with Land Record company was terminated and replaced by three new consulting companies (Desoffit Consults Limited, Information Connectivity Solutions Limited, and Mikhail Olatunde & Co) to cover the three regions of Lagos state Central, East and West respectively. Further, administrative fee charged by the companies has been lowered to 0.5 percent of net revenue (after deducting expenses paid by the government). The land use charge revenue will be paid directly to a central revenue account using

measures generated additional fiscal space for increased capital expenditure on infrastructure, domestic security and the social sector. As the new government abolished the Parastatal Monitoring Unit in September 2015, the Lagos State Accountant General will continue monitoring fiscal risks associated with financial activities of state parastatals (Prior Action # 1) and will publish their consolidated financial statement together with the government's annual financial statement.

- *Reform of budget planning and preparation (Prior Action #2) through the implementation a Medium-Term Expenditure Framework (MTEF) is deepening.* The 2015 budget was re-ordered in September 2015 to increase capital spending on some priority projects.³ The government prepared a 2016 budget that is broadly aligned with the 2016-18 medium-term expenditure framework and the 9 COFOG-based sectoral strategies developed in accordance with the LSDP priorities. For the 2017 budget, the Ministry of Economic Planning and Budget has proposed a budget calendar that will initiate the budget planning process in July 2016 with a target date for budget approval by Lagos State Assembly by end October 2016 with a view to improve the performance of the capital budget. In addition, the government will pilot performance budgeting in 10 ministries.
- *Reform of budget execution (Prior Actions #3-6) is on track with further progress in some areas.* Implementation of the P2P module in 8 MDAs (accounting for 85 percent of the capital budget) is on course as the systems-generated budget execution reporting format has been utilized to full advantage, and the commitments and obligations outstanding for each of the 8 MDAs can be generated in real time. In addition, P2P has been rolled out to 6 additional MDAs, and a further roll-out to more MDAs is in progress. The government has begun the rationalization of its banking arrangements through the selection of three commercial banks as the main holders of the State's consolidated revenue fund (CRF) for budget management purposes (as opposed to, hitherto, 19 commercial banks). In addition, apart from the deficiencies in the legacy chart of budget and accounts classification, the electronic integration of the payroll with the general ledger, which was successfully accomplished during the operation, continues to facilitate the direct posting of payroll expenditures for timely reporting in the fiscal accounts of the State Government. Going forward, further improvements are envisaged as soon as the new budget and account classification system is implemented so as to decipher, clearly, the constituent elements of the 'compensation of employees' in the fiscal reporting process. In regards to procurement, the two reforms remain on track without reversal.
- *The investment climate reform (Prior Actions # 7-8) supported by the TLSDDPO has improved Nigeria's rank in the 2016 Doing Business.* Nigeria's position regarding registering a property improved by 4 positions (from 185th in 2015 to 181st in 2016) as a result of the lowered cost of land transactions. The electronic Planning Permit (e-PP)

multiple channels (mobile, online, bank, etc.) to facilitate payments by property owners. Ministry of Finance will be responsible for revenue policy, coordination and monitoring the consultants' activities, and conducting communication campaign to increase public awareness about land use charge.

³ They include the construction of a pedestrian bridge at Ojodu Berger and fly-over bridges at Ajah Roundabout and Pen Cinema, Agege; the continuation of the construction of a blue light rail project and the Lekki-Epe Expressway; the acquisition of emergency/rescue helicopters and heavy duty equipment (cranes and forklift); and for Employment Trust Fund and Wealth Creation Programs. Ministry of Finance will be responsible for communication campaign

website has been launched, and submissions of planning permit requests using e-PP was operationalized in May 2016. The public, however, continues to submit requests for manual processing. The Planning Permit Authority under the Ministry of Physical Planning and Urban Development (MPPUD) has been conducting an intensive communication campaign to increase the submission of requests through the electronic portal. To date 15 requests for planning permits were submitted and 3 applications were approved for further processing.

4. **Achievement of PDO is Moderately Satisfactory.** The data for 4 results indicators (out of 16 indicators) are not yet available as the implementing agency (Lagos Public Procurement Agency) has not yet carried out some surveys due to the change in the PPA General Manager. The available data confirm that most targets for results indicators are met with an exception of the targets for land use charge collection that was not met in 2015. The new government terminated the contract with Land Use Charge that was responsible for collection under the previous government. It signed new contracts with three consulting companies to collect land use charges in three regions of Lagos State with a lower administrative fee and increased coverage of properties in Lagos State. The Ministry of Finance will coordinate the activities of the three consulting companies. It is expected that the Lagos DPO 3 target for land use charge collection will be met in 2016.

5. **Issues for management's attention.**

- The use of 3 companies as agents to collect land use charges is expected to increase the coverage of properties subject to land use charges and lower the administrative fee charged by the consultants; however, there is a challenge in coordinating and managing the activities of the 3 companies. The mission encourages the Ministry of Finance to closely monitor their activities and revenue performance through the monthly revenue stakeholders meeting.
- Lagos State has and continues to be a leading performer in PFM reforms. Nevertheless, the delay in transitioning to the Government Finance Statistics (GFS)-based budget and account classification system for budget preparation, execution and reporting is not helping. While the Government intends to migrate to the new classification methodology for its 2017 budget, there is some element of uncertainty in light of the additional work required to make the transition seamless. The mission encourages the Government to not delay the adoption and implementation of the new system beyond the 2017 budget preparation and implementation. The process of migration will necessarily include the training of budget and accounting staff on the new classification system, configuring the new classification system in its Oracle-based financial management information system, and ensuring the budget call circular for 2017 budget is issued with the new chart of classification.
- The mission noted that there is a considerable reduction in the number of contracts that are being awarded competitively; in fact, most contracts are now being awarded without any form of competition. The mission strongly advises that contracts estimated to cost more than N100 million be awarded competitively using the state standard bidding document. Competition in award of public contracts will provide for

a more efficient use of public funds and help eliminate waste in public expenditures. In addition, the results indicators for public procurement reform need to be informed by a survey data to track the impact of the usage of standard bidding documents by MDAs . However, the survey has not yet been initiated due to a change in General Manager (GM) of the Public Procurement Agency (PPA). The mission urges the PPA to begin developing a survey instrument and carry out the survey to ensure available data for the procurement results indicators.

Annex 1

TLSDPO - Implementation Status: Issues and Recommendations

Prior action # 1: Publish by Lagos State Parastatal Monitoring Office on its website the 2012 and 2013 consolidated state of affairs (balance sheet) of 15 key Lagos State parastatals.⁴ *On Track.* The new government has abolished the Lagos State Parastatals Monitoring Unit and assigned MDAs to be responsible for monitoring and supervising their respective parastatals' administrative and operational activities. However, the monitoring of their financial activities at the macro level to identify fiscal risks has not been assigned to a specific agency.

Issues: As state parastatals' financial activities have implications on government fiscal operations, it is critical that the government closely monitor their financial activities and consolidate the financial statements of the parastatals under the auspices of a unit at the State Treasury Office within the Lagos State Accountant General's Office.

Recommendations: The mission suggested that Lagos State Office of the Accountant General will henceforth undertake the monitoring and consolidation of financial activities of key parastatals (15 in number and progressively increasing with the addition of more parastatals) and publish the consolidated statements on the website of the Ministry of Finance. The consolidated information can also be included in the Annual Financial Statements of Lagos State Government for improved comprehensiveness of the State's financial performance. By these means, the fiscal risks to the State's budget, accruing through operations of parastatals, can be better reported and monitored.

Prior action # 2: Prepare the 2015 budget based on 25 MTSSs for MDAs, and consolidate relevant MDAs' MTSSs into at least 3 sector-defined functions of government (education, health, and one other) and in accordance with the Medium-Term Expenditure Framework. *On Track.* The MTEF, which is anchored in the Public Finance Law approved in 2011, has been institutionalized and the government has continued on this reform path. The 2016 budget was prepared based on the MTFS and on the basis of the information gleaned from sectoral strategies (MTSS) in accordance with its rolling medium-term expenditure framework 2016-18. Going forward, the Ministry of Economic Policy and Budget (MEPB) has issued the FY2017 Budget Calendar that envisages approval of the 2017 budget by end-October 2016. This will enable MDAs to complete their procurement plans for the capital budget and begin implementing as soon as the FY2017 gets underway so as to improve execution performance of the capital budget that currently stands at about 70 percent on average. Further, the government will continue to deepen the reform of the MTEF and begin the piloting of performance-based budgeting in 10

⁴ The 15 selected parastatals include Lagos State Printing Corporation, Radio Lagos Service, Lagos Television, Lagos State Pension Commission, Lagos Metropolitan Area Transport Authority, Lagos State Electricity Board, Lagos Building Investment Company Limited, Ibile Holding Limited, Lagos State Public Works Corporation, LAGBUS Assets Management Limited, Lekki Worldwide Investment Limited, New Town Development Authority, Lagos State Development and Property Corporation, Lagos State Waste Management Authority, and Lagos State Water Corporation.

MDAs that links to key performance indicators for monitoring by the Department of Evaluation and Monitoring in the MEPB.

Issues: Piloting a performance-based budgeting system is a tedious exercise and requires a piecemeal approach to have any additional value. A number of prerequisites are necessary before success can be achieved in moving to a performance-based budgeting arrangement. There is the need to appropriately link budget outlays to performance and using a program classification system for budgeting, implementation, and results reporting and monitoring.

Recommendations: The mission recommends that the key prerequisites for transitioning to performance-based budgeting be put in place to ensure better functionality and outcomes, rather than just the legitimacy of the reforms that the State intends to embark on.

Prior action # 3: Standard Bidding documents in use in all MDAs in Lagos State. *On Track.* All MDAs have complied with the use of SBDs.

Issues: There is a considerable reduction in the number of contracts that are being awarded competitively, and most contracts are now being awarded without any form of competition.

Recommendations: The mission recommends that contracts estimated to cost more than N100 million be awarded competitively using the state standard bidding document. Competition in the award of public contracts will provide for more efficient use of public funds and help eliminate waste in public expenditures.

Prior action # 4: Continuous strengthening the capacity of the Public Procurement Agency by filling 8 vacant managerial and technical specialist positions. *On Track.* The 5 positions filled through the transfer of public officials from other agencies remained. The selection process for the remaining three positions has reached an advanced stage. The shortlisted candidates for these positions have been invited for oral interviews.

Issues: The Board of the Public Procurement Agency that was dissolved by the present administration in the state has been reconstituted. The Board, however, has yet to be inaugurated by the state government.

Recommendations: The mission recommends a speedy conclusion of the selection process for the additional three positions in the PPA. In addition, the PPA Board should be inaugurated to allow the functioning of the PPA.

Prior action # 5: Roll-out of the ‘procure to pay’ module of Oracle Financials to at least 8 MDAs accounting for at least 85 percent of the state capital expenditure. *On Track.* The mission reviewed progress made in strengthening the commitment and obligations recording and control processes agreed for the 8 highest spending MDAs, especially in respect to capital expenditure, and confirmed that the State remains on course. The systems-generated budget execution reporting format that was agreed during preparation of the program has been utilized to full advantage, and the commitments and obligations outstanding for each of the 8 MDAs can be generated in real time.

Issues: The mission reviewed the reports up to end April 2016 along with the transaction processing arrangements in place and was pleased to see that the State has indeed firmly adopted the functionality of the procure-to-pay module to report on the State's commitments as well as the status of its obligations. The importance of this IFMIS functionality cannot be over-emphasized as it can more reliably document and help control the expenditure arrears of the State at any one time and thus reduce the potential for non-transparent financing of the State's budget through expenditure arrears. At present, and in continuing the scope of the reform established under DPO 3, the State has begun to further extend the use of the module to six additional MDAs as of the start of the current fiscal year. This has increased the roll-out to a total of 14 MDAs. Six more MDAs are planned for further roll-out during the course of the fiscal year. This is an encouraging development in as much as it was not originally foreseen as part of the program actions.

Further, budget and account classification remains non-compliant with the GFS 2001. The current classification system in use has limitations that the mission and government consider not conducive to supporting decision-oriented fiscal policy management. The government plans, however, to transition to the use of the new classification system (State-centric but consistent with GFS) in the preparation, execution and reporting of its 2017 budget. Still, challenges remain since a number of routines required for achieving seamless migration and implementation have yet to be fully accomplished (such as training of staff, configuration in the Oracle-based FMIS, and inclusion of the new chart in the budget call circular).

Recommendations: The mission made the following recommendations to help stabilize the system while ensuring that implementation becomes seamless and sustainable.

1. A comprehensive review and documentation of the functionality of the IFMIS, previously planned to be completed by March 2016, has yet to be fully undertaken. As mentioned in the last aide memoire, this would require an analysis and documentation of the 'as is' and 'to be' functions (business processes) and technical requirements covering the entire budget management cycle – from budget preparation to execution, and from treasury management to financial reporting – all including the integration of HRMIS/payroll with the General Ledger. The mission notes that there have been adjustments to the business processes in budget implementation with the introduction of a number of further control measures within the expenditure management hierarchy. It is understood that the government has recruited PWC as a quality-assurance support firm to support the stabilization process. The output of this review (functional and technical architecture) should be approved by EXCO, as earlier recommended, and thus form a policy basis for budget management using the IFMIS.
2. Complementary to the above, the business process of warranting (budget releases) for MDAs to initiate commitments would require clear re-definition and strict compliance. The recommended processes are summarized below:
 - a. MDAs prepare cash plans (Budget Profiles) – upon approval of the annual budget by the Assembly – and submit to AG through the system.

- b. The AG would prepare a cash forecast (based on profiles-work-plans) – annual and updated monthly – to inform the approval of cash plans from MDAs in terms of cash availability when commitments translate to obligations.
- c. Through the workflow in IFMIS, the Budget Ministry receives the clearances of the MDA cash plans from the AG, and then releases part of the annual budgeted appropriation of the MDA for initiation of commitments. At present, Lagos State does not have a policy of budget releases, although the mission opined that introducing that policy will help to limit ‘authority to spend’ to the availability of cash when the commitments translate to obligations.
- d. MDAs can now commence the initiation of their commitments. The system will accept all commitments up to the limit of the budget release. No commitments could be initiated without a budget release and cash cover.
- e. By these means, liquidation of obligations can be facilitated (without undue queuing of payment orders at the STO) and thus expenditure arrears can be avoided as much as possible.

Prior action # 6: Integrate cleansed and validated payroll with Oracle Financials for direct posting of payroll expenditures in General Ledger. *On Track.* Integration of the payroll with the general ledger of the IFMIS has since been completed. The payroll expenditures automatically default to their respective cost centers at the end of each payroll run and thus obviates the need to manually journalize payroll expenditures for monthly reporting and monitoring of ‘compensation of employees.’ Additional work will be required when the new chart/budget classification system is adopted and implemented to ensure that the payroll expenditure codes are fully aligned to the new classification codes. The last mission had recommended that this process be initiated along with the migration of the IFMIS to the new chart/classification system by June 2016.

Issues: The key issue impacting the automatic posting of payroll expenditures to their respective cost centers relates to the structure of the current budget and account classification system in use. Automatic posting is done only at the higher economic classification level – compensation of employees – due to the lack of transition to the GFS-based classification methodology.

Recommendations: The mission agreed with the Accountant General’s office that the automatic posting at the sub-object classification segment levels for ‘compensation of employees’ will be accomplished as soon as the State transitions to the new budget and account classification.

Prior action # 7: Reduce the cost of land transactions by at least 50% (from their current rate of 13% of assessed value) together with implementing a new methodology for assessing the value of land and property that determines payable fees and charges on land transactions.⁵ *On Track.* This action was met through the Executive Order signed on January 5, 2015 and became effective immediately. The Order reduced various rates applicable to land transactions in Lagos State from 13% to 3% and introduced a fair market value of properties for

⁵ The fees and charges on land transactions include consent fees (6%); capital gains tax (from 2%); stamp duty (2%); and registration fees (3%).

the determination of fees and charges on land transactions. As a result, Nigeria's rank in the 2016 Doing Business regarding registering a property improved by 4 positions (from 185th in 2015DB to 181st in 2016DB) and thereby raised the country's overall rank in the ease of Doing Business, which improved from 180th in 2015DB to 179th in 2016DB. In addition, the new governor cleared all the backlog by signing 2,522 Certificates of Occupancy for private lands and government grants in September 2015.

Prior action # 8: Develop and establish a web-based development planning permit (e-PP) in Lagos state. *On Track.* The Ministry of Physical Planning and Urban Development (MPP&UD) developed a web-based development planning permit system (e-PP), conducted successful test runs and integrated the e-PP system with the Electronic Banking System of Revenue Cycle Management (EBS-RCM). An intensive communication campaign for the e-PP was conducted with key stakeholders including surveyors, property developers, architectures, etc. Subsequently, the e-PP portal was launched for public usage in May 2016.

Issues: Most applicants still prefer to submit their requests manually and as a result the number of applicants requesting planning permits remains low. MPP&UD plans to continue its communication outreach to the public to encourage them to use the e-PP portal and accelerate the approval of electronic planning permits.

Recommendations: Besides communication outreach, the mission recommended that MPP&UD establish a timetable to phase out manual processing and approval of planning permits.

Annex 2

Third Lagos State Development Policy Operation – Results Framework

	Baseline (2013)	2014 Actual	2015 Actual	2016 Estimated	Target	Remarks					
A. Fiscal Sustainability											
A1	Adhere to the FRA and debt sustainability thresholds by maintaining the fiscal deficit under 3% of SGDP and debt service under 30% of total revenue					FSA conducted in March 2016					
	Fiscal Deficit below 3% of GDP	Yes (-0.38%)	Yes (-0.16%)	Yes (0.09%)	Yes (-0.29%)	Yes					
	Debt Service below 30% of total revenue	Yes (19.3%)	No (30.4%)	No (32.8%)	Yes (19.8%)	(below 3%)					
A2	Enhanced transparency in reporting fiscal risks to the budget					Yes					
A3	Revenue from land use charge					N7.1 Billion	N7.1 Billion	N6.6 Billion	N5.0 Billion	N8.0 Billion	Actual collection as of May 2016
B. Budget Planning											
B1	Shares of budgetary expenditures devoted to education										
	Education	13%	15.8%	16.9%	17.1%	13%					
	Health	9.0%	7.7%	9.2%	9.8%	9%					
C. Budget Execution											
C1	All contracts greater than N100 million use standard					0%	0%	below 100%		100%	
C2	Average overall reduction in time scale of procurement implementation from bidding to contract award by 20%					<u>173 days</u>				138 days	Pending on a survey result to be conducted by PPA
C3	Average overall reduction in the time taken by PPA to review and issue a certificate of "no objection" to a contract subject to its prior review by 20%					0.3				0.24	Pending on a survey result to be conducted by PPA
C4	Percent of small contracts subject to post procurement					0%	0%	0%		5%	Survey
C5	Improved coverage and scope of Lagos State Auditor General's Office as measured by number of organizations audited					99	151	141		110	
C6	Improved coverage and scope of Lagos State Auditor General's Office as measured by Percent of budgetary resources controlled					67%	95%	92%		69%	
C7	Improved management of cash in budget implementation in 8 selected MDAs through monitoring of expenditure commitments and obligations					No	No	Yes	Yes	Yes	
C8	Real time reporting of payroll expenditures in the state's monthly financial statements					No	No	Yes	Yes	Yes	
D. Business Environment											
D1	GIS mapping created with ortho-photos					Yes	Yes	Yes	Yes	Yes	
D2	Total number of e-CofOs issued					0		5,625		3600	E-CofO signed by the Governor during May 2015-
D3	Cost of registering a property in Lagos State as % of prope					20.8%	20.8%	18.6%	10.1%	14.0%	
D4	An operational e-PP system, including disaggregated gender data, that regularly issues planning permits in					No	No	No	Yes	Yes	
	Total e-PP submitted								22		As of May 2016
	Total e-PP approved							0			
	Male							0			
	Female										

Annex 3

List of People Met

<u>NAME</u>	<u>Title</u>	<u>ORGANISATION</u>
Dr. Mustapha Akinwunmi	Commissioner	Ministry of Finance
Tunde T. Ogunleye	Permanent Secretary	Office of Finance
Taiwo Ogedengbe	Deputy Director (DMD)	Office of Finance
Abimbola Umar	Accountant General/Permanent Secretary	State Treasury Office
Oketola O.A.	D(CPDVD)	State Treasury Office
Amosu V. O.	ACA (FIR)	State Treasury Office
Fasasi O. A	DDTO	STO
Olaleini K.K.	DM & I	STO
Asegere S.A.	Director Accounts	STO
Omojola Larry	ACPO	STO
Mahmud T.A.	Director (FIS)	STO
Feme Ogunlana	Director	Office of Auditor General
Akinyemi Ashade	Commissioner	Ministry of Economic Planning and Budget (MEPB)
Abayomi Kadiri	Permanent Secretary	MEPB
Seun Akisanya	Director	Economic Planning Department, MEPB
Tayo Oseni-Ope	Director	Bureau of Statistics, MEPB
	Acting General Manager	Public Procurement Agency
Akeem A. Bello	Assistant to General Manager	Public Procurement Agency
Osude	Director	Planning Permit Authority
Lasisi	Manager	Desoffit Consults Limited
Ifeanyi Peters	SPM	DFID-SPAC