

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

November 19, 2014

Report No.: 93461

Operation Name	Third Lagos State Development Policy Operation
Region	AFRICA
Country	Nigeria
Sector	Sub-national government administration (100%)
Operation ID	P151947
Lending Instrument	Development Policy Lending
Borrower(s)	FEDERAL REPUBLIC OF NIGERIA
Implementing Agency	
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Date PID Prepared	November 5, 2014
Estimated Date of Appraisal	April 29, 2015
Estimated Date of Board Approval	September 15, 2015
Corporate Review Decision	
Other Decision <i>{Optional}</i>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

I. Key development issues and rationale for Bank involvement

1. **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 should naturally spread to surrounding areas of West Nigeria and beyond, thus facilitating the emergence of similar agglomerations in other cities. The emergence of major urban growth poles other than Lagos will be critical to meeting Nigeria’s objective of more inclusive growth and job creation. The combination of improved governance in other Nigerian states and better market connectivity (roads) could be a powerful combination for a rapid transformation of Nigeria, as sparked by Lagos state. Indeed, Nigeria will not be able to solve its youth employment crisis without the spread of Lagos-type urban growth to other parts of the country. For this to occur, better roads, other infrastructure, and regulatory changes are needed to link the Lagos market more strongly to other areas. It is also essential that the “Lagos miracle” of the past decade be sustained.

2. **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 continuing to achieve rapid growth related to 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 TLSDP is designed to assist Lagos state in its quest to continue its recent success in the face of these challenges. The LSG is well aware that sustaining the strong and positive momentum will entail further improvements in the effectiveness of public expenditures, the tax system, and the business climate.

3. **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 LSG in its quest to further increase value-for-money 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 estimated amount of US\$200 million will continue the reforms agenda through implementation of indicative triggers for TLSDP highlighted in the SLSDPO program document presented to the Board in March 2014.

4. **The government has deepened the reforms supported by the SLSDPO and put in motion the implementation of some TLSDP prior actions.** Most of the SLSDPO prior actions remain intact and have been advanced with a few exceptions. The draft amendments to the Lagos State Revenue Administration Act – which has not yet been approved by the State Assembly – and the pilot of the e-Approval System for Development Permits, which has yet to be launched. The government has forged ahead with most of the TLSDP prior actions to deepen the reform already implemented under the previous operation. Recent macroeconomic and fiscal performance has been satisfactory and poverty reduction efforts have brought some visible results that benefit Lagosians.

II. Proposed Objective(s)

5. This Third Lagos State Development Policy Operation (TSLSDPO) supports the Lagos State Government in sustaining rapid growth and poverty reduction in a fiscally sustainable manner through strengthening public financial management to increase value for money and efficiency of spending and through improving business environment that enabling private investment. The four pillars of the TSLSDPO are (a) Fiscal Sustainability, (b) Budget Planning and Preparation, (c) Budget Execution, and (d) Investment Climate.

6. In the area of fiscal sustainability, the objective is to anchor the budget in medium-term sustainable frameworks supported by a full accounting of expected contingent and other liabilities. With regard to budget planning, preparation and execution, the DPO's objective is to support the adoption of more strategic and medium-term budgeting, the implementation of new Procurement and Audit laws, and the rollout of the Oracle system.. Lastly, the DPO's objective with regard to investment climate is to support in improving access to investment land, and reduce transaction procedures and costs

III. Expected results:

- Anchor the budget in a medium-term fiscal sustainability framework that accounts for key fiscal risks and improves internal revenue collection
- Adoption of a new approach to budget planning and preparation
- Enhance transparency in the use of budget resources
- Improve investment climate through: (a) Simplify procedures and reduce the cost of property registration; (b) Improve access to investment land and reduce transaction procedures and costs in Lagos state; and (c) Simplify and reduce the cost of building permit procedures

7. **Lagos state 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 LSDP 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" as it aims at poverty eradication and sustainable economic growth through infrastructural renewal and development. It has four key developmental pillars and cross-cutting themes. The pillars include: (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 water 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, the 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.

8. **The proposed TLSDPO is congruent with the LSDP.** 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 LSG efforts in maintaining medium- and long-term fiscal and debt sustainability through monitoring the associated risk related to Lagos state parastatals' fiscal activities (Pillar I). These reforms will contribute to the achievement of the LSDP objective, sustained economic growth and poverty reduction through increased public investment.

IV. Preliminary Description

9. **The proposed TLSDPO has four Pillars.** *Pillar 1:* Fiscal Sustainability aims to anchor the budget in a medium-term fiscal sustainability framework that accounts for key fiscal risks and improves internal revenue collection. A specific action supported by the operation is: Publish by Lagos State Parastatal Monitoring Office the consolidated state of affairs (balance sheet) of 15 key parastatals in 2013 using an agreed template. *Pillar 2:* Budget Planning and Preparation aims at the adoption of new approaches to budget planning and preparation. The TLSDPO will support the government in Preparation of 2015 budget employs 25 MTSSs for MDAs and consolidated MTSSs from at least 3 sector-defined functions of government (education, health, and one other) and in accordance with the Medium-Term Expenditure Framework. *Pillar 3:* Budget Execution aims to enhance transparency and accountability in the use of budget resources. The actions supported by the TLSDPO include (a) continuous strengthening of the functionality of the Agency¹ by filling the remaining 8 vacant technical and managerial positions; expanding the use of Standard Bidding documents to all MDAs in Lagos state; Roll-out of the 'procure to pay' module of Oracle Financials to all least 8 MDAs, accounting for at least 85 percent of state capital expenditure; ² Cleansed and validated payroll integrated with Oracle Financials for direct posting of payroll expenditures in General Ledger. *Pillar 4:* Investment climate aims to simplify procedures and reduce the cost of property registration by operationalizing the Land Information System by linking the Electronic Documents Management System (Land Registry) with the GIS digitalized map; Improve access to investment land and reduce transaction procedures and costs in Lagos state by implementing a new methodology for assessing property values 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; and simplify and reduce the cost of building permit procedures by piloting e-approval system in at least one district office.

10. The policy and institutional reforms to be supported under the four pillars will support the State's key reforms in budgetary planning and execution and also support reforms to further improve debt reporting and accounting, as well as the fiscal and debt sustainability analysis. Finally, the Lagos State Development Strategy prioritizes the business climate to improve

¹ The capacity of the agency to carry out its assigned responsibilities efficiently and effectively include: (a) capacity building of procurement professionals, and (b) conduct of procurement audit, etc.

² The 8 MDAs include Science and Technology, Education, Health, Agriculture, Rural Development, Works and Infrastructure, Environment and Waterfront and Infrastructure Development. Under the TLSDPO, the procure to pay module will be rolled out to the three remaining key MDAs.

incentives and opportunities for the private sector to simplify procedures and reduce the cost of property registration.

V. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

11. **The prior actions for 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; however, they are expected to have indirect impact on the poor over the medium and longer term by improving state services and landholder rights.** Lagos state has a solid track record of improving welfare through budgetary programs, and getting better value for money through budgetary reforms (as supported by the operation) will further enhance this potential and thus improve public services to the population. Increased IGR effort may have a adverse impact on the poor in the short-run. The land reform actions (simplification of land registration procedures, the introduction of eCofO, lowered land registration fees, introduction of land information system, and introduction of e-development permit) supported by this operation should benefit small entrepreneurs through increased transparency and reduced processing time and costs for land transactions. This will encourage property registration, i.e. increase stock of CofOs in circulation and thus improve access to investment land and to commercial credit through the use of CofOs as collateral. The operationalized LIS will provide more comprehensive land titling in Lagos state, which in turn should provide greater security to many poorer Lagosians, increase revenue mobilization potential, and facilitate city planning. A Poverty and Social Impact Analysis (PSIA) will be carried out to inform the World Bank and Government of the impact of the operation on poverty and social development.

Environment Aspects

12. **The proposed TLSDPO will not entail direct environmental impacts as its main focus is essentially to enhance the budget preparation and budget execution capacity of the Lagos government.** The existing environmental laws and regulations both at the federal level and at the Lagos state level are comprehensive and include features on par with best international practice, such as stakeholder consultation and compliance monitoring. 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 accurately delineating territories within Lagos state that are subject to environmental risks, including those posed by climate change.

VI. Tentative financing

Source	(m.)
BORROWER/RECIPIENT	
International Development Association (IDA) Borrower/Recipient	US\$200
IBRD	
Total	US\$200

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