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DOCUMENTS

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Dr. Jim Yong Kim

President

The World Bank Group

1818 H Street, N.W.

Washington, D.C. 20433

Dear Dr. Kim,

RE: LETTER OF DEVELOPMENT POLICY FOR THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION (LAGOS DPO III)

The main objectives of the Lagos State Development Plan (LSDP) are to improve the capacity of government to deliver services, provide needed physical infrastructure and create institutions to support the implementation of a new socio-economic order in the State.

The action of this government has thus been focused on building a virile and robust Lagos Economy through infrastructure renewal and development. The approval of the First and Second Lagos State Development Policy Operations (DPO-I&DPO-II) by the World Bank Executive Board of Directors bears testimony of the government's commitment to the reform agenda that has continued to be strengthened and deepened till date with positive impact on the living standards of the people.

A. Accelerating Economic Growth through Infrastructure Renewal and Development Backed by Enduring Institutional Framework

In a bid to effectively manage the challenges of a city that has a larger population and bigger economy than many countries on the African continent, the Lagos State Government ('Lagos State' or 'LASG')) recognized that building a more appropriate institutional and regulatory framework would be required to create conducive conditions for investment, private-sector led growth, and improve service delivery, all in a sustainable manner.

To achieve these objectives, LASG considered two policy areas to be of primary importance:

- (i) improving the quality of spending through strengthened budget planning and better budget execution; and
- (ii) enhancing the investment climate by streamlining and simplifying the bureaucratic and regulatory environment.

LASG has been implementing a variety of government services reforms and introducing new policy measures in the economic environment since the year 2000. The objective of

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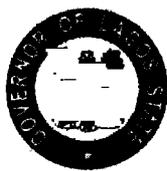
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the reforms has been to improve the capacity of government to provide better service delivery and physical infrastructure and create institutions to support the implementation of a new socio-economic order in the State.

It was against this background that the state government viewed support from the World Bank, by means of a Development Policy Credit, as critical to the desired systemic transformation and preservation of fiscal sustainability.

The main focus of the support was to:

- (i) maintain fiscal sustainability;
- (ii) improve the quality of spending; and
- (iii) strengthen the investment climate.

These interventions have thus strengthened the capacity of the government and have laid a foundation for the use of more robust financial instruments and a platform for engaging the people of Lagos for a more proactive and planned growth programme.

Recognizing the fiscal challenges posed by financing large infrastructure projects and improving service delivery, the reform programme was embedded in a medium-term fiscal strategy.

Against the background of the key reform programmes which started in year 2000 and got substantially accelerated by the new administration that came to office in 2007, measurable results have begun to manifest; to wit: crime had fallen as delinquent youths, those involved in criminal activities, entered state-sponsored vocational training programmes; and transportation services had improved with the establishment of designated lanes for public buses and the rehabilitation of infrastructure and public areas.

Another area that yielded progress was infrastructure expansion where a number of public-private partnership projects had been initiated.

Importantly, the government consistently embraced a participatory policy formulation process that often involved diverse groups of stakeholders during public meetings attended by senior government officials. The bi-annual Ehingbeti Economic Summit - a think tank policy dialogue is one of such key initiatives of Lagos State.

Over the last five years 2009 - 2014, key areas of focus in the State relate to the adoption of new approaches to budget planning and preparation and enhance fiscal sustainability. The Government adopted and institutionalized the new approaches for budget planning and preparation.



The medium-term expenditure framework (MTEF) adopted is comprised of a top-down budget plan that includes an overall budget ceiling and a number of sector ceilings established by a medium term fiscal strategy (MTFS) and a bottom-up budget based on medium term sector strategy (MTSS). The government, led by the Ministry of Economic Planning and Budget (MEPB), develops an MTFS that informs the overall resource ceiling for the budget and ceilings for sectorial budgets over a multi-year period based on macroeconomic forecasting.

The MTSSs have enabled Ministries, Departments and Agencies (MDAs) to ensure that their budget allocations are consistent with the strategic priorities in their sectors. The MTEF approach to budget planning reform was implemented incrementally throughout the programme period, and has since become institutionalized and an integral component of the budget planning and preparation process.

In an attempt to enhance transparency and accountability in the use of budget resources, Lagos State has prepared and passed into law the Lagos State Procurement Agency and the institution has since become operational and fully set up. Lagos State has also passed the new Audit Service Commission Law and the board of the Commission has been inaugurated.

In addition, the Lagos State Financial Systems Management Bureau (FSMB) to anchor the full roll-out of the few remaining Oracle Financial System Modules was created and fully resourced. These institutions have further strengthened the resolve of Government to create an enduring institutional framework for the various reforms embarked upon towards ensuring that those reforms stood the test of time.

As part of the effort to build a virile and sustainable economy and thus realize its vision of becoming Africa's model megacity and global economic, financial hub that is safe, secure, functional and productive, the State Government articulated a Development Programme Plan, comprising all the policies and programmes of the State known as Lagos State Development Plan (LSDP) 2012-2025, that would provide overall direction for the growth and development of the State.

A core policy document that forms an integral part of the LSDP is the State's 10-Point Agenda. The faithful implementation of the 10 point agenda through infrastructure renewal and development and by creating an enabling environment for private sector-led growth as well as increasing the attractiveness and viability of different infrastructure projects would bode well for sustainable economic growth and a better quality of life for residents.

While the Ten Point Agenda has been the Government's strategy to foster economic growth, it has now become imperative to redefine the role of Government in the Lagos economy and promote a private sector-led economy. This will allow the Government to focus on providing basic social services for the State's growing population.



At the 2012 edition of the Lagos State Economic Summit (Ehingbeti 2012), four (4) key sectors where opportunities abound have been identified as Power, Agriculture, Transportation and Housing (PATH). These four key sectors do not only represent major opportunities in themselves but are the key drivers of opportunities in other sectors with their multiplier effects.

The focus of Government is presently on these key four Sectors to drive exponential growth and sustainable development in the foreseeable future.

The present administration has equally committed significant amount of resources to infrastructure development and renewal across the five divisions of the State. Over the last seven (7) years, annual capital expenditure spending has averaged over N200 billion. The large increase in capital expenditure had been financed mainly by increased Internal Revenue Generation (tax collection) and borrowing.

Overall, an enabling environment has been created for businesses to thrive in a safe, secure and orderly environment governed by rule of law. The State, through the implementation of the well-articulated 10-Point Agenda, has continued to witness rapid economic growth and better quality of life for residents.

The Government hopes to sustain these achievements through continued investment in infrastructural renewal, conducive business environment for private sector-led growth as well as institutionalizing good governance and best practices.

The following amongst others illustrate on the achievements to date:

Roads

In order to create an efficient road network and thereby provide alternative routes to road users and help in relieving the problem of road congestion, a number of strategic roads and bridges were identified for construction and in some instances for rehabilitation.

While some of the roads and bridges have been completed, others are in different stages of construction. To date, we have completed over 270 roads out of the 400 strategic roads identified, while the construction and rehabilitation of 130 other roads are progressing well and at various stages of completion.

The roads are of high quality to ensure durability.

The Lagos State Roads, Bridges and Highways Infrastructure Development Authority (Private Sector Participation) Law enacted in 2004 as amended provides a legislative framework empowering the State to enter into and perform road concession



agreement obligations. The 49km Eti-Osa-Lekki-Epe Toll Road was also consummated under this law. To further streamline and consolidate PPP arrangements across sectors within the State, the law was repealed and replaced by the Office of Public-Private-Partnerships Law, 2011.

This development created opportunities for private sector financing of construction of toll roads and bridges amongst others.

The tolled Lekki-Ikoyi Link Bridge was constructed to provide a transport infrastructural and strategic traffic management solution aimed at easing traffic congestion within the Lekki corridor, which has been adjudged as the fastest growing real estate hub in Sub-Saharan Africa.

The Okota-Itire Link Bridge was constructed to ease traffic connectivity for seven different Local Governments, while the newly commissioned Bridge in Agiliti, Mile 12 area would connect communities that have been separated by water in the Kosofe Local Government Area.

Similar Bridge projects are in progress in Ojo and Badagry Local Government Areas.

The massive infrastructural development and modernization going on in Lagos-Badagry Expressway, a 61km four lane road being remodeled into a ten-lane carriage way, bears an eloquent testimony to massive infrastructural development in the State.

The project on completion will create new activity centers along this axis of Lagos State, thereby connecting other countries in West Africa, and creating opportunity for more development and youth employment in the area.

Transportation

The Government is determined to actualize its vision to create a City State where transportation infrastructure allows for convenient, efficient, easy and affordable movement of people and goods to different parts of the State. Creating an affordable and reliable public transport system, particularly for the low and middle classes, will reduce travel time and increase productivity.

The administration is committed to intermodal mass transit and has developed a framework on the back of a master plan, for the deployment of private capital in the road, rail and water transportation systems.

In 2007, the Bus Rapid Transit system was introduced to meet the mobility needs, particularly of the less privileged and large mass of the people. The system offers the use of high capacity buses on dedicated lanes allowing the buses to move faster where there is traffic congestion.



The buses were financed by the private sector, while the State provides the road infrastructure with the former responsible for the day-to-day operations and maintenance of the buses. Routes already in operation include Ojota-CMS; Oshodi-Yaba-Oyingbo-CMS; Ojota-Third Mainland Bridge-TBS; while Ojota-Mile 12-Ikorodu and Eric Moore-Badagry are at advanced stages of completion.

The State has also embarked on construction of Lagos Rail Mass Transit (LRMT) (Blue Line project) between Okokomaiko and Marina a 27km distance to help alleviate traffic problem along the axis and encourage the use of public transport to promote urban development and renewal.

This project is of a high priority to the Lagos State Government and construction work is currently at advanced stage with the infrastructure completion of National Theatre to Mile 2 axis of the project while the water crossing into Marina/CMS has commenced in earnest.

For water transportation system, jetties have been constructed and rehabilitated, waterways have been dredged and ferry routes have been identified and some concessioned. The state-of-the art Ferry Terminals constructed at Ikorodu and Badore will soon be put into use while the one in Osborne was progressing well until a recent dispute on land title put the Osborne project to a temporary stoppage.

Power/Water Supply

In a bid to ensure adequate potable water for its current and growing population, the State is restructuring the Lagos Water Corporation (LWC) to ensure efficient service in terms of water delivery and create opportunities for the private sector in the construction and management of water plants and water distribution.

The restructuring of LWC will lead to improved revenue collections and lower cost of water delivery to end users. In addition a 10-year master plan towards achieving potable water reliability and sufficiency in the State has been developed and being implemented.

In terms of improving the water supply capacity to Lagos residents, LASG has over the last three years commissioned at 15 locations, two million gallons per day capacity Water Works to the Abule-Egba/Ekoro/Agbekale and Ifako-Ijaye communities; commissioned a two million gallons per day Mini-Waterworks in Ajangbadi town; commissioned a Micro-Water Scheme in Apapa amongst others; and progressed work on the 70 million gallons per day Adiyin II Water works expansion project.

Recognizing the importance of efficient power supply in the water supply chain, the **Akute Power** Project - a Public-Private Partnership arrangement between the Lagos



Water Corporation and a power company was contracted to build and operate a 12.15 MW natural gas-fuelled power generating plant to supply electricity exclusively to LWC plants at Iju and Adiyin.

Reliable power supply to the plants now in operation will increase water supply by 115 million gallons per day.

The Government is also exploring opportunities that will increase capacity for power generation and distribution in the State. This is one of the priorities of the Government as the constant supply of power generation is paramount to sustaining a high-growth economy. The inefficiencies in the economy are predominantly fostered by the erratic supply of power for business operations. The business opportunities foregone as a result is unquantifiable. The extra burden borne by business owners is reflective in high operations costs that result in high pricing. To this end, the Government has embraced Public-Private Partnerships in achieving this objective.

Recently, the Lagos State Government launched the **Alausa Power** Project in addition to the earlier launched **Island Power** Project to provide uninterrupted power supply in their areas of jurisdiction.

The Island Power delivers uninterrupted power supply to such facilities like the Mercy Children Hospital, Lagos Island Maternity and the Lagos Mortuary, the Lagos High Court and Magistrate Court in Igboosere as well as the Lagos House all on the Lagos Island.

The 47.05 Mega Watts (M.W) Alausa Power project powers the State Secretariat, the Governor's office, Lagos State House of Assembly, the Lagos State Radio and Television as well as the Lagos Printing Corporation. The latter is particularly essential for the success of our major initiatives in e-Government, including the Oracle Financials and GIS Systems being supported by the DPO Programme in addition to powering street lights around the Alausa Central Business District.

The **Ikeja Power** Project has also come on stream at the Ikeja GRA axis while the **Lekki Peninsula Power** Project has been completed to ensure the supply of power to key Government installations around the Lekki corridor, including street lightings in those areas which will also go to strengthen the provision of security of the citizens of Lagos State.

Environment/Physical Planning

An urban development and town planning procedure has been designed for sustainable development. Master Plans for different sub-regions/cities within the State have also been developed to curb the growth of slums and guide orderly development of urban and rural areas.



To accomplish this objective, the State Government has embarked on the preparation, implementation and review of development plans for the following areas: Lekki, Badagry, Mainland, Alimosho, Apapa, Agege-Ifakoljaiye, Ikoyi-Victoria Island, Ikorodu and Epe.

The State has also established Drainage Office in each Local Government for maintenance and prevention of flood, while flood fighting equipment such as D'siltman machine has been procured for removal of silts and debris from blocked manholes.

In addition, the State has also made relative success with the involvement of the private sector in the solid waste management system through the development of sanitary land-fill sites, transfer loading stations and franchise of waste collection by private operators.

Education

Education is of high priority in Lagos State and the Government is committed to devoting a minimum of 13% of State expenditures to the sector.

Schools, Laboratories and Libraries are being constructed and rehabilitated, to improve the quality of education across most secondary schools in the five divisions of the State.

The State is also undertaking a review of Schools' Curriculum and Teachers' Welfare, while indigent students are taken care of through a functional scholarship scheme.

We have been partnering with the World Bank on developing models to improve the training and incentives of teachers towards achieving greater learning outcomes.

In the period 2007 to date and with the support of the World Bank through the Lagos Eko Project, a considerable progress has been recorded in pass rate in core subjects in the public schools at West African Senior School Certificate Examination (WASSCE). The State performance in core subjects in WASSCE (i.e. 5 credits including English and Mathematics) in the public schools improved from under 10% in 2007 to 45% in 2014.

To ensure efficiency in Education Administration, six new Educational Districts, each headed by Tutor-General/Permanent Secretary have been created, while Teachers' Establishments and Pensions Office has also been created to cater for Teachers' training and welfare.

Lagos State Educational Management System has also been introduced to ensure easier access to education data in both public and private schools in the State through appropriate deployment of information technology.



The Lagos State University (LASU) now has a new and well stocked Library and Lecture Theatre, amongst other infrastructural development within the campus.

Health

To ensure improved access to free and quality healthcare, the Government is expanding and improving capacity to provide curative healthcare at the secondary and tertiary levels while also emphasizing preventive care through the provision of primary health care especially for women and children through provision of Maternal and Child Care Centres (MCCs).

Against the background of massive investments in the provision of healthcare facilities in Lagos State over the last seven years, Government is committed to ensure that budget allocation to the health sector will not fall below 7% of total budget that will be used to improve capacity and maintain existing facilities in place.

Out of the ten (10) such MCCs planned for the State by the present Administration, seven (7) have been completed and are fully operational. They include the Amuwo-Odofin, Alimosho, Ajegule, Surulere, Ifako-Ijaiye, Isolo and IkoroduMCCs. The remaining three (3) are in various stages of completion. The one in Lekki has been completed and presently being equipped, while Badagry and Epe Maternal and Child Care Centers are at advanced stages of completion.

This is expected to deliver a total of over 1000 bed spaces dedicated only to the care of women and children in the State.

The seven MCCs completed are already having a huge impact in reducing the distance that pregnant women have to travel to get specialized care and have saved many lives and reduced infant and maternal mortality.

The expansion and re-equipping of the Ayinke House as the premier gynecological specialist center should be completed before the end of year 2015.

The State has also completed the ultra-modern Cardiac and Renal Centre the largest in West Africa with 67 Bed Capacity and 24 Dialysis Machines as well as the Burns and Trauma Centre both located at the Gbagada General Hospital and both have since been commissioned for the provision of best in class health care services.

Finally, the staff maternity leave period for nursing mothers has been extended from 3 to 6 months with full pay, and we are the only Government to do this in Nigeria.



Employment

Creation of an enabling environment for sustainable job creation by the private sector as well as the expansion of entrepreneurship development scheme have been the fulcrum of the State's approach to poverty reduction.

A significant number of people have been employed in areas of waste management, road construction, road transportation services, agricultural initiatives, traffic management, environmental beautification programme and KAI Brigade, amongst others.

Stimulating job creation on a massive scale will empower people. The Agric-YES program has created hundreds of youth Agric-Entrepreneurs, thus further contributing to reduction in youth unemployment. Various Vocational Training and Skills Acquisition Centres have been developed and have been graduating thousands of youths yearly in various skills ranging from construction, food & nutrition, electrical, plumbing, ICT, shoes & dress making to auto mechanics; amongst others.

Food Security

The Government has entered into partnerships with private sector institutions to increase food production with the State providing the required land.

The State has also ensured food security through empowerment of farmers/fishermen cooperative societies, bolstered support for strategic food preservation and farm settlements, creation of Agricultural Youth Empowerment Scheme (Agric-YES), the World Bank Assisted FADAMA Projects, redevelopment and rehabilitation of infrastructure at the Agriculture Training Institute Araga, Epe to enhance capacity to provide practical training in Agriculture. Various clusters have equally been developed across the State with focus on aquaculture, poultry, piggery, rice plantation, cassava plantation, vegetable farming, etc.

Security & Public Safety

The State Government is fully aware of its position as the economic nerve-centre of the Nation and the State with the highest number of industrial estates in the country and also cognizant of the need to protect the assets and lives of its teeming population.

Lagos has always been in the model in terms of public safety in the country and will continue to be a role model for other States.

In a bid to sustain and build on this achievement and thus attract more investors, the State accomplished another milestone in its drive to ensure public safety, and avert



colossal catastrophe that may result from fire outbreaks, by procuring at a go, a total of thirty four (34) new fire equipment comprising thirty (30) fire-fighting trucks, 2 (two) sky lift fire truck (otherwise known as Area Ladder) that can battle fire involving high rise building and 2 (two) maintenance vans (otherwise known as Workshop on Wheels) which contain different types of modern tools for effecting repairing of vehicles.

The 34 New Fire Equipment Trucks were put into full operational service on 2nd December, 2014.

Another momentous area the Government demonstrated its commitment and capacity to adequately protect its citizens was in the swift and professional way the Ebola epidemic infection was curtailed and contained in Lagos State.

Lagos State team led by His Excellency, the Governor spared no resources and mobilized the citizens and defeated the outbreak of the highly infectious disease to the admiration of the entire country and indeed the world. Fatality of the epidemic outbreak was reduced to the barest minimum and the integration of the Ebola survivors into the society from the quarantine centres was seamless as huge and effective awareness was created amongst the citizens.

Shelter

Housing is one of the major components of the State's policy and in its drive to make Housing available at a minimum cost, a housing policy that will deliver affordable mass housing stock to low and medium income earners is currently being implemented.

The objective is to boost housing supply by providing a range of housing type, at affordable prices and stimulate demand for houses by initiating programmes such as providing land subsidy to private developers and creating opportunities for intermediate renting.

The State has already entered into agreements with a number of private development organizations with the Government providing land as equity while the other parties carried out construction of residential schemes and in some cases, provide long-term management of the housing estates and infrastructure.

The State Government has embarked on mortgage housing scheme, through Lagos Home Ownership Scheme (LagosHOMS) targeted at first time home owners whereby the State is making affordable housing available to Lagosians through a mortgage arrangements at a single digit interest rate and for a minimum tenor of 10years. Owners have been emerging through monthly draws that would deliver a minimum of 200 homes.



Since the inauguration of the scheme the Government has continued to roll out 200 homes every month. Through the LagosHOMS, close to 1,000 Lagosians who were selected through monthly draw are now home owners in the State.

The houses are located across all the Local Governments of the State.

B. Revenue Enhancement

The efforts of Government in infrastructure renewal and development have resulted in increased investment and economic opportunities in the State and an increase in IGR, with more people becoming favourably disposed to voluntary payment of taxes.

The Lagos State Internal Revenue Service (LIRS) has widened the tax net over the last five years with tax-paying citizens topping the 4.5 million mark. Efforts are also geared towards further increasing the tax base with the enrolment of over 900,000 professionals, artisans, drivers etc within the tax bracket.

Unlike other Nigerian states, Lagos depends on real sector activities such as commerce, banking, financial services, real estate, light manufacturing etc. for her GDP. Lagos State with over ₦1.6 trillion GDP, contributes 20% of the national GDP and over 25% of non-oil revenues. The revenues of the State are to a large extent based on taxes derived mainly from employment opportunities and dependent on the effectiveness of its tax collection system.

The State's Internally Generated Revenue (IGR) has been increasing steadily on a yearly basis, from ₦12 billion in 2000 to ₦168 billion in 2009. By December 2014, Lagos IGR has touched the ₦250 billion mark. This growth in revenue is attributed to the engagement of tax consultants to automate and monitor tax collection and create a taxpayer database, the establishment of an autonomous revenue board, as well as enhanced measures to enforce collection.

The focus of Lagos State is to further strengthen revenue collection mainly through widening the State's tax base and increasing collections of Land Use Charge, personal income tax, land transactions and the informal sector. Over 600,000 properties have been identified for the purpose of achieving higher collections of Land Use Charge.

An Enterprise Registration and Identification Programme was designed to create a robust database for the State's very large informal sector and also promote the culture of tax payment.

To stimulate growth in the commerce and industry sector, some industrial estates and markets are being reconstructed and modernized.



C. **The DPO Programme in Focus - Prior Actions & results**

Government spending is now targeted at fast-tracking economic growth and manage the emergence of a strong private sector that can sustain faster economic growth in the long term. In the short-term however, the focus of Government on Infrastructural renewal and development will assist in reducing the cost of living and creating the required investment climate for business growth.

In this context, the Lagos DPO programme has been designed to increase the capacity of government and improve the effectiveness of government institutions in terms of fiscal sustainability, quality of spending and the investment climate.

The Lagos DPO programme is based on four (4) pillars: Fiscal Sustainability, Budget Planning & Preparation, Budget Execution, and the Investment Climate.

These four pillars have continued to play a key role in the successful implementation of the PATH programme and the creation of a new economy based on opportunities and responsive governance.

This letter outlines the reforms that have been implemented pursuant to the DPO I and DPO II and those reforms that constitute a Trigger for DPO III and are expected to be met as conditions precedent to the approval of the DPO III.

I. **Fiscal Sustainability**

Under the DPO programme, the State Budget has continued to be anchored within the medium-term Fiscal Framework (MTFF) consistent with long-term debt sustainability since 2010. The MTFF has kept the state budget in line its capacity to raise revenue, borrow and service the debt. Lagos State derives finances for improving its services and infrastructure mainly from higher Internally Generated Revenue (IGR) and increased Government borrowing.

While Lagos State's debt position today remains sound and sustainable as attested to by both local and international Rating Agencies, the State is conscious of the need to be prudent and carefully assess the risks to the State's future financial position.

Some of these risks are on the revenue side. Slow growth in Nigeria's oil sector and the volatility of oil prices make the size of future Federal (Statutory) Transfers to Lagos State somewhat uncertain. The sustained decline in oil price since September 2014 has already impacted the State's budget as the federal transfer (accounting for slightly below 30 percent of total revenue) has declined.

Other external factors, including changes in Federal Tax Laws and Regulations, such as those affecting the Personal Income Tax can also impact IGR in Lagos State. The State's



cooperation with the World Bank has been important for a better appreciation of those risks that can impact revenue.

Since the DPO I, Lagos State became the first sub-national entity to undergo a comprehensive Debt Management Performance Assessment (DeMPA) and few areas of weakness identified are being addressed. We have continued to strengthen our debt management capabilities through improved comprehensiveness of debt reporting and strengthened debt analysis.

We have consolidated all liabilities, including contingent liabilities, into our debt reporting and also conducted regularly debt sustainability analysis before additional debt is contracted. The regular analysis will ensure that our debt service burden is not exceeding our financial capacity to service the debt.

As a prior action for the DPO-III, we are strengthening the monitoring of parastatals' fiscal activities to ensure that they do not pose fiscal risk to our public finance. Lagos State have consolidated financial statements (state of affairs) of parastatals beginning with 15 entities that are partially financed by the state budget and commercialized. This will enable the government to properly monitor and manage the fiscal risk associated with their contingent liabilities in the form of payment arrears and guarantees.

We intend to extend the consolidation of financial statements to all parastatals in the coming years.

Despite the impressive growth in the IGR over the years and the change in the relative allocation between capital expenditure and recurrent expenditure, a significant budget funding gap has continued to be a recurring decimal in the State in view of the huge infrastructure gap.

A financing strategy to support the infrastructure development and renewal process was developed to ensure that the economic growth of the State is not constrained by current revenues. The State's approach is to form partnerships with reputable private institutions and use the right complement of financial services, people and technology to provide infrastructure at a reasonable economic cost to the people while creating opportunities for investors to make profit.

The focus of Lagos State is to further strengthen revenue collection mainly through widening the State's tax base and increasing collections of Land Use Charge and other land related transaction charges, Personal Income Tax, and bringing the informal sector within the tax net. For example, through advocacy, enforcement of tax laws (through prosecution) and the constant delivery of social goods, the taxpaying population of the State has increased from 500,000 in 2007 to 3.8million taxpayers in 2014. Over 600,000 properties have been identified for the purpose of achieving higher collections of Land Use Charge.



An Enterprise Registration and Identification Programme was designed to create a robust database for the State's very large informal sector and also promote the culture of tax payment.

Improving the functioning of the Lagos State Internal Revenue Service (LIRS) has been a part of our cooperation with the World Bank under the DPO programme.

The operational review of the LIRS led to the proposed Amendment to the Lagos State Revenue Administration Law (currently before the State House of Assembly). We believe that this will strengthen the functioning of the institution, as it will provide a strong independence of the LIRS Board from LIRS Management. The Bill has gone through a second reading and will soon be passed into law.

The State's financing strategy to meet the budget deficit is hinged on its Debt Issuance Programme and Public-Private Partnerships.

In 2008, the State embarked on a ₦275 billion multi-tranche Debt Issuance Programme to finance key infrastructure projects. The Debt Issuance Programme has helped to fund the State's budget deficit. 15% of the State's IGR is transferred to a sinking Fund to service the debt and repay the Bonds issued under the programme, serving as an effective way of instilling confidence in the bond holders.

By 31st December, 2013 the State has successfully issued a total of ₦275 billion in four tranches of ₦50 billion (2009); ₦57.5 billion (2010); ₦80 billion (2012) and ₦87.5 billion (2013) respectively. While the ₦50 billion issued in 2009 has matured and fully redeemed in February 2014, a total of ₦98 billion has been accrued in the Sinking Fund managed by independent Trustees as at February 2015 for the repayment of the outstanding Bonds at maturity in years 2017, 2019 and 2020 respectively.

The State has continued to be guided by the Public Finance Model (PFM) developed with Messrs PricewaterhouseCoopers, UK, to put into perspective the financial risk of the State under the Debt Issuance Programme and provide direction for the financial commitment of the State.

The Ministry of Finance currently uses the PFM as a planning tool to prepare projections for the Programme and also to determine the minimum required revenue to sustain the State's debt profile as well as the relationship between GDP growth and IGR. The PFM also shows clearly that the State's current debt levels and future borrowing capacity cannot meet the financing requirement for the State's huge infrastructure gap.

In a bid to meet the financing requirement for infrastructural development and renewal, the State identified the need to improve on the PFM by developing a robust Economic and Financial Model (EFM) to aid long term strategic and financial planning for the State.



In this regards, financing from Multilateral Agencies have been identified and now being deployed to complement the Debt Issuance Programme and deepen the financial base of the State especially in social sectors such as education, urban renewal and health and Agriculture.

In addition, the State's Public-Private Partnership initiatives were designed to accelerate the delivery of infrastructure and create opportunities for investors to realize a reasonable return on investment while the people of Lagos receive reliable and efficient services.

The Office of PPP was set up in 2008 to focus on concessioning and collaborating with the private sector to ensure that all the required policies and incentives are in place to attract local and foreign investment. The PPP Law has subsequently been reviewed by the State House of Assembly, thus providing a legal framework that will ensure orderly and uniform application of approaches and standards in PPPs in the State. Bills to ensure more efficient regulation in the transportation sector have also been passed into law.

II. **Budget Preparation**

Given limited resources and the huge infrastructure/services gaps in Lagos State, the Government has initiated some policies that will promote greater efficiency in budget planning and execution.

For budget planning, we have introduced a number of institutions with intention of ensuring that budgetary resources flow in the direction of our development priorities.

Our development priorities themselves also reflect the results of regular surveys of Lagos State populace.

To improve execution of the State's capital budget, capital projects have to meet the readiness requirements as defined by the State Executive Council to be included in the budget. The State's annual budget is embedded in a three year rolling Medium Term Expenditure Framework.

Under the DPO I, we have adopted, on an incremental step, a medium-term expenditure framework that consists of top-down setting resource ceilings and bottom-up budget requests by MDAs, thus imposed fiscal discipline.

Since 2010, this approach has helped us in determining resource ceilings for Ministries, Departments and Agencies (MDA) in the preparation of the annual budget. It has gradually helped us in orderly budget preparation and improve timeliness of budget approvals over time.



The top-down provides an overall resource ceiling setting by a medium-term fiscal framework as well as sector ceilings. The bottom-up approach ensures that the budget flows to activities are consistent with the state's development strategic priorities articulated in medium-term sector strategies (MTSSs).

In subsequent years, individual MDAs have continued to be notified of budget ceilings before the preparation of their budget proposal so as to ensure that they plan and prioritize within their allocations. MDAs now receive their resource ceilings (envelopes) in a timely manner for the planning of effective sector allocations. These ceilings are also communicated through nine functional sectors based on the UN Classification of Functions of Government (COFOGS).

The preparation of the MTSSs has been expanded and now relevant individual MTSSs have been consolidated into comprehensive sectors defined by the UN COFOG. An Economic Intelligence Unit was created in the Ministry of Economic Planning and Budget to develop MTSSs for MDAs as well as collect and analyze sectoral policies and performance.

Under the DPO programme, the EIU initially prepared MTSSs for 10 MDAs that were approved by the State Executive Council. Currently, 25 MTSSs for 25 MDAs were approved by the State Executive Council and published on the website of the State Government.

As a **prior action for DPO-III**, relevant MTSSs are now consolidated into 3 sectors as defined by COFOG including education, health, and environment.

In the future, we will organize the remaining individual MTSSs into the remaining 6 comprehensive sectors as defined by the UN COFOG to inform the prioritization of projects and expenditures under communicated resource ceilings during budget planning.

III. **Budget Execution**

Under the DPO-I, the State has enacted three laws; the Public Financial Management Law (The PFM Law), the Audit Commission Law and the Public Procurement Agency Law, which have been duly passed by the State House of Assembly, assented to and duly gazetted.

The PFM Law provides a reporting framework for management and accountability for public funds. The revised Audit Law will strengthen the operational independence of the Office of the State Auditor General, while the Public Procurement Law will promote transparency and accountability in expenditure.

The Board of the Audit Commission has since been inaugurated and functional.



To deepen the procurement reform, we inaugurated the Public Procurement Agency Board that currently provides independent oversight to the Public Procurement Agency (PPA) and mandated the use of standard bidding documents (SBD) for all contracts over 100 million naira.

Under the DPO-II, the SBD was piloted in 8 MDAs. The SBD is now being used by all MDAs as **a prior action for DPO-III**. The use of SBD will help promote transparency and fairness in large procurement tenders, while also ensuring that Lagos State gets enhanced value for its money.

We have further strengthened the capacity of Public Procurement Agencies by filling five (5) of the eight (8) remaining managerial and technical vacancies in the PPA in line with the prior action for **DPO-III** while the recruitment process for the remaining three (3) is currently ongoing.

Meanwhile, we will continue to publish procurement opportunities as well as procurement contract awards on the PPA website.

Through the support of the DPO-II, we established the Audit Service Commission, which provides the legal foundation for the strong independence of our external audit body, the Office of the Auditor General of Lagos State.

The Auditor General's Office is also committed to conducting its audits in a timely manner, and submitting an opinion on the audited financial statements within three months after receiving accounts from the Accountant General's Office.

The audited financial statements of Lagos State are made available to the public on our website.

As the development of e-government is a priority of the current Lagos State Government, we have established the Lagos State Financial Systems Management Bureau to oversee the full rollout of the Oracle Financials System.

Since the time of DPO-I, we have solicited the assessments of international experts and developed what we believe to be a strong action plan for moving forward. The Cash Management and Accounts Receivable Modules of the Oracle Financial System acquired by the State in 2003 are now operational.

Under DPO-II, the 'procure-to-pay' module was piloted in 5 MDAs. These modules will hopefully enhance our cash management and commitment control in budget execution in the State to a new level.

Under DPO-III, we have rolled out the P2P to at least 8 MDAs accounting for 85 percent of the state's capital expenditure. The payroll is regularly cleansed and validated and is



now integrated with the Oracle-based Financial Management System. This facilitates direct posting of payroll expenditure in General Ledger module and thus improves the quality and timeliness of reporting of payroll expenditure.

The deployment of the Oracle-based Financial Management System has enabled us to timely prepare and publish financial statements. Our annual Financial Statements are prepared within six months of the financial year end and Quarterly budget performance reports within 30 days of the end of each quarter. These reports are also published on the State's website.

In 2016, we will implement a new chart of accounts that is consistent with IPSAS cash basis and the 2011 IMF Government Financial Statistics.

To improve execution of the State's capital budget, we continue to ensure that all capital projects to be included in the budget have to meet the readiness requirements as defined by the State Executive Council.

These readiness requirements include appraisals by the Ministry of Environment as well as an environmental impact assessment prepared by the Lagos State Environmental Protection Agency as relevant to each project. As a result, the execution rate of the capital budget in Lagos state (averages 74 percent during the past five years) is higher than that of the federal government.

IV. **Investment Climate**

The private sector is the primary engine of growth and development in Lagos State and one important task of the Lagos State Government is to facilitate its continued and accelerated growth.

The State set up a Business Ways and Means Committee for this purpose. The committee in 2009 reviewed the business processes of the State and made recommendations which have since been adopted by the State's Executive Council.

The DPO programme focuses on two areas of importance to entrepreneurs and businesses in Lagos State: land registration and building (construction) permits.

We believe that a simplification and reduction in costs for these procedures would not only provide important benefits to the private sector, but also potentially boost State revenues as more property is registered there will be a significant increase in volume and revenue from land related transactions and building permits while Lagos will experience acceleration in the growth of construction and land transactions.



We have streamlined a number of these procedures. For example, we have simplified the approval process for land related transactions and reduce the number of days to register a property.

The Government has also implemented a number of reforms such as digitization of existing survey records, delegating Governor's Consent to appointed Honourable Commissioners, reducing mandatory processing deadlines, increasing staffing levels and the publication of the new procedures.

To fast track the building development permit process, the pre-inspection procedure has been eliminated, approval of development permits has been delegated based on project size and building regulations have been published for wide dissemination.

The development approval process is to be automated and this will further reduce the number of days to obtain an approval.

Our review of land registration procedures in Lagos State has motivated a major reform that is highlighted in the DPO Programme. World Bank Doing Business and other surveys point to high fees charged by Lagos State for land registration as a share of land value relative to most other countries.

In reality, however, a number of land holders have found an informal means to reduce these costs through understating the value of the property, i.e. selling the property formally at a low price and settling with an informal side payment. The current system seemingly suffers from the high formal costs identified in business climate surveys and a land valuation system that is not based on market realities.

To resolve the challenge, the State Government recently announced a reduction in the rates/fees on properties in respect of land registration across the State effective from 5th January, 2015 **from 13% to 3% (a DPO-III Prior Action)**.

The new rates are applied together with the introduction of a new objective methodology based on the fair market value for land valuations. The reduction is expected to attract more land owners to register their properties, thus widening the net of property owners that are desirous of obtaining proper and legitimate documentation for their properties, thereby increasing the revenue more than what was initially collected in this regard.

In the same vein, reduction in the cost of land transaction will enhance the revenue, with the adoption of a fair market value for all properties to be registered.

Lagos State has already invested significant amounts in the creation of the GIS, and we have successfully created the skeleton of a valuable GIS in Lagos. A GIS mapping



integrated with orthophotos is now fully accessible by key MDAs, and accessible online on a commercial basis.

We understand that getting substantial value and revenue out of the GIS for Lagos State will require additional measures, and we are happy for the support of the World Bank in assisting our GIS Working Group in clarifying strategic options and developing an Action Plan for its implementation.

We have piloted an electronic Certificate of Occupancy (e-CofO) system. All new Certificates of Occupancy are now issued in electronic form. The conversion of all existing CofOs to electronic form is also underway.

We expect that the electronic CofO system will assist Lagos State on many fronts: increased transparency; more secure property rights; and the streamlining of procedures to obtain CofO.

Improving the registration of private land and enhancing the Government's ability to zone public land could have unintended consequence on vulnerable populations.

In the process of reform, Lagosians living in slums characterized by inadequate basic services and high insecurity of tenure could be evicted from land as they do not have titles or zoned out from their current homes. We believe that reducing the cost and simplifying the procedures for registering a property will not only facilitate access to land for investments but will also improve security of tenure, including for low-income household, with concerted efforts to formalize land and property titling.

In this regards, the Government is committed to improving land tenure regularization for low-income households living in their settlements for extended period of time. We are looking at best practices of land sharing, land readjustment, and densification that can enable both in situ upgrading of informal settlements while availing land for urban redevelopment.

Other measures will be actively sought for to facilitate the availability of affordable land and housing for the poor with security of tenure and thereby improved access to infrastructure facilities and services.

To facilitate the approval process for building permits, under the DPO-I, we simplified and published new building permit procedures including eliminating pre-inspection; delegation to the district office to approve permits for simple structure; and attaching pictures of the proposed development sites.



Subsequently, the Building Control Law providing the legal framework for the Building Control Authority (BCA) was passed in July 2010 and the BCA was established in September 2012.

To reduce the time, cost and uncertainty for obtaining building permits, we increased the number of locations where payment can be made for building permits from 1 to 20; reduced the number of building types requiring a full environmental impact assessment from the Ministry of Environment; introduced a pre-clearance service that reduces the number of incomplete applications from getting lost in the system; and established a 'One Stop Shop' for construction permits with openings on Saturdays.

We have continued to further simplify and fast track the approval procedures under the DPO-III. An electronic, web-based online Planning Permit (e-PP) for processing and approving all types of planning permits has been developed.

The system will allow online applications, monitoring and payments through a customer portal as well as enable online review, comment, and approval by an officer.

We hope that the e-PP will increase transparency in processing planning permits and accelerate the approval time.

All of these actions will help ensure enhanced transparency and fairness, while also providing a foundation for the future streamlining and simplification of administrative procedures.

D. Conclusion and Appreciation

We have built an enduring institutional framework for the various reforms and governance improvement initiatives we have carried out over the last eight years.

We have continued to train and retrain our personnel in the civil service who are critical to the implementation of government programmes and service delivery to the people. So we are confident and assured that they will continue to rise up to the challenges of keeping up with the pace of development of a cosmopolitan mega city that Lagos has grown to become.

I must at this point express the appreciation of Lagos State Government for the strong support given to us by the World Bank in our efforts at building a virile and sustainable economy, and for the DPO Programme in particular.



The willingness of the World Bank to extend the Budget Support to the Lagos State Government is an eloquent testimony to the high level of confidence reposed in our ability to mobilize budgetary resources for real development impact and outcomes. We are honoured that we have earned that confidence and pledge to continually implement reforms that will improve the quality of lives and the overall living standards of Lagosians.

A handwritten signature in black ink, appearing to read "Babatunde Raji Fashola".

Babatunde Raji Fashola, SAN
Governor of Lagos State