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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

ON A PROPOSED CREDIT

IN THE AMOUNT OF SDR 142.3 MILLION (US$200 MILLION EQUIVALENT)

TO THE FEDERAL REPUBLIC OF NIGERIA

FOR THE

THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION

May 29, 2015

Macroeconomic and Fiscal Management Global Practice
Africa Region

**FEDERAL REPUBLIC OF NIGERIA**

**GOVERNMENT FISCAL YEAR**
January 1- December 31

**CURRENCY EQUIVALENTS**
(Exchange Rate Effective as of April 30, 2015)
Currency Unit: Nigeria Naira
US$1 = 196.5 Naira
US$1 = 0.71102516 SDR

## ABBREVIATIONS AND ACRONYMS

| | | | |
|---|---|---|---|
| AMCON | Assets Management Company of Nigeria | IPSAS | International Public Sector Accounting Standards |
| BCA | Building Control Authority | LIRS | Lagos Internal Revenue Service |
| BRT | Bus Rapid Transit System | LASG | Lagos State Government |
| CPS | Country Partnership Strategy | LSDP | Lagos State Development Plan |
| CBN | Central Bank of Nigeria | LSFSMB | Lagos State Financial Systems Management Bureau |
| CofO | Certificate of Occupancy | M&E | Monitoring and Evaluation |
| COFOG | Classification of Functions of Government | MDAs | Ministries, Departments, and Agencies |
| DFID | Department for International Development | MEPB | Ministry of Economic Planning and Budget |
| DMBs | Deposit Money Banks | MOF | Ministry of Finance |
| DMO | Debt Management Office | MPP&UD | Ministry of Physical Planning and Urban Development |
| DPO | Development Policy Operation | MTEF | Medium-Term Expenditure Framework |
| ECA | Excess Crude Account | MTFF | Medium-Term Fiscal Framework |
| e-CofO | Electronic Certificate of Occupancy | MTFS | Medium-Term Fiscal Strategy |
| e-PP | Electronic Planning Permits | MTSS | Medium-Term Sector Strategies |
| FAAC | Federal Accounts Allocation Committee | P2P | Procurement to Pay |
| FLSDPO | First Lagos State Development Policy Operation | PEFA | Public Expenditure and Financial Accountability |
| FRA | Fiscal Responsibility Act | PFM | Public Financial Management |
| GDP | Gross Domestic Product | PITA | Personal Income Tax Act |
| GEMS | Growth, Employment and Market in States | PMO | Parastatals Monitoring Office |
| GIS | Geographic Information System | PPA | Public Procurement Agency |
| GRS | Grievance Redress Service | PPG | Public and Publicly Guaranteed |
| HNLSS | Harmonized Nigeria Living Standards Survey | PSIA | Poverty and Social Impact Analysis |
| HRMIS | Human Resources Management System | SBD | Standard Bidding Documents |
| ICT | Information and Communication Technology | SDR | Special Drawing Right |
| ICRR | Implementation Completion and Results Report | SGDP | State Gross Domestic Product |
| IDA | International Development Association | SLSDPO | Second Lagos State Development Policy Operation |
| IDF | Institutional Development Fund | SORT | Systematic Operational Risks-rating Tool |
| IFMIS | Integrated Financial Management Information System | SPARC | State Partnership on Accountability, Responsiveness and Capability |
| IGR | Internally Generated Revenue | TLSDPO | Third Lagos State Development Policy Operation |
| IMF | International Monetary Fund | WASSCE | West African Senior School Certificate Examination |
| IPPIS | Integrated Payroll and Personnel Information System | VAT | Value-added Tax |

| | |
|---|---|
| Regional Vice President: | Makhtar Diop |
| Country Director: | Marie Francoise Marie-Nelly |
| Global Practice Senior Director: | Marcelo Giugale |
| Practice Director: | John Panzer |
| Acting Practice Manager: | Blanca Moreno-Dodson |
| Team Leader: | Jariya Hoffman |

**FEDERAL REPUBLIC OF NIGERIA**

**THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION**

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The Third Lagos State Development Policy Credit was prepared by an IDA team consisting of Adewunmi Adekoya, Akinrinmola Akinyele, Amos Abu, Bayo Awosemusi, Denys Nizarov, Elena Basedina, Ezebunwa Nwokocha, Ismaila Ceesay, Jariya Hoffman (TTL), Khwima Nthara, John Litwack, Michael Wong, Michael Ilesanmi, Nikolai Soubbotin, Olayinka Babalola, Rogati Kayani. Nani Makonnen, Dora Harris, Madeleine Chungkong, Sylvaine Cussac, and Ifedolapo Borisade provided efficient administrative support.

## SUMMARY OF PROPOSED CREDIT AND PROGRAM

# FEDERAL REPUBLIC OF NIGERIA
# THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION

| | |
|---|---|
| Borrower | Federal Republic of Nigeria |
| Implementation Agency | Lagos State |
| Financing Data | Credit in the amount of US$200 million equivalent (SDR142.3 million) on IDA Blend terms (25-year maturity and 5-year grace period) |
| Operation Type | This is the second in a programmatic series of two development policy operations |
| Program Development Objective(s) and Pillars of the Operation | This Third Lagos State Development Policy Operation (TLSDPO) supports the Lagos State Government in its endeavor to improve public finances and the investment climate, which is expected to contribute to sustained rapid economic growth and poverty reduction in a fiscally sustainable manner. The operation has four pillars: (a) Fiscal Sustainability, (b) Budget Planning and Preparation, (c) Budget Execution, and (d) Investment Climate. |
| Result Indicators (Baseline: 2013; Target: 2015) | 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 (Baseline: Yes, Target: Yes)<br>A2: Enhanced transparency in reporting fiscal risks to the budget (Baseline: No; Target: Yes)<br>A3. Revenue from land use charge (Baseline: N7.1 billion; Target: N8 billion)<br>B1. Shares of budgetary expenditure devoted to education and health (Baseline: 13% and 9%; Target: not lower than 13% and 9%, respectively)<br>C1. All contracts greater than N100 million use standard bidding documents (Baseline: 0; Target: 100%)<br>C2: Average overall reduction in time scale of procurement implementation from bidding to contract award by 20% (Baseline: 173 days; Target: 138 days)<br>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% (Baseline: 30 days; Target: 24 days)<br>C4. Percent of small contracts subject to post procurement audit (Baseline: 0; Target: 5%)<br>C5. Improved coverage and scope of Lagos State Auditor General's Office as measured by number of organizations audited (Baseline: 99; Target: 110)<br>C6. Improved coverage and scope of Lagos State Auditor General's Office as measured by % of budgetary resources they control (Baseline: 67%; Target: 69%)<br>C7. Improved management of cash in budget implementation in 8 selected MDAs through monitoring of expenditure commitments and obligations (Baseline: No; Target: Yes)<br>C8. Real time reporting of payroll expenditures in the state's monthly financial statements. (Baseline: No; Target: Yes)<br>D1: GIS mapping created with ortho-photos (Baseline: No; Target: Yes)<br>D2: Total number of e-CofOs issued (Baseline: 0; Target: 3,600)<br>D3: Cost of registering a property in Lagos State as % of property value (Baseline: 20.8%; Target: 14%)<br>D4: An operational e-PP system, including disaggregate gender data, that regularly issues planning permits in Lagos State (Baseline: No; Target: Yes) |
| Overall risk rating | Substantial |
| Climate and disaster risks | (i) Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? Yes ☐ No ☒ |
| Operation ID | P151947 |

**IDA PROGRAM DOCUMENT FOR A**
**PROPOSED THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION IN THE FEDERAL REPUBLIC OF NIGERIA**

## 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The Lagos State Development Policy Program consists of a series of two programmatic operations (Second and Third Lagos State Development Policy Operation) that supports the Lagos State Government (LASG) in its endeavor to improve public finances and the investment climate in support of sustained rapid growth and poverty reduction in a fiscally sustainable manner.** The program encompasses four pillars of the DPO: (a) Fiscal Sustainability, (b) Budget Planning and Preparation, (c) Budget Execution, and (d) Investment Climate. Lagos State contains the city of Lagos, a mega-city of an estimated 16-21 million inhabitants that has suffered for decades from large-scale poverty, rampant crime, environmental degradation, and insufficient public services. However, over the last decade, Lagos State has achieved sustained rapid economic growth, improved its infrastructure and services, significantly reduced crime, and brought millions out of poverty. The World Bank has supported Lagos State with a number of different instruments and this cooperation has deepened to include budget support. The First Lagos State Development Policy Operation (FLSDPO) was approved in March 2011. This was followed by a new programmatic series consisting of two operations designed to support the LASG in its quest to further increase efficiency in budgetary spending, improve the business climate, maintain fiscal sustainability, and properly monitor and manage financial risks. The first operation, Second Lagos State Development Policy Operation (SLSDPO), was approved in March 2014. The proposed Third Lagos State Development Policy Operation (TSLSDPO) in the amount of US$200 million (equivalent) will deepen the reforms agenda through implementation of indicative triggers for TLSDPO highlighted in the SLSDPO program document presented to the Board in March 2014.

2. **Nigeria has become an important regional power in Africa given its strong fundamentals and robust and steady economic growth since 1999**. It is the most populous country on the continent (171 million people in 2012) and the largest African oil producer (ranking 13rd in the world) that holds the second highest proven reserves on the continent after Libya. Since 1999, Nigeria has successfully established a democratic system through peaceful transition of power after decades of military rule, and it has since enjoyed consistent and strong growth supported by prudent macroeconomic management. The economy is undergoing structural transformation that has potential for diversified growth. The recent rebasing of the country's gross domestic product (GDP)[1] has made Nigeria the largest African economy in 2014 (surpassing South Africa) with GDP above US$500 billion. The structure of the economy is more diversified as the non-oil sector is more diverse and bigger than previously estimated. Inflation has been reduced to single digits and the federal government has made significant progress in curbing spending and maintaining the fiscal balance below 3 percent of GDP as recommended by the Fiscal Responsibility Act (FRA, 2007).

[1] The rebasing entailed updating the base year from 1990 to 2010, increasing the coverage of emergent sectors (such as services and telecommunications) and including a larger sample size in enterprise surveys.

3. **Strong growth supported by prudent macroeconomic management over the last few years, however, has not always translated into improved socio-economic outcomes.** While output growth averaged 5 percent, improvements in living standards have been protracted. Progress towards the achievement of the Millennium Development Goals is slow and at its current pace Nigeria is unlikely to meet the targets for eradicating extreme poverty and hunger as well as reducing child and maternal mortality. Based on official poverty numbers,[2] progress was made in reducing absolute poverty rates over the last decade, but these gains may have been outstripped by population growth. Inequality is on the rise and there is widening income disparity between the northern and southern parts of the country. This rising disparity between the two regions is exacerbated by the conflict in the north that has curtailed business activities and led to the loss of lives and property. Fiscal pressures have also emerged in view of the recent sharp decline in oil prices and increase in illegal oil bunkering in the Niger Delta, which have resulted in a decline in oil revenues.

4. **Nigerian states, which account for over 50 percent of revenue and expenditure, are playing a more prominent role in Nigeria's development.** Its population is diverse with over 400 ethno-linguistic groups spread over 36 states and a Federal Capital Territory in Abuja. A lower administrative level of 774 local governments exists below the states. Each federating unit in Nigeria is guided by the 1999 Constitution, which provides rules on revenue sharing and administrative responsibilities. State and local governments combined receive 47 percent of centrally shared revenues from oil and gas, customs and corporate tax revenues, and other revenues deposited in the Federal Account; 85 percent of value-added tax (VAT) deposited in the VAT Pool Account; collect internally generated revenues as mandated by government tax laws; and are responsible for delivering most of the basic social and infrastructure services in their respective states.

5. **Governance is perhaps Nigeria's greatest development challenge**. Nigeria is blessed with resource wealth, but has so far been unable to convert this wealth into substantial welfare improvements for the larger population. Improving governance at all levels is critical to getting better value-for-money for economic development in Nigeria. Diagnostics of public finance management[3] completed in more than 20 states suggest enormous potential for motivated leadership to move ahead with reform of public financial management to improve public service delivery performance. In this regard, Lagos State has set an important example in improving the delivery of public services and enhancing its credibility with the population, which, in turn, has facilitated growth in local tax revenues to finance better services.

6. **As a major growth agglomeration, Lagos State can catalyze a takeoff of Nigeria into more inclusive growth and job creation**. The state has been experiencing fast economic growth over the last decade and increased employment opportunities that attract job seekers from other parts of Nigeria. As Lagos becomes increasingly congested, the growth cluster naturally spreads

[2] The official poverty numbers are from the 2003/4 and 2009/10 Harmonized Nigeria Living Standards Survey (HNLSS). Panel data from two smaller General Household Surveys in 2010/11 and 2012/13 based on a smaller sample, which is not representative at the state level, indicate that poverty rates in Nigeria are most likely lower than estimated from the two HNLSS. This will be confirmed in the 2014/15 HNLSS.

[3] This includes PEFA report and a Public Expenditure Management and Financial Accountability Review.

to surrounding areas and nearby second-tier cities. Large cities[4] such as Lagos become urban growth poles when investments are integrated and well-coordinated city-wide. Also, they can connect the economy to the rest of the world because of the agglomeration economies they provide and their potential to become nodes for high value services. Second-tier cities, in turn, serve as effective logistic hubs for transportation of goods and can house larger local markets. Smaller cities function as a market aggregation that connects farmers to input and output markets. Consequently, these growth poles with a well-functioning urban system are expected to contribute to Nigeria's objective of more inclusive growth and job creation. East Asia's experience indicates that economic output per capita increased throughout the region, in urban areas.[5] To unleash the cities' growth potential, the governments needs to focus on key priorities including strengthening regulatory and institutional frameworks for land, expanding service delivery, managing financial resources, increasing market connectivity and mobility within cities, and protecting vulnerable populations.[6] The Lagos State Government has already embarked its development journey in this direction to ensure that the "Lagos miracle" of the past decade can be sustained.

7. **Lagos still faces a number of challenges for sustaining the strong momentum it has delivered in terms of economic growth and poverty reduction**. Rapid economic and population growth have made Lagos increasingly congested, which has led to soaring rental rates, traffic jams, and growing demand for public services that have put particular strains on water and power services. Businesses and entrepreneurs face a challenging environment for doing business. The sharp increases in internally generated revenue (IGR) achieved during the last decade exploited some "low hanging fruit" associated with larger and more visible taxpayers; sustaining this pace of growth, however, will prove to be a challenge. While Lagos State has a manageable debt position, it has been borrowing significant amounts recently to finance infrastructure projects, and the medium- to long-term sustainability of its debt depends on continued robust growth of tax revenues and economic activity in general. As the business center of the country, Lagos State also faces security risks from the recent unrest in Nigeria. The TLSDPO is designed to assist Lagos State in its quest to continue its recent success in spite of these challenges. The LASG is well aware that sustaining its recent strong and positive momentum will entail further improvements in the effectiveness of public expenditures, the tax system, and the business climate.

# 2. MACROECONOMIC POLICY FRAMEWORK

## 2.1 RECENT ECONOMIC DEVELOPMENTS IN NIGERIA

8. **Output growth remained strong driven by the non-oil economic sector and a stabilized inflation.** The economy grew by 6.2 percent in 2014, up from 5.4 percent in 2013. The GDP rebasing exercise that was concluded in April 2014 shows an economy that is more diversified.[7] In 2013, the oil sector accounted for less than 15 percent of total output and non-oil

[4] Kano, Port Harcourt, Ibadan, Benin City, Abuja, Kaduna, Maiduguri, Ogbomosho, Warri, and Zaria.

[5] According to the World Bank (2015), "East Asia's Changing Urban Landscape: Measuring a Decade of Spatial Growth," urban areas in East Asia, overall, expanded at an average of 2.4 percent per year during the decade studied, with urban land reaching 134,800 square kilometers in 2010.

[6] World Bank (2015), Nigeria Urbanization Review – Reaping the Dividends of Diversity (draft).

[7] The exercise focused not only on updating the base year for measuring Nigeria's GDP from 1990 to 2010 but also included a reclassification of programs and activities in line with the International Standard Industrial Classification

output accounted for the remaining including services (37 percent), industry (22 percent), agriculture (21 percent), and trade (17 percent)). A decline in oil sector growth was due to breaches of oil infrastructure in the Niger Delta region and more recently the sharp decline in oil prices that has weakened demand for Nigerian crude oil. This has implications for the economy given the importance of crude oil as the main export commodity and revenue source in Nigeria. Inflationary pressures have moderated in the last few years. Year-on-year inflation fell slightly to 8.1 percent in 2014 reflecting slower increases in core inflation as well as a stable exchange rate. Inflation has been rising in recent months, reaching 8.7 percent in April, 2015 mainly due to a weakening of the local currency since November 2014.

9. **Nigeria's balance of payments position stabilized in mid-2014, but the subsequent sharp decline in oil prices pushed the external balance back into deficit.** Prior to June 2013, the balance of payments had been in surplus for about two years in tandem with strong oil prices. Higher interest rates relative to international standards also attracted a large amount of portfolio capital in late 2012 and early 2013 and increased gross international reserves to US$48 billion in April 2013. However, declines in oil production, the even sharper decline in oil prices and the more cautious attitude of investors in view of these factors have placed downward pressure on the balance of payments and the exchange rate, thus causing a decline in gross foreign reserves to US$34.3 billion as of December 2014 and subsequently to US$30.3 billion as of March 13, 2015.

10. **Monetary policy has further tightened in response to increased pressures on external reserves and the exchange rate**. In response to the sustained decline in oil prices, the Central Bank of Nigeria (CBN) raised the key policy interest rate to 13 percent (from 12 percent since September 2011) in November 2014 and devalued the Naira, moving the official exchange rate band from Naira 155 (+/-3%) to the US dollar to Naira 168 (+/-5%). Subsequently, it closed the Dutch Auction System foreign exchange window on February 18, 2015 to stem the loss of international reserves associated with foreign exchange market operations. This resulted in a de-facto depreciation of the exchange rate from around Naira 176 to Naira 198 to the US dollar. All demand for foreign exchange is now channeled to the interbank foreign exchange market. To curb liquidity in the banking system, a reserve requirement for public sector funds was raised to 75 percent in January 2014 (from 50 percent when it was introduced in July 2013) and the reserve requirement on private deposits was increased from 1 percent in January 2011 to 15 percent in August and further to 20 percent in November 2014.

11. **The banking sector remains stable and the Nigerian authorities adopted many of the recommendations made in the 2012 Financial Sector Assessment Program**. This includes closer supervision of the Deposit Money Banks (DMBs) operations as they expand to other countries within Africa and the proposed winding down of the Asset Management Corporation of Nigeria (AMCON), a Stressed Asset Fund that purchased problematic loans of DMBs during the banking crisis. Increased foreign liability exposure by DMBs and the adequacy of bank equity also require close monitoring. Credit to the private sector is expanding slowly and net domestic credit to the private sector expanded by 11.3 percent in nominal terms in 2013, higher than the inflation rate of 8 percent, an improvement over nominal growth of 7.4 percent the previous year.

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(ISIC), the adoption of a larger survey frame with a tenfold increase in the number of firms surveyed and an increase in the coverage of economic activities from 33 to 46. On the basis of the new numbers, the services, industry and agriculture sectors contribute the largest share to GDP.

**Table 1: Key Macroeconomic Indicators**

| | Actual | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| **National income and prices** | | | | | | | | |
| Real GDP (at 2010 market prices) | 4.3 | 5.4 | 6.1 | 4.8 | 5.0 | 5.3 | 5.5 | 5.8 |
| Oil and Gas GDP | -4.9 | -13.1 | -2.5 | -1.6 | -1.4 | 0.1 | 0.8 | 0.7 |
| Non-oil GDP | 5.9 | 8.3 | 7.2 | 5.5 | 5.6 | 5.8 | 6.0 | 6.2 |
| Production of crude oil (million barrels per day) | 2.34 | 2.19 | 2.20 | 2.28 | 2.33 | 2.41 | 2.44 | 2.45 |
| Nominal GDP at market prices (trillions of naira) | 72.6 | 81.0 | 90.2 | 95.4 | 111.1 | 128.5 | 147.2 | 165.8 |
| Nominal non-oil GDP (trillions of naira) | 61.3 | 70.7 | 80.6 | 89.2 | 102.8 | 118.3 | 135.7 | 153.1 |
| Nominal GDP per capita (US$) | 2,835 | 3,082 | 3,302 | 2,894 | 2,880 | 3,008 | 3,154 | 3,272 |
| GDP deflator | 9.3 | 5.9 | 4.9 | 0.9 | 11.0 | 9.8 | 8.6 | 6.5 |
| Non-oil GDP deflator | 9.9 | 6.6 | 6.3 | 5.0 | 9.0 | 8.9 | 8.2 | 6.2 |
| Consumer price index (annual average) | 12.2 | 8.5 | 8.1 | 9.5 | 10.2 | 8.5 | 7.7 | 7.2 |
| Consumer price index (end of period) | 12.0 | 7.9 | 7.9 | 11.5 | 9.0 | 8.0 | 7.5 | 7.0 |
| FGN gross debt (percent of GDP) | 10.4 | 10.5 | 10.5 | 11.9 | 11.8 | 11.4 | 11.2 | 11.0 |
| *Of which*: domestic debt (percent of GDP) | 9.0 | 8.8 | 8.8 | 9.9 | 9.8 | 9.5 | 9.3 | 9.3 |
| **Investment and savings** | | | | | | | | |
| Gross national savings | 19.3 | 18.6 | 17.4 | 16.0 | 17.0 | 17.4 | 17.3 | 17.3 |
| Public | 4.5 | 1.7 | 1.2 | 0.4 | 1.0 | 1.4 | 1.6 | 1.8 |
| Private | 14.8 | 16.8 | 16.1 | 15.6 | 16.0 | 16.0 | 15.7 | 15.5 |
| Investment | 14.6 | 14.5 | 14.9 | 15.5 | 15.9 | 16.2 | 16.3 | 16.6 |
| Public | 2.8 | 2.7 | 1.1 | 0.4 | 0.8 | 1.0 | 1.1 | 1.1 |
| Private | 11.8 | 11.8 | 13.8 | 15.1 | 15.1 | 15.2 | 15.3 | 15.5 |
| Current account balance | 4.4 | 3.9 | 2.2 | 0.2 | 0.8 | 0.9 | 0.7 | 0.4 |
| **Consolidated government operations** [1] | | | | | | | | |
| Total revenues and grants | 14.3 | 11.0 | 9.9 | 7.7 | 8.4 | 8.7 | 8.8 | 8.8 |
| *Of which:* oil and gas revenue | 10.4 | 7.1 | 5.8 | 3.4 | 4.1 | 4.4 | 4.4 | 4.3 |
| Total expenditure and net lending | 14.7 | 13.4 | 12.3 | 10.6 | 11.2 | 11.2 | 10.3 | 10.0 |
| *Of which*: fuel subsidies[2] | 2.2 | 0.9 | 0.7 | 0.0 | 0.3 | 0.5 | 0.5 | 0.5 |
| Overall balance | -0.3 | -2.4 | -2.5 | -2.8 | -2.8 | -2.5 | -1.5 | -1.2 |
| Non-oil primary balance (percent of non-oil GDP) | -11.6 | -9.7 | -8.1 | -5.5 | -6.2 | -6.3 | -5.3 | -4.9 |
| ECA (US$ billions) | 10.0 | 2.8 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SWF (US$ billion) | 1.0 | 1.0 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| **Money and credit** | | | | | | | | |
| Broad money (percent change; end of period) | 29.1 | 0.9 | 7.3 | 10.8 | 15.3 | 15.2 | 14.7 | 12.9 |
| Net foreign assets | 15.9 | -3.4 | -7.4 | -0.1 | -0.2 | 2.8 | 2.3 | 2.1 |
| Net domestic assets | 2.3 | 4.3 | 14.6 | 10.9 | 15.5 | 12.5 | 12.5 | 10.8 |
| Claims on consolidated government | -14.4 | 7.3 | -4.1 | 9.6 | 11.0 | 9.4 | 7.8 | 7.1 |
| Claims on the rest of the economy | 8.1 | 8.5 | 10.3 | 10.2 | 8.0 | 5.4 | 6.6 | 5.4 |
| Velocity of broad money (ratio; end of period) | 3.9 | 4.5 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| Treasury bill rate (percent; end of period) | 13.3 | 11.5 | 13.0 | ... | ... | ... | ... | ... |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | | | | | |
| Current account balance (percent of GDP) | 4.4 | 3.9 | 2.2 | 0.2 | 0.8 | 0.9 | 0.7 | 0.4 |
| Exports of goods and services | 1.8 | -0.9 | -5.1 | -37.4 | 15.5 | 10.9 | 6.4 | 4.5 |
| Imports of goods and services | -10.6 | -4.9 | 9.7 | -16.6 | 7.0 | 7.7 | 7.6 | 6.5 |
| Terms of trade | 1.0 | 0.4 | -2.6 | -25.6 | 7.5 | 3.8 | 2.0 | 0.8 |
| Price of Nigerian oil (US dollar per barrel) | 110.0 | 109.0 | 100.6 | 52.8 | 61.6 | 66.9 | 70.2 | 72.3 |
| Nominal effective exchange rate (end of period) | 95.9 | 96.7 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (end of period) | 111.3 | 118.8 | … | … | … | … | … | … |
| External debt outstanding (US$ billions) | 6.5 | 8.8 | 9.9 | 10.4 | 10.8 | 11.1 | 11.3 | 10.5 |
| Gross international reserves (US$ billions) | 43.8 | 42.8 | 34.3 | 28.4 | 26.5 | 27.8 | 29.1 | 30.5 |
| (equivalent months of imports of G&Ss) | 7.1 | 6.4 | 6.1 | 4.7 | 4.1 | 4.0 | 3.9 | 3.9 |

*Sources: Nigerian authorities; and IMF staff estimates and projections.*

[1] The budget oil price is US$72 a barrel for 2012, US$79 for 2013, $77.5 for 2014, and $53 for 2015 and thereafter.

[2] For 2012, includes one-off payment of about 1 percent of GDP to settle arrears accrued in 2011.

12. **The Federal Government has maintained a tight fiscal policy stance in the pre-election period but the drop in oil revenues remains challenging.** The 2014 approved budget projected an overall fiscal deficit of 1.24 percent of GDP reflecting a decline in expenditure. Oil revenues have not grown as fast as implied by the high oil prices of the last four years due to a drop in oil production caused by illegal oil bunkering. A recovery in oil revenues in February 2014

as a result of success in curtailing production losses gradually increased the Excess Crude Account (ECA) to US$4.1 billion in August 2014 (from US$2.1 billion in January 2014); however, the subsequent declines in oil prices brought down the ECA to US$2.1 billion by end December 2014 and the balance was slightly down to US$2.0 billion as at April 2015. Non-oil revenues remained relatively flat since 2010. Correspondingly, expenditures have been on a declining trend as a consequence of lowered revenues. The Federal Government cut planned expenditures in 2014 by 7 percent with capital expenditures receiving the largest cut of 32 percent, reflecting overestimation of the planned capital budget in view of limited implementation capacity. As of early December 2014, only N465 billion of the capital budget of N1.119 trillion had been made available to Ministries, Departments and Agencies (MDAs) for spending. Recurrent spending has been stabilized due to the successful introduction of the Integrated Payroll and Personnel Information System (IPPIS) and other efforts to contain spending.

**Table 2: Key Fiscal Indicators**

| | Actual | Estimates | Projections | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | *(As percent of GDP)* | | | | | |
| Total revenue | 14.3 | 11.0 | 9.9 | 7.7 | 8.4 | 8.7 |
| Oil revenue | 10.4 | 7.1 | 5.8 | 3.4 | 4.1 | 4.4 |
| of which: implicit fuel subsidy | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-oil revenue | 3.9 | 3.9 | 4.0 | 4.3 | 4.3 | 4.3 |
| Import and excise duties | 0.7 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Companies' income tax | 1.2 | 1.2 | 1.4 | 1.5 | 1.5 | 1.5 |
| Value Added Tax | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 | 1.0 |
| Other (education tax and customs levies) | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Federal government independent revenue | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| SLGs independent revenue | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| | | | | | | |
| Total expenditure | 14.7 | 13.4 | 12.3 | 10.6 | 11.2 | 11.2 |
| Federal government | 5.7 | 5.5 | 4.7 | 4.7 | 4.6 | 4.6 |
| Extrabudgetary funds 1/ | 2.5 | 1.7 | 2.0 | 1.0 | 1.3 | 1.5 |
| State and local government | 6.2 | 5.9 | 5.2 | 4.6 | 5.0 | 5.1 |
| Foreign-financed capital spending | 0.2 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 |
| | | | | | | |
| Overall balance | -0.4 | -2.4 | -2.5 | -2.8 | -2.8 | -2.5 |
| Non-oil primary balance (% of non-oil GDP)2/ | -11.6 | -9.7 | -8.1 | -5.5 | -6.2 | -6.3 |
| | | | | | | |
| Financing | 0.4 | 2.6 | 2.1 | 2.8 | 2.8 | 2.5 |
| External | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Borrowing 3/ | 0.2 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 |
| Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic | 0.2 | 2.4 | 1.8 | 2.5 | 2.4 | 2.2 |
| Bank financing 4/ | -2.4 | 1.2 | -0.3 | 1.7 | 1.7 | 1.5 |
| o/w ECA financing | 1.2 | 1.9 | 0.0 | 0.1 | 0.0 | 0.0 |
| Nonbank financing | 2.6 | 1.1 | 2.1 | 0.7 | 0.7 | 0.7 |
| Statistical discrepancy/Financing gap | -0.1 | -0.3 | 0.4 | 0.0 | 0.0 | 0.0 |

*Source: Nigerian authorities, IMF staff estimates and projections*

1/ Includes spending of customs levies and education tax; transfers to FIRS and NCS; spending from the ecology, stabilization, development of natural resources accounts; and FCT spending.

2/ Non-oil primary balance includes explicit and implicit fuel subsidy as part of non-oil primary expenditure.

3/ Includes projects not included in the FGN budget, even though funds are on lent by FGN.

4/ Equal to the change in net claims on the consolidated government in the monetary survey, minus the change in state and local government deposits that are part of broad money.

13. **The 2015-2017 Medium-term Fiscal Framework (MTFF) and 2015 budget are based on a more realistic benchmark oil price in view of the sustained decline in oil prices.** The benchmark oil price for the 2015-17 MTFF has been revised twice (from an initial US$78 to US$73 and subsequently US$65) and oil output has been assumed at 2.27 million barrels per day. However, the National Assembly approved the MTFF and the budget based on a lower benchmark

oil price of US$53 per barrel. The 2015 budget projects a fiscal deficit of 1.04 percent of GDP based on the planned revenue of N3.5 trillion and planned expenditure of N4.5 trillion. Capital expenditure is billed to suffer the highest decline of 53 percent while recurrent expenditure is projected to grow slightly by 5.6 percent in nominal terms. The government intends to focus the significantly reduced capital budget on growth-promoting critical infrastructure, social sectors as well as defense and security. Critical infrastructure sectors to be protected include works, power, and transport, while the growth-promoting and job-creating sectors to be protected are agriculture and water resources. Health and education interventions would also continue to be prioritized.

## 2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **The macroeconomic outlook for Nigeria is uncertain in light of current volatilities in the international oil market.** Declining oil revenues due to falling prices and constrained oil production have placed pressure on the balance of payments. Monetary and fiscal authorities have responded by adopting a tight monetary and fiscal policy stance; however, limited fiscal and external buffers have placed a constraint on available policy tools. As the non-oil economy gains more prominence and structural impediments to non-oil sector growth are tackled, non-oil revenues should rise over the long term. The aftermath of the 2015 elections might slow the pace of capital project implementation but this is expected to be short-term in nature. The contingent liabilities arising from AMCON bonds issued on non-performing loans by DMBs are expected to be covered by the annual contributions from CBN and DMBs to a sinking fund.[8] Monetary authorities are expected to continue to pursue price and exchange rate stability in the medium term. Although external debt as a percent of GDP has dropped on account of the rebased GDP numbers, this might not have a significant impact on borrowing space as government has signaled its intent to be guided by the ratio of external borrowing to revenues. Risks associated with the spread of the Ebola Virus to Nigeria remains, given that the disease has not been fully eradicated in Guinea and Sierra Leone, but this is mitigated by the experience of the federal and state governments in containing the spread of the disease in 2014. The macro risk associated with the elections has been abated as the conduct of presidential elections during March 28-29, 2015 and the governorship elections on April 11, 2015 were successful as many parts of the country remained relatively peaceful during the elections. However, a significant number of violent incidents was recorded in some states (Rivers, Akwa Ibom, Cross River, Ebonyi and Ondo) and the government has made concerted efforts to contain the violence. New federal and state governments took office on May 29, 2015.

15. **Nigeria remains at a low risk of debt distress and, although indicators deteriorate under various stress scenarios, they never approach the thresholds.**[9] The outlook is positive for both the baseline[10] and standardized scenarios, both incorporating the decline in oil prices,

[8] According to the 2014 Joint Bank-IMF DSA, the Sinking Fund is estimated to be worth N6.1 trillion at the end of 2023 based on annual contributions of 0.5 percent of total assets by DMBs (about N24 trillion at end-2013) and N50 billion annual contributions by the CBN, all accruing a 10 percent nominal return. The fund will be used to pay net interest expenses on its bonds and to fill the gap in AMCON's balance sheet (assets and liabilities were about N2.5 trillion and N6.0 trillion, respectively, as of end-2013).

[9] International Monetary Fund, Staff Reports – Article IV Consultation, February 28, 2015. Washington, D.C., USA.

[10] The baseline scenario under the Article IV consultation approved by the Executive Board on February 17, 2015 assumed average GDP growth of 6.1 percent in 2014-34, an oil price of US$100 per barrel in 2014, falling to US$52.8 per barrel in 2015 before recovering to US$73.7 per barrel by 2020, and a decline in the non-oil primary deficit from

which assume a sustainable increase in the external debt to GDP ratio over the medium term. The outlook is less positive in the event of various alternative scenarios for Public and Publicly Guaranteed (PPG) Debt under which all indicators worsen but stay well below the threshold. The ramifications for both external and fiscal reserves, discussed above, would have implications for the ability of the federal and subnational governments to implement budgets. In view of this, government's ability to address the challenges with oil production, to revisit the Petroleum Industry Bill (whose delayed passage has limited oil sector investments), and ability to address the structural constraints to non-oil sector growth are all of primary concern.

16. **With due regard to the above, the macroeconomic policy framework in Nigeria is considered adequate for the Third Lagos State Development Policy Operation.** Both fiscal and monetary authorities are pursuing complementary policies to provide stability and curb spending given the constraints in the domestic economy. There are significant risks associated with the oil sector; however, the commitment to fiscal consolidation, the emergence of the non-oil economy, and strong debt indicators place Nigeria in a favorable position.

## 2.3 THE STATE CONTEXT

17. **Lagos State has transformed itself into a more inclusive democratic society**. The state government has established its credentials in the past eight years by promoting consultative and participatory policy-making initiatives through the Ehingbeti Forum that actively involves key stakeholders representing the private sector and civil society.[11] The LASG also conducts annual surveys[12] to seek inputs from the population to further improve service delivery, regularly holds an annual ministerial press briefing to report on their performance, and organizes public meetings to discuss the quarterly budget performance.

18. **There has been continuity and consistency in state policy and development priorities over the last decade.** The same political party has controlled the office of Governor as well as the State House of Assembly since 1999. The April 11, 2015 governorship and state assembly elections in Lagos State have been relatively peacefully conducted. The same political party won the elections for both the governorship and state assembly reflecting partly a successful track record in managing the economy, improving infrastructure and public services, generating jobs and reducing poverty. A new Lagos Sate Governor as well as Executive Council members were

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8.1 percent of non-oil GDP to 4.7 percent in 2020. However, these assumptions have since been revised to reflect continued changes in oil prices that underpins the 2015 budget. The Brent price projection has been revised upward from US$52.8 per barrel to US$61.5 per barrel in April World Economic Outlook; The budget oil price for the 2015 budget approved by the National Assembly has been lowered from US$65 to US$53 per barrel; The exchange rate has also been revised from N165/US$ to N190/US$ as a result of the closure of Dutch Auction System foreign exchange window in February 2015. The revised assumptions do not change the medium-term macroeconomic outlook and DSA's conclusions.

[11] The Ehingbeti Forum is the annual State Economic Summit organized by the Ministry of Economic Planning and Budget in collaboration with other shareholders including the Lagos Economic Summit Group. Its memberships include Lagos Chamber of Commerce and Industry, Nigerian-American Business Club Ikeja, the United Nations Development Program, some special interest groups and the State Government, under the chairmanship of the Honorable Commissioner for Economic Planning and Budget, with a private sector executive as co-Chairman. The outcomes of these summits have provided critical policy inputs to the State Annual Budget and have been published.

[12] These include Annual Household Survey, the Health Sector Annual Performance Appraisal and School Safety Survey.

inaugurated on May 29, 2015. A new leadership is expected to continue with the same policy and reform priorities of the previous government.

### 2.3.2 Recent Developments in Lagos State

19. **Geographically, Lagos is the smallest state in the Federal Republic of Nigeria; despite its size, it may have the largest population.** Located in the southwestern tip of the country, it is bordered by Ogun state both in the north and east, by the Republic of Benin on the west, and stretches over 180 kilometers along the Guinea Coast of the Bight of Benin on the Atlantic Ocean in the south. It occupies an area of 357,700 hectares. Various population statistics for Lagos State show a high variance. The official number of its population as estimated by the National Population Commission in 2006 was 9.1 million. In 2012, the Lagos State Bureau of Statistics estimated the population at 21.2 million based on the 2010 Survey result and subsequent estimated population growth. The state is an important manufacturing, commercial, maritime, and financial hub in Nigeria and West Africa.

20. **The existing survey suggested that the economy is sizeable and diversified**. Nigeria still does not produce state-level GDP (SGDP) or output data. However, an enterprise and household survey conducted by the Lagos State Bureau of Statistics in 2010 indicated that the state GDP amounted to N12.091 trillion (US$80.4 billion) in 2010 (or about 22 percent of the national rebased GDP in the same year). For the purpose of fiscal sustainability analysis, SGDP is estimated based on the assumption that the Lagos State's economy grew at the same rate as that of non-oil economy averaging 6.8 percent during 2010-14, thus the estimated Lagos GDP in 2014 is N20.376 trillion (US$130 billion). The resulting ratios of revenue, expenditure, and deficit to SGDP used for fiscal analysis are remarkably low. The survey indicates that economy is vibrant and diversified, driven by non-oil activities dominated by a large manufacturing sector (30 percent of total), followed by transport and services (28 percent) and construction (20 percent).

21. **Robust economic growth in Lagos State has contributed to a sharp decline in poverty and income inequality and enhanced social indicators**. The national household budget surveys conducted in 2004 and 2010 suggest that economic growth in Lagos was well in the double digits during that period. Despite rapid population growth, per capita consumption increased annually by an average of 13 percent during the period between these two surveys. Lagos experienced the fastest poverty reduction recorded in Nigeria as its poverty rate fell from 57 percent in 2004 to 23 percent in 2010. This translated to a reduction of poverty for millions including numerous migrants from other parts of Nigeria and West Africa who come to Lagos state in search of opportunities. Factors affecting poverty include characteristics of the household head (education, sex and age), the household size, access to electricity and clean sanitation, availability of decent housing conditions, and geographical dimension. Inequality in Lagos as measured by the Gini coefficient fell from 0.44 in 2004 to 0.34 in 2010.

22. **Lagos's social indicators are relatively better compared to those registered at the national level and in the south-west region in some areas.** According to the 2013 Demographic and Health Survey conducted by the National Population Commission, education indicators achieved by Lagos State (including literacy rate, and primary and secondary school net attendance ratios) were higher than the national level. Health indicators achieved by Lagos State (including women having antenatal care, delivery provided by a skilled health worker, and malnourishment)

were higher compared to those registered in the South-West region and at the country level. However, access to improved water sources in Lagos State fell behind those in the South-West region but was ahead of the national level; access to improved sanitation facilities was ahead those of the South-West region but fell behind the national level (Table 3).

**Table 3: Lagos State's Social Indictors**

*(Percent)*

| Indicators | Lagos | | | South West | | | National | | |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Net primary school attendance ratio | 70.4 | 67.9 | 69.0 | 70.5 | 69.5 | 70.0 | 61.6 | 56.7 | 59.1 |
| Net secondary school attendance ratio | 69.0 | 69.6 | 69.3 | 67.6 | 69.3 | 68.1 | 52.6 | 45.1 | 48.8 |
| Literacy rate | 95.1 | 89.3 | | 88.8 | 82.0 | | 75.2 | 53.1 | |
| Women receiving antenatal care from a skilled provider | | | 93.9 | | | 90.4 | | | 60.6 |
| Children delivered in a health facility | | | 77.2 | | | 75.0 | | | 35.8 |
| Children delivered by a skilled provider | | | 87.2 | | | 82.5 | | | 38.1 |
| Children under age 5 classified as malnourishment according to weigh-for-age (% below -2 standard deviations) | | | 12.8 | | | 14.9 | | | 28.7 |
| Population using improved water source | | | 60.4 | | | 67.9 | | | 59.6 |
| Population using improved sanitation facilities | | | 30.0 | | | 20.0 | | | 34.0 |

*Source: Nigeria Demographic and Health Survey, 2013*

23. **The state has a strong track record in delivering pro-poor public services but it is not without challenges**. The government has been taking concrete steps to improve the delivery of public services through enhanced transparency, responsiveness and accountability, including the imposition of mandatory processing deadlines, the publication of email addresses and cell phone numbers of public officers and senior civil servants, and the dissemination of booklets and manuals explaining government procedures (for example, procedures for processing land and mortgage transactions, obtaining building permits, and paying taxes). Compliance with service standards is reviewed at public meetings attended by the governor and other senior civil servants. The government programs that are pro-poor have shown positive results as highlighted below:

- **Education:** Lagos State Government is responsible for funding secondary, vocation and tertiary education with an allocation of about 13 percent of total state budget, while both local and the federal governments contribute to primary education. It is estimated that spending on primary, secondary and higher education accounted for about 35, 55 and 15 percent, respectively, of total education spending. A rapid increase in school enrollment caused by migration into Lagos State has necessitated an increase in teachers and classroom-to-pupil ratios. The state's programs in education are notable for not just maintaining an adequate number of schools and supplies in good condition, but also maintain the welfare and teachers' incentives, thus the bulk of resources spent on teachers' salaries. While learning outcomes has been improving, they still remain deficient. In 2014, less than 46 percent of secondary students passed the West Africa Senior School Certificate Examination (WASSCE) with five credits in English, mathematics and other subjects. Nevertheless, this represents a marked improvement from 18 percent in 2009.

- **Health:** A high population density in Lagos State has increased demand for health care. The government has given priority to health sector spending that targets improved health service delivery to the poor through ensuring universal access to an essential package of care, improving access to health service, increased quality of care and financial access for vulnerable groups. The state has one of the highest health sector budgetary allocations in Nigeria and most health indices (such as skilled birth attendance and immunization coverage) are above national averages and quite similar to other states in the region (such as Osun and Ekiti). However, improvements in many health indices as reported by the last two Demographic Health Surveys (2008 and 2013) were limited (between 2 and 5 percentage points) compared to those achieved by other states (10 to 20 percentage points). Given this trend, Lagos State will not achieve universal health coverage in the near future, and it urgently needs to revisit the state's health sector strategy in order to accelerate progress in the health sector. To further improve the health status, the Lagos State Health Management Agency Act was approved on May 5, 2015, thus making health insurance mandatory for all the entire population of Lagos state.

- **Transportation:** Facing major problems with traffic and congestion, the LASG launched a number of important programs such as a new Bus Rapid Transit System (BRT) that has reduced transport times considerably and has become a common model for bus transportation programs in other Nigerian states. However, the BRT can transport about 200,000 passengers daily (only 25 per cent of all commuters) and its route is limited to only the city's corridor. In addition, the government has embarked on a light rail system (Blue Line and Red Line) that promises to revolutionize transportation in Lagos, and has prioritized greater use of the city's large waterways for public transportation initiatives.

- **Security:** The crime rate in Lagos State has declined measurably over the last decade.[13] This has been achieved through a major investment in more effective law enforcement coupled with public programs to create opportunities for technical and vocational training for delinquent youths involved in organized crime, as well as reintegration efforts. It has put in place several programs that educate, equip and empower the young including: (i) a youth farm settlement scheme, (ii) the creation of a Youth Institute that provides higher level technical skills to graduates of tertiary institutions, (iii) vocational centres across Lagos State through the Ministry of Women Affairs and Poverty Alleviation in 14 fields, (iv) establishment of job registration centres in 10 Local Government Areas, and (v) creation of about 1 million person-day direct jobs in the transport sector thanks to the road maintenance scheme.

24. **The government has adopted policies to address gender inequality and social inclusion but implementation, monitoring, and evaluation remain challenging.** Lagos State has been successful in integrating women in political affairs. It is the only state that elected a female deputy governor in 2011 and has a relatively high number of female legislators (7 out of a total of 40) serving in the 7th Lagos State House of Assembly (2011-2015) compared to other states.[14] The State Executive Council has seven female members out of a total of forty (40). The Judiciary (both at High Court and Magistracy level) has an overwhelming female dominance. Government policies towards gender have been encouraging, examples of which include: National Gender Policy (2006), law against domestic violence (2007), child rights law (2007), HIV/AIDS anti-discrimination law (2007), law on rights of persons living with disabilities (2010), and Integrated Maternal and Child Care Health Policy. In response to increasing incidents of sexual and gender based violence, the government has embarked on a harmonized approach to the

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[13] Lagos State Police Command reported a reduction in crime in Lagos State especially in car snatching, armed robbery, and abductions, etc., during November 2013- November 2014. (*http://www.nigerianobservernews.com/2015/01/26/securing-lagos-police-meeting-expectations/)*

[14] Osun State has only one female in the House of Assembly; Ekiti State has four females; and Akwa Ibom State has about two or three females.

prosecution of domestic and sexual violence offences in the state in 2014. It established a Domestic and Sexual Violence Response Team to co-ordinate and develop a community response to prevent domestic violence, protect and support victims and bring perpetrators to justice. Subsequently, it established a Sex Offenders' Register[15] that includes the compulsory reporting of suspected and actual child abuse to discourage sexual crimes including rape, pedophilia and incest. Despite good policy intention, enforcement of these laws to benefit the targeted stakeholders remains a challenge. Further, monitoring of the results is constrained by a lack of gender disaggregated data to evaluate the representation and participation of women, men and vulnerable groups in these programs.[16]

25. **Despite impressive gains, the social challenges in Lagos State remain enormous**. While having the lowest poverty rate in Nigeria (23 percent), roughly 5 million Lagosians still live below the poverty line. The 2011 labor force surveys in Lagos State found that a majority (57 percent) of workers are self-employed, reflecting the dominance of the informal sector and a still insufficient supply of wage jobs in the city. The estimated unemployment rate in Lagos State was 12 percent of the active population. The delivery of water supply is particularly problematic as the service network operated by Lagos State Water Corporation covers only 44 percent of the state's geographic area and no more than 40 percent of the population as based on the International Benchmarking Network for Water and Sanitation Utilities due to aging plants and facilities and poor technical and financial performance of the Water Corporation. Access to improved sanitation is extremely low, reaching only 28 percent of the population.

26. **The business environment for private sector investment in Lagos State remains a serious challenge.** The 2014 Doing Business in Nigeria indicated that starting a business in Lagos has improved (4th) relative to the country's 36 states, while dealing with construction permits and registering a property remains at the bottom (36th and 31st, respectively).[17] According to Doing Business 2015, obtaining construction permits and registering a property in Lagos State are relatively difficult as compared to Kano state as measured by the number of procedures, time taken, and cost. Registering a property in Lagos State took longer and was more costly than in Kano state and compared to the averages for Nigeria.[18]

27. **The budget deficit fluctuated, reflecting the availability of financing and the total stock of public debt and debt service increased over time.** Total revenue as a percentage of SGDP declined during 2010-13 as a result of a reduction in Internally Generated Revenue (IGR)

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[15] There are only two states in Nigeria with a sex offenders' register (Lagos and Ekiti States), which opened a register in 2013.

[16] Lagos State Government (June 2011), Mainstreaming Gender and Social Inclusion in LASG Planning and Budgeting Process, Lagos, Nigeria

[17] World Bank Group (2014), Doing Business in Nigeria 2014, *Understanding Regulations for Small and Medium-size Enterprises*, Washington, D.C., USA.

[18] Obtaining a building permit in Lagos state took 116 days and cost 33.8 percent as compared to 72 days and 1.8 percent of warehouse value in Kano State. Registering a property in Lagos state has 13 procedures, took 77 days and cost 20.6 percent of property value; in Kano state, registering a property has 9 procedures, took 45 days and cost 11.8 percent of property value. In Nigeria, registering a property had 12.1 procedures during 69.6 days and cost 18.6 percent of property value in 2015.

collection[19] caused by the introduction of the amended Personal Income Tax Act (PITA) and a reduction in the federal transfer. This triggered a cutback in total expenditure especially recurrent expenditure during 2011-13 and capital expenditure in some years (except 2012 when capital financing was made available through the World Bank's first budget support operation and the issuance of Lagos State bonds). The budget deficit varied but remained less than one percent due to large SGDP, thus remained within the FRA threshold of 3 percent of GDP; it increased in 2012 but declined in the subsequent year as the government began to balance the budget before the end of the current administration. Total public debt increased but remained manageable during 2010-13, with nearly two-thirds of total debt being domestic debt (commercial banks' credits and Lagos State bonds[20]). Debt service as a percent of total revenue rose due to an increase in interest payment on bonds and on commercial banks' loans but remained well below the 30 percent threshold (Table 5).

28. **Spending by functions was consistent with the LSDP priority.** Economic affairs[21] accounts for about one-third of the total Lagos State budget, followed by general public services, education, environmental protection, housing and community amenities, and health (Table 4). The respective shares of spending on public order and safety, recreation, cultural and religion and social protection ranged between 1-4 percent of total expenditure.

[19] Lagos has the highest IGR collection among 36 states. IGR collection has increased by five -fold during the last decade due to implementation of comprehensive tax administration reforms and now accounts for slightly over 60 percent of total revenue (compared to less than 10 percent in most states). Personal income tax accounts for 70 percent of total IGR with the remaining including capital gain tax, hotel and restaurant tax, fees and fines, and dedicated revenues collected by MDAs. To sustain IGR collection, the governor regularly holds monthly meetings with revenue stakeholders.

[20] Lagos state government issued four series of bonds totaling N275 billion during 2009 – 2013. The first tranche (N50 billion) was fully redeemed in February 2014 and paid out of the bond sinking fund. The remaining three tranches of the same series in the amount of N57.5 billion, N80 billion, and N87.5 billion issued, respectively, in 2010, 2012 and 2013, at a fixed coupon rate of 10%, 14.5% and 13.5% respectively, and due in 2017, 2019 and 2020. These bonds have been rated favorably by international rating agencies (Fitch Ratings rated the two bond series (N57.5 and N80 billion matured in 2017 and 2019) to AA+ (nga) on September 19, 2014.

[21] General economic; commercial and labor affairs; agriculture, forestry, fishing and hunting; fuel and energy; mining, manufacturing and construction; transport; communication; and other industries, R&D.

**Table 4: Lagos State Government - Actual Spending by Function, 2008-2013**

*(Percent of total)*

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| General Public Services | 34% | 25% | 28% | 30% | 29% | 22% | 21% |
| Public Order and Safety | 2% | 2% | 3% | 3% | 2% | 4% | 4% |
| Economic Affairs | 25% | 25% | 38% | 27% | 33% | 33% | 32% |
| Environmental Protection | 11% | 12% | 7% | 8% | 8% | 9% | 8% |
| Housing and Community Amenities | 11% | 18% | 6% | 4% | 7% | 9% | 10% |
| Health | 6% | 6% | 7% | 10% | 5% | 9% | 8% |
| Recreation, Culture and Religion | 2% | 2% | 1% | 1% | 2% | 1% | 1% |
| Education | 9% | 9% | 9% | 16% | 13% | 13% | 16% |
| Social Protection | 0% | 1% | 1% | 1% | 1% | 1% | 1% |
| **Total** | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

1/ Approved budgets for 2013-14

*Source: Ministry of Economic Planning and Budget, Lagos State Government*

### 2.3.2 Lagos State Debt and Fiscal Sustainability

29. **The baseline scenario for a Fiscal Sustainability Analysis for Lagos State indicates that its fiscal indicators as ratios to SGDP will stabilize over the medium-term.**[22] The fiscal deficit as a percentage of SGDP is expected to decline in 2014 reflecting lowered revenue and capital spending. Subsequently, it is projected to increase from 2015 onwards but remain within 3 percent of SGDP, mirroring a slower increase in total revenue relative to total expenditure. Despite efforts to increase IGR collection, total revenue still increases slowly as statutory allocation falls as a result of slow recovery of international oil prices and output. Total expenditures especially capital spending continues rising but slowly in line with slow revenue growth. As a result total public debt stabilizes at around 3 percent of SGDP during the projection period. Debt service fluctuates between 13 percent and 36 percent of total revenue during 2014-23, with sharp spikes in 2014, 2016, 2019, and 2020 due to redemption of the four series of state government bonds at maturity (Table 5).

[22] The baseline scenario for Lagos fiscal sustainability assumes that the state's economy will grow at the same rate as the non-oil economy, that the government will continue strengthening tax administration to further increase IGR collection while curtailing recurrent expenditure (wage, overhead costs and transfers) and rationalizing capital expenditure. The deficit will be financed by domestic loans, with a real interest rate of 2 percent on average.

**Table 5: Lagos Sate Fiscal Sustainability – Baseline Projection**

*(Percent of SGDP)*

| | | | | Actual | Estimate | | | | Projection | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| **Total Revenue** | **2.32** | **2.30** | **2.17** | **2.13** | **1.96** | **1.82** | **1.90** | **2.00** | **2.01** | **2.01** | **2.03** | **2.06** | **2.08** | **2.09** |
| Internal Generate Revenue | 1.48 | 1.45 | 1.38 | 1.34 | 1.31 | 1.22 | 1.32 | 1.44 | 1.45 | 1.45 | 1.48 | 1.51 | 1.54 | 1.55 |
| Federal Transfers | 0.82 | 0.84 | 0.77 | 0.79 | 0.65 | 0.60 | 0.57 | 0.56 | 0.57 | 0.56 | 0.55 | 0.55 | 0.54 | 0.53 |
| Capital Receipts | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total Expenditure** | **2.76** | **2.62** | **2.86** | **2.55** | **2.16** | **2.06** | **2.15** | **2.28** | **2.37** | **2.41** | **2.42** | **2.43** | **2.47** | **2.52** |
| Recurrent Expenditure | 1.33 | 1.42 | 1.39 | 1.26 | 1.29 | 1.22 | 1.22 | 1.26 | 1.30 | 1.31 | 1.30 | 1.29 | 1.31 | 1.33 |
| Total Personnel Costs | 0.45 | 0.54 | 0.48 | 0.45 | 0.42 | 0.40 | 0.42 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 |
| Overhead Costs | 0.58 | 0.59 | 0.55 | 0.37 | 0.38 | 0.39 | 0.40 | 0.42 | 0.42 | 0.43 | 0.43 | 0.44 | 0.45 | 0.46 |
| Dedicated Expenditure | 0.13 | 0.02 | 0.07 | 0.07 | 0.06 | 0.06 | 0.06 | 0.07 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 | 0.08 |
| Grants, Contribution and Subvention | 0.09 | 0.13 | 0.15 | 0.14 | 0.16 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Interest payments | 0.08 | 0.13 | 0.13 | 0.22 | 0.27 | 0.23 | 0.19 | 0.19 | 0.21 | 0.21 | 0.19 | 0.18 | 0.18 | 0.20 |
| External | 0.01 | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Domestic | 0.07 | 0.13 | 0.13 | 0.22 | 0.26 | 0.22 | 0.18 | 0.18 | 0.20 | 0.19 | 0.18 | 0.16 | 0.17 | 0.18 |
| Capital Expenditure | 1.43 | 1.20 | 1.47 | 1.29 | 0.87 | 0.85 | 0.93 | 1.02 | 1.07 | 1.10 | 1.12 | 1.14 | 1.16 | 1.19 |
| Operating Balance | 0.98 | 0.87 | 0.77 | 0.87 | 0.67 | 0.60 | 0.67 | 0.74 | 0.71 | 0.70 | 0.73 | 0.77 | 0.77 | 0.76 |
| **Fiscal Balance** | **-0.34** | **-0.26** | **-0.64** | **-0.38** | **-0.16** | **-0.21** | **-0.22** | **-0.25** | **-0.32** | **-0.36** | **-0.35** | **-0.33** | **-0.35** | **-0.39** |
| Borrowing (gross) | 1.07 | 0.92 | 0.87 | 1.00 | 0.49 | 0.58 | 0.54 | 0.50 | 0.49 | 0.50 | 0.47 | 0.42 | 0.44 | 0.48 |
| External | 0.09 | 0.54 | 0.12 | 0.12 | 0.16 | 0.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Domestic | 0.98 | 0.38 | 0.75 | 0.88 | 0.32 | 0.40 | 0.54 | 0.50 | 0.49 | 0.50 | 0.47 | 0.42 | 0.44 | 0.48 |
| Repayments (-) | -0.19 | -0.20 | -0.21 | -0.19 | -0.43 | -0.23 | -0.44 | -0.17 | -0.10 | -0.29 | -0.30 | -0.09 | -0.09 | -0.09 |
| External | -0.01 | 0.00 | 0.00 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.01 | -0.04 | -0.05 | -0.05 | -0.05 | -0.04 |
| Domestic | -0.18 | -0.19 | -0.21 | -0.18 | -0.42 | -0.22 | -0.43 | -0.16 | -0.09 | -0.26 | -0.25 | -0.04 | -0.04 | -0.05 |
| Changes in sinking fund balances /2 | -0.18 | -0.11 | -0.08 | -0.16 | 0.11 | -0.14 | 0.12 | -0.08 | -0.07 | 0.15 | 0.17 | 0.00 | 0.00 | 0.00 |
| Statistical discrepancies 3/ | 0.36 | 0.35 | -0.06 | 0.28 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| ***Memorandum items:*** | | | | | | | | | | | | | | |
| Debt stock (% of SGDP) | | | | | | | | | | | | | | |
| Gross debt 4/ | 2.1 | 2.2 | 2.5 | 3.0 | 2.9 | 3.1 | 2.9 | 2.9 | 3.0 | 2.9 | 2.8 | 2.8 | 2.9 | 3.0 |
| External debt | 0.5 | 0.6 | 0.6 | 0.8 | 1.0 | 1.2 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 |
| Domestic debt, incl. bonds | 1.6 | 1.6 | 1.9 | 2.2 | 1.8 | 1.8 | 1.7 | 1.8 | 2.0 | 2.0 | 2.0 | 2.2 | 2.3 | 2.5 |
| Sinking fund balance | 2.8 | 3.1 | 2.6 | 3.1 | 2.0 | 2.3 | 1.2 | 1.2 | 1.1 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross debt service/total revenue | 11.4 | 14.3 | 15.9 | 19.3 | 35.9 | 25.2 | 33.5 | 18.2 | 15.4 | 24.9 | 18.8 | 13.1 | 13.3 | 13.8 |

Source: World Bank staff estimates.

1/ Consolidated fiscal account, including sinking funds.

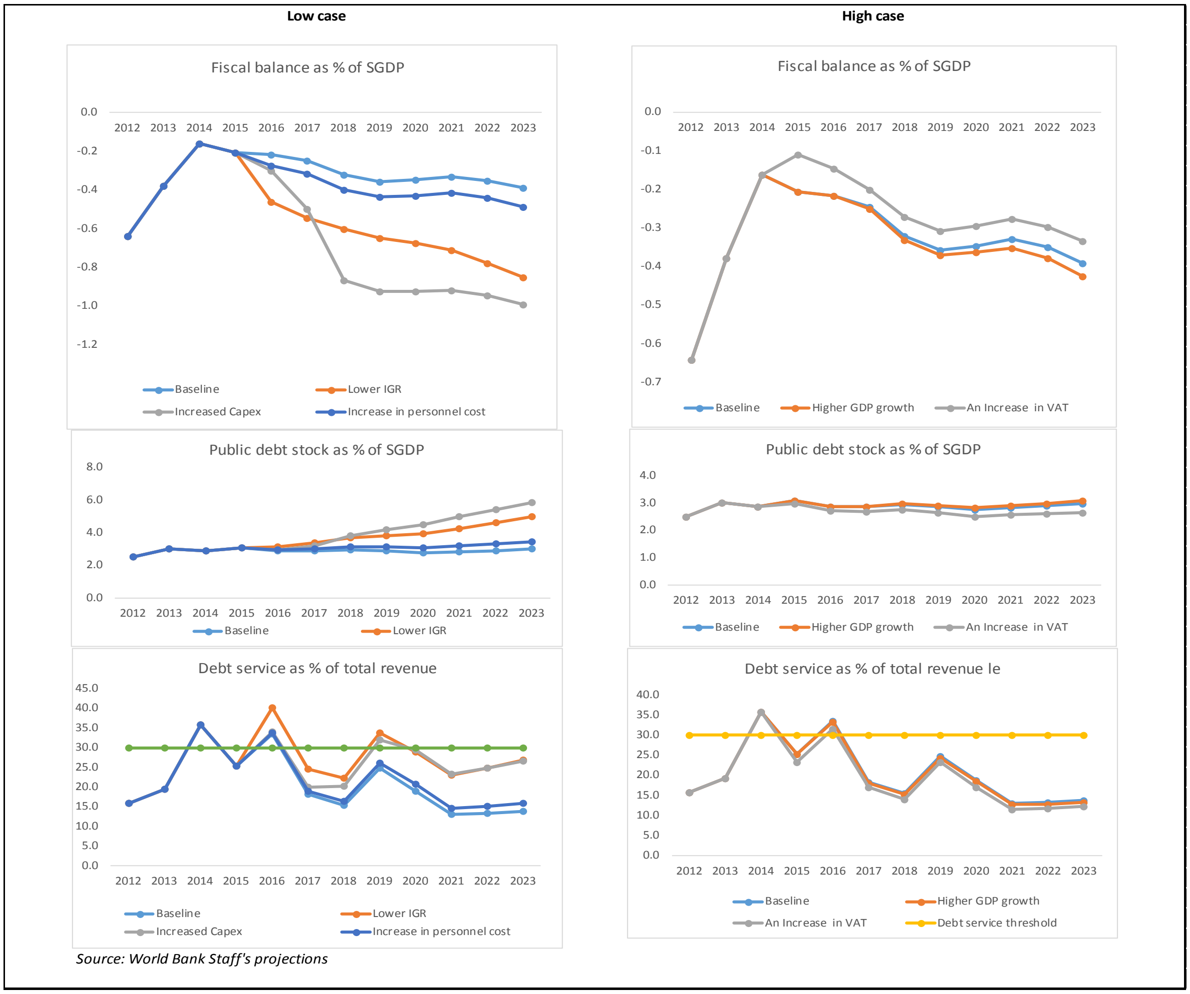
2/ Negative figures suggest positive net transfers to sinking funds.

3/ Derived as a residual reflecting mis-classification and statistical errors.

4/ Gross debt minus sinking fund balances.

30. **Alternative scenarios (both high and low cases) indicate the robustness of the Lagos State's medium-term fiscal sustainability**. Low case scenarios including lowered IGR, increased capital expenditure, and rising personnel costs highlight the challenge in managing the Lagos State budget. The fiscal sustainability indicators are worsening in various degrees; however, they remain within the thresholds over the medium-term. Specifically, a negative shock to IGR could have a long-lasting impact on the fiscal deficit and the ratio of debt service unless a sufficient policy response (such as an increase in other revenue and lowered expenditure) are undertaken to offset IGR shortfalls. Similarly, an increase in capital expenditures to its historic level at around 50 percent of total expenditures is expected to increase the fiscal deficit and debt service. Efficient management of capital expenditures, however, could mitigate some of these risks. Rising personnel costs appears to have limited impact on the fiscal deficit and debt service reflecting a lower share of personnel costs in total expenditure (less than 20 percent). By contrast, the faster growth rate of Lagos State's economy slightly increases the fiscal deficit and lowers the debt stock and the ratio of debt service to total revenue. An increase in the VAT rate from 5 to 10 percent by the federal government will significantly increase VAT transfers to Lagos State, and thus improve the fiscal and debt indicators over the medium-term.

**Figure 1: Lagos State - Medium-Term Fiscal Sustainability, Alternative Scenarios**




31. **In sum, the above analysis confirms the robustness of Lagos State's fiscal sustainability position over the medium term and its financial position is deemed adequate for this operation.** Although both the fiscal deficit and the ratio of debt service to total revenue deteriorate under the low cases, they are contained within the thresholds. However, the government's commitment to maintaining a prudent fiscal management through improved revenue effort and containment of expenditure supported by the reform actions undertaken under the TLSDPO are expected to contribute to achievement of medium-term fiscal sustainability and strengthening the capacity of Lagos State to manage its fiscal risks.

## 2.4 INTERGOVERNMENTAL RELATIONS

32. **The external debt of Nigerian states is serviced directly from the Federation Account.** Under the Nigerian constitution, revenues from oil, VAT, customs, and corporate income tax are pooled in a single Federation Account for distribution to the federal, state, local governments, and extra-budgetary funds under a fixed formula. Nigerian states can only borrow externally with federal approval and explicit guarantees, and their external debts are serviced and repaid centrally as direct deductions from their Federation Account transfers. Thus, the servicing of these debts

does not depend on the actions or budgetary positions of the states themselves. The Federal Ministry of Finance is involved directly in the negotiations of external credits for states.

33. **The current inter-governmental arrangements with respect to external debt service and overall state debt monitoring provide—in principle—adequate controls for state government spending within limits compatible with overall fiscal sustainability**. The federal government is actively engaged in the oversight of sub-national fiscal and borrowing decisions through a combination of rules-based controls and direct administrative controls requiring the center to approve borrowing operations and prohibiting sub-national governments from directly accessing external borrowing. Federal legislation limits annual debt service payments to 40 percent of Federation Account statutory allocations, and ties borrowing to specific investment projects whose feasibility studies are cleared by the National Planning Commission. The Federal Debt Management Office (DMO) has improved its capacity to monitor the debt positions of Nigerian states in 2012-2013, and now has complete records of domestic commercial borrowing by state. For external borrowing, upon effectiveness of state credit agreements, the federal DMO takes on responsibility for ongoing service payments (both principal and interest). All state external debts are serviced centrally by the federal government, and debt service payments are recovered later through automatic deductions from the monthly Federation Account transfers to states.

34. **To access the capital market, states must meet additional legal and regulatory requirements under the Investment and Securities Act 2007, the Securities and Exchange Commission regulations and the listings requirements of the Nigeria and the Abuja Stock Exchanges**. Most notably, the total state debt outstanding and the proposed new borrowing must not exceed 50 percent of the state's revenues in the preceding year. As with other forms of domestic borrowing, states are required to obtain prior approval from the federal government, and to provide an irrevocable letter of authority giving the Accountant General of the federation the authority to make deductions at source from the state's statutory allocation in the event of default by the state on its obligations under the terms of the loan. The state is required to establish a sinking fund for each loan raised into which periodic contributions are made for meeting the loan obligations. In the short term, external debtors would be paid by the federal government and, thereafter, the issue of particular state debts is worked out between the federal and state governments in the context of the regular inter-governmental fiscal flows using the irrevocable letter of authority. Importantly, the need for states to obtain prior approval from the federal government for access to capital markets provides the federal government with the incentives and powers to limit accumulation of state debts with a view to limiting the risk of state debt profiles becoming unsustainable.

35. **In addition, the existing system of sharing oil revenue and Value-Added Tax from the Federation Account across the three government levels serves as a major stabilizer of state finances.** Federal transfers are made monthly in a transparent and predictable way, based on a stable formula (Box 1), and thereby enable states to predict future inflows of federal transfers with reasonable accuracy. The establishment of the ECA in 2004 has removed volatility in the flow of funds from the Federation Account and VAT Pool to budgets. However, the low balance in the ECA in early 2014 and some uncertainties surrounding the oil sector have increased the risks somewhat in this regard. However, external debt service should not be affected as it is first deducted before the distribution of revenues to states' budgets.

**Box 1: Revenue Allocation in the Federation**

The Constitution of the Federal Republic of Nigeria places issues related to major taxes – such as taxation of income, profits and gains, customs duties, excise and stamp duties, and road taxes – under the Exclusive Legislative List at the federal level. This also applies to the value added tax (VAT). The most important state tax is the personal income tax that is collected by a state tax authority on individuals deemed to be residents in that state. The table below summarizes the tax-related responsibilities of the FGN and the states in terms of policy decision and collection.

The VAT revenue-sharing arrangement has been defined by law (as opposed to the Constitution, which includes a provision relating to mineral revenues). The proceeds of the VAT that replaced the states' sale taxes in 1994 are also pooled and redistributed according to formulas based on principles similar to the ones applicable to the distribution of mineral revenues. Vertically, the allocations to the FGN, the states, and the local governments are currently 15 percent, 50 percent, and 35 percent, respectively. The current horizontal VAT revenue-sharing formula among the states is based on weighted criteria including equality (40 percent), derivation (50 percent), and population (10 percent). Although the formula reflects the importance that should be attached to the principle of derivation, the industrial states (Lagos, Rivers, Ogun, Kano), where the bulk of VAT is collected, are considered not to receive a fair share of their internally generated revenue because of the 40 percent of the proceeds being distributed equally among the states.

| | Legislation | | Collection | | Retention | |
|---|---|---|---|---|---|---|
| | Federal Level | State Level | FGN | State Government | FGN | State Government |
| Personal income tax | X | | X | X | X | X |
| Withholding tax | X | | X | X | X | X |
| Capital gains tax | X | | X | | X | |
| Stamp duties | X | | X | X | X | X |
| Pool betting and lotteries, | | X | | X | | X |
| Road taxes | X | | | X | | X |
| Business premises | X | | | X | | X |
| Development levy | X | | | X | | X |
| Naming of Street | | X | | X | | X |
| Right of occupancy | | X | | X | | X |
| Value added tax | X | | X | | X | X |
| Custom and excise | X | | X | | X | |
| Non-tax IGR | | X | | X | | X |

## 3. THE LAGOS STATE GOVERNMENT'S PROGRAM

36. **Lagos State has adopted a comprehensive Lagos State Development Plan (LSDP) 2012-2025 that continues the previous development agenda and is underpinned by the government's long-term vision.** The development of LSDP drew on lessons learned from Lagos' Ten-Point Agenda 2003-2007,[23] the Lagos State Economic Empowerment and Development Strategy 2005-07, and Lagos State Vision 2020. It continues the objectives and reform agenda articulated in the previous strategic documents. It complements the government's vision of "making Lagos State Africa's model megacity and global, economic and financial hub that is safe, secure, functional, and productive." The strategy aims at poverty eradication and sustainable economic growth through infrastructural renewal and development. The LSDP is accompanied by an implementation plan that identifies the sequencing and prioritization of the LSDP focusing on power, agriculture, transport and housing and links to the existing Medium-Term Sector Strategies (MTSSs) and Annual Budgets as well as results and monitoring indicators.

[23] The Ten Point Agenda includes Poverty and Water Supply; Education; Transport; Environment; Road; Food Security; Revenue generation; Employment; Security; and Health.

37. **The LSDP encompassed four key developmental pillars and cross-cutting themes.** These pillars are the following: (a) Economic Development Pillar prioritizes streamlining the regulatory environment and improving incentives for private investment and business, providing key public inputs to increase opportunities for investors, and the expansion of private public partnerships; (b) Infrastructure Pillar focuses on key priority sectors including power, transport, water, and waste management; (c) Social Development and Security Pillar puts foremost priority on education – ensuring free, high quality, and relevant education for all Lagosians, along with health care, social protection, and security; and (d) Sustainable Environment Pillar highlights the development of a master plan for a drainage system and erosion prevention and a state framework on climate change. Main cross-cutting themes of the LSDP include Gender, Social Inclusion, and HIV/AIDS; Finance, Governance and Capacity Development; and Monitoring, Evaluation and Review. Under the cross-cutting themes of Finance, Governance and Capacity Development, the LSDP places priority on public financial management (PFM) reforms to strengthen accountability, transparency, and responsiveness, thus enabling the states to better meet the Lagosians' demand for public services. These reforms include an expansion of public consultations, further development of medium-term fiscal and sector strategies for consistency with a costed LSDP, the effective implementation of the new Procurement and Audit laws, and the development of e-government.

38. **The Lagos State Development Plan places high priority on infrastructure**. Increased infrastructure services will not only contribute to economic growth but also enhance public service delivery especially transport, power, and water and sanitation and thus improve overall living standards of the population. The government estimated total financing needs for infrastructure investment during 2007-2020 at about US$50 billion.[24] This comprises construction and rehabilitation of roads, bridges and drainage (US$20 billion), power (US$10 billion), inter-modal mass transit (US$9.3 billion), information communication technology (US$5 billion), water development (US$3 billion), and waste, sewage, etc. (US$2.7 billion).

# 4. THE PROPOSED OPERATION

## 4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **The proposed TLSDPO is congruent with the LSDP**. The TLSDPO is the last of the new programmatic series comprising two operations. It continues the direction of the reform program outlined in SLSDPO as most of the indicative triggers highlighted in the SLSDPO presented to the Board in March 2014 have now become prior actions for the proposed TLSDPO with some modifications. The program supports the first LSDP pillar that prioritizes streamlining the regulatory environment and improving incentives for private investment and business by reducing time and cost of registering land and mortgages and obtaining development permits (TLSDPO Pillar IV). It builds on actions in the SLSDPO and supports the improvement of governance and public financial management (LSDP's cross-cutting theme) through reforms of budgetary planning and preparation and budget execution (Pillars II and III). Finally, the TLSDPO supports LASG efforts in maintaining medium- and long-term fiscal and debt sustainability through incorporation of contingent liabilities in the fiscal sustainability analysis and monitoring

[24] Lagos State's Ministry of Budget and Economic Planning Economic Intelligence Unit, "Investment in Infrastructure as a Development Priority," The Lagos State Policy Review, Vol. 1, No.1, September 2012.

the associated risk related to Lagos State parastatals' fiscal activities (Pillar I). These reforms will contribute to the achievement of the LSDP objective, improved public finance and investment climate that is expected to contribute to the ultimate goal of sustained economic growth and poverty reduction.

40. **The TLSDPO's indicative triggers highlighted in the SLSDPO have been slightly modified.** The SLSDPO presented to the Board of Executive Directors in March 2014 outlined nine indicative triggers for the proposed TLSDPO. Eight indicative triggers become prior actions for the proposed TLSDPO with some modifications, while one trigger has been dropped. Trigger #1 is reformulated because some state parastatals' financial statements do not meet the accounting standards due to limited capacity and weak compliance. Six triggers are reworded while Trigger #3 remains unchanged. Trigger #7 was dropped because the Geological Information System (GIS) strategic plan that is expected to provide clear direction and prioritize activities for implementing the GIS going forward has not yet been approved by the government (Table 6).

**Table 6: TSLDPO Indicative Triggers and Prior Actions - Amendments**

| TLSDPO Indicative Triggers | TLSDPO Prior Actions | Remarks |
|---|---|---|
| *Trigger # 1:* Lagos State publishes consolidated financial statements of Lagos State parastatals. | *Prior action # 1*: 2012 and 2013 consolidated state of affairs (balance sheets) of 15 key Lagos State parastatals have been published by the Lagos State Parastatal Monitoring Office.[25] | **Reformulated.** To define the list of parastatals to be included in the consolidated balance sheet. |
| *Trigger # 2:* Preparation of 2015 budget employs 25 MTSSs for MDAs and consolidated MTSSs from at least 3 sector-defined COFOGs (education, health, and one other) and in accordance with the Medium-Term Expenditure Framework. | *Prior action # 2*: The Program Implementing Entity's 2015 budget employs 25 medium-term sector strategies for MDAs with relevant MDAs' strategies consolidated into at least 3 sectoral medium-term strategies based on defined functions of government (education, health, and one more sector) in accordance with the Medium-Term Expenditure Framework. | **Reworded.** To improve clarification of the prior action. |
| *Trigger # 3:* Standard Bidding documents in use in all MDAs in Lagos State. | *Prior action # 3:* Standard Bidding documents are required to be used by all MDAs of the Program Implementing Entity for the purpose of public procurement. | **Unchanged.** |
| *Trigger # 4:* Continuous strengthening of the functionality of the agency by filling the remaining 8 vacant positions. | *Prior action # 4:* The institutional capacity of the Public Procurement Agency has been strengthened by filling 8 key vacant managerial and technical specialist positions as agreed with the Association. | **Reworded.** To be more precise about the types of positions. |

[25] 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.

| | | |
|---|---|---|
| *Trigger # 5:* Roll-out of the 'procure to pay' module of Oracle Financials to MDAs accounting for at least 80 percent of the state capital expenditure. | *Prior action # 5:* The "procure to pay" module of the Oracle-based Financial Management System has been introduced to at least 8 MDAs accounting for at least 85 percent of total state capital expenditures. | **Reworded.** To specify the number of MDAs and percentage. |
| *Trigger # 6:* Cleansed and validated payroll integrated with Oracle Financials for direct posting of payroll expenditures in General Ledger. | *Prior action # 6:* The Program Implementing Entity's cleansed and validated payroll system has been integrated with the Oracle-based Financial Management System for direct posting of payroll expenditures in General Ledger. | **Reworded.** To make it more concise. |
| *Trigger #7:* Phase One of the GIS Strategic Plan for 2014 implemented in full. | | **Dropped.** Due to capacity constraints, a GIS strategic plan (a benchmark for SLSDPO) that would inform the GIS priority actions to be supported by TLSDPO has not yet been approved. Further, policy inconsistencies between the Lands Bureau and Office of Surveyor General pose risks to successful implementation. However the Bank will remain engaged to ensure successful completion of this reform. |
| *Trigger # 8:* New methodology for assessing property values implemented for land registration/ transactions along with a minimum 50% reduction in various fees charged by Lagos State for registering land from their current rate of close to 13% of assessed value. | *Prior action # 7:* The cost of land transactions has been reduced by at least 50% (from its current rate of 13% of assessed value) and a new methodology has been implemented for assessing the value of land and other property that determines payable fees and charges related to land transactions.[26] | **Reworded.** To rearrange the order of activities. |
| *Trigger # 9:* Pilot of e-approval system in at least one district office completed. | *Prior action # 8:* The Ministry of Physical Planning and Urban Development of the Program Implementing Entity has developed and effectively introduced an electronic web-based system for processing of planning permits. | **Reworded.** To reflect an official name of the system and to reflect the change in the design of the e-PP system. |

41. **The results indicators for the TLSDPO have been streamlined and amended to make them more outcome rather than input oriented.** The total number of results indicators is reduced to 16 (from 21). Under the first pillar, the fiscal deficit and debt service indicators are consolidated into one indicator represented by adherence to the FRA and debt sustainability threshold. The indicators on wage bill as a percentage of total expenditure and the IGR execution

[26] These fees and charges on land transactions include consent Fees (6%); capital gains tax (from 2%); stamp duty (2%); and registration fees (3%).

rate are dropped as they are inputs indicators. A new indicator related to the prior action #1 is added. The capital budget execution rate and an indicator related to cash flow planning under the third pillar (budget execution) are dropped as they do not link to prior actions under the program. The health sector budget allocation is added as an additional sector that has sectoral MTSSs. The number of MDAs having uploaded needed information into the GIS is dropped together with the elimination of the GIS related prior action. The results indicator (C2) has been replaced by a quantitative indicator measuring efficiency gained from using SBDs, as measured by an overall reduction in time for procurement implementation from bidding to contract award. An input results indicator (C3) has been replaced by an impact indicator measuring 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. The results indictors C7, C8 and D4 are amended to make them more results oriented.

42. **The design of TLSDPO incorporates lessons learned from the Implementation Completion and Results Report (ICRR) for FLSDPO and the preparation of the SLSDPO.** First, the continued preparation of TLSDPO has facilitated ongoing policy dialog and implementation of prior actions despite the uncertainty regarding the processing timetable of the TLSDPO during the elections. Secondly, the number of results indicators is further rationalized by retaining only those that are closely linked to prior actions and under full control of the Lagos State Government. Several results indicators (A1, C2, C3, C7, C8 and D4) have been amended to make them more outcome-oriented and several are dropped as they are no longer linked to the prior actions. Third, the risks associated with infrastructure and information and communication Technology (ICT) capacity in the deployment of the Oracle financial modules (the TLSDPO's prior action) has been mitigated as the government recently completed the installation of fiber-optic broadband and a dedicated power supply in the government secretariat in Ikeja. The Oracle Financials Directorate is now headed by a Director General with relevant background, training and experience in ICT. The prior actions to improve the investment climate are more focused to ensure close links to the objective that aims to reduce the cost of property registration. Finally, the monitoring of the results indicators for the DPO program has been assigned to the Monitoring and Evaluation Unit in the Ministry of Economic Planning and Budget (MEPB).

## 4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

43. **The Lagos State Government remains committed to the reform program supported by the TLSDPO and has continued to make important progress.** The programmatic engagement consisting of two operations is designed as a natural follow-up to the FLSDPO. The four pillars of that operation have been maintained and the proposed prior actions further deepened the reforms supported by the SLSDPO. Implementation of these reforms is helping achieve progress towards the 2015 targets.

### 4.2.1 Prior Actions and Results

**Pillar 1: Fiscal Sustainability**

44. **The Lagos State Government has pursued a reform agenda supported by the DPO program to establish and strengthen the foundation for achieving medium-term fiscal sustainability.** The adoption and implementation of the Public Finance Management Law in 2011 reinforced fiscal discipline through the adoption of a medium-term fiscal strategy (MTFS) to guide the budget preparation during 2011-2014. The MTFS is underpinned by a realistic macroeconomic framework consistent with medium-term debt sustainability that accounts for contingent liabilities. Debt reporting prepared by the Lagos Debt Management Office now incorporates major contingent liabilities associated with the financial operations of autonomous agencies and public private partnerships in the infrastructure sector. Debt sustainability analyses are carried out regularly and key fiscal sustainability indicators agreed under the DPO program have been tracked and incorporated in the budget planning and financing of the deficit.

45. **However, contingent liabilities associated with the fiscal operation of state parastatals have not been fully monitored due to limited capacity and weak enforcement.** All borrowing by parastatals requires explicit approval by the Ministry of Finance (MOF), and their operational activities are monitored and supervised by the Parastatal Monitoring Office (PMO).[27] They are also required to submit end-year financial statements to the government. The State Accountant General's annual financial statements have reported revenue and spending of the parastatals fully financed by the budget. However, some partially subvented as well as commercialized parastatals have not been compliant with the requirement either because their financial reports are not compliant with international accounting standards or have not been submitted to the PMO due to limited capacity and weak enforcement. This poses challenges for monitoring their fiscal activities.

46. **To strengthen the monitoring of contingent liabilities associated with fiscal operations of state parastatals, the PMO is committed to prepare the consolidated state of affairs (balance sheets) of selected 15 parastatals under category II and III and publish on its website as a TLSDPO prior action.** The consolidated state of affairs will reinforce the parastatals' compliance with the financial reporting requirement. It will provide inputs to policy makers regarding the extent of fiscal risks associated with their contingent liabilities in the form of payment arrears and guarantees. The risks will be closely monitored by MOF, their impacts on the budget analyzed, and will be considered in the analysis of the State's fiscal sustainability. In view of the limited capacity of parastatals, the PMO will work closely with them to ensure that their respective financial statements are in compliance with international reporting standards. The consolidated financial statements of these parastatals, when approved by the Office of the Governor, will be published annually on the PMO website.

47. **The effort to increase IGR is ongoing as it is an important source of development finance and critical for medium-term fiscal sustainability.** Total IGR includes income tax revenues, fines and fees as well as dedicated revenues collected by MDAs. The government has

[27] The 2011 Lagos State Public Finance Management Law categorized parastatals into three schedules: (i) fully subvented by the government; (ii) fully commercialized; and (iii) partially subvented by the government.

focused its effort on increased income tax collection that accounts for a large share of IGR.[28] Under the SLSDPO, the government took a new initiative to strengthen the oversight function to improve transparency of LIRS by submission to the State Assembly a draft amendment to the Revenue Administration Law that will separate the supervisory board from LIRS management. The 2015 budget includes measures to increase other IGR including dedicated revenue and capital receipts. MDAs are encouraged to improve revenue performance through the use of the ICT-based revenue collection system while the dedicated expenditures associated with MDAs' overhead cost for revenue collection are closely monitored.

48. **Lagos State collects IGR from land, including land-related registration fees and land use charges.** The Lands Bureau collects revenue from land-related transactions, such as the assignment, lease and mortgage of land and property that require governor's consent. The revenue from registration-related fees (registration fees, consent fees, stamp and duty, and capital gain tax) is currently low as the cumbersome and lengthy procedures and the high cost of land registration have driven a large number of land transactions to the informal market. By contrast, land use charges collected by the Land Record Company has increased significantly due to the rapidly growing urban area in Lagos State and strong collection capacity. The company launched the Property Identification Exercise (completed in 2011) and cataloged properties subject to land use charges (637,569 units) in its record. However, it has difficulties in delivering demand notices as the properties' characteristics have changed due to rapid urban development in Lagos State. The company has now restarted a re-enumeration exercise through the deployment of a mobile enumeration application and leveraging the GIS map to bridge the gap in its existing property records. This effort is expected to increase collection of land use charges in the future.

49. **The results indicators for Pillar I (fiscal sustainability) has been revised to reflect a closer linked to the prior action.** The SLSDPO prior action that has been consistently implemented over the past several years will result in the adherence with the FRA and debt sustainability thresholds that aim to achieve medium-term fiscal sustainability monitored by the fiscal deficit (not exceeding 3 percent SGDP) and debt service (not exceeding 30 percent total revenue). A new indicator for the Prior action #1 (enhance transparency in reporting of fiscal risks to the budget) is introduced. The indicator on Land use charges collection (target of N8 billion in 2015) is retained as it is an intermediate indicator that is under control of the Lagos State Government and has a strong potential to be a main source of IGR in the future.

## Pillar 2: Budget Planning and Preparation

50. **As part of the SLSDPO prior action, Lagos State adopted a new approach to strengthen budget planning and preparation encompassing a rolling three-year medium-term expenditure framework (MTEF).** The budget was anchored in a MTFS that is underpinned by a medium-term macroeconomic framework and consistent with LSDP priorities. The MTFS

[28] The LIRS has improved tax administration through improved staff productivity, increased enforcement, and reintroduced a tourism tax on hotels and restaurants after gaining a Supreme Court Judgment in 2013. Tax compliance has been also increased through an intensive communication campaign to bring more professionals (doctors, lawyers, businessmen, etc.) as well as small taxpayers working in the informal sector into the tax net. A revenue forum with key stakeholders chaired by the governor is held annually to increase taxpayers' compliance. Further, the submission of the income tax clearance certificate is required for registering or selling property, obtaining development permits, and other activities that need official approvals.

informs the budget preparation of the fiscal policy directions and priorities and sets the overall resource ceiling as well as ceilings for nine sector-defined functions of government. These were included in the budget call circular circulated to MDAs to inform them of the available resource ahead of their budget preparation that begins in July of each year. To align MDAs' budget requests with the priorities, medium-term sector strategies have been developed by MDAs on an incremental basis, increasing from 10 MTSSs in 2011 to 25 MTSSs in 2014. The State Partnership for Accountability, Responsiveness, and Capability (SPARC), a program financed by the UK Department for International Development (DFID), provided important technical assistance.

51. **Going forward, the budget preparation anchored in the MTEF will be further strengthened.** The 2015 budget employs 25 Medium-term Sector Strategies (MTSSs) for MDAs, with relevant MDAs' strategies consolidated into at least 3 sectoral MTSSs based on the defined government functions (education, health and environment) in accordance with the MTEF, a prior action for the proposed TLSDPO. This action directly addresses one of the weaknesses identified in the 2012 Public Expenditure and Financial Accountability (PEFA) report that MTSSs (as prepared by MDAs) need to be integrated into nine sectoral MTSSs based on the defined government functions. The implementation of this action was initiated in mid-2014 in the context of the preparation of the 2015 budget. The action has been met following the approval by Lagos State Assembly of the 2015 budget prepared according to the prior action.

52. A results indicator for Pillar 2 is the level of education and health spending to be maintained at no lower than 13 percent and 6.7 percent of total expenditure, respectively. Implementation of the previous DPOs' prior actions to improve budgetary planning through timely communication of budgetary ceilings to MDAs prior to negotiations (SLSDPO) and aligning the budget requests with MTSSs for the education and health sectors are expected to safeguard the overall spending for the sector and strengthen the link between the sector budget with its priority articulated in the MTSSs. The actions will contribute to the achievement of the Lagos State's goal outlined in the education and health sector strategies including making secondary school education accessible, relevant, practical and goal oriented; making education accessible, free, and compulsory to all children of school age in a conducive environment for self-reliance; and achieving universal health care coverage in Lagos State.

### Pillar 3: Budget Execution

53. **The DPO program has been supporting reforms to strengthen budget execution in the areas of procurement, external audit, and the full operationalization of the Oracle-based Integrated Financial Management Information System (IFMIS)**. Although Lagos State's public financial management capacity ranks among the best of the Nigerian states, a number of weaknesses persist in the institutional, regulatory and legal framework. This weakens the link between the executed and the approved budget, makes some budgetary programs excessively costly, and affects the efficiency of resource utilization. The DPO program supports a medium-term reform agenda aimed at strengthening the legal framework and building the institutional capacity to enhance both the transparency and accountability of expenditure, and the government's ability to execute the budget in line with its declared policies. Prior actions in these areas are an important part of the reform agenda supported by the DPO program. The SLSDPO supported the implementation of the Procurement and Audit laws already passed by the State Assembly, as well as the rollout of the "procure to pay" module in five of the eight key ministries for improved budget

execution and reporting purposes. The TLSDPO will further deepen the reforms to strengthen public procurement, further introduce procure to pay to more MDAs and integrate payroll seamlessly with the Oracle Financials for real time and reliable recording and reporting of personnel costs.

*(a) Procurement*

54. **Having passed the Procurement Law, Lagos State has made good progress in implementing the legislation.** The Public Procurement Agency (PPA) was established in April 2012. Since then the PPA has continued to conduct procurement training of procurement officers,[29] established a procurement professional cadre, and published the Lagos State Public Procurement Journal on a quarterly basis that includes all contract awards whose value is above N100 million. The State has also launched an active Lagos State Public Procurement website (www.lagosppa.gov.ng) in July 2013 to provide all relevant information about the agency, procurement policy and practices. A bi-monthly Lagos State Tender Journal that publishes all bidding opportunities is being produced with the maiden publication in January 2015 to enhance competition and transparency.

55. **The government initiated the use of standard bidding documents (SBDs) by eight MDAs under the SLSDPO and has now scaled up the use of SBD by all MDAs as part of the proposed TLSDPO.** The use of SBDs represents an important step in the implementation of the Procurement Law. It will increase familiarity with the bidding process by both private and public sector practitioners, reduce the time required for bidding and evaluation, increase overall transparency of procurement, and facilitate easier procurement audit. As part of the SLSDPO program, eight key MDAs,[30] accounting for over 65 percent of capital expenditures, began to use SBDs for all contracts over N100 million on a pilot basis. On January 24, 2014 the Lagos State Government issued a circular mandating all MDAs to use SBDs and other related procurement documents developed in line with International Best Practice. The TLSDPO prior action will continue the introduction of SBDs to all MDAs in Lagos State.

56. **The regulatory function of the Lagos Public Procurement Agency is further enhanced under the TLSDPO by filling the eight key managerial and technical specialist positions.** The PPA Board has already reviewed and approved the structure of the PPA and its staffing plan. As a prior action under the TLSDPO, the eight key managerial and technical specialist positions have been filled to ensure adequate staffing of the PPA that is necessary for effective regulatory function. Under the SLSDPO, the Public Procurement Agency Board was inaugurated in March 2014.[31] The Board will ensure the true independent functioning of the Procurement Agency. Since

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[29] Sensitization of 4,000 state-wide public servants and private sector representatives was conducted in March 2012. Sensitization of local government councils and development authorities took place in September 2012. Procurement officers have been trained in Basic Procurement of Goods, Works, and Employment of consultancy services and deployed to MDAs. Training for trainers for 40 procurement officers at the management level was also completed, and a community of practice was established to encourage knowledge sharing among procurement officers.

[30] They include Science and Technology, Education, Health, Agriculture, Rural Development, Works and Infrastructure, Environment, and Waterfront and Infrastructure Development.

[31] The "inauguration" is the key event needed in the Nigerian context for the Public Procurement Agency Board to begin its operation in accordance with the Procurement Law. While the Federal Procurement Law also stipulates the

the inauguration of the Board, the PPA functions have been strengthened through the establishment of procurement cadre (includes 239 procurement officers, with only 22.6 percent (54) certified by the Charter Institute of Purchasing and Supply Management, and training for procurement cadre and other stakeholders in public service (such as permanent secretaries and directors, including NGOs). It holds regular monthly meetings with all procurement officers to update them of changes in procurement policies and practices in the state and sharing of experiences among participants. The PPA will intensify procurement capacity building through twinning arrangements with training institutions, such as the Turin ITC-ILO International Training Center, East and Southern Africa Management Institute, and Ghana Institute of Management and Public Administration.

57. **Transparency in public procurement has been improved.** The PPA has continued to publish regularly all contract awards above the threshold of N100 million on their website and in the state's quarterly procurement journal. However, the information on contract awards published were too sketchy for any meaningful social accountability and the PPA is advised to provide more detailed information to enable members of the public to monitor such contracts. In addition to the quarterly procurement journal,[32] the PPA started publishing bidding opportunities in a new tender journal on a bi-weekly basis (since October 22, 2014) to inform prospective bidders (contractors, suppliers and consultants) of procurement opportunities in the public sector. This journal will likely attract higher patronage because of the bidding opportunities it will offer. The PPA Board also approved the regulations to subject contracts between N50 million to N100 million to competition, thus enhancing value for money and transparency in the use of public resources in Lagos State. These contracts will be advertised in the tender journal.

58. **Result indicators for procurement will focus on a number of key activities of the Procurement Agency under the new law.** These indicators are (i) use of standard bidding documents for all contracts exceeding N100 million, (ii) overall reduction in time scale for procurement implementation from bidding to contract award as measured by surveys to be conducted by the PPA at the beginning and end of the program,[33] (iii) effectiveness of PPA as measured by the 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, and (iv) the percentage of small contracts subject to post review.

59. **Lagos State has made good progress related to audit reforms supported by the DPO program.** Building on the achievements registered under the two previous DPOs, the State Auditor General's department continued to make progress in a number of key areas of reform. The

establishment of a similar board (the Procurement Council), this body has still not been established years after the Procurement Law was passed, thus making the Agency vulnerable to political interference.

[32] Currently, the cover price of the procurement journal is N300, which the mission considered reasonable. However, the record of sales of the journal shows incremental decline in the purchase of the journal, from 304 copies in the first edition to 84 in the 4th and last edition. To increase access to members of the public and NGOs, the mission advises that the PPA increase the number of copies of the journal given to each MDA (from the current 5 copies per MDA).

[33] The two surveys will determine the extent to which tenders are issued using the SBDs and to set a baseline and end result for the average time it takes from bidding to contract award. The difference between the two surveys is the average overall reduction in timescale of procurement implementation from bidding to contract award brought about by the use of SBDs. Both surveys will be supported by SPARC. The survey will inform the PPA of any challenges in the use of the SBDs and to proffer mitigating measures before the full introduction of SBDs.

Audit Service Commission was established to provide oversight to the Commission, thereby strengthening the independence of the Supreme Audit Institution and career development of the staff. In addition, the audit process has been modernized as reflected by the development of an audit manual and the use of an audit management tool (Pentana). The audit framework has been modernized through the use of an audit software, Audit Command Language. As a result, the efficiency in conducting audit has been enhanced as measured by improved coverage of audit in terms of the number of MDAs audited and the quantum (percentage) of budgeted expenditures audited. All these performance successes were the outcome of enhanced efficiency in conducting audits, coupled with increased staffing of the audit teams, arising from the enhanced independence of the audit function upon the establishment and functioning of the audit commission.

*(b) The Oracle-based Financial Management System*

60. Lagos State has implemented the Oracle-based financial management system for several years; however, it is still weakly linked to the budget implementation process, with a number of budgetary units lacking capacity to use the system and / or not entering requisite data into the system. This inhibits effective control of expenditure commitments and arrears, cash management, and greater predictability of resource flows to service delivery agencies. To sustain the reform momentum, the TLSDPO prior actions will deepen the reforms that have been initiated by the previous operations.

61. **The SLSDPO prior action supported the implementation of the Oracle-based Financial Management system and, in particular, the introduction of the 'procure to pay' (P2P) module that has been implemented at 5 out of 8 key MDAs.** The P2P – a critical commitment control tool - covers the financial aspects of the expenditure management cycle – from requisition (encumbrance) to purchase order (commitment), and from invoice (obligation) to payment (liquidation). The P2P implementation seeks to: (i) support better expenditure planning from the point of encumbrances and commitments to the point of final payment, based on better cash flow planning; (ii) establish an orderly process flow for processing of expenditure commitments to their final liquidation using improved internal control procedures linked to access profiles; and (iii) document and accordingly manage the potential for expenditure arrears and thus enforce a greater transparency in budgetary finance. Although the operational acceptance testing and test-scripts of the implementation were confirmed, the orderly implementation of the module across the pilot MDAs was earlier frustrated by emerging technical glitches and other internal operational issues.

62. **The TLSDPO supports government efforts to further scale up implementation of the procure-to-pay module.** The government has introduced this module of Oracle Financials to at least 8 MDAs, accounting for at least 85 percent of the state capital expenditure (a prior action for the proposed TLSDPO). Since the technical glitches and software bugs have now essentially been managed, the budget execution reports of the 8 selected largest capital spending MDAs has been configured in the system for production of the reports starting with the month of March 2015. The reports will show the commitments, actual expenditures, and obligations for all capital expenditures under each of the 8 MDAs.

63. **As a prior action for the proposed TLSDPO, the state has committed itself to cleanse and validate the payroll and integrate it with Oracle Financials for direct posting of payroll expenditures to respective cost centers in the General Ledger.** The integration will allow for automatic default of payroll costs against their respective cost centers. The government has adopted and implemented this methodical process to ensure that employee pay data for a particular month are generated through an initial payroll run, validated by the Central Internal Audit as well as by internal audit formations in all MDAs before the validated payroll can be generated. The payroll integration, which was under test mode during the September – December 2014 quarter, has now been completed and the payroll runs, since December 2014, are generated solely from the integrated platform (i.e., Payroll and General Ledger). Additionally, progress has been made towards linking the human resources management system (HRMIS - that feeds the payroll) and the payroll system. The HRMIS is housed in the Public Service Office and the Ministry of Establishment and Training. These two agencies are the sole authority and custodian of the HRMIS and all changes to the payroll must be processed by these agencies. In principle, the segregation of responsibilities for HRMIS and payroll is also a manifestation of proper internal controls at the state level, supporting the integrity of the payroll.

64. **Results indicators for the introduction of the Oracle P2P module and payroll integration are: (i) Improved management of cash in budget implementation in 8 selected MDAs through monitoring of expenditure commitments and obligations, and (ii) Real time reporting of payroll expenditures in the state's monthly financial statements.** The DPO program should have a measurable positive impact on budget implementation. Introduction of the Oracle P2P is expected to improve commitement controls as information will be available for closely monitoring of outstanding obligations and thus contribute to reductions in expenditure arrears. It also improves predictability of resource flows to service delivery agencies through improvements in cash management. Integration of payroll with the general ledger is expected to improve the timeliness and quality of financial reports as cost center payroll expenditures are known with greater reliability and could be better controlled.

## Pillar 4: Investment Climate

65. **The investment climate pillar of the DPO program concentrates on issues surrounding the simplification of procedures for and reducing the cost of property registration and obtaining development permits**. These two areas were chosen due to their perceived prime importance for private sector development in Lagos and throughout Nigeria. Further, the LASG are in control of policies and reform measures in these two areas, as opposed to the other two most problematic areas relative to countries identified in the *Doing Business* ratings: electricity and cross-border trade.

### *(a) Property Registration*

66. **Lagos State has simplified the procedures for registering a property and obtaining a development permit; however, the envisioned targets for the key results indicators of the FLSDPO were not achieved.** *Doing Business* and other studies confirm that these processes are still excessively costly and time-consuming in Nigeria (Lagos State) relative to most other states and countries. Nigeria's positions in *Doing Business* as measured by time taken to register a property and a mortgage and obtaining a development permit have yet to improve. The ICRR

draws attention to the ambitious targets given the requirement of an income tax clearance certificate as a condition for the release of a governor's consent, Certificate of Occupancy (CofO), and a development permit. The latter countered the positive impact of the simplified administrative procedures.

67. **The government is now pursuing new directions for investment climate reform under the current programmatic DPO.** The investment climate reform supported by the current DPO program focuses on fast tracking the procedures for approvals of CofOs and building permits and lowering the cost of land registration, while still maintaining the thrust of the envisioned program. The SLSDPO supported the implementation of the GIS database by ensuring full access to the resource by relevant ministries and agencies[34] and by online access of GIS integrating ortho-photos. It also supported the development of an electronic CofO (eCofO) beginning with a land regularization program in late 2013 to fast track the procedures and reduce approval time for obtaining CofO. The Lands Bureau now draws on the GIS portal to access electronic data to append to their electronic Certificates of Occupancy. To date, approximately 1,700 e-certificates have been generated through a sophisticated system that enables the governor to apply his signature electronically to increase the system's speed and that provides a secure repository. In addition, the existing stock of 60,000 paper CofOs has been scanned and stored in a searchable database. The government has begun replacing all paper CofOs with eCofO documents.

68. **As a prior action for the proposed TLSDPO, the Lagos State Governor signed an executive order to reduce the cost of land transactions in Lagos State and introduce a Statement of Fair Market Value for landed property valuation for the determination of taxes and other charges payable to Lagos State on January 5, 2015.** As a result, the land transactions fees charged by the government (including consent fees, capital gains taxes, stamp duty, and registration fees) have been reduced by 77 percent (from 13 percent to 3 percent of assessed value).[35] Consent fees for all mortgage transactions were also lowered to 0.25 percent (from 2 percent). A reduction in the land transaction fees is expected to improve the ease of doing business in Lagos State, stimulate private investment in real estate development and create an enabling environment for the provision of residential housing. In parallel, the government has introduced the statement of fair market value to estimate property values based on comparing various market transactions for different types of properties transferred at various locations in Lagos State by registered real estate surveyors and evaluators. The fair market values will be reviewed periodically by the state government and published from time to time in the Official Government Gazette. As the current land valuation was compiled in 2010-12, Lands Bureau plans to carry out

[34] Ministries of Science and Technology, Physical Planning and Urban Development, the Lands Bureau and the Office of the Surveyor General.

[35] The official fees charged by the Lagos State Government were lowered as follows: consent fees from 6 percent to 1.5 percent; capital gains tax from 2 percent to 0.5 percent; stamp duty from 2 percent to 0.5 percent; and registration fee from 3 percent to 0.5 percent. The fees paid for first time registration (regularization) depend on location and range from N396 (US$2.50, Badagry Axis) to N5,805 (US$36.50, Lekki Axis) per square meter. Additional payments may be needed for assessed back income taxes owed (evidence of tax payment is required), or informal charges. For cases other than regularization, such as the conversion of an older form of title into a CofO, surveyor fees will also need to be paid by the applicant. In Lagos, land cannot be registered at the level of local government, and the process can therefore require the additional time and cost of traveling to the city center.

a review of the land values by the end of this year.

69. **The revenue impact of a reduction of land related transaction fees to 3 percent of assessed value using the statement of fair market values is expected to be ambiguous.** An assessed value of land is based on the size of land valued at the applicable rate predetermined by Lands Bureau and these rates are subject to review every five years. This will be a basis for the calculation of land transaction fees and charges payable to the LASG. Thus, a higher assessed value of land will compensate somewhat for lower fees charged as a percentage of the assessed value. If the rate of increase in property value is less than a rate of reduction in the applicable fees, land/property transaction fees and taxes payable to the government is expected to be lowered, vice versa. Nevertheless, lower fees should encourage the registration of more land transactions captured by the government, as has been the case in neighboring Ogun state, thereby increasing revenue.

*(b) Development Permit*

70. **The Ministry of Physical Planning and Urban Development (MPP&UD) has made progress in facilitating the approval process for development permits.** The Building Control Law providing the legal framework for the Building Control Authority (BCA) was passed in July 2010. The BCA was established in September 2012. In addition, the MPP&UD has undertaken the following initiatives to reduce the time, cost and uncertainty of construction permitting processes: (a) increased the number of locations where payment can be made for building permits from 1 to 20; (b) reduced the number of building types requiring a full environmental impact assessment from the Ministry of Environment; (c) introduced a pre-clearance service that reduces the number of incomplete applications from getting lost in the system; and (d) established a 'One Stop Shop' for construction permits with openings on Saturdays.

71. **To improve its operational efficiency, the MPP&UD has developed an electronic, web-based and on-line system for the processing of planning permits (e-PP), to be used across the State, a TLSDPO prior action.** Currently, MPP&UD's services related to development permits include approvals of new planning permits, revalidation proposals, re-stamping permits, renovation permits, Certified True Copy, and fencing permits that are performed by 28 local planning offices and 20 district offices for the rural and urban population. A rapid growing demand for services in Lagos State necessitates the introduction of an e-PP to streamline and automate the workflow for all services, thus shortens processing time for approvals of all types of development permits, improves transparency as personal contacts between applicants and officials will be minimized, and improves business intelligence and reporting. The e-PP will enable customers to submit online requests together with detailed proposals, and will have officers approve requests online upon the satisfactory review of the proposals (field verification, engineering assessment, recommendations). It will be integrated to the existing Oracle Financials and is expected to provide information that will be easily accessible and enable real time cross-checking for ownership, compliance, and tracking the status of permits and inspections of development requests. The e-PP is now in a state of operational readiness for use across the state in the processing of development permits in May 2015.

72. **The results indicators for Pillar 4 include four indicators linked to prior actions under the two operations.** The creation of the GIS mapping with ortho-photos (already completed) and the number of e-CofOs are linked to the SLSDPO prior actions already completed. The cost of registering a property in Lagos State as a percentage of property value compiled by *Doing Business* is a result of implementing the prior action #7. The TLSDPO target for the cost of registering property is 14 percent of property value (from the baseline of 20.8 percent), representing a reduction by 33 percent. The results indicator linked to prior action #8 is an operational e-planning permit (e-PP) system that provides gender data disaggregation as evidenced by the regular issuance of such permits.

### 4.2.2 Analytical Underpinnings

73. The formulation of TLSDPO prior actions is informed by relevant findings and recommendations of ongoing analytical works conducted by the World Bank, development partners, and the Lagos State Government (Table 7). The following briefly summarizes the findings and recommendations that link to relevant prior actions.

74. Prior Action #1 is informed by the findings of the Lagos State Fiscal Risk Assessment conducted by the World Bank. The study found that the government lacked comprehensive data on explicit contingent liabilities (such as loan guarantees issued to parastatals) and was thus uninformed of the extent of associated risks. The study recommended that the government undertake a comprehensive stock-taking of all types of liabilities (government debt and guarantees, parastatals' liabilities, Special Purpose Vehicles, off-budget entities and local governments, and concession arrangements) and incorporate key fiscal risks in their fiscal sustainability analysis. The effort will provide a more comprehensive disclosure of fiscal risk, promote greater transparency, and facilitate risk identification and management.

75. Prior Action #2 is formulated in cognizant of findings from the 2012 PEFA Report, a Self-Assessment by the LASG. It concluded that policy-based budgeting and the tax system improved as compared to the 2009 baseline, but weaknesses in budget execution, procurement and audit need to be appropriately managed.

76. Prior Action #4 benefits from the key recommendations of the Procurement Capacity Assessment. They include the appointment of only professionally qualified staff as officers of the Commission and that their qualifications must cover a range of disciplines (not just purchasing and supply) prescribed by Lagos State MDAs.

77. Prior Actions #5 and #6 follow the recommendations of the government reports prepared by Ernst & Young[36] that focused on strengthening expenditure control and treasury management including the use of the budget module by all MDAs for budget preparation, the use of P2P for budget execution and controls, and preparing budget reports using the Oracle-based Financial Statement generator. The 2014 updated report recommended that implementation focus on high priority areas including Oracle Financials, Human Resources and Payroll modules (beginning with cleaning the human resource data before migrating to R12); implement the new COAs in R12 and

[36] The 2012 report reviewed progress and challenges in the implementation of the Oracle Applications Release (R) 12, which began in 2009 and identified factors inhibiting the effective roll-out of the Oracle R12 System, while the 2014 updated report set priority for the implementation of the Oracle R12 System.

subsequently any migrated historical data; developing a reciprocal data exchange with all revenue collections agencies in the new R12 Oracle Application to serve as the master revenue information repository; and providing all LASG staff access to the Oracle Applications via "CITRIX" interface from all various locations.

78. Prior Action #8 is based on the findings of Doing Business Survey conducted annually during 2010-2014 and the report on "Land Administration: Supporting the Supply Chain," financed by the Third Growth and Employment in States (GEM-3) Project. Both reports found that land registration processes in Lagos State are affected by poor administration and management procedures covering, time, cost and service quality that fail to deliver the required services. They recommended that land transaction costs be reduced to encourage property registration in a formal market and thus increase availability of land for housing.

**Table 7: Prior Actions and Analytical Underpinnings**

| Analytical Underpinnings | Pillars/Prior Actions |
|---|---|
| Lagos State Fiscal Risk Assessment (World Bank, 2011) | **Pillar 1: Fiscal Sustainability**<br>*Prior Action #1:* 2012 and 2013 consolidated state of affairs (balance sheets) of 15 key Lagos State parastatals have been published by the Lagos State Parastatal Monitoring Office. |
| Lagos State PFM Performance Measurement for 2009 - 2011 – Self Assessment by Lagos State Government (2012) | **Pillar 2: Budget Planning and Preparation**<br>*Prior Action #2:* The Program Implementing Entity's 2015 budget employs 25 medium-term sector strategies for MDAs with relevant MDAs' strategies consolidated into at least 3 sectoral medium-term strategies based on defined functions of government (education, health, and one more sector) in accordance with the Medium-Term Expenditure Framework. |
| Lagos State Procurement Capacity Assessment (SPARC, October 2011) | **Pillar 3: Budget Executions**<br>*Prior Action # 4:* The institutional capacity of the Public Procurement Agency has been strengthened by filling 8 key vacant managerial and technical specialist positions as agreed with the Association. |
| Ernst-Young Implementation Review of Oracle R12 (2013)<br>Review of chart of accounts and budget classification by SPARC.<br><br>Lagos State Government Oracle Applications Update (2014) | **Pillar 3: Budget Execution**<br>*Prior Action # 5:* The "procure to pay" module of the Oracle-based Financial Management System has been introduced to at least 8 MDAs accounting for at least 85 percent of total state capital expenditures.<br>*Prior Action # 6*: The Program Implementing Entity's cleansed and validated payroll system has been integrated with the Oracle-based Financial Management System for direct posting of payroll expenditures in General Ledger. |
| Doing Business Survey (2011-14), and A Study of Land Administration, Tenure and Customary Land Transfer in the Nigerian Housing Sector (GEMS-3, 2015) | **Pillar 4: Investment Climate**<br>*Prior Action # 8:* The Ministry of Physical Planning and Urban Development of the Program Implementing Entity has developed and effectively introduced an electronic web-based system for processing of planning permits. |

## 4.3 LINK TO CAS AND OTHER BANK OPERATIONS

79. **This operation has a strong link with the Nigeria Country Partnership Strategy (CPS)**. Sustaining the positive momentum in Lagos State is central to the overarching goal of the Nigeria CPS 2014-17 of promoting inclusive growth. Lagos is an example of inclusive growth in Nigeria, an urban agglomeration that has actually decreased income inequality during an economic boom of double digit growth. If the Lagos experience is sustained, there is strong potential for this type of inclusive growth to spread to other parts of Nigeria. The CPS also prioritizes potential state-level development policy operations as a "strong vehicle for deep engagement at the state level," in particular for supporting the improvement of public financial management.

80. **The TLSDPO directly contributes to the achievement of the CPS outcomes as it has strong synergy with ongoing WB operations.** It supports the achievement of the development outcomes envisaged under the Nigeria Housing Finance Development Project and Growth and GEMS Project. As Lagos State is urbanized, land reform has direct implications for land and the housing markets. Lagos State has the highest concentration of non-oil business activity in Nigeria, and the most developed land and housing markets. The high costs of land registration have been one of the most important disincentives in the development of housing and mortgage markets in Nigeria. They encourage the processing of land transactions (assignment, transfer, and lease) in an informal market due to the lower costs of registration and shorter processing time. Land reform in Lagos State will increase the availability of land for housing development and thereby the housing supply in the markets. Currently, housing and construction in Nigerian national accounts is small (only 5 percent of GDP) relative to other resource-exporting emerging markets that have much higher shares. It should serve as a catalyst for similar reforms in other Nigerian states, as many of them are now following the lead of Lagos.

81. **The TLSDPO also provides complementary support to other active World Bank projects in Lagos State**. Specifically, the reform measures supported by the TLSDPO under Pillar II and III that aim to adopt a new approach to budget preparation and enhance transparency and accountability in the use of budget resources will contribute to the achievement of the objectives for the WB-financed projects, including the Lagos Eko Secondary Education Project, the Second Urban Sector Water Reform Project, the Second Lagos Urban Transport Project, and the Commercial Agricultural Development Project. An improved public financial management system in Lagos State will ensure that the budget is spent on government priorities and that counterpart funds are adequate to complement IDA resources financed by these projects.

82. **The TLSDPO is consistent with the World Bank Group's renewed commitment to the twin goals.** The twin goals aim to reduce the number of people living below US$1.25 per capita per day to 3 percent by 2030, and promote shared prosperity. The 3 percent target is a global target, while shared prosperity is a country-specific target measured by income growth of the bottom 40 percent of the population. The TLSDPO supports the Lagos State Government in the delivery of its programs that are pro-poor including education, health, and transport through strengthening financial management and improving the investment climate by simplifying the procedures for and reducing the cost of registering a property and obtaining a development permit. The latter is expected to increase private investment, and thus generate employment and growth and accelerate poverty reduction in Lagos State. As Lagos is home to about 10 percent of the country's total population, a reduction in poverty in this state is expected to lift millions of population out of poverty. This will promote shared prosperity in Nigeria and contribute to the achievement of the

3 percent global target. Further, Lagos' success has had a demonstration effect as its experience has been replicated by other Nigerian states that are determined to generate the same success in job creation and poverty reduction through improved governance and better transport and market connectivity, key factors that will provide a foundation for the spread of urban growth to other parts of Nigeria.

### 4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

83. **The LASG has conducted extensive consultation within the government as well as civil society organizations.** Within the government all prior actions have been agreed with the involvement of relevant MDA stakeholders, and their implementation has been closely coordinated and collaborated by the Ministry of Finance. Consultation with the public has also been strong in the context of the Ehingbeti Forum organized bi-annually by MEPB with the private sector. The annual approved budgets for FY2011-14 were published and widely disseminated through the Lagos State Government Citizens' Guide to the Budget, and quarterly budget performance reports have been reviewed and discussed with key stakeholders and civil society organizations. Key state ministries (such as LIRS, Lands Bureau and MPP&UD) have conducted annual briefings to inform stakeholders on their achievements and ongoing and future reform initiatives.

84. **The TLSDPO program involves strong cooperation and support from DFID.** DFID SPARC has provided important technical assistance to the budget planning reforms highlighted in Pillar II of this operation. It has also been engaged in procurement and audit (Pillar 3), and has provided training in the areas that was important for the DPO program. DFID GEMS-3 project has consistently been a part of the dialog for Pillar 4 of the DPO, and it funded technical advisory service to support implementation of the SLSDPO prior action related to GIS. Finally, the Governance Partnership Facility Trust Fund contributed by DFID also funded technical assistance to support implementation of the SLSDPO prior action on piloting the Oracle-based P2P module.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1 POVERTY AND SOCIAL IMPACT

85. **The reforms supported by the proposed operation are not likely to have any significant *direct* impact on poor or vulnerable people in Lagos State within the time horizon of the current operation.** Lagos State has a solid track record of improving welfare through budgetary programs. The ongoing effort to strengthen tax compliance that includes bringing smaller taxpayers into the tax net may have a one-off negative impact on some smaller taxpayers who currently work entirely in the informal sector. However, there are positive and visible dividends as the generated revenue has been spent to meet the growing demand for public services (social, transport, water, sanitation and security) in Lagos State. Reforms of budget planning and preparation will ensure that limited resources are allocated and spent on sector priorities articulated in MTSSs. Budget execution reform (operationalizing the Oracle Financial modules, external audit and procurement) are expected to enhance budget transparency and the efficiency of spending, thus leading to better value for money. These reforms will further improve delivery of public

services, especially education, health and transport that benefit the poor. The land reforms supported by the operation, complemented by the LASG's policy measures including land regularization[37] and the deemed grant program[38] are expected to encourage more people to register their titles, which will allow for the transfer or selling of land and for collateral to secure borrowing and increase the supply of land in the formal market. The GIS mapping system would secure access to land titles for poor households as the GIS will enable the Lagos authorities to re-zone the populated areas that are not hazardous to occupying households and enable them to apply for a Certificate of Occupancy. Once the electronic CofO system and GIS are rolled out, they will increase transparency, speed up the issuance of the e-CofOs and the regularization of informal land holdings through the precise delineation of property boundaries.

86. **However, improved ability of the government to register private land and zone public land could increase displacement risks.** The poor population could be evicted from land as they do not have titles or they could be zoned out of their current homes. While the government has a policy of compensating legal owners or occupants of land for displacement, it is hesitant to do so for illegal occupants of land. The World Bank is currently engaged in a dialogue with Lagos State on urbanization and policies and programs in this area, including a consideration of the relevant experiences of other mega cities in developing countries.

87. **Lagos State has put in place two mechanism to provide Grievance Redress Service (GRSM) to the population affected by the downside risks associated with the reform.** First, Citizens Mediation Centre provides comprehensive legal assistance and mediation services for indigent members of the public as an alternative dispute resolution body in addition to the court system and Arbitration.[39] The Centre also served as the Grievance Redress Mechanism for the Badia East Resettlement Action Plan under the Pilot Approach to support early solutions for inspection request. Secondly, the Office of the Public Defender under the Ministry of Justice also provides dispute resolution and other legal aid to indigent and vulnerable populations in the state.[40] Both systems were supported by a World Bank-financed project (the Lagos Metropolitan Development and Governance) Project.

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[37] The regularization of lands brings residents – those who currently occupy lands informally – into the formal system. During 2009-2013, only 4,048 CofOs were issued compared to a large number of applications; however, the regularization process is expected to be accelerated through the introduction of an electronic CofOs and the operationalized GIS. Currently, the Department of Land Regularization serves as a one-stop shop for regularization of titles.

[38] Pursuant to the provisions of the Land Use Act 1978, the Lagos State Government adopted the Land Use Act (Title Documentation) Regulation 2012 that makes it easier for landowners to register title documents on privately acquired lands and obtain governor's consent under eight regulations that came into effect in August 2012. They provide opportunity for pre-Land Use Act landowners, those with no formal land title documents beyond the unwritten customary title, an opportunity to document, register and possibly alienate their holdings and obtain governor's consent under the new Act, and thus enlarge the formal land market and encourage formal property documentation.

[39] Citizen Mediation Center is a non-adversarial forum for the mediation and settlement of a wide range of disputes between parties who, on invitation, voluntarily present themselves for mediation at the Centre. The CMC has eleven office across Lagos State.

[40] The office of the Public Defender provides free legal advice and representation to indigent or disadvantaged citizens of the State in criminal and civil cases. Its efforts are complemented by strong collaborative relationships with NGOs and other civil society groups active in the area of human rights protection and the provision of pro bono legal services (i) to offer free legal representation in any case with emphasis on issues which threaten the socio-economic rights of the poor including women and children and (ii) to adopt Alternative Dispute Resolution in discharging its functions.

88. **A downstream Poverty and Social Impact Analysis (PSIA) conducted in parallel with the preparation of the proposed operation studies the impact of specific land reforms supported by the previous operations.** The findings indicate that the measure to simplify the procedures for registering a property and mortgage does not seem to increase land titles especially among the poor due to the high cost of obtaining a governor's consent (especially for female-headed households) and continued cumbersome procedures for applying for title. Land titling ownership is greater among female-headed households (but declined over time) and high-income households. It is positively correlated to employment income for men but does not affect the likelihood of being employed among men and women. Regarding access to finance, the analysis indicates that the possession of CofO by the household increases the probability of women in this household having a bank account but does not improve access to formal credit and to lower-interest rate credit. It suggests that there are other limitations of the financial market that might not allow owners of land titles to take advantage of their assets. To enhance the poverty impact of the land reforms supported by the DPO program, the recently approved World Bank funded project (Nigeria Housing Finance) focuses on addressing the other financial market limitations. The project supports the Nigeria Mortgage Refinance Company that provides liquidity to financial institutions to refinance mortgage loans; develops a guarantee product allowing financial institutions to issue mortgages to low income borrowers which otherwise would not qualify for loans; and finally, and pilots housing microfinance products for the poorest borrowers interested in home improvement and/or incremental housing construction.

## 5.2 ENVIRONMENTAL ASPECTS

89. **The proposed TLSDPO is not expected to result in any potentially significant environmental risks and adverse impacts as its main focus is essentially to enhance the budget preparation and budget execution capacity of the Lagos government.** The proponent, Lagos State, is very familiar with World Bank Safeguards Policies as the state is currently implementing Bank-assisted projects in a range of sectors including: (i) The Second National Urban Water Reform Project; (ii) Lagos Urban Transport Project 2; (iii) Third National Fadama Development Project; (iv) Commercial Agriculture Development Project; (v) HIV/AIDS; and (vi) The Lagos Eko Secondary Education Project. The existing environmental laws and regulations both at the federal level and at the Lagos State level are comprehensive and include features that aspire to be on par with good international practice, such as stakeholder consultation and compliance monitoring. In particular, even though environmental issues are on the concurrent list of the Nigerian constitution, the existing environmental laws in Lagos State (such as ambient air quality and acceptable noise levels) tend to be more stringent than what obtains at the national level. On the enforcement side, there is evidence that the different agencies under the Ministry of Environment have a credible track record. In particular, the Lagos State Environmental Protection Agency has strong enforcement capacity as demonstrated in several cases of industrial facilities closures for breach of environmental regulations. As part of the implementation of the proposed development policy support operation, the introduction of standard bidding documents in several sectors (including the environment) will help strengthen the environmental integrity and sustainability of projects financed by the state budget. The development of the GIS will also assist the authorities in conducting land use and land cover mapping and accurately delineating areas within Lagos State with potential environmental risks, including those posed by climate change

such as flooding, sea level rise and associated coastal inundation as well as salt water intrusion. During the design it was determined that there was no need to perform a detailed climate change and disaster risk screening.

90. It is expected that the land reforms supported by the TLSDPO will ultimately create space for greater social equity as access to and security of land improve overtime. However, the need to strengthen public trust in the land administration system is an imperative for attaining the project social environmental impact. The PSIA shows the shortcomings of the present land administration system that results in a high cost of land transactions (both official and unofficial) as well as cumbersome and lengthy procedures. These frustrate all of those having to deal with government in registering land transactions. Thus, the reform supported by the TLSDPO that aims to provide land administration services in a timely manner and at an affordable cost combined with the government's effort to strengthen the integrity of public officials involved in land administration are expected to improve access to and security of land tenure in the future.

## 5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

91. **While Lagos State has been strengthening its system of expenditure management and control, there are still weaknesses that require attention.** A number of analytical studies have assessed PFM institutions in Lagos State, most recently the PEFA (2012) and Debt Management Performance Assessment (2011). There was also a Fiduciary Assessment conducted in 2009. The fiduciary assessment, in particular, concluded that several inherent control weaknesses and risks could affect the expected outcomes. These weaknesses and risks included: limited capacity to implement reforms; weak budget implementation; low level of independence of the Office of the Auditor General; incomplete monitoring of parastatals and local governments and hence the weaker control in the management of potential fiscal risks; uneven strength of legislative scrutiny of external audit reports; poor budget classification system; and lack of transparency in intergovernmental relations. A number of these areas are being addressed through the DPO program, including key reforms in public procurement, external audit, budget and account classification, cash management, and better monitoring of parastatals and local governments. Building on the achievements registered under the two previous DPOs, the State Auditor General's department continued to make progress in a number of key areas of reform. With the appointment of members of the Audit Service Commission (a SLSDPO prior action) on March 10, 2014, the Commission is now fully staffed and has conducted 23 working sessions as of October 9, 2014, focusing on development of streamlined strategies and policy-related matters impacting the strengthening of the independence of the Supreme Audit Institution and career development of the staff. One immediate outcome of the coming into being of the Commission is that the executive authorities will no longer be deciding the career path and management of the very staff whose role is to provide oversight and assurance on the management and control of public finances by the same executive. The hitherto presence of significant off-budget liabilities has been largely addressed through institutional changes and better accounting by the Debt Management Office. Budget execution reports are published in Lagos State on a quarterly basis and the annual accounts of Lagos State are published not later than 180 days into the following year. In addition, the State publishes its annual budgets after approval by the State House of Assembly.

92. **Overall Fiduciary Environment:** The commitment of the Lagos State Government to improving its PFM systems is exemplified by progressive improvements as highlighted in the analytical work carried out by the Bank, DFID and other partners. While progress has been achieved in addressing weaknesses, including in the area of public procurement, there remain significant gaps that would need to be managed to allow for further strengthening of PFM and procurement systems and practices. Some of these efforts are supported under the program, but a sustained and reinforced commitment of the government is required to achieve the milestones necessary for establishment of a robust overall fiduciary environment. Notwithstanding the ongoing progress being made in the area of implementing PFM and public procurement-related reforms, the overall fiduciary risk of this operation is rated *'substantial.'*

93. **Foreign Exchange Control Environment:** The IMF conducted a full Safeguards Assessment of the Central Bank of Nigeria (CBN) in 2001 with respect to the Stand-By Arrangement that expired on October 31, 2001. No further safeguards assessment has been conducted by the IMF. The last assessment, which was completed on November 28, 2001, concluded that vulnerabilities existed in the areas of financial reporting and the legal structure of the Central Bank. Significant elements of these vulnerabilities have since been addressed, and the independent audit of the latest audited financial statement of the CBN (December 2013) was unqualified. Drilling down into the assessment to the management of foreign exchange control environment at the level of Lagos State (as LASG maintains its consolidated fund in designated commercial banks), the due diligence assessment of the Bank in terms of which banks can hold designated accounts for World Bank-financed projects, confirms that all the designated commercial banks qualify to hold such accounts. Nevertheless, given the paucity of information on the foreign exchange control environment, the potential for risk exists. Therefore, additional accountability and assurance arrangements to mitigate fiduciary risks would be required with regards to the funds flow arrangements under the Program. To this end, a dedicated foreign currency bank account will be maintained at the CBN to receive the program funds, and an independent audit of the movement of funds to and from the dedicated account will be conducted (as highlighted in the next paragraphs).

### 5.3.1 DISBURSEMENT AND AUDITING

94. **Credit amount.** This Credit is a single-tranche operation embedded as the second in a planned series of two operations. This tranche is an IDA Credit in the total amount of SDR 142.3 million (about US$200 million equivalent). The tranche would be made available upon Credit effectiveness.

95. **Recipient, Program and Financing Agreement.** The proposed Credit would be made to the Federal Republic of Nigeria, represented by the Federal Ministry of Finance. The credit proceeds would be transferred by the Federal Government to the Government of Lagos State under the same terms and conditions used for IDA investment project financing loans on-lent by the Federal Government to a State Government. The establishment of such an on-lending agreement shall constitute a condition of credit effectiveness. A program agreement between IDA and the Lagos State Government, outlining the commitments and obligations of Lagos State under the program, shall be negotiated and signed at the same time that the Financing Agreement for the Credit is negotiated and signed between IDA and the Federal Republic of Nigeria.

96. **Funds flow arrangements.** The Government of Nigeria shall identify a dedicated Foreign Currency Account with the Central Bank of Nigeria into which the proceeds of the Credit will be disbursed on a single tranche basis upon Credit effectiveness. The account is to be used exclusively for the proceeds of the Credit and will form part of Federal Republic of Nigeria's foreign exchange reserves. The funds in the Account will, within two working days, be transferred into a dedicated account of the Lagos State Government, to be established with the CBN. The funds transferred into the dedicated foreign currency account of the Lagos State Government with the CBN will form part of the Consolidated Fund Account of Lagos State Government and will be used to finance the budgeted expenditures of the Lagos State Government. The account is to be used exclusively for the proceeds of the Credit. The Lagos State Government will make withdrawals from these accounts either directly for US$ denominated budgetary expenditure, or transfer the resources in foreign currency and/or local currency to dedicated accounts it maintains with any of its designated commercial banks that met the stress test conducted by the CBN to finance budgeted expenditures. The dedicated accounts and the transactions therein will be recorded in the Lagos State Government's budget management and accounting system and form part of Lagos State Consolidated Revenue Fund Account.

97. **Disbursements.** Disbursements and/or withdrawals from the designated Foreign Currency Account of the Lagos State Government held with the CBN, as well as the designated Local or Foreign Currency Accounts of the Lagos State Government held with commercial banks, shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the Credit shall, however, not be applied to finance expenditures in the negative list as defined in Schedule 1 of the Financing Agreement. If any portion of the Credit is used to finance ineligible expenditures as so defined in the Schedule of the Financing Agreement, IDA shall require the government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the credit.

98. **Assurance Requirements.** Due to the fiduciary risks associated with the program, additional fiduciary arrangements, as highlighted above, shall apply to this operation. An audit of the flows in and out of the dedicated Foreign Currency Account of the Lagos State Government held with the CBN as well as the dedicated Accounts (Foreign Currency and Local Currency) to be established with any of the Lagos State Government's commercial banks will be carried out by independent auditors acceptable to IDA, and the audit report shall be submitted to IDA within 6 months of the receipt of the DPO funds into the dedicated account of the Government of Lagos State. The Terms of Reference of the audit will be agreed at negotiation but will include: (a) with respect to the Foreign Currency Account held with the CBN, a full assurance that the withdrawals from the account were indeed (i) used to finance regular and legitimate budgetary expenditures of the Lagos State Government (if they represented direct payments) and these are reflected in the budget management and accounting records of the Lagos State Government, and/or (ii) transferred in foreign or local currency to the dedicated accounts established by the Lagos State Government in any of the commercial banks; and (b) with respect to the dedicated Account(s) held with any of its designated Commercial Banks, a full assurance that the withdrawals from the account(s) were indeed used to finance regular and legitimate budgetary expenditures of the Lagos State Government and these are reflected in the budget management and accounting records of the Lagos

State Government. Within 30 days of disbursement of the Credit by IDA, the Lagos State Commissioner of Finance, jointly with the Auditor General, shall also provide a written confirmation to IDA certifying the receipt of the transfer of the Credit by the CBN into the Lagos State Government's Foreign Currency Account held with CBN. Also, as the audited financial statements of Lagos State Government shall continue to be published on the state's website (as supported in earlier series of the Program), these will remain available to the Bank.

### 5.4 MONITORING AND EVALUATION AND ACCOUNTABILITY

99. The main government counterparts for the TLSDP include the MOF and MEPB. The reform program supported by the TLSDPO encompasses several ministries ranging from Finance, Economic Planning and Budget, Science and Technology, Physical Planning and Urban Development, Lands Bureau, and autonomous agencies (Lagos Internal Revenue Services, Auditor General Office, Public Procurement Agency and Surveyor General's Office), and Land Use Charge Office. Coordination of activities and monitoring of reform activities are critical for the achievement of the project development objectives. The Lagos State DMO under the Ministry of Finance is responsible for coordination of MDAs and monitoring progress in implementing the TLSDPO's prior actions. The Monitoring and Evaluation Department in coordination with Lagos Bureau of Statistics in the MEPB is responsible for monitoring the results of budget implementation and impact evaluation of projects including the results indicators for the TLSDPO.

100. The Policy and Results Matrix of the DPO program was simplified and M&E data required for results indicators were also identified. There are only 8 prior actions and 16 results indicators, both qualitative and quantitative. The quantitative indicators rely on data that can be monitored more frequently and be made publically available, such as the LASG quarterly budget performance report and Doing Business Survey conducted by the World Bank/IFC. The data compilation is also compliant with relevant international standards. For procurement indicators, the data will be obtained from surveys to be conducted by the PPA. The results indicator – overall reduction in time for procurement implementation from bidding to contract awards – will be obtained from a survey to identify the extent to which the use of SBDs reduce the time from bidding to contract awards. The remaining indicators (average reductions in time required for procurement implementation from bidding to contract awards and for PPA review from initiating to issuing a "no objection" certificates) will be monitored by PPA. By April 2015, the PPA will conduct a procurement post-review for 8 selected MDAs to determine efficiency and value for money for contracts below N100 million for contracts awarded in 2014. The procurement post-review should cover at least 5 percent of contracts that fall within the threshold.

101. **Grievance Redress.** Communities and individuals who believe they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

102. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result

of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/GRS*. For information on how to submit complaints to the World Bank Inspection Panel, please visit *www.inspectionpanel.org*.

## 6. SUMMARY OF RISKS AND MITIGATION

103. **Table 8 summarizes the ratings for 9 risk categories according to the Systematic Operational Risks-rating Tool (SORT).** The overall risk rating of this operation is "substantial" in light of the risks and mitigating factors. While the reforms including those supported by the DPO program brought some improvements in recent years, substantial risk remains in some areas. The following discusses the most relevant risks impeding the achievement of the intended outcomes as stated in the program development objective, and include the following: (a) political and governance, (b) macroeconomic, (c) institutional capacity, and (d) fiduciary.

**Table 8: Nigeria - The Systematic Operational Risks-rating Tool (SORT)**

| **Risk Categories** | **Rating (H, S, M or L)** |
|---|---|
| 1. Political and governance | S |
| 2. Macroeconomic | S |
| 3. Sector strategies and policies | M |
| 4. Technical design of project and program | M |
| 5. Institutional capacity for implementation and sustainability | S |
| 6. Fiduciary | S |
| 7. Environment and social | M |
| 8. Stakeholders | M |
| 9. Other | L |
| **Overall** | S |

104. **Political and governance risks.** Under the prevailing leadership, the reform program in Lagos State has been fast-tracking on all fronts since 2007. The government has implemented several reforms aiming to improve transparency, accountability and effectiveness. These reforms have been sustained and institutionalized in Lagos State and they have contributed to improved public service delivery in social and infrastructure services, strengthened government leadership, and greater transparency in public sector administration. To this effect, it is largely believed that the new government from the same party that won the elections on April 11, 2015 will continue the positive momentum. Nevertheless, there remains the possibility that future leadership may not be able to sustain the pace of recent years. There are several reasons for this. First, the continued high level of spending on infrastructure and social sectors may impose a heavy financial burden on government finance. If the political and governance risk materializes, the achievement of the program objective will be undermined. These risks, however, could be mitigated by concessional finance as well as reforms of the budget and public financial management, supported by the DPO program, aimed at enhanced fiscal sustainability and getting better value for money. Secondly, the government's immediate attention could be distracted from the ongoing reform if policy priorities of the new government change. However, the high degree of embedded government commitment

and ownership, the institutionalization of the reform agenda, and sustained policy dialog with the government could alleviate such risks.

105. **Macroeconomic risks.** Risks to the program associated with a sharp fall in world oil prices or the inability of authorities to sustain the recovery in oil output are substantial and currently materializing. They are expected to reduce the ECA whose balance is currently used to cover the oil revenue shortfalls in the country. The macro risks will affect the government's ability to comply with the fiscal sustainability indicators, especially debt service. The sharp fall in oil prices since June 2014 has already taken its toll on Nigeria's macroeconomic management. The government's policy responses (fiscal and monetary) have so far been deemed appropriate. The federal government has revised its medium-term fiscal framework twice in response to the sharp fall in oil prices and the 2015 budget is based on a more conservative oil benchmark price of US$53 per barrel. The CBN closed both the retail and wholesale Dutch auctions system foreign exchange window on February 19, 2015 and channeled all demand for foreign exchange to the interbank foreign exchange markets to stem the loss of international reserves. Transfers from the Federation Account to Nigerian states have fallen significantly due to the oil price shock, thereby tightening the state's revenue positions with some even incurring salary arrears. The Lagos government has responded by compressing its 2015 budget, rationalizing capital investment and reallocating the investment budget to cover recurrent costs (especially statutory outlays). These actions may not be sufficient if oil prices continue declining into the future. The government may have to further revise the 2015 budget downward and this will have an uncertain effect on the reform program. To mitigate this risk, the fiscal framework underlying the operation is based on conservative assumptions on non-oil growth and growth of IGR revenue below the historical level. It is also expected that the government will maintain its prudent fiscal management to maintain medium-term fiscal and debt sustainability through sustained IGR collection, restraining the wage bill and overhead costs, and rationalizing capital expenditure. The tighter fiscal situation could compel the government to seriously look for additional fiscal space from further increasing IGR, improving expenditure efficiency, and thus making the reforms of budget planning and execution supported by the DPO program even more essential. The role of concessional finance provided by the DPO program would also become even more essential in this event.

106. **Institutional capacity for implementation and sustainability.** Despite high institutional capacity relative to other Nigerian states, the LASG still faces challenges in implementing reforms and ensuring sustainability over the long term. The PFM institutions have been developed and strengthened during the past several years; however, they are still relatively young and inexperienced. Further, successful implementation depends on both institutional capacity (governance structures and human capacity) and infrastructure strengthening including information technology (high speed internet, etc.) and power supply. This risk will undermine the long-term sustainability of the Oracle Financial System as an effective tool to control expenditure commitment and manage payroll efficiently. The government, to some extent, has addressed infrastructure challenges; still, strengthening institutional capacity especially governance structures and human capacity will require a holistic approach as well as strong commitment and leadership. To mitigate this risk, the government has initiated a service delivery culture that requires MDAs to provide detailed procedures for obtaining public services (such as administrative fees) to hold annual ministerial briefings to report on their performance, and to report on quarterly and annual budget performance at public hearings. This creates channels for external parties to

monitor public service delivery performance and thereby enforce long-term sustainability. Ongoing training programs for Lagos State's civil servants (such as training in IT) will also help build institutional capacity over the medium-term.

107. **Fiduciary risk.** Despite significant improvements made in the public financial management system in Lagos State, there are still some challenges affecting the transparency and accountability in the management of public resources. The state has demonstrated strong commitment through implementation of PFM reforms, such as the operationalization of several modules of the Oracle-based Financial Management System that could bring greater transparency and accountability. In particular, the reforms of budget execution (procurement, audit, and operationalized Oracle financial modules) are expected to enhance the transparency, accountability and quality of governance in Lagos State. In this context, the DPO program has incorporated a capacity building program that offers extensive training to government officials in the areas of procurement, audit, and the Oracle-based financial management system as an integral part of the reform activities. Much of this has been financed and managed by Lagos State itself, while DFID SPARC has also provided important support. Fiduciary risks could hinder the achievement of the results including expenditure efficiency and the efficiency of public procurement process.

## ANNEX 1: THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION POLICY AND RESULTS MATRIX

| SLSDPO Prior Actions | TLSDPO Prior Actions | Results Indicators (2013 - Baseline and 2015 - Target) |
|---|---|---|
| **Pillar 1 – Fiscal Sustainability** | | |
| ***Objective A: Anchor the budget in a medium-term fiscal sustainability framework that accounts for key fiscal risks and improves internal revenue collection.*** | | |
| *Prior action #1*: Adoption by the Executive Council of a 2014 Lagos State budget, based on a Medium-Term Fiscal Strategy, that is consistent with long-term debt sustainability, including an assessment of primary contingent liabilities, by the Executive Council. | | A1: Adhere to the FRA and debt sustainability thresholds by maintaining the fiscal deficit under 3% of SGDP and debt service[41] under 30% of total revenue<br>Baseline: Yes<br>Target: Yes |
| | **Prior action #1: 2012 and 2013 consolidated state of affairs (balance sheets) of 15 key Lagos State parastatals have been published by the Lagos State Parastatal Monitoring Office.[42]** | A2: Enhanced transparency in reporting fiscal risks to the budget<br>Baseline: No<br>Target: Yes |
| *Prior action #2*: Submission to State Assembly by Government of an Amendment to the Lagos State Revenue Administration Law that provides separation of supervision (board) and LIRS management. | | A3: Revenue from land use charge[43]<br>Baseline: N7.1 billion<br>Target: N8.0 billion |

[41] Interest and principal paid on domestic (commercial banks' loans and state bonds) and external debt.

[42] 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.

[43] Gross revenue to both state and local governments.

| SLSDPO Prior Actions | TLSDPO Prior Actions | Results Indicators<br>(2013 - Baseline and 2015 - Target) |
|---|---|---|
| | **Pillar 2 - Budget Planning and Preparation** | |
| ***Objective B: Adoption of a new approach to budget planning and preparation*** | | |
| *Prior action #3*: Communication of budgetary ceilings for 2014 by the Ministry of Economic Planning and Budget to 9 COFOGs and then to MDAs by end-July 2013, prior to budget negotiations, for use during budget preparation. | **Prior action #2: The Program Implementing Entity's 2015 budget employs 25 medium-term sector strategies for MDAs with relevant MDAs' strategies consolidated into at least 3 sectoral medium-term strategies based on defined functions of government (education, health, and one more sector) in accordance with the Medium-Term Expenditure Framework.** | B1: Shares of budgetary expenditures devoted to education and health<br>Baseline: 13% and 9%<br>Target: not lower than 13% and 9% |
| | **Pillar 3 - Budget Execution** | |
| ***Objective C: Enhance transparency in the use of budget resources*** | | |
| *Prior action #4:* Mandate the use of standard bidding documents for all contracts over N100 million in 8 pilot MDAs, which represent at least 65% of capital budget, (MDAs: Science and Technology, Education, Health, Agriculture, Rural Development, Works and Infrastructure, Environment, Waterfront Infrastructure Development). | **Prior action #3: Standard bidding documents are required to be used by all MDAs of the Program Implementing Entity for the purposes of public procurement.** | C1**:** All contracts greater than N100 million use standard bidding documents<br>Baseline: 0<br>Target: 100%<br>C2: Average overall reduction in time scale of procurement implementation from bidding to contract award by 20%<br>Baseline: 173 days (2014)<br>Target: 138 days |
| *Prior action #5:* Inauguration of the Public Procurement Agency Board. | **Prior action #4: The institutional capacity of the Public Procurement Agency has been strengthened by filling 8 key vacant managerial and technical specialist positions as agreed with the Association** | 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%.<br>Baseline: 30 days (2014)<br>Target: 24 days<br>C4: Percent of small contracts subject to post procurement audit<br>Baseline: 0<br>Target: 5% |

| SLSDPO Prior Actions | TLSDPO Prior Actions | Results Indicators<br>(2013 - Baseline and 2015 - Target) |
|---|---|---|
| *Prior action #6:* Appointment of members of the Audit Service Commission, pursuant to the Audit Law. | | C5: Improved coverage and scope of Lagos State Auditor General's Office as measured by number of organizations audited<br>Baseline: 99<br>Target: 110<br>C6: Improved coverage and scope of Lagos State Auditor General's Office as measured by Percent of budgetary resources controlled<br>Baseline: 67%<br>Target: 69% |
| *Prior action #7:* Implementation of the 'procure to pay' module of Oracle Financials in at least 5 of 8 key Ministries: Science and Technology, Education, Health, Agriculture, Rural Development, Works and Infrastructure, Environment, and Waterfront Infrastructure Development. | **Prior action #5: The "procure to pay" module of the Oracle-based Financial Management System has been introduced to at least 8 MDAs accounting for at least 85 percent of total state capital expenditures.** | C7: Improved management of cash in budget implementation in 8 selected MDAs through monitoring of expenditure commitments and obligations<br>Baseline: No<br>Target: Yes |
| | **Prior action #6: The Program Implementing Entity's cleansed and validated payroll system has been integrated with the Oracle-based Financial Management System for direct posting of payroll expenditures in General Ledger.** | C8: Real time reporting of payroll expenditures in the state's monthly financial statements<br>Baseline: No<br>Target: Yes |

| SLSDPO Prior Actions | TLSDPO Prior Actions | Results Indicators (2013 - Baseline and 2015 - Target) |
|---|---|---|
| **Pillar 4 -- Investment Climate** | | |
| ***Objective D: Simplify procedures for and reduce the cost of property registration and obtaining development permits*** | | |
| *Prior action #8:* GIS database fully accessible to the Ministries of Science and Technology, Physical Planning and Urban Development, the Lands Bureau and the Office of the Surveyor General.<br>*Prior action #9:* GIS including ortho-photos accessible online. | | D1: GIS mapping created with ortho-photos<br>Baseline: No<br>Target: Yes |
| *Prior action #10:* Pilot an electronic CofO system to fast track procedures for obtaining CofOs with a view to increasing property rights security and allowing an accurate reporting and management of property registration information. | | D2: Total number of e-CofOs issued<br>Baseline: 0<br>Target: 3,600 |
| | **Prior action #7: The cost of land transactions has been reduced by at least 50% (from its current rate of 13% of assessed value) and a new methodology has been implemented for assessing the value of land and other property that determines payable fees and charges related to land transactions.[44]** | D3: Cost of registering a property in Lagos State as % of property value<br>Baseline: 20.8%<br>Target: 14.0% |
| | **Prior action #8: The Ministry of Physical Planning and Urban Development of the Program Implementing Entity has developed and effectively introduced an electronic web-based system for processing of planning permits.** | D4: An operational e-PP system, including disaggregated gender data, that regularly issues planning permits in Lagos State (Yes/No)<br>Baseline: No<br>Target: Yes |

Note: Indicators A3 and A4 are linked to prior actions pertaining to the First Lagos State Development Policy Operation that was closed. However, they are retained in the policy matrix as they are highly relevant for monitoring Lagos State's fiscal sustainability.

[44] These fees and charges on land transactions include consent Fees (6%); capital gains tax (from 2%); stamp duty (2%); and registration fees (3%).

## ANNEX 2: LETTER OF DEVELOPMENT POLICY

May 5, 2015

**Dr. Jim Yong Kim**
President
The World Bank Group
1818 H Street, N.W.
Washington, D.C. 20433

Dear Dr. Kim,

**<u>RE: LETTER OF DEVELOPMENT POLICY FOR THIRD LAGOS STATE DEVELOPMENT POLICY OPERATION (LAGOS DPO III)</u>**

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

His Excellency
**BABATUNDE RAJI FASHOLA** SAN
Executive Governor of Lagos State
Lagos House
SECRETARIAT - ALAUSA - IKEJA - LAGOS
Tel: 01-7656414, 7636323, 08034301122 Fax: +23412717766
e-mail: brfgov@gmail.com, brfgov@lagosstate.gov.ng

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 Adiyan 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 Adiyan.

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 Igbosere 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 initiativeswere 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 gazzetted.

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.

**Babatunde Raji Fashola, SAN**
**Governor of Lagos State**

## ANNEX 3: IMF ARTICLE IV CONSULTATION

IMF Executive Board Concludes 2014 Article IV Consultation with Nigeria

Press Release No. 15/91
March 4, 2015

On February 27, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nigeria.

Nigeria has a large and diverse economy that has achieved a decade of strong growth, averaging 6.8 percent a year, and now accounts for 35 percent of Sub-Saharan Africa's gross domestic product (GDP). Inflation has remained in single digits for two years, and the banking sector, which has a strong capital base, is expanding credit. The trade surplus has been declining since the second quarter of 2013 on lower oil exports and continued strong growth of imports, and gross international reserves have been falling. Meanwhile, the general government fiscal deficit and public debt have been kept low. However, Nigeria still lags its peers in critical infrastructure and has high rates of poverty and income inequality. While the economy is diverse, with services accounting for over 50 percent of GDP in 2013, and oil only 13 percent, the oil sector remains a critical source for revenue and foreign exchange. With limited fiscal and external buffers ($2 billion in the excess crude account and $34.25 billion in gross international reserves, respectively at the end of 2014), the sharp decline of oil prices in the second half of 2014 underscores the challenging but compelling need to address remaining development challenges.

The authorities have responded to a sharp decline in oil prices. On February 18, 2015, the Central Bank of Nigeria closed the Dutch Auction System (rDAS) window, unifying the rDAS rate with interbank foreign exchange market rate. On February 25, 2015, the Senate approved the third revision to the 2015 budget, tightening the fiscal envelope by lowering the budget benchmark oil price to $52/barrel.

In 2015, oil exports are projected to decline by 6 percent of GDP from the 2014 level, and oil revenue by 2 percent. A sharp contraction of public investment and domestic demand is projected to reduce growth to 4.75 percent in 2015 from 6.3 percent in 2014. Inflation is projected to rise to 11.5 percent by the end of 2015 from 8 percent at end 2014, reflecting the pass through from exchange rate depreciation. The outlook is subject to downside risks, both external (changes in oil market developments and investor sentiment) and domestic (uncertainty over the election outcome and the security situation).

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

**Executive Board Assessment**[2]

Executive Directors commended the authorities for progress in promoting Nigeria's economic diversification and for their macroeconomic response to collapsing export prices. Directors noted, however, that vulnerabilities remain high in view of the uncertainties about oil price, security, and the political situation, and concurred that additional policy adjustments and broader structural reforms will be necessary in the period ahead to reconstitute buffers, mitigate risks, and meet pressing development needs.

Directors agreed that tightening fiscal policy and allowing the exchange rate to depreciate while using some of the reserve buffer were appropriate responses to the recent fall in oil prices. Nonetheless, Directors stressed that achieving the authorities' fiscal targets will require a careful prioritization of public spending and a cautious implementation of capital projects. They also highlighted the importance of improved budgeting at the level of state and local governments to help better manage their fiscal adjustment.

Directors agreed that mobilizing additional non-oil revenues is critical to open up fiscal space and improve public service delivery over the medium term. They welcomed ongoing initiatives to strengthen tax administration, and encouraged the authorities to also rein in exemptions, keep tax rates under review, persevere with subsidy reform, and improve the management of oil revenue. Furthermore, Directors saw merit in reviewing the current revenue sharing arrangements to help address regional disparities over the longer term and ensure that social and development needs are addressed.

Directors welcomed the recent unification of the foreign exchange rates, noting that greater exchange rate flexibility could help cushion external shocks. As the largest single supplier of foreign exchange, it will be important for the central bank to intermediate this supply in a transparent, efficient, and fair manner.

Directors noted that financial soundness indicators remain above prudential norms, but the concentration of credit risks and foreign currency exposures call for continued close oversight. They welcomed progress in strengthening supervision and regulation, including of cross border activities, and encouraged additional initiatives to foster financial market development, including of hedging instruments, and improve financial inclusion.

Directors emphasized that Nigeria's longer term prospects rest on lowering oil dependency and strengthening private sector's participation in economic activity. Lasting and more inclusive growth calls for improving the business environment, promoting youth and female employment, and advancing human capital development.

Directors noted that Nigeria's economic data are broadly adequate for surveillance. Nonetheless, they encouraged the authorities to further improve statistics, in particular as regards the balance of payments.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

**Nigeria: Selected Economic and Financial Indicators, 2012–2015**

| | | | |
|---|---|---|---|
| Nominal GDP (2013, billion U.S. dollars) | 521.8 | Quota (million SDR) | 1,753.2 |
| GNI per capita, Atlas method (2013, US$) | 2,710 | Population (2012, million) | 168.8 |
| Poverty headcount ratio (adult equivalent, | 46.0 | GINI index (2010) | 48.8 |
| Life expectancy at birth (2011, years) | 52 | | |

| | 2012 | 2013 | 2014 Prel. | 2015 Prel. |
|---|---|---|---|---|
| **National income and prices** | (Annual percentage change, unless otherwise specified) | | | |
| Real GDP (at 2010 Basic Prices) | 4.3 | 5.4 | 6.3 | 4.8 |
| Oil and Gas GDP | -4.9 | -13.1 | -1.3 | -1.6 |
| Non-oil GDP | 5.9 | 8.3 | 7.3 | 5.5 |
| Production of crude oil (million barrels per day) | 2.3 | 2.2 | 2.2 | 2.3 |
| Consumer price index (end of period) | 12.0 | 7.9 | 7.9 | 11.5 |
| **Consolidated government operations**[a] | (Percent of GDP) | | | |
| Total revenues and grants | 14.3 | 11.0 | 9.9 | 7.7 |
| **Of which:** oil and gas revenue | 10.4 | 7.1 | 5.8 | 3.4 |
| Total expenditure and net lending | 14.7 | 13.4 | 12.3 | 10.6 |
| Overall balance | -0.3 | -2.4 | -2.5 | -2.8 |
| Non-oil primary balance (percent of non-oil | -11.6 | -9.7 | -8.1 | -5.5 |
| Excess Crude Account / SWF (billions of US$) | 11.0 | 3.8 | 3.6 | 1.5 |
| **Money and credit** | (Contribution to broad money growth, unless otherwise specified) | | | |
| Broad money (percentage change; end of | 29.1 | 0.9 | 7.3 | 10.8 |
| Net foreign assets | 15.9 | -3.4 | -7.4 | -0.1 |
| Net domestic assets | 2.3 | 4.3 | 14.6 | 10.9 |
| Treasury bill rate (percent; end of period) | 13.3 | 11.5 | 13.0 | ... |
| **External sector** | (Annual percentage change, unless otherwise specified) | | | |
| Exports of goods and services | 1.8 | -0.9 | -5.1 | -37.4 |
| Imports of goods and services | -10.6 | -4.9 | 9.7 | -16.6 |
| Current account balance (percent of GDP)[2] | 4.4 | 3.9 | 2.2 | 0.2 |
| Terms of trade | 1.0 | 0.4 | -2.6 | -25.6 |
| Price of Nigerian oil (US$ per barrel) | 110.0 | 109.0 | 100.6 | 52.8 |
| Nominal effective exchange rate (end of period) | 81.4 | 83.1 | ... | ... |
| Real effective exchange rate (end of period) | 135.6 | 150.1 | … | … |
| Gross international reserves (US$ billions) | 43.8 | 42.8 | 34.3 | 28.4 |
| (Equivalent months of next year's imports) | 7.1 | 6.3 | 6.1 | 4.7 |

Sources: Nigerian authorities; World Bank; and IMF staff estimates and projections.

[a/] Consists of federal, state, and local governments.

## IMF COMMUNICATIONS DEPARTMENT

**Public Affairs**
E-mail: publicaffairs@imf.org
Fax: 202-623-6220

**Media Relations**
E-mail: media@imf.org
Phone: 202-623-7100

## MAP IBRD 33458