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**AFRICAN DEVELOPMENT BANK GROUP**

# NIGERIA
# ECONOMIC AND POWER SECTOR REFORM PROGRAM (EPSERP)

## APPRAISAL REPORT

| | | | | |
|---|---|---|---|---|
| Appraisal Team | Task Manager | Engedasew NEGASH, Senior Power Engineer | OINF.3 | 3931 |
| | Team Members | Solomane KONE, Chief Country Economist | ORWA | 2889 |
| | | Rai H. HEEROO, Senior Infrastructure Specialist | GHFO | 6134 |
| | | Namawu ALOLO, Economist | NGFO | 6661 |
| | | Peter BUTT | Consultant | 6651 |
| | Sector Manager | Amadou T. DIALLO | OINF.3 | 2125 |
| | Sector Director | Gilbert MBESHERUBUSA | OINF | 2034 |
| | Regional Director | Janvier K. LITSE | ORWA | 2047 |

| | | | |
|---|---|---|---|
| Peer Reviewers | Mr. Orrison AMU, Public Utilities Economist | OPSM.3 | 2598 |
| | Mr. Emmanuel DIARRA, Principal Financial Economist | OSGE.2 | 2349 |
| | Mr. Daniel LEKOETJE, Public Utilities Economist | OINF.3 | 2651 |
| | Mr. Achille SAME TOTO, Public Financial Management Expert | OSGE.1 | 2379 |
| | Mr. Peter STURMHEIT, Country Program Officer | NGFO | 6651 |
| | Mr. Ahmed ZEJLY, Lead Economist | OSGE.0 | 2170 |

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## Currency Equivalents

August 2009

| | | |
|---|---|---|
| UA 1 | = | USD 1.55 |
| UA 1 | = | NGN 229.37 |
| USD 1 | = | NGN 147.66 |

## Fiscal Year

1 January - 31 December

## Weights and Measures

| | | | |
|---|---|---|---|
| t (t) | Tonne = 1,000kg | kW | Kilowatts = 1,000 watts |
| GW | Gigawatt = 1,000,000kW or 1,000MW | kWh | Kiliwatt-hour = 1,000Wh |
| GWh | Gigawatt-hour = 1,000 MWh | MVA | Megavolt Amper = 1,000kVA or 1,000,000v |
| KOE | Kilogram Oil Equivalent | MW | Megawatt = 1,000,000W or 1,000kW |
| kV | Kilovolt = 1,000 volts | MWh | Megawatt-hour = 1,000kWh |
| kVA | Kilovolt Ampere = 1,000VA | CFA | |

## Acronyms and Abbreviations

| | |
|---|---|
| ADB | African Development Bank |
| ADF | African Development Fund |
| BPE | Bureau of Public Enterprises |
| BPP | Bureau of Public Procurement |
| CBN | Central Bank of Nigeria |
| CBP | Capacity Building Project |
| CMM | Cash Management Committee |
| CMP | Cash Management Policy |
| CPIA | Country Policy and Institutional Assessment |
| CPPR | Country Portfolio Performance Review |
| CPS II | Country Partnership Strategy II |
| CSP | Country Strategy Paper |
| CTF | Clean Technology Fund |
| DFID | Department for International Development |
| DMO | Debt Management Office |
| DPO | Development Policy Operation |
| ECA | Excess Crude Account |
| ECN | Energy Commission of Nigeria |
| EPSERP | Economic and Power Sector Reform program |
| EPSRA | Electric Power Sector Reform Act |
| FDI | Foreign Direct Investment |
| FGN | Federal Government of Nigeria |
| FMF | Federal Ministry of Finance |
| FMP | Federal Ministry of Power |
| FRC | Fiscal Responsibility Commission |
| FRN | Federal Republic of Nigeria |
| GDP | Gross Domestic Product |
| GIFMIS | Integrated Financial Management Information System |
| GWh | Giga-Watt hour |
| IBRD | International Bank for Reconstruction and Development |

| | |
|---|---|
| ICA | Investment Climate Assessment |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IPP | Independent Power Producer |
| LOC | Lines of Credit |
| MDA | Ministries, Departments and Agencies |
| MDG | Millennium Development Goal |
| MW | Megawatt |
| MTEF | Medium-Term Expenditure Framework |
| MTSS | Medium-Term Sector Strategy |
| NDPHCL | Niger Delta Power Holding Company Limited |
| NEEDS | National Economic Empowerment Development Strategy |
| NERC | Nigerian Electricity Regulatory Commission |
| NEITI | Nigeria Extractive Industries Transparency Initiative |
| NIPP | National Integrated Power Projects |
| NLSS | Nigeria Living Standards Survey |
| NNPC | Nigerian National Petroleum Corporation |
| NPL | Non-performing Loan |
| NSE | Nigerian Stock Exchange |
| NTF | Nigeria Trust Fund |
| OMO | Open Market Operation |
| PAF | Performance Assessment Framework |
| PAK | Policy and Knowledge Facility |
| PBL | Policy Based Lending |
| PEFAA | Public Expenditure and Financial Accountability Assessment |
| PEMFAR | Public Expenditure Management and Financial Accountability Review |
| PFM | Public Finance Management |
| PHCN | Power Holding Company of Nigeria |
| PPA | Public Procurement Act |
| PPP | Public-Private Partnership |
| PRSP | Poverty Reduction Strategy Paper |
| PSCGES | Presidential Committee on Global Economic Crisis |
| UA | Unit of Account |
| USAID | United States Agency for International Development |
| WB | World Bank |

# Loan information sheet

| Client Information | |
|---|---|
| Borrower | Federal Republic of Nigeria |
| Executing Agency | Federal Ministry of Finance |
| Name of Program | Economic and Power Sector Reform Program |
| **Loan Conditions** | |
| Loan Denomination | United States Dollars |
| Loan Amount | UA100 million (USD 155 million equivalent) |
| Loan rate | 1% per annum from 11th to 20th year |
| | 3% per annum from 20th to 50th year |
| Service charge | 0.75% on the principal amount of the loan disbursed and outstanding |
| Commitment charge | 0.50% per annum on undisbursed portion of the loan |
| Tenor | 40 years |
| Grace period | 10 years |
| Number of tranches | Two tranches, 1st tranche, 2/3 or UA 67 million and 2nd tranche, 1/3 or UA 33 million. |

# PROGRAM OVERVIEW

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|---|---|
| **Context** | The second round effects of the global financial crisis and its associated economic downturn have adversely impacted the economic outlook of Nigeria. This situation still presents tremendous macroeconomic challenges for Nigeria, as oil continues to play a dominant role in the economy accounting for over 95% of exports and nearly 80% of Government revenue. It also threatens the significant gains from reforms successfully implemented by the Federal Government of Nigeria (FGN) since 2003 and the subsequent economic performance achieved so far.<br><br>Overall, recent developments indicate that the macroeconomic framework of Nigeria is improving, as a result of past successful reforms, the FGN's response to the global crisis and the improving external environment. However, major constraints remain and have been exacerbated in the context of the global crisis. The challenges faced by the Government primarily consist of: (i) maintaining macroeconomic stability, particularly by containing the emerging fiscal and external deficits while stabilizing the NGN in the context of declining international reserves and capital inflows; (ii) maintaining the banking sector soundness; and, (iii) addressing the power sector bottlenecks, so as to create an enabling environment for private activities, in order to sustain growth in the non-oil sector, create jobs and reduce poverty.<br><br>Indeed, the gap in the power sector has far reaching implications for improving the business climate, sustaining economic growth and the social wellbeing of Nigerians. About 45% of the population have access to electricity, with only about 30% of their demand for power being met. The power sector is plagued by recurrent outages to the extent that some 90% of industrial customers and a significant number of residential and other non-residential customers provide their own power at a huge cost to themselves and to the Nigerian economy. Installed capacity is 8,000MW, but only 4,000MW is operable of which only about 1,500MW is available to generate electricity. At 125 kWh per capita, electricity consumption is one of the lowest in the world.<br><br>The proposed Economic and Power Sector Reform Program (EPSERP) is the Bank's response to a formal request of the FNGN in May 2009 for a quick disbursing fiscal stimulus ADF loan to support its efforts aimed at mitigating the adverse impact of the global financial and economic crisis. This request followed up from discussions held with the Nigerian Authorities in May 2009 during the Annual Meetings of the Bank in Dakar. The EPSERP was prepared in June 2009 and appraised in August 2009. |
| **Program Overview** | The EPSERP is the Bank's first budget support operation in Nigeria and will be implemented over two fiscal years, 2009 to 2010. The EPSERP is aligned with the Seven-Point Agenda 2008-2011 of the FGN, which stresses critical infrastructure, particularly in power, as key elements to building a robust, resilient and competitive economy for sustainable growth. The EPSERP is consistent with priorities articulated in the Medium Term Expenditure Framework (MTEF) 2008-2010 and the 2009 annual budget.<br><br>The EPSERP is also in line with the second pillar of the CSP 2005-2009, which is aimed at stimulating private sector-led growth in the non-oil sector, through enhanced infrastructure, agricultural and rural development. The Mid-Term Review of the CSP, approved in September 2008, highlights the primary importance to be given to the power sector. The design of the program took into account the good practice principles on conditionality and country ownership. It also incorporates lessons from the Bank's past policy-based operations in other countries and those of other donors in Nigeria.<br><br>The goal of the EPSERP is to contribute to providing access to affordable and reliable electricity to all Nigerians, in order to encourage diversification of the economy, sustain growth, create jobs and alleviate poverty. Its operational objective is to support the implementation of the Government development agenda aimed at improving the electricity system and the business environment for active private sector financing in the power sector in the medium term. In addition, the EPSERP provides the Bank with a donor-coordinated platform to engage in dialogue with the FGN on ongoing PFM and fiduciary reforms, as macroeconomic stability is a necessary condition for addressing the critical challenges in the power sector and protecting strategic budget priorities in the context of the global financial crisis.<br><br>The medium term objective of the EPSERP is aimed at sustaining the growth of the non-oil sector by: (i) improving the electricity system in a sustainable manner; (ii) improving the business environment for active private sector financing; and, (iii) contributing to ensuring macroeconomic stability. |

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|---|---|
| **Program outcomes & beneficiaries** | The expected outcomes of the EPSERP are: (i) macroeconomic stability maintained; (ii) sustained non-oil sector growth; (iii) increased access to electricity; (iv) an improved environment for private sector participation in the power sector.<br><br>The program will benefit the entire population of Nigeria, including residential and non-residential electricity customers. Overall, the wellbeing and quality of life of all Nigerians will improve, as a result of extended access to a more reliable supply of electricity at improved quality and reduced cost.<br><br>The program will have a major positive impact on the private sector, through two main channels: (i) substantial reduction in the cost of doing business for all economic sectors; and, (ii) increased private sector investment in the power sector, as a result of the improved sector business environment. |
| **Needs assessment** | The FGN is strongly committed to its reform program to address the macroeconomic and infrastructure challenges. However, the deterioration of financial situation of the FGN, as a direct result of the unforeseen scale and depth of the second round effects of the global financial crisis, has seriously impacted negatively on its ability to finance its planned development programs. |
| **Banks value added** | The Bank has a continent-wide experience and engagement in the power sector in Africa. In this FGN's reform program, the power sector is the distinct area of the Bank's concentration. Donor coordination is expanding in Nigeria, and the power sector is rightly a main focal area of concentration in this framework. Given that the EPSERP is a PBL, it provides the Bank with an appropriate instrument to be a key player in the sector policy dialogue. |
| **Institutional development & knowledge building** | The Bank will capture the knowledge from this program through monitoring and evaluation of achievements by the FGN and through the Program Completion Report. |

# PROGRAM NAME: ECONOMIC AND POWER SECTOR REFORM PROGRAM (EPSERP)

## LOGICAL FRAMEWORK

| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGETS TIMEFRAME | ASSUMPTIONS / RISKS |
|---|---|---|---|---|---|
| **1. Goal:**<br><br>1.1 To provide access to affordable and reliable electricity supply to Nigerians to sustain economic growth, alleviate poverty and create jobs | **Impact:**<br><br>1.1 Sustain overall real GDP growth<br><br>1.2 Increased use of electricity by all customer categories<br><br>1.3 Reduction in poverty | **Beneficiaries:**<br><br>1.1Nigerians, including households and productive economic sectors | **Impact Indicators:**<br><br>1.1 Real GDP growth rate<br><br>1.2 Total electrical energy generated by all customer categories<br><br>1.3 Percentage of population living below poverty line<br><br>***Baseline: 2008***<br><br>***Source: PHCN[1], National Accounts – Nigerian Bureau of Statistics; Poverty and Household Survey data – Nigerian Bureau of*** | **Progress anticipated in the long term :**<br><br>1.1 Real GDP growth rate from 6% in 2008 to 2.9% in 2009 and 5% in 2010<br><br>1.2 Total generation of electrical energy to increase from 21.27GWh in 2008 to 43.8GWh in 2011 and to 60GWh in 2015<br><br>1.3 Reduce the percentage of Nigerians below the poverty line from 54% (2008) to 36% (2015)<br><br>***Time frame: 2008 – 2015***<br><br>***Source: PHCN; National Accounts – Nigerian Bureau of Statistics; Poverty and Household Survey data – Nigerian Bureau of Statistics*** | **<u>Assumption statement:</u>**<br>• Government commitment, social and political consensus and macroeconomic stability<br>**<u>Risks:</u>**<br>• Continuing global economic downturn<br>• Failure by NNPC[2] to deliver fuel processing and supply infrastructure<br>**<u>Mitigation strategies</u>**<br>• Government commitment to maintain macroeconomic stability<br>• Commitment to develop gas infrastructure<br>• Continued engagement with Niger Delta activists in dialogue to resolve problems and implement policies and programs for Niger Delta |

[1] Power Holding Company of Nigeria
[2] Nigerian National Petroleum Corporation

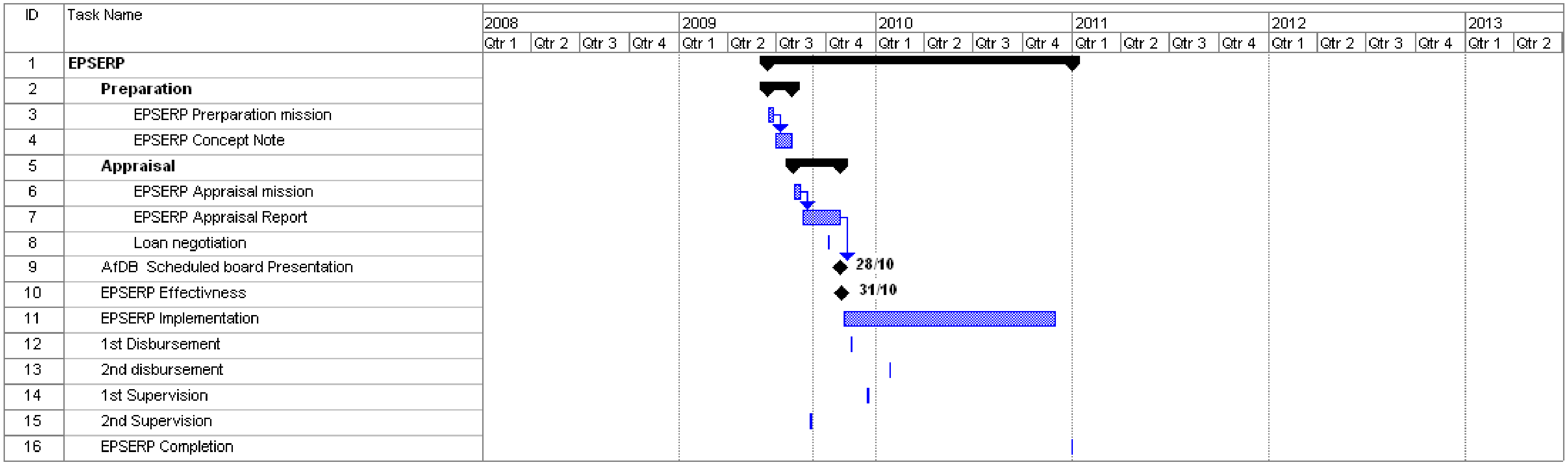
| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGETS TIMEFRAME | ASSUMPTIONS / RISKS |
|---|---|---|---|---|---|
| | | | ***Statistics*** | | |
| **2. Program purpose:**<br><br>2.1 To sustain macroeconomic stability<br><br>2.2 Sustain non-oil sector growth<br><br>2.3 Improve the electricity system in a sustainable manner<br><br>2.4 Improve the business environment for active private sector participation in the medium term | **Outcomes:**<br><br>2.1 Macroeconomic stability maintained<br><br>2.2 Non-oil sector growth sustained<br><br>2.3 Increased access to electricity<br><br>2.4 Improved environment for private sector participation | **Beneficiaries:**<br><br>2.1 Nigerian population<br><br>2.2 Participants in the Nigerian power sector<br><br>2.3 All electricity customers, including businesses | **Outcome indicators:**<br><br>2.1 Overall fiscal balance as a % of GDP<br><br>2.2 Non-oil sector real GDP growth rate<br><br>2.3. Percent of population with access to electricity<br><br>2.4 Number of new power plants by IPPs[3] at advanced construction stage<br><br>***Baseline: 2008*** | **Progress anticipated in the medium term**<br><br>2.1 Overall consolidated fiscal balance contained below -10% of GDP in 2009 and reduced to about -2.5% of GDP in 2010<br><br>2.2 Non-oil sector real GDP growth rate around 4.5% in 2009 increases to 4.8% in 2010 and 5.2% in 2011<br><br>2.3 Population with access to electricity increased from 45% in end-2008 to 55% in end-2010<br><br>2.4 At least three (3) power plants at advanced construction stage by 2010/2011 | **Assumption statement:**<br>• Government commitment to reform<br>**Risks:**<br>• Non-resolution of outstanding PHCN labour issues<br>• Delayed disbursement of funds for rehabilitation, maintenance and system expansion activities<br>• Non-resolution of Niger Delta issues<br>**Mitigation strategy**<br>• Government commitment to engage labour in constructive dialogue towards reaching consensus<br>• Execution of reform program supported by World Bank and AfDB<br>• Execution of recommendation on capital budget |

[3] Independent Power Producers

| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGETS TIMEFRAME | ASSUMPTIONS / RISKS |
|---|---|---|---|---|---|
| | | | ***Source: National Bureau of Statistics/IMF; Federal Ministry of Power*** | ***Time frame: 2008 – 2010***<br><br>***Source: National Bureau of Statistics/IMF; Federal Ministry of Power*** | implementation<br>• Donor support<br>• Integrated project plan with, risk register and mitigation strategy |
| **3. Inputs**<br><br>3.1 Refurbish existing power plants<br><br>3.2 Refurbish and reinforce transmission and distribution infrastructure<br><br>3.3 Complete the NIPP program<br><br>3.4 Approve transitional management boards for PHCN successor companies<br><br>3.5 Build gas processing and supply infrastructure. | **Outputs:**<br><br>3.1 Increased operable power generation capacity<br><br>3.2 Increased transmission and distribution capacities<br><br>3.3 Power generation plants and associated transmission and distribution infrastructure in operable condition.<br><br>3.4 Independent stand-alone PHCN successor companies | **Beneficiaries:**<br><br>3.1 Nigerian power sector, including PHCN successor companies and IPPs<br><br>3.2 All electricity customers | **Output indicator:**<br><br>3.1 Operable electricity generation capacity (MW)<br><br>3.2 Operable transmission and distribution capacity (MVA)<br><br>3.3 Percent of NIPP program achieved<br><br>3.4 Creation of transitional management boards for PHCN successor companies<br><br>3.5 Quantity of gas for | **Progress anticipated in the short term:**<br>3.1 Government generation operability targets for end-2009 (6,000MW) achieved<br><br>3.2. 3,000 km transmission line (8,900MVA) constructed; 22,600 distribution transformers (3,540MVA) installed for end-2011<br><br>3.3 NIPP completed and 10,000MW of operable power generation target achieved at end-2011<br><br>3.4 Permanent Boards for PHCN successor companies established by end 2011<br><br>3.5 2,400 scf of gas available for power generation by end 2011 | **<u>Assumption statement:</u>**<br><br>• Government commitment to adopt and initiate policy<br><br>• Timely budget releases<br><br>**<u>Risks</u>**:<br><br>• Non-resolution of outstanding labour issues<br>• Continuing global economic downturn<br><br>**<u>Mitigation strategy</u>**<br><br>• Continued dialogue with labour representatives<br>• Prudent fiscal and monetary support by the World Bank and the Bank |

| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGETS TIMEFRAME | ASSUMPTIONS / RISKS |
|---|---|---|---|---|---|
| 3.6 Adopt new gas pricing structure for long-term sustainability<br><br>3.7 Adopt and initiate coal to power policy framework<br><br>3.8 Implement the Renewable Energy Master Plan<br><br>***AfDB: Fast disbursing of the budget support loan of UA100 million*** | 3.5 Improved gas processing and supply infrastructure<br><br>3.6 Market-driven gas price<br><br>3.7 Improved policy framework for coal to power strategy<br><br>3.8 Clear policy guidelines for renewable energy generation | | power generation<br><br>3.6 Signature and implementation of Gas Price Agreement<br><br>3.7 Approval of Feasibility Study of coal to power<br><br>3.8 Number of renewable energy projects approved<br><br>***Baseline: 2008***<br><br>***Source: NNPC, BPE, PHCN, Federal Ministry of Power*** | 3.6 Gas Price Agreement signed by end 2009 and implementation initiated<br><br>3.7 Terms of reference of Feasibility study of coal supply to power approved in end-2009 and Study approved in end 2010<br><br>3.8 Increase in the number of Licence for renewable energy generation issued<br><br>***Time frame: 2008 - 2011*** | |

# PROGRAM SCHEDULE



# I. THE PROPOSAL

1.1 Management is submitting the following Report and Recommendation for a proposed ADF loan to the Federal Republic of Nigeria (FRN) for UA100 million to finance the Economic and Power Sector Reform Program (EPSERP). It is the Bank's first budget support operation in Nigeria and will be implemented over two fiscal years, 2009 to December 2010. It was prepared in June 2009 and appraised in August 2009. The EPSERP is the Bank's response to a formal request of the Federal Government of Nigeria (FGN) in May 2009 for a quick disbursing fiscal stimulus ADF loan to support its efforts aimed at mitigating the adverse impact of the global financial and economic crisis. This request followed up from discussions held with the Nigerian Authorities in May 2009 during the Annual Meetings of the Bank in Dakar.

1.2 The EPSERP is aligned with the Seven-Point Agenda 2008-2011 of the FGN, which stresses critical infrastructure particularly in power, energy & transportation as key elements to building a robust, resilient and competitive economy for sustainable growth in the real sector. The EPSERP is consistent with priorities articulated in the Medium Term Expenditure Framework (MTEF) 2008-2010 and the 2009 annual budget. Furthermore, the EPSERP is in line with the second pillar of the CSP 2005-2009, which is aimed at stimulating private sector-led growth in the non-oil sector, through enhanced infrastructure, agricultural and rural development. The Mid-Term Review of the CSP, approved in September 2008, highlighted the primary importance to be given to infrastructure, in particular the power sector. The design of the program took into account the good practice principles on conditionality and country ownership.

1.3 The goal of the program is to provide access to affordable and reliable electricity supply to Nigerians, in order to sustain non-oil sector growth, alleviate poverty and create jobs. Its operational policy objective is to improve the electricity system in a sustainable manner and the business environment for active private sector participation in the power sector in the medium term. As macroeconomic stability is a necessary condition for addressing the critical challenges in the power sector, particularly in the context of the global financial crisis, the EPSERP also aims at maintaining a coordinated dialogue in support of ongoing FGN public finance management and fiduciary reforms.

# II. COUNTRY AND PROGRAM CONTEXT

## *2.1 Government Overall Development Strategy and Medium-Term Reform Priorities*

2.1.1 The FGN has articulated its current reform priorities in the President's Seven-Point Agenda 2008-2011, which builds on the home-grown National Economic Empowerment and Development Strategy (NEEDS). The strategy was successfully implemented during 2004-2007 and provided effective guidance to the authorities' broad reform agenda, articulated in the draft NEEDS II and the longer term Vision 2020 being finalized**.** NEEDS-II and the Seven-point agenda are currently being harmonized in to form the fifth National Development Plan (2009-2012). The seven key areas of the FGN strategy are: (i) Critical Infrastructure: power, energy and transportation; (ii) Niger Delta regional development; (iii) Food security; (iv) Human capital development ((health, education and training); (v) Land tenure changes and home ownership; (vi) National security; and, (vii) Wealth creation.

2.1.2 The FGN has developed a Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategies (MTSS) for most key sectors of the economy to form the basis for implementing defined priorities by ministries, departments and agencies (MDA), particularly regarding budgeting and investment planning. The seven key areas of the Government are reflected in the 2009 budget. As the magnitude of the global economic crisis was not fully captured in the 2009 budget appropriation bill, the National Assembly approved in July 2009 a supplementary budget, in order to preserve the key budget elements and strategic interventions, including the power sector.

2.1.3 The most recent assessment of the IMF in the context of the Article IV consultation in July 2009 confirms the overall adequacy of the medium-term macroeconomic framework in the context of the global financial crisis. It highlights that Nigeria entered the global financial crisis from a position of strength, due to the reforms successfully implemented since 2003 and which need to be consolidated within a longer term perspective. In this context, the IMF supports the goals of the longer term Vision 2020 aimed at developing a sound, stable and globally competitive and diversified economy, and urges for its finalization. Sustaining a credible macroeconomic framework will be critical in the development of the private sector and bringing about growth and economic diversification.

2.1.4 The EPSERP is aligned with home-grown programs, builds on the overall reform achievements made to date, and supports the medium-term policies to address the challenges of the power sector.

## *2.2 Recent Economic-Social Development Performance, Perspectives, Constraints and Challenges*

**Political and Security Situation**

2.2.1 A democratic regime was established in 1999, with the first-democratically elected President, who ruled for two four-year terms. In April 2007, Nigeria experienced the first democratic political transition in her history, with the election of President Yar' Adua of the People Democratic Party (PDP). The PDP holds a majority in the National Assembly and in the Senate. The President's mandate was strengthened by the December 2008 Supreme Court ruling which upheld his 2007 election. The Federal Executive Council adopted major electoral reforms in March 2009. The legislation is being discussed in Parliament. The successful completion of this process is likely to ensure more peaceful elections in 2011.

2.2.2 The country security situation is still characterized by occasional unrest and sabotage in the oil-producing Niger-Delta region, which disrupts oil production and gas supply to power stations. The President has placed stability and the development of the Niger Delta on top of the national development agenda. The creation of a new Ministry of Niger Delta with a significant capital budget allocation is an indication of the FGN's commitment to effectively resolve the issues. The context seems to have evolved positively since 06 August 2009, when an amnesty program began, which is expected to last till 04 October 2009. Some militants have accepted to surrender their arms, register and take an oath of renunciation in return for an unconditional pardon. These efforts need to be sustained.

**Economic Reforms and Performance from 2004 to first half of 2008**

2.2.3 The macroeconomic performance of Nigeria was remarkably strong during the period 2004-2008. Actual economic performance outpaced most of the NEEDS targets. Real GDP growth rate was robust, averaging 7% per annum and driven primarily by the non-oil sector (9.7%). The performance of the service sector was the strongest, supported by the sustained growth in banking and telecommunications. The manufacturing sector was seriously constrained by major impediments, in particular chronic power shortages. Fiscal and current account positions strengthened significantly, registering sustained surpluses respectively. The flows of Foreign Direct Investment (FDI), remittances, and portfolio investments were significant.[4] The inflation rate fell consistently and reached single digits in 2006-2007. International reserves reached a historical high of about US$65 billion on August 8, 2008. The external debt to GDP ratio declined to a comfortable level of about 2.2% in 2007-2008. The Nigerian Naira (NGN) remained strong, with convergence between the official and the parallel market exchange rate.

[4] The net inflows of FDI and portfolio investment reached USD10.3 billion in 2007 (of which USD5.8 billion for oil and gas), before recording a net outflow of USD3.1 billion in 2008 (of which a net outflow of 6.7 billion in portfolio investment).

The financial sector deepened, following the successful consolidation of the banking and insurance sub-sectors.

2.2.4 This strong economic performance was underpinned by critical reforms, particularly in governance, public finance management (PFM) and the financial sector. Key reforms include: (i) the adoption of an oil-price based fiscal rule[5], which has allowed the FGN to smoothen expenditure, thereby reducing the historical strong correlation between spending and oil-related revenue; (ii) the introduction of Medium-Term Sector Strategies (MTSSs) and Medium Term Expenditure Frameworks (MTEFs), with the objective of ensuring consistency between sectoral spending plans, existing government development priorities, and envisaged resource envelopes; (iii) the enactment of Fiscal Responsibility and Public Procurement Acts; (iv) the establishment of Debt Management Office (DMO), which has contributed immensely to effective debt management in the country as well as the strengthening of the debt markets; and (v) the successful use by the Central Bank of Nigeria of indirect (market) instruments, especially the open market operations (OMO) and discount window operations for monetary control.

2.2.5 Additional measures put in place to improve transparency and governance include: (i) the introduction of a Value for Money audit in government procurement contracts; (ii) the rolling out of Accounting Transactional Recording and Reporting System (ATRRS), resulting in timely availability of fiscal data; (iii) the establishment of a computerized federal payroll management system; (iv) the establishment of the Economic and Financial Crimes Commission (EFCC); and, (v) the adoption and effective implementation of the Nigeria Extractive Industries Transparency Initiative (NEITI) to improve governance of the oil and gas sector. The FGN continues to regularly provide information on revenue allocations to the three tiers of the government (federal, state and local) in widely circulated newspapers and also on official websites.

2.2.6 These key milestones enabled the FGN to contain the overall first round adverse impact of the global financial crisis in 2008, in the wake of which oil prices fell from a peak of US$147/bbl to under US$33/bbl. before recovering to about $70/bbl in August 2009. This situation still presents tremendous macroeconomic challenges for Nigeria, as oil continues to play a dominant role in the economy accounting for over 95% of exports and nearly 80% of Government revenue (federal and consolidated).

### Impact of the Global Financial Crisis

2.2.7 The second round effects of the global financial crisis and its associated economic downturn have adversely impacted the economic outlook. It resulted in: (i) reduced Government revenues and balance of payment pressures originating from lower oil prices; (ii) capital outflows due to foreign investor flight from the Nigeria Stock Exchange (NSE) and withdrawal of dollar-denominated assets from some banks; (iii) lower share prices and market capitalization on the NSE - market capitalization was NGN 5.1 trillion, down by more than half as compared to its 2008 peak[6]; (iv) increase in non-performing loans of some banks, given their overexposure on NSE; and, (iv) significant reduction in international reserves and the depreciation of the NGN. The real sector has also been negatively affected; real ***GDP*** growth has conservatively been projected to drop to 2.9% in 2009, but is expected to pick up to 5% in 2010 (against pre-crisis estimates of around 7%). Average annual ***inflation*** rates will remain at two digits in 2009 (11.9%) and drop to 8.9% in 2010, from 5.5% in 2007 and 11.2% in 2008.

2.2.8 ***Public finance***: The Government consolidated total revenues are expected to drop from 32.8% of GDP in 2008 to 22.2% in 2009, before rising to 27.4% in 2010 as oil price picks up. Given the need to address the huge infrastructure gaps urgently, total public spending is projected

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[5] Refer to Annex I for a discussion of the link between macroeconomic stability and the oil price-based fiscal rule, the Excess Crude Account (ECA) and Fiscal Responsibility.

[6] Financial Standard, 3 September 2008

to rise from 29.2% of GDP in 2008 to 31.6% in 2009 before starting a downward trend at around 29.6% from 2010 onward. From a surplus of 3.7% of GDP, the overall fiscal balance will result in a large deficit of 9.4% of GDP in 2009, which will reduce to 2.2% of GDP in 2010.

2.2.9 ***External accounts***: The large surplus of the current account of 20.4% of GDP in 2008 will drop significantly to 7.1% in 2009, as a result of the sharp fall in oil price. The surplus of the current account is expected to recover slightly at more than 13% from 2010 onward. The balance of payment is expected to record an overall deficit amounting to USD13.9 billion (8.5% of GDP) in 2009, financed primarily by a corresponding decrease in international reserves. However, an overall surplus of USD 0.4 billion is expected in 2010. International reserves will drop from about 14 months of import of goods and services in 2008 to 10.3 and 9.7 in 2009 and 2010 respectively. The external debt outlook will remain strong, representing around 3% of GDP in 2009-2010, from 2.2% in 2008.

2.210 In the ***monetary sector***, the credit to the economy is expected to grow at around 11.3% in 2009, albeit at a slower rate compared to 2008 (50.2%). The FGN is particularly facing severe financing constraints as well as challenges in the implementation of its development agenda. The sovereign rating was recently revised from BB- to B+. As a result of a scaling up of domestic borrowing to close the financing gaps, credit to government (consolidated) will grow significantly at 18.2% in 2009, compared to a decrease of 15% in 2008.

**Government's Response to the Global Financial Crisis**

2.2.11. In the context of the global crisis, the FGN remains committed to fiscal prudence and sound macroeconomic management. The FGN is appropriately trying to sustain spending, but with a focus on improving effectiveness of expenditure for growth and employment creation. In response the crisis, the FGN and the Central Bank (CBN) took a number of immediate and proactive actions. Those actions accelerated the implementation of key components of the country's long term reform agenda, which aim at: (i) stabilizing the financial sector and the NGN; (ii) improving public finance management and governance; and (iii) making strategic interventions to address supply constraints (particularly in power and transport infrastructure).

2.2.12. On the monetary side, the CBN acted rapidly to counteract liquidity stress in the banking system and the exchange rate depreciation. To ease liquidity on the money market, key measures taken include the establishment of the extended borrowing window to provide liquidity for up to 365 days, and a significant reduction of reserve and the regulatory bank liquidity ratio requirements as well as the monetary policy rate. On the foreign exchange market, temporary controls were initially imposed and the Retail Dutch Auction System replaced the Wholesale Dutch Auction System, before moving back to the latter, with a view to eliminating speculative demand for foreign currencies. As of August 2009, the spread between the official and parallel market rate remained stable at around 5%. Furthermore, the CBN accelerated the implementation of measures to improve transparency and corporate governance in the financial sector, in order to boost depositors and investors' confidence. Ongoing reforms stress the strengthening of banking supervision and the quality of financial reporting in accordance to international standards.[7]

2.2.13 On the part of the FGN, the Presidential Steering Committee on Global Economic Crisis (PSCGEC) was created in January 2009 within the new framework for National Economic Management to address the challenge of the global crisis and to coordinate the anti-crisis program. The PSCGEC has broad stakeholder composition.[8] A reinvigorated and reconstituted

[7] Financial sector reforms are specifically supported by the World Bank's Development Policy Operation, approved in July 2009. Furthermore, audits of banks were also conducted. In August 2009, in its strategy to clean up and improve corporate governance in the banking sector, the CBN injected NGN420 billion (USD2.7 billion) into five banks to bail them out, as their non-performing loans (NPL) stood in the range of 19% to 48%; well above that for the overall banking sector (below 10%).

[8] The composition of the PSCGEC includes Executive Governors of four States, Ministers, Chief Economic Adviser, Principal Secretary to the President, Governor of the CBN, Independent Economist, representatives of the Private and Financial Sectors as well as Labour Unions.

National Economic Management Team, with wider membership that cut across the critical sectors of the economy, was established to provide technical support to the PSCGEC and the Federal Executive Council. Technical Working Groups on macroeconomic management, public finance, the real sector and infrastructure were created with mandates and work programs. Second-tier linkages and coordination mechanisms have been established with MDAs that are involved in implementing the Seven-Point Agenda. The PSCGEC has approved a framework to improve growth prospects, including through targeted strategic interventions to address infrastructure bottlenecks (power and transportation in particular) and unemployment. This new institutional framework for economic management has proved to be an effective mechanism for in-depth discussion and consensus building on critical policy issues.

2.2.14. The FGN has continued to strictly adhere to the oil-price based fiscal rule. In the 2009 budget, a conservative reference oil price of US$45 per barrel was used. The FGN is committed to continue to exercise caution in the use of the Excess Crude Account (ECA), given the still uncertainties about the depth and duration of the global crisis. The three tiers of Government have agreed to limit access to the ECA to offset shortfalls in revenue with the view to ensuring effective implementation of the 2009 budget, particularly with respect to financing critical investment in the power sector. Furthermore, efforts are being made to secure stable revenues by diversifying the sources through improved internal collection of non-oil revenues.

2.2.15. On the expenditure side, measures were taken to improve budget execution, enhance the quality of service delivery and development effectiveness. Non-essential recurrent costs, wages and subsidies have been contained to shift the focus on capital spending, to tackle infrastructure bottleneck and induce growth. After a detailed review of bottlenecks in capital budget execution, procedures were put in place to accelerate the releases of funds while ensuring quality. A Cash Management Policy (CMP) was adopted and a Cash Management Committee (CMC) was established to further prioritize the budget execution. Availability of funds for spending commitment is more predictable through cash backing of budget releases. The process of implementing the Integrated Financial Management Information System (GIFMIS) is ongoing. In addition, the Fiscal Responsibility Commission (FRC), which includes government officials and members of the private sector and NGOs, was established in early 2009. The mandate of the FRC is to monitor and enforce the provisions of the 2007 Fiscal Responsibility Act.

**<u>Significant progress on governance, corruption and fiduciary framework</u>**

2.2.16. Significant progress has been made in reforms aimed at improving transparency, accountability, and ensuring value for money in public procurement. The Public Procurement Act (PPA), consistent with international standards, was passed in 2007 at the federal level. Similar laws are being adopted in all states. The implementation of the PPA has been effective. The Bureau of Public Procurement (BPP), an independent regulatory agency, was established and provides oversight function. Procurement tools and regulations were developed, including the National Procurement Manual. The use of competitive bidding in public contracts has expanded, leading to significant savings. Consultations have improved with anti-corruption agencies, civil society organizations (CSOs) and parliamentary oversight committees. Government contract awards are published in the bi-monthly National Procurement Journal and on the BPP website. The reform goal is to achieve by 2010 the publication of 65% of FGN contracts using national standard bidding documents and 95% of FGN contract awards above N75 million. Corruption perceptions in Nigeria have dropped significantly from 101st out of 102 countries (2002) to 121st out of 180 in 2008, by Transparency International Ranking.

2.2.17. Other major reforms are underway to improve the fiduciary framework further, particularly in terms of accounting and reporting, and audit of financial statements. By statute, the Auditor General is required to publish the financial statements within seven months of the end of the financial year. The Offices of the Accountant General and of the Auditor General have made major progress in reducing the backlog of reports. The 2008 financial statement is being finalized. The full implementation of the GIFMIS will greatly improve the timeliness and accuracy of reports and annual statements of accounts. The audit of the statements for 2002-2006 was completed and that for 2007 is in progress. The National Assembly has cleared the audits for 2002-2003 and those for 2004-2005 are being examined.

**Overall Constraints and Challenges**

2.2.17 Overall, recent developments indicate that the macroeconomic framework is improving, resulting from past successful reforms, the FGN's response to the global crisis and the improving external environment. However, major constraints remain in terms of closing the huge infrastructure gaps, in order to make significant progress alleviating unemployment and poverty. The global economic crisis has exacerbated the challenges faced by the Government, which primarily consist of: (i) maintaining macroeconomic stability, particularly by containing the emerging fiscal and external deficits while stabilizing the NGN in the context of declining international reserves and capital inflows; (ii) maintaining the banking sector soundness; and, (iii) addressing the huge infrastructure gaps urgently, particularly in power, so as to create an enabling environment for private activities and sustain growth in the non-oil sector. Indeed, the gap in the power sector has far reaching implications for improving the business climate, sustaining economic growth and the social wellbeing of Nigerians.

**Power Sector Gaps: Economic, Business Climate, Social and Poverty Implications**

2.2.18. The major power gaps seriously impede the growth of the non-oil sector and, as a result, job creation and poverty reduction. About 45% of the population have access to electricity, with only about 30% of their demand for power being met. The power sector is plagued by recurrent outages to the extent that some 90% of industrial customers and a significant number of residential and other non-residential customers provide their own power at a huge cost to themselves and to the Nigerian economy. The total capacity of power self-generation units in Nigeria is estimated at about 2,500MW.

2.2.19. Empirical findings on Nigeria suggest that investing in infrastructure is compatible with both non-oil private sector development and the attainment of Millennium Development Goals (MDGs). Social indicators in Nigeria remain weak in general and are below the average for sub-Saharan Africa. According to the 2004 Nigeria Living Standards Survey (NLSS), the proportion of people living below the poverty line is estimated at 54.7%. Poverty is more pervasive in rural than in urban areas. A recent analysis of data of General Household Surveys of 1999, 2004 and 2006 indicates that poverty rate must have fallen significantly, as a result of the robust growth of the non-oil sector since 2003, driven primarily by agriculture and the service sector. Real incomes in the formal and the informal sectors have risen notably, especially in the rural informal sector. These results will need to be confirmed by the new NLSS, expected by the end of 2009. The UN Human Development Report 2007/2008 ranked Nigeria 158th out of 177 countries.

2.2.20 Progress toward the MDGs needs to be accelerated, particularly with respect to poverty. Studies suggest that this will require on average 9-10% of sustained growth in the non-oil sector to create more jobs. However, severe weaknesses in power infrastructure are a key impediment to achieving high growth rate in the non-oil sector. This result was confirmed by the Investment Climate Assessment of Nigeria, completed in 2008 with the joint support of the World Bank and the Bank. Electricity was found to be by far the most binding constraint to doing business in Nigeria for more than 80% of firms surveyed. Electricity-induced indirect losses of firms account for 61%, followed by transportation (26%), bribery (11%), theft, robbery and crime (2%).

2.2.21. Urgently bridging the power gaps will accelerate positive outcomes, in terms of improvement in the business climate, growth of the non-oil sector and reduction in the incidence of poverty. In the context of the emerging financing constraints, it is particularly crucial to protect the spending priorities set for the power sector, as any further delay in the implementation of reforms and the completion of critical public investment will be economically and socially costly.

## *2.3 Power Sector: Context, Organisation, Constraints, Challenges and Perspectives in the Medium Term*

### Current Situation, Main Sector Reforms and Actors

2.3.1 Continuous power supply at the required quality remains a critical challenge for Nigeria despite her abundant energy resources. Installed capacity is 8,000MW, but only 4,000MW is operable of which only about 1,500MW[9] is available to generate electricity. At 125 kWh per capita, electricity consumption is one of the lowest in the world.

2.3.2 To redress the situation, the FGN enacted of the Electric Power Sector Reform Act (EPSRA) in May 2005 and launched the National Integrated Power Projects (NIPP) initiative in 2006. The goal of the NIPP is to bridge the immediate supply/demand gap and reduce the bottlenecks in the delivery system. The purpose of the reforms is to create an environment that would attract and retain much needed private sector finance and long-term participation.

2.3.3 The EPSRA enabled the restructuring and unbundling of the National Electric Power Authority (NEPA) and the establishment of the Power Holding Company of Nigeria (PHCN) in 2005. Eighteen successor companies were created under the PHCN: (i) six for power generation; (ii) one transmission company; and (iii) eleven distribution companies. The EPSRA also enabled creation of the Nigerian Electricity Regulatory Commission (NERC), whose role includes: (i) promoting competition and private sector participation; and (ii) ensuring fair prices to customers, while allowing operators to finance their activities with reasonable returns for efficient operation.

2.3.4 Under the EPSRA, the successor companies will be privatised, with the exception of the Transmission Company of Nigeria (TCN). The TCN will remain under public ownership but as a commercial entity subject to regulatory oversight by the NERC. The Federal Ministry of Power (FMP) issues general policy directions to the NERC, including on overall system planning and co-ordination, which the NERC shall take into consideration in discharging its functions, provided that such directions are not in conflict with the EPSRA or the Constitution. The NERC must produce quarterly reports to the President and the National Assembly on its activities.

2.3.5 During the current transitional period, the FMP is coordinating the activities of the various successor companies, the Niger Delta Power Holding Company Limited (NDPHCL) and the Bureau of Public Enterprise (BPE) in meeting various government milestones such as: (i) the rehabilitation program to meet short-term generation, transmission and distribution capacity targets; (ii) the NIPP program to meet medium-term generation, transmission and distribution capacity targets; and (iii) the implementation of the reform program, including the establishment of management boards for the successor companies and continuation of the privatisation program. The BPE was established to handle the privatisation of government-owned enterprises.[10] The NDPHCL is managing the NIPP program.

2.3.6 On the other hand, the Nigerian National Petroleum Corporation (NNPC) is responsible for developing a strategy for the sustainable exploitation of Nigeria's natural gas reserves. The NNPC began work on a Gas Master Plan in 2005, with the aim of: (i) attracting private sector participation in the development of Nigeria's gas resources; and (ii) securing a quota of natural gas for the domestic market at cost-reflective prices.

[9] This latest figure takes into account sabotage of the gas pipeline that feeds Egbin Power Station on 13 August 2009.

[10] The responsibilities of the BPE include preparing enterprises for sale, valuing them and advising the government on strategy and method of transaction. The BPE is currently preparing the successor PHCN companies for privatisation, in terms of resolving all outstanding issues, including creating management boards and settling outstanding labor issues. The main outstanding labor issue is agreement on severance terms for successor company workers. The successor companies employ about 55,000 workers in total; about 21,000 of whom are casual workers.

**Main Sector Constraints and Measures Taken**

2.3.7 The key constraints and challenges facing the power sector are:

- *Generation:* Inadequate funding for investment in new power stations and maintenance of existing ones as well as a limited gas processing and supply infrastructure.
- *Transmission:* High transmission losses and poor voltage stability due to poor planning, investment and maintenance regime. The radial network is unreliable and contributes to a high number of system collapses.
- *Distribution:* High technical and non-technical losses, low collection efficiency and a poor maintenance regime undermine performance.
- *Institutional:* Institutional challenges include: (i) need for cost-reflective tariffs – progress made by implementation of the Multi-Year Tariffs Order (MYTO) but deficiencies in the underlying assumption for generation mix (including the absence of a share in renewable energy and coal-fired generation in the power generation mix, and the high generation entry level of 250MW simple cycle gas-fired plant) still exist; (ii) suspension of the privatisation process could diminish investor confidence; and (iii) need for gas prices to reflect cost of production/investment to attract participants.

2.3.8 The FGN has adopted a four-pronged approach to resolving the supply constraint: (i) rehabilitate and reinforce existing assets; (ii) continue to implement the NIPP; (iii) extend electricity meter coverage; and, (iv) implement the Gas Master Plan. The objective of the NIPP was three-fold: (i) complete construction of three new power stations by end-2007; (ii) provide an additional 2,700MW of generation capacity (increased to 4,800MW); and, (iii) reinforce and expand the transmission and distribution infrastructure. In parallel, a program of extension of the coverage of pre-payment meters is underway, in order to improve revenue collection and the prospects of private participation.

2.3.9 The overall results of the ongoing NIPP have so far been limited. Three power stations were commissioned in 2007, but their impact has been modest due to a shortage of gas to fire them. The NIPP initiative was interrupted in 2008, as the National Assembly conducted a review of the power sector. The implementation of a Gas Master Plan began in 2008. The objectives, amongst others, include: (i) expanding existing gas processing infrastructure; (ii) reinforcing and extending the gas distribution network; and (iii) developing and phasing in cost reflective gas prices to ensure a sustainable supply of gas to power stations from October 2008. However, the overriding challenge is the ongoing Niger Delta unrest. Frequent vandalism of the gas supply infrastructure has been a major cause of power supply interruptions.

**Sector Medium-Term Perspectives**

2.3.10 After the review of the sector, the three tiers of Government agreed to giving a fresh impetus to the NIPP urgently, by resuming the initiative in 2009. They agreed to inject US$5.34 billion from the ECA over three years. This substantial amount of resources to the power sector is to be invested by 2011, which is the expected date after which private sector investment is foreseen to become significant. Improving the policy framework in the short to medium term is therefore essential in ensuring the long-term viability of the electricity system and a sound framework for private sector financing, including the Bank's private sector lending activities.

2.3.11 The FGN's medium-term objective is to ensure an enabling business climate in the power sector to attract and sustain active private sector participation. In this regard, necessary conditions need to be satisfied: (i) a minimum level of investment exists in power generation, transmission and distribution; (ii) tariffs charged are cost reflective; (iii) cost recovery period aligns with the economic life of key assets; (iv) gas to power price is sustainable; (v) the privatisation process resumes to boost investor confidence; (vi) a policy for promoting renewable energies is formulated and implemented; (vi) a strategy for coal to power is adopted and implemented.

2.3.12 The FGN set specific operable power generation targets to be met by end 2009 (6,000MW) and end 2011 (10,000MW), through the rehabilitation, reinforcement and commissioning of new plants. The MYTO, effective since 1st July 2008, determines tariffs, through a 15-year tariff setting mechanism with two major review periods after five and ten years of operation. Its underlying assumptions are re-examined during a periodic review to assess any major deviation from assumed trends. Annual adjustments are automatically made for variables such as inflation, exchange rate variations, etc. To enhance the saleability of the successor companies, vesting contracts are to be signed between generation and distribution companies.[11]

2.3.13 It is the FGN's intention to initiate a strategy of diversifying the portfolio of fuel types for power generation, to ensure greater fuel security which will minimise supply interruptions. Indeed, Nigeria has an estimated 183 million tonnes of recoverable coal reserves, much of which is suitable for coal-fired power generation. However, no coal-fired power station exists.

## *2.4 Bank Group Portfolio Status*

2.4.1 In line with the CSP pillars, the Bank's ongoing national portfolio in Nigeria is concentrated in the non-oil productive and social sectors. The total portfolio comprises 28 operations,[12] of which 9 are from the private sector window consisting primarily of lines of credit (LOC) to Nigerian Banks to support SMEs and a toll road project under a pioneer PPP arrangement in Lagos State (cf. Annex VII). The private sector window accounts for 40% of net commitments. The share of the public sector represents 60%, dominated by infrastructure (37%), and followed by social (36%), agriculture (25%) and others (2%). The overall disbursement ratio of the national portfolio stands at 58.3%, of which 86.6% is for the private sector.

2.4.2 A Country Portfolio Performance Review (CPPR) was conducted in 2008 and approved in February 2009. The overall portfolio performance was rated satisfactory. Some progress was made in recent years in project implementation through joint Government/Bank efforts, as well as completing and closing ageing projects. Average age of portfolio declined from around 6 to 4.0 years from 2005 to as of August 2009. Despite the progress made, challenges remain. The portfolio still includes a high proportion of projects at risk. Five out of ten public sector projects are classified as potentially problematic with disbursement rates below 15%. Satisfying prior conditions for effectiveness and first disbursements as well as project start-up activities continue to experience long delays. A sustained effort is needed to improve the strategic selectivity and the quality-at-entry of Bank operations in Nigeria, as well as timely settlement of administrative issues and decision making on the part of the Government.

# III RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

## *3.1 Link with the CSP, Country Readiness Assessment and Analytical Works Underpinnings*

3.1.1. The EPSERP is in line with the second pillar of the CSP 2005-2009. The Mid-Term Review of the CSP highlights the importance of the power sector, which the EPSERP supports. The rationale for the choice of a sector budget support versus an investment project is two folds.

[11] Vesting contracts define how the output of the successor generators and of legacy independent power producers (IPP) will be shared between distribution companies and the price at which power will be sold. They show clear earnings profiles of successor generation companies and the initial contracts portfolio of each distribution company.

[12] This includes 9 public sector multinational operations from which Nigeria is benefiting. This does not yet include approvals in 2009: from the private sector window, 3 operations under the Emergency Liquidity Facility and Trade Finance Initiative as well as 1 LOC; from the public sector, the Urban Water Supply and Sanitation for Oyo and Taraba States.

Firstly, the EPSERP supports the FGN's program aimed at mitigating the adverse impact of the global financial, by protecting strategic interventions and development priorities as well as sustaining its current economic reform path in both the power sector and PFM and fiduciary framework. Secondly, the EPSERP adds specific value to the Bank's budget support by emphasizing a major focal area of its CSP, namely the power sector. Furthermore, the EPSERP is motivated by the reinvigorated commitment demonstrated by the FGN to give a fresh impetus to the National Integrated Power Program (NIPP) and the implementation of pending power sector reforms that will enhance private sector financing in the medium term. The recent significant progress observed so far in the implementation of the program since the beginning of 2009 provides an indication that the program targets are realistic and achievable.

3.1.2. Prior to the EPSERP, the Bank specifically prepared an updated energy sector reform review for Nigeria in June 2009. The review was based on official documents, findings from the Investment Climate Assessment of Nigeria (2008), other major analytical works on the power sector, as well as discussions with Stakeholders. The report highlighted key strategy, policy and regulatory constraints that need to be implemented urgently to enable the FGN to achieve its medium-term objectives in the power sector. The review constituted a sound basis for the reforms package under the EPSERP. A number of other studies and analytical works have also guided the design of the Bank's EPSERP, on the country and macroeconomic context as well as on strategic, institutional, public finance management and fiduciary issues.[13]

3.1.3. The EPSERP meets the prerequisite conditions for a sector budget support, as stipulated in the "Guidelines on development budget support lending".14 A detailed discussion of the general and technical prerequisites is provided in Annex V.

## *3.2 Collaboration and Co-ordination with other Donors*

3.2.1. In the process of preparing and appraising the EPSERP, the Bank has closely coordinated with the IMF, the World Bank and the DFID. The design of the EPSERP takes into account the outcomes of these consultations, with the view to developing complementarities and synergies. This coordination will continue in the implementation, monitoring and evaluation of the EPSERP. The coordination with the IMF focuses on discussions of the outcome of the Article IV consultation of July 2009, macroeconomic issues and the medium term outlook of Nigeria. The IMF is providing an Assessment Letter for this proposed program. The World Bank approved a Development Policy Operation (DPO) of US$500 million in July 2009 to provide a single-tranche budget support to the FGN to mitigate the fiscal impact of the global crisis and help the FGN in maintaining its current economic reform path. The objectives of the World Bank program is three-fold: (i) maintaining confidence and stability in the financial system; (ii) strengthening the banking system; and, (iii) supporting the objectives of the 2009 budget, focused on raising FGN investment spending to accelerate non-oil growth.

3.2.2. The discussions with the World Bank centered on ongoing reforms in the financial sector, public finance management (PFM) and the fiduciary framework, as well as macroeconomic and power sector issues. The Bank's focus on the power sector under the EPSERP is appropriate, as it creates a necessary complementarity with the World Bank's DPO to jointly address in a consistent manner the key major challenges of Nigeria - i.e. maintaining macroeconomic and financial stability and addressing the major power bottlenecks (cf. paragraph 2.2.17). In the

[13] These include: the CSP 2005-2009 and the Mid-Term Review of the CSP 2005-2009 for Nigeria; the Country Portfolio Performance Review (CPPR) for Nigeria (2008); the Bank's Governance Profile of Nigeria (2008); the Investment Climate Assessment (ICA) of Nigeria (2008); the IMF Policy Support Instrument Document (2005 and 2008); the IMF Article IV Consultation Report (2008); the joint World Bank/DFID Country Partnership Strategy 2005-2009 and 2010-2013; the Employment and Growth Study; the PEMFAR (2006); State-level Public Expenditure Reviews (PER) and Public Expenditure and Financial Accountability Assessments (PEFA); Review of Capital Budget Implementation (2009); the World Bank Development Policy Operation Document (2009); Doing Business in Nigeria (2009); the World Bank Electricity and Gas Improvement Project (2009); the NEEDS and the 7-Point Agenda of the Government.

[14] Ref: ADF/BD/WP/2003/182/Rev.2 (April 2004).

context of the global crisis, the general consensus is that it is crucial for the FGN to maintain its PFM and governance reform path, which are critical for macroeconomic stability, while addressing the power bottlenecks through budget priorities. Another key area of coordination relates to fiduciary assessments and requirements. The fiduciary framework of the FGN was assessed as globally satisfactory, which is the result of the reforms successfully sustained in recent years at the federal level. Challenges still remain and are dealt with through ongoing Federal and State reforms. Appropriate safeguards are put in areas where deemed necessary.

3.2.3 The EPSERP will also develop synergies with the World Bank's Electricity and Gas Improvement Project, approved in June 2009. The aim of the project is to address the unreliable gas supply, in order to create the basis for sustainable growth in the sector through public-private partnership (PPP) investments. Furthermore, the Bank is planning a capacity building project (CBP) to support PPP for 2010. The DFID has secured funding to finance consultancy services for the preparation of the CBP, through its Policy and Knowledge Facility (PAK). The planned project will contribute to providing the requisite skills to support the FGN's effort aimed at accelerating the implementation of the National Policy on PPP, approved by the Federal Executive Council in March 2009. This project will reinforce the EPSERP with respect to private sector involvement in infrastructure financing.

## *3.3 Outcomes of Past and On-going Similar Operations and Lessons*

3.3.1 The Bank's previous interventions in the power sector of Nigeria has been through two investment projects: (i) the Nigeria Liquefied Natural Gas Project, supported by an ADB private sector loan of US$100 million; and, (ii) the multinational Nigeria/Togo/Benin Interconnection Project, supported by an ADF loan UA11.87 million. Both projects were approved in 2002; the first was closed in 2005 and the second is due for closure end-2009. Their implementation was satisfactory and the projects attained their development objectives. The preparation of their completion reports was initiated.

3.3.2 The design of the EPSERP incorporates lessons from the Bank's past policy-based operations in other countries and those of other donors in Nigeria. They primarily relate to the importance of a secured policy framework, as well as a pragmatic and selective approach to objectives linked to results. The assessment on the ground reveals that the necessary legal and regulatory framework is globally in place, although issues such as availability of gas, adequacy of the transmission and distribution network, and institutional governance structure for the distribution companies impede actual progress. Challenges also exist along the entire value chain (gas supply, power generation, transmission, distribution and sales) of the Nigerian power sector.

3.3.3 These issues can not all be addressed within the time-frame for the proposed EPSERP. Therefore program design is kept simple with a clear focus on core objectives and key sector constraints to be relieved in the short to medium term, in order to achieve a significant development impact in the sector, non-oil sector activities, job creation and poverty alleviation. In addition, the EPSERP builds on the reinvigorated Government commitment, a strong coordination with other donors and good practice principles on conditionality.

## *3.4 Relationship with On-going Bank's Operations*

3.4.1 The EPSERP will positively impact the Bank's operations through two main channels. As indicated, the ongoing portfolio is concentrated in the private sector and the non-oil productive and social sectors, i.e. infrastructure, agriculture, health and skill training and vocational education. As it aims to improve the electricity system and the business environment, the EPSERP will have a positive impact on the execution, sustainability, development outcomes as well as the business environment of Bank-funded projects. Indeed, the insufficient and unreliable power supply leads to discontinued and costly generator-run operations. Even when projects are completed, the sustainability of their development outcomes remains a major concern.

3.4.2 Furthermore, the Mid-Term Review of the CSP strongly recommended a scaling up and a diversification of the Bank private sector operations towards infrastructure financing (power and transport) and the productive sector. The objective is to make up for the limited resources under the ADF window and enhance the development outcomes of the Bank's interventions in Nigeria. However, this strategic stance needs to be supported by an appropriate framework for active private sector interventions, which the EPSERP (to be reinforced later by the planned capacity building project in PPP) will contribute to improving.

### *3.5 Bank's Comparative Advantages*

3.5.1. The Bank has a continent-wide experience and engagement in the power sector in Africa. In this FGN's reform program, the power sector is the distinct area of the Bank's concentration, given that power is the most binding supply-side bottleneck to sustain non-oil private sector-led growth, job creation and poverty reduction. Donor coordination is expanding in the context of the Country Partnership Strategy II (CPS II), which brings together partners accounting for 80% of Nigeria's development assistance (AfDB, DFID, USAID and World Bank). Power has rightly been selected as a main focal area of concentration under the CPS II. Sector constraints and policy issues in relation to the overall development strategy of Nigeria will therefore be at the forefront of discussions. Given that the EPSERP is a PBL, it provides the Bank with an appropriate instrument to be a key player in the sector policy dialogue. Indeed, the EPSERP provides a platform for a donor coordinated dialogue with the FGN and other major Stakeholders, particularly by agreeing on major challenges, key policy measures and their sequencing, adequate levels of investments and the results to be achieved.

3.5.2 The EPSERP will support the Government revamped commitment to regain vigorous traction in energy sector reforms. The EPSERP is also a natural follow-up to the Bank high-level dialogue and identification mission to Nigeria in December 2008. The mission held high level discussions and identified major projects in energy and transport which could potentially benefit from financial support from the Bank, both through the public and private sector windows.

### *3.6 Application of Good practices Principles on Conditionality*

3.6.1 The EPSERP applied the good practice principles on conditionality as indicated in the Bank's Budget Support Operations annotated format (2008). These principles are: (i) Reinforce ownership; (ii) Agree on a coordinated framework; (iii) Customize the accountability framework and modalities of Bank's support to country circumstances; and, (iv) Select only actions that are critical for achieving results as conditions of disbursement. Details are provided in Annex VI.

### *3.7 Application of Bank Group non concessional borrowing policy*

This policy does not apply in the case of Nigeria. Nigeria is classified as a blend country, eligible for both ADB and ADF loans. The country is not a HIPC/MDRI debt relief beneficiary. In addition, the FGN has a formal policy on non-concessional borrowing, except for private sector operations. Consequently, the public sector has restricted its borrowing from the Bank to only the ADF window in recent years.

## IV THE PROPOSED PROGRAM

### *4.1 Program's Goal and Purpose*

The goal of the EPSERP is to contribute to providing access to affordable and reliable electricity to all Nigerians, in order to encourage diversification of the economy, sustain growth, create jobs and alleviate poverty. Its operational policy objective is to support the implementation of the Government development agenda aimed at improving the electricity system in a sustainable manner and the business environment for active private sector financing in the power sector in the medium term. All the disbursement triggers of the EPSERP pertain to the power sector, given the primary focus of the proposed program. However, as macroeconomic stability is a necessary condition for addressing the critical challenges in the power sector, the EPSERP will contribute to protecting strategic budget priorities in the context of the global financial crisis, through a donor-coordinated dialogue on ongoing PFM and fiduciary reforms of the FGN.

### *4.2 Program Pillars, Specific Operational Program Objectives and Expected results*

4.2.1 The medium term objective of the EPSERP is aimed at sustaining the growth of the non-oil sector by: (i) improving the electricity system in a sustainable manner; (ii) improving the business environment for active private sector financing; and, (iii) contributing to ensuring macroeconomic stability. The main objectives and indicators of the EPSERP are reflected in the Logical Framework. The key policy actions and the results to be achieved are articulated in the Policy Matrix in Annex III. Both the Logical Framework and the Policy Matrix were discussed and agreed with the Federal Ministries of Finance and of Power as well as other relevant Stakeholders, including PHCN, BPE and NNPC.

4.2.2 The proposed program will be implemented through two main components: (i) improving the electricity system in a sustainable manner and the business environment; and, (ii) sustaining growth through sound macroeconomic policies and budget priorities. The second component is consistent with the second pillar of the World Bank DPO aimed at sustaining growth through sound macroeconomic policies and budget priorities. It was revised to account for progress made as of August 2009. As indicated, the rationale is to maintain a donor coordinated dialogue with the FGN on sustaining ongoing PFM and fiduciary reforms which are critical for the achievement of the development outcomes of the EPSERP, particularly in the context of the global crisis.

**Component 1: improving the electricity system and the business environment**

4.2.3 The first component consists of two sub-components: (i) increasing access to electricity, by expanding available power generation capacity and the associated transmission and distribution capacities; and, (ii) ensuring the sustainability of the electricity system and creating an enabling business climate in the power sector that would attract active private sector participation. The latter is crucial for Nigeria, given the quantum of investment that will be required in the power sector to drive economic growth at the levels consistent with achieving the medium-term objectives of the Seven-Point Agenda and Vision 2020.

**Component 1, Sub-component A: Increasing access to electricity**

4.2.4 The FGN's strategy for achieving the objective of increasing access to electricity by all Nigerians (both residential and non-residential customers) is to: (i) rehabilitate all existing power stations and the associated delivery infrastructure; and (ii) continue with the construction of new power stations and the associated delivery. In the 2009 budget appropriation bill, the FGN allocated NGN99.6 billion NGN (about US$0.7 billion equivalent) to the power sector.[15] As of August 2009, budget releases made (about 70% of the power sector budget appropriation) demonstrate the FGN's commitment to accelerate reforms. ***Budget releases have been set as disbursement triggers for the first and second tranches, 75% and 100% respectively***.

4.2.5 A significant rehabilitation and construction program is underway. Through rehabilitation, the Government expects to achieve by end-2009 a target of 6,000MW of operable power generation capacity, including the necessary transmission and distribution infrastructure. Notable progress has been made as of August 2009, as the operable generation capacity reached about 4,200MW. ***Achieving operable power generation capacity targets has been set as disbursement triggers for the first and second tranches, 4500MW and 6,000MW respectively***.

[15] This was complemented by an additional 30.76 million NGN (about USD0.21 billion equivalent) to the power sector in the 2009 Supplementary Budget (which totals NGN102.3 billion), approved by the National Assembly in July 2009.

4.2.6 The Government expects to achieve by end-2011 the target of 10,000MW of operable power generation capacity and the associated transportation infrastructure, through a combination of: (i) the continued rehabilitation and maintenance of existing power plants and transportation infrastructure; and, (ii) the commissioning of new power stations and the associated transportation infrastructure that are currently being constructed under the NIPP program. The first power station will be commissioned in the first quarter of 2010 (Alaoji phase 1 of 420MW).

4.2.7 The FGN has declared its intention to develop the nation's coal reserves in partnership with the private sector, in order to enhance security and long term sector sustainability through the diversification of fuel mix for power generation. The FMP, in conjunction with the Federal Ministry of Mines and Steel, is in the process of preparing the terms of reference for a detailed feasibility study of Nigeria's recoverable coal reserves, particularly of coal reserves suitable for power generation. The findings of the study will be published by end-2010.

4.2.8 For the medium to longer term fuel mix for power generation, the FGN adopted a Renewable Energy Master Plan in 2005 and a Solar Energy Master Plan in 2007. The Energy Commission of Nigeria (ECN) also encourages the production of biodiesel from jatropha that has the potential to make a significant contribution to the fuel mix for power generation.[16]

**Component 1: Sub-component B:**
**Improving the sustainability of the electricity system and the business environment**

4.2.9 The main objectives of this sub-component are: (i) to improve the electricity system in an efficient least-cost manner; and, (ii) create an environment that would attract private sector financing in the medium to longer term development of the sector.

4.2.10 **Incentive-based regulatory regime:** The NERC implemented the multi-year tariff order (MYTO), with effect from 1 July 2008. The weighted-average tariff is currently at NGN07/kWh. This figure takes account of annual subsidies from the FGN totalling NGN178 billion, which also came into force on 1 July 2008. The subsidies would expire on 30 June 2011. The weighted average tariff also takes account of fuel subsidies to power station operators, which are due to expire on 1 January 2011. The NERC is to begin a review of tariffs ahead of the first planned periodic review over concerns that the current weighted average tariff and the trend of tariff increases might not be sufficient to attract private participants into the power sector.

4.2.11 A key obstruction to private sector participation in Nigeria's power sector is the tenor of licenses. A power generation licence tenor, for example, is ten years, whilst the economic life of a large power plant is typically 25 years. The ten-year licence tenor does not give sufficient time to the investor to recoup his investment and earn a return under the current tariff regime. The NERC has started investigating the tenor of licenses. In the interim, the NERC will continue to address this concern through licence extensions, until an amendment is effected in the near future.

4.2.12 **Drive domestic use of gas:** Under the Gas Master Plan, work has started in putting in place the processing capacity and transportation infrastructure that would supply gas to all available gas-fired stations by end-December 2009. It is anticipated that there will be sufficient capacity to fire the gas component of the 4,500MW of available capacity that the Ministry of Power expects by end-October 2009. Tenders for the additional gas processing capacity and distribution network extension are being prepared for release in October 2009.

4.2.13 The NNPC is repairing a damaged gas pipeline with a capacity to transport 180 million standard cubic feet (scf) of gas. Work is also underway to bring an additional 300 million scf on

[16] Positive steps taken by the Government include assessing the potential for renewable energy and funding a study to map the wind energy potential in various parts of the country. A feasibility study on the potential of off-shore wind power generation is ongoing. In addition the FGN has written to the IBRD, IFC and the Bank on 14th July, 2009, expressing its interests in utilizing the Clean Technology Fund (CTF) to support the implementation of Nigeria's climate change strategies.

stream. The recent damage to the pipeline that feeds Egbin power station (total installed capacity of 1.320MW) could extend the timeline for delivering the additional capacity. Until recently, the NNPC has expected to have about 1.2billion scf of gas to meet power sector requirement.

4.2.14 Request for proposal for the procurement of expertise to construct three gas processing facilities by end-2011, each with a capacity of 1 billion scf, will be published. The facilities will supply the gas-fired element of the 10,000MW generation capacity. The first phase, of 350million scf each, will be commissioned by end-2011. The NNPC is also finalising the procurement of expertise to construct the eastern and western gas pipeline systems interconnector. According to the NNPC, the gas processing capability already in place in the western gas pipeline system is sufficient to supply the Alaoji power station (420MW, phase 1) when it is commissioned in 2010.

4.2.15 **A bankable gas pricing agreement**, supported by the World Bank's NEGIP Project through Partial Risk Guarantee, will be signed in October 2009. This will bring forward the achievement of subsidy-free gas-to-power prices. From 1 January 2011, the price of gas to power will be market determined. This will constitute a huge incentive to participants in the gas processing and supply sector. Both the MYTO and the Gas Sales Agreement aim at eliminating direct FGN subsidies from the system. In principle, by 1st July 2011, electricity customers in Nigeria should be paying tariffs free of direct FGN subsidies. This does not preclude cross-subsidies between customer classes.

4.2.16 **Management Boards for PHCN successor companies:** Transitional management boards are being created for each of the NEPA successor companies. This is a key milestone in reforming the sector and introducing private sector disciplines in their top management. This will enable them to conduct their affairs, including budgeting and investment, independently of the PHCN. ***The establishment of Management Boards for PHCN successor companies has been set as a disbursement trigger for the first tranche under the program***.

4.2.17 Draft **vesting contracts** have been published and can be reviewed on the NERC website. This is another major step in creating an enabling environment to attract private sector participation into the sector. The BPE expects to resume work on the privatization of the successor companies by end-2011.

4.2.18. **Widening prepayment meter installation:** The distribution companies have made notable progress in revenue collection efficiency. Revenue collection rose from 40% in 2005 to 67% in 2008. Extending the installation of prepayment meters will continue, in order to further enhance collection efficiency.

4.2.19 **Resolving outstanding labour issues:** The BPE has taken tentative steps towards resuming discussions with labour representatives. It is anticipated that discussions on the main stumbling issues (severance terms) will begin before end-2009.

**Component 2:**
**Sustaining growth through sound macroeconomic policies and budget priorities**

4.2.20. The main objective of this component is to provide the Bank with a donor-coordinated platform to sustain dialogue on key PFM and fiduciary reforms. In the context of the global crisis, the goal is to maintain fiscal stability and support the activities of the 2009 budget as well as to serve as guidelines in the preparation of the 2010 budget. The strategy is to focus the budget on raising FGN investment spending in critical areas to accelerate non-oil growth, in order to progressively diversify the economy, create jobs and reduce poverty.

4.2.21. The FGN will sustain ongoing reform efforts aimed at: (i) pursuing fiscal prudence, through the oil-price based fiscal rule; (ii) adjusting expenditure priorities to economic challenges, particularly in the area of infrastructure; (iii) securing stable revenue by diversifying their sources through improved collection of non-oil revenues; (iv) improving the quality of expenditure by enhancing transparency and accountability in the use of public funds; and, (v) ensuring value for money in public procurement, by enhancing accountability and effectiveness.

4.2.22. To achieve these objectives, the FGN will implement a number of key policy actions. As in the enacted 2009 budget, the FGN is committed to maintaining the oil-price based fiscal rule, in particular the use of a conservative oil price benchmark in preparing the 2010 budget. The budget will continue to support the strategic objective of encouraging non-oil growth, by shifting the focus of expenditure from recurrent to capital spending to address infrastructure bottlenecks. The FGN will continue to better prioritize spending, through the activities of the CMC. The established Fiscal Responsibility Commission will play a central role in monitoring expenditures. The FGN will limit its current spending by containing overhead expenditure and the wage bill, as well as tightening restrictions on the use of the ECA. As it is currently the case, the ECA will be limited to financing ongoing critical projects in the power sector and financing the revenue shortfall emanating from the crisis. The ECA balances will primarily serve as a fiscal cushion to address eventual medium term needs, in particular should the crisis persist.

4.2.23. The FGN will take measures to improve non-oil revenue collection and the quality of expenditure. The FGN has initiated an audit of the customs revenue collection and has created a working group to develop two year reform programs both for tax administration and customs. The FGN is also working to improve governance and the quality of expenditure, through the implementation of an accounting transaction reporting system, a cash management policy, and continued strengthening of the electronic payments system. These measures are supported by the implementation of the PPA, the publication of its regulations and of FGN contract awards in the National Procurement Journal and the website.

4.2.24. The main outcomes expected to be reached by end 2009 and 2010 include: (i) FGN expenditures in 2009/2010 remain within a range of 23-25% of non-oil GDP (21.2 in 2008, 25.4 in 2007); (ii) Overall consolidated fiscal balance are contained below -10% in 2009 and -2.5% in 2010; (iii) Non-oil sector real GDP growth rate around 4.5% in 2009 and 4.8% in 2010; (iv) Execution rate of the federal capital budget (in percent of the 2009 approved budget) rises from 43.9% in 2008 to more than 60% in 2009 and 2010; (v) Non-oil revenue collected at the federal level (in percent of non-oil GDP) increases from 8.6% in 2008 to 9% in 2009 and 2010; (vi) Month-end financial statements are produced by 75% of FGN's MDAs within 7 days; (vii) 65% of FGN contracts use national standard bidding documents in 2009, with further improvement in 2010; and, (viii) 95% of FGN contract awards above NGN75 million are published.

### *4.3 Financing Needs and Arrangements*

4.3.1 From a fiscal surplus of NGN380 billion (about USD2.6 billion) in 2008, the overall budget deficit of the FGN is estimated at NGN1,239 billion (USD8.4 billion) in 2009 and NGN328 billion (USD2.22 billion) in 2010. The FGN will combine some domestic borrowing with concessionary external resources to finance the deficit. The global credit crunch on emerging market debt reduces the Government options for international bond financing. As indicated, the FGN is committed to exercising caution in the use of the ECA, given continuing uncertainties about the depth and duration of the global financial crisis. The bulk of the financing will therefore come from the domestic financial market. The FGN is nonetheless cautious about the fact that over-reliance on domestic sources could crowd out the private sector credit and further exacerbate the impact of the crisis.

4.3.2 Overall, net domestic financing will represent about NGN1,416 billion (USD9.6 billion) in 2009-2010. The net external financing will amount to about NGN45 billion (USD 0.3 billion) in 2009-2010, of which the World Bank and the Bank contribute USD500 million and USD155 million respectively in the form of budget support. It is also worth mentioning that other sources of financing include a recall of funds from the NTF, amounting to USD200 million.

***Table 1: Federal Government Financing Gap***
***(Billions of NGN and USD)***

| | 2009 | | 2010 | |
|---|---|---|---|---|
| | **NGN** | **USD** | **NGN** | **USD** |
| **Total Revenue** | **1,747** | **11,83** | **2,860** | **19.37** |
| Of which : oil revenue | (1,126) | (7.62) | (2,098) | (14.21) |
| | | | | |
| **Total Expenditure** | **2,986** | **20.22** | **3,188** | **21.59** |
| Recurrent Expenditure | 2,168 | 14.68 | 2,338 | 15.83 |
| Capital Expenditure | 818 | 5.54 | 850 | 5.76 |
| | | | | |
| **Overall Balance** | **-1,239** | **-8.39** | **-328** | **-2.22** |
| Net Financing | 1,239 | 8.39 | 328 | 2.22 |
| Net External<br>Of which: AfDB Budget support in 2009-2010: USD155 million<br>World Bank Budget support in 2009: USD500 million | 63 | 0.43 | -18 | -0.12 |
| Net Domestic | 1,070 | 7.25 | 346 | 2.34 |
| Others (incl. $200 recall from AfDB and privatization proceeds in 2009) | 106 | 0.71 | - | - |
| **Financing Gap** | **0,0** | **0,0** | **0,0** | **0,0** |

***Source: Nigerian Authorities, IMF and AfDB***

## *4.4 Program Beneficiaries*

4.4.1 The program will benefit the entire population of Nigeria, including residential and non-residential electricity customers. The impact will be felt in terms of extended access to a more reliable supply of electricity at improved quality and reduced cost. It is anticipated that the cost of electricity to industrial customers will reduce significantly, as they obtain a greater proportion of their requirement from the grid (total capacity of own generation in Nigeria is about 2,500MW and about 90% of industries run their own generators at about NGN40 – NGN60/kWk). Overall, the wellbeing and quality of life of all Nigerians will improve.

4.4.2 The program will have a major positive ***impact on the private sector***,[17] through two main channels: (i) substantial reduction in the cost of doing business for all economic sectors, particularly in the formal and informal manufacturing and service activities which are seriously constrained by the power supply gaps. Substantial positive impact will be felt on job creation and poverty reduction, through the growth of industries, as a result of increased competitiveness and longer production cycles; and, (ii) increased private sector investment in the power sector, as a result of the improved sector business environment triggered particularly by: (a) cost-reflective tariffs, (b) legal protection of their investment, (b) sustainable gas price; and, (d) improved corporate governance of PHCN successor companies paving the way for their full privatization.

## *4.5 Impacts of Gender*

The EPSERP is expected to have a positive impact on Gender, through long-term access to electricity and the employment generating effect, both formal and informal. Women constitute a significant proportion of electricity consumers in Nigeria, not only as domestic users (e.g. through household chores) but also in their productive functions particularly in small and medium scale enterprises (SMEs) and the informal sector (e.g. trading, farming). By increasing access to a more reliable supply of electricity at improved quality and cost, the EPSERP would ultimately: (i) reduce women's dependence on the use of costly generators for domestic and business uses; (ii) improve domestic gender and familial relations; (iii) increase women's productivity and incomes in the various activities they are involved in, particularly in the informal sector and SMEs.

[17] All tiers of government could also benefit through: (a) an efficient allocation of public funds, as FGN subsidies to the power sector become irrelevant to support tariffs; and, (ii) an increase in the tax base resulting from an expansion of economic activities.

## 4.6 Environmental Impacts

4.6.1. This program has been classified under category III of the Bank's environment classification. The program is not expected to generate directly any negative impact on the environment, given that it is a budget support aimed at improving the policy environment not only in the power sector but also with respect to PFM and the fiduciary framework.

4.6.2. Environmental effects may however arise indirectly under the projects funded through the Government's budget, but not be directly linked to this particular Bank operation. The primary national instrument for the preventive regulation of activities that could impact negatively on the Nigerian environment is the Environmental Impact Assessment (EIA) Act 86 of 1992. The Act makes it mandatory for an EIA to be conducted prior to the construction of projects to identify and mitigate negative impact that may arise as a result of the project.

4.6.3. The Nigerian power sector improvement program involves the rehabilitation of existing power plants and construction of new ones. The due diligence assessment conducted confirms their conformance to conformance to national and international standards.[18] On the other hand, the program is likely to have a positive environmental impact, as the utilization of independent generators by the 90% of customers is actually phased out in the medium to long run.

# V IMPLEMENTATION, MONITORING AND EVALUATION

## 5.1 Implementation Arrangements

5.1.1 **Institution responsible for implementing the program**: The implementation of the EPSERP will use the country system. The overall responsibility of the EPSERP will lie with the Federal Ministry of Finance (FMF), in close coordination with the Federal Ministry of Power (FMP), responsible for oversight and M&E of power-related programs.

5.1.2 **Disbursement of the loan**: The proceeds of the loan will be disbursed in two tranches (2/3 or UA67 million and 1/3 or UA33 million) in 2009 and 2010 respectively, following satisfactory achievement by the FGN of specific disbursement triggers/prior conditions. The first tranche is expected in end October/early November 2009, upon approval of the EPSERP, and the second tranche in the 1st quarter 2010. The loan will be disbursed into a special account in foreign currency of the FGN at the CBN, to be used exclusively for the EPSERP. The FMF, responsible for the administration of the loan, will thereafter confirm receipt of funds to the Bank.

5.1.3 **Audit arrangement**: : An audit of the special foreign currency account will be carried out for each fiscal year of the CBN by independent auditors, with terms of reference of audit acceptable to ADF. The audit report should be submitted to the ADF within a maximum of 6 months of the end of the fiscal year.

5.1.4 **Procurement arrangement**: The 'due process' system of the FGN will be used.

## 5.2 Monitoring and Evaluation Arrangements

5.2.1 The result-based Logical Framework and the Policy Actions Matrix of the EPSERP will provide the Performance Assessment Framework (PAF). The EPSERP will use the official M&E mechanism and reporting instruments, particularly in terms of the required documentation to fulfil the conditions. Given that the EPSERP is the first Bank sector PBL to Nigeria and for supervision purposes, a formal Technical Coordinating and Monitoring Committee will be

[18] Due Diligence Assessment of Power Generation at Selected Grid Connected Power Plants and their Gas Supply Infrastructure in Nigeria (PHCN and World Bank, December 2008). For the existing plants and their gas supply infrastructure, the assessment confirms that national regulations already in existence at the time of their implementation have been applied. It also identifies areas for improvement which are being addressed in the process of the rehabilitation of the plants. All new power plants implemented or under implementation under NIPP were subjected to full EIA process and they all meet the set requirements.

established with representatives from the FMF, the FMP, the PHCN and the BPE. ***As a prior condition for first disbursement, the FMF will officially inform the Bank of the designation of technical focal persons in the FMF, FMP, PHCN and BPE***.

5.2.2 The Bank will use its regular supervision and program completion missions as well as continued on-the-ground country dialogue, through the Field Office. The Bank will also rely on periodic IMF and World Bank reviews.

# VI LEGAL DOCUMENTATION AND AUTHORITY

## *6.1 Legal Documentation*

The legal documentation will consist of a Loan Agreement between the ADF and the FGN. The total amount of the loan will be UA100 million from Nigeria ADF-XI country allocation, to be disbursed over 2009-2010 in two tranches, upon fulfilment of the conditions outlined below. The first tranche will amount to UA67 million and the remainder of UA33 million will consist of the second tranche. Both the FGN and the Fund will accept all the provisions of the General Conditions Applicable to the African Development Fund Loan Agreements and Guarantee Agreements (Sovereign Entities), in force.

## *6.2 Conditions Associated with Bank Group Intervention*

6.2.1 **Conditions precedent to Entry into force of the Loan Agreement**: The Loan Agreement shall enter into force following the fulfilment of the provisions of section 12.01 of the General Conditions.

6.2.2 **Conditions Precedent to First Tranche Disbursement:** The obligations of the Bank to make the first disbursement shall be conditional upon providing evidence, in form and substance satisfactory to the Bank:

(i) Of opening a special account in foreign currency at the Central Bank of Nigeria dedicated to receive the proceeds of the EPSERP (*Paragraph 5.1.2*). **[Evidence required: Letter from the CBN confirming the account, label, and number];**

(ii) Of establishment of a formal technical coordinating committee composed of representatives from the Federal Ministry of Finance (FMF), the Federal Ministry of Power (FMP), the Power Holding Company of Nigeria (PHCN) and the Bureau of Public Enterprise (BPE) – *Paragraph 5.2.1*. [**Evidence required: An official document from the FMF appointing at least one representative from FMF, FMP, PHCN and BPE as focal officers under the EPSERP (names, functions and institutions)];**

(iii) Of cumulative release of at least 75% of 2009 budget appropriation to the power sector (*Paragraph 4.2.4*). [**Evidence required: Official document (Warrant Release) indicating the cumulative amount and percentage of budget released];**

(iv) Of achievement of available power generation capacity of 4,500 MW (*Paragraph 4.2.5*) [**Evidence required: The latest monthly average available power generation capacity provided in the monthly report of the Federal Ministry of Power]; and,**

(v) Of establishment of Management Boards for PHCN successor companies (*Paragraph 4.2.15*). [**Evidence required: An official document from the Bureau of Public Enterprise (BPE) confirming the establishment of transitional management boards for the successor companies, indicating date of establishment and institutions represented in the various boards].**

**6.2.3 Conditions Precedent to Second Tranche Disbursement:** The obligations of the Bank to disburse the second tranche shall be conditional upon the fulfilment of the specific conditions listed below. The beneficiary would have provided evidence, in form and substance satisfactory to the Bank:

(i) Of cumulative release of 100% of 2009 budget appropriation to the power sector (*Paragraph 4.2.4*). [**Evidence required: Official document (Warrant Release) indicating the cumulative amount and percentage of budget released]; and,**

(ii) Of achievement of available power generation capacity of 6,000 MW (*Paragraph 4.2.5*). [**Evidence required: Latest monthly average available power generation capacity provided in the monthly report of the Federal Ministry of Power].**

### *6.3 Compliance with Bank Group Policies*

The EPSERP fully complies with all applicable Bank Group policies and guidelines, in particular the Bank's "*Guidelines on the Development Budget Support Lending (2004)*" and the "*Annotated Format for Policy Based Lending Operations (2008)*".

## VII RISK MANAGEMENT

**7.1** The following risks and mitigation measures have been identified.

- *Risk #1:* Continuing global economic downturn and the associated adverse effect on oil price and the resultant impact on FGN revenues, budgets and macroeconomic stability.
- *Mitigation:* The revamped commitment of the FGN to accelerating reforms and to delivering on results, as evidenced particularly by adoption of a prudent fiscal stance, the Framework on strategic interventions and the progress achieved so far.

- *Risk #2:* Failure by the NNPC to deliver gas processing and supply infrastructure to process and deliver gas to power plants.
- *Mitigation:* Some mitigating actions have already been taken. Three new gas processing facilities will be completed in time to supply gas to all new power stations commissioned by end-2011. Two major gas supply systems will be connected to guarantee gas supply and provide a degree of redundancy in the system. The World Bank's Electricity and Gas Improvement Project is also addressing the gas supply problem.

- *Risk #3:* Niger Delta unrest: Unrest in the Niger Delta (source of gas) is a major impediment to accessing reliable supply of electricity in Nigeria. Frequent damage to gas pipelines has disrupted gas supply to power stations.
- *Mitigation:* The FGN is in dialogue with the Niger Delta activists and community leaders to resolving the issues concerned. The recent start up of the Amnesty Program is a positive development, which will need to be sustained.

- *Risk #4:* Non-resolution of outstanding labour issues, particularly severance arrangements, poses a major risk to liberalising and commercialising the Nigerian power sector.
- *Mitigation:* Constructive dialogue with labour representatives is expected to continue.

- *Risk #5:* Unavailability and/or late disbursement of funds to continue or complete works.
- *Mitigation:* After a detailed review of capital budget execution, measures have already been taken to ensure availability of funds, timely releases and effective utilization of resources. Continued coordinated dialogue with the FGN, jointly with other donors, will ensure a sustained implementation. In addition, the preparation of an integrated project plan, including risk register and risk mitigation strategy, will assist in mitigating this risk.

## VIII RECOMMENDATION

8.1. It is recommended that the Board of Directors approve that the FGN be granted a loan not exceeding UA100 million from the resources of the African Development Fund (ADF) in the form of a sector budget support, based on the conditions stipulated in the present report.

8.2 It is also recommended that the Board of Directors approve the fast-tracking procedure of 14 day document circulation to ensure timely disbursement of funds under the Resolution F/BD/2009/05 adopted on 4th March 2009 on the Bank Response to the Economic Impact of the Financial Crisis.

**Annex I**

## The Oil Price-Based-Fiscal Rule, the Excess Crude Account and Fiscal Responsibility

The Constitution defines the mechanism for collecting and sharing resources among the three tiers of government (federal, state and local). Revenues from all natural resources (including oil) are to be deposited into a “Federation Account” and distributed on the basis of a formula, which allocates 13% to oil producing states, upfront as derivation grants. The remaining 87% is distributed to the Federal Government (FG), 52.7%, States, 26.7%, and Local Governments (LG), 20.6%.

Since 2004, the FG reached a political agreement with SG and LG on an “Oil Price-Based Fiscal Rule”, which made it possible to exercise macroeconomic prudence, through judicious management of oil revenues. Each year, a budget oil price and volume of production benchmarks are agreed upon. Oil revenues in excess of the budget benchmarks are deposited into an “Excess Crude Account” (ECA) at the Central Bank of Nigeria (CBN) in the names of the three tiers of government. In the 2009 budget, the oil price benchmark was set at USD45 per barrel. The ECA is for revenue derived from crude oil sales, petroleum profit tax (PPT) and royalties over and above the budgeted benchmark price of oil each year

The ECA acts as a fund for stabilization and critical infrastructure investments. The oil price fiscal rule delinks current expenditure from current oil price and contributes to macroeconomic stability, by helping to protect future spending, the budget process and managing inflation.

Decisions on the ECA are taken by the National Economic Council (NEC), an advisory body chaired by the Vice-President and composed of all State Governors, the Federal Capital Territory, the Federal Ministry of Finance, the National Planning Commission and the CBN.

It was planned that the Fiscal Responsibility Act (FRA) adopted in 2007 would institutionalize this voluntary use of the oil price-based fiscal rule. The primary objective of the FRA is to commit all tiers of government to a well-defined and structured economic regime, which would ensure economic growth and maintain macroeconomic stability. Specific objectives are: (i) institutionalize sound and prudent management of public resources; (ii) ensure better coordination of fiscal affairs among all tiers of government; (iii) full transparency and accountability in the management of public resources; and, (iv) making government spending fully cost effective. The FRA introduces some major instruments, including a comprehensive budgetary planning process, through the Medium Term Expenditure Framework (MTEF) which will link policy, planning and budgeting over the medium term (usually 3 years). MTEF is already being implemented at the federal level.

In 2007, a MoU was signed between the states and the federal government agreeing to maintain a N1trillion balance in the ECA ‘Reserve Fund’. At the end of each year, 20% of revenue due to each beneficiary will be ploughed back into the ECA and 80% disbursed. The 80% balance is shared in accordance with the revenue allocation formula (between the three tiers of government) and should form part of the regular budget of the beneficiary for the next financial year. States receive a monthly statement of what is due to them from the ECA, which they can use to trade or as collateral. Interest is shared according to a revenue-sharing formula.

A number of States have challenged in court the unconstitutionality of the ECA. An out-of court settlement is being worked out. In September 2007, a political consensus was reached under which all states would pass fiscal responsibility legislation (FRL), which would improve fiscal coordination and ensure macroeconomic stability. Several States have started drafting their FRL, with technical assistance from donors. In June 2008, the three tiers of government agreed to allocate USD5.3 billion to the power sector over three years. As of August 2009, the balance of the ECA stands at USD9 billion.

# Annex II: Letter of Development Policy

# FEDERAL MINISTRY OF FINANCE

## Office of the Honourable Minister

**P.M.B. 14, Garki**
**Central Area**
**Abuja, Nigeria**

**Tel: 09-2340932**
**-2346928**
**Fax: 09-2340903**

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September 17, 2009

**Dr. Donald Kaberuka**
**President**
**African Development Bank Group**
**B.P. 323**
**1002 Tunis Belvedere**
**Tunisia**

***RE: LETTER OF DEVELOPMENT POLICY***

1. We are writing to request, on behalf of the Federal Government of Nigeria, a budget support loan from the African Development Fund (ADF), in the sum of UA100 million to finance strategic interventions and development priorities in the context of the 2009 budget, that would help address power sector bottlenecks, sustain non-oil real GDP growth rate, reduce unemployment and alleviate poverty.

2. The shockwave of the global financial crisis has served to indicate the need for deepening economic reform. We remain committed to diversifying the production of our economy. While the current global economic meltdown has come with its attendant challenges, the government will use it as an opportunity to accelerate the implementation of power sector reforms and further sustain growth through sound macroeconomic policies and budget priorities. In this connection, enhanced focus will be on building competitive and prosperous economies at all levels of Government in the country, thus ushering in a new era of economic growth.

3. This Letter of Development Policy presents the macroeconomic performance in Nigeria before the emergence of the global financial crisis and the accompanied economic slowdown; the impact of these global developments on the macroeconomic environment in Nigeria; government's policy response so far; and envisaged strategic interventions to alleviate supply bottlenecks, and ensure increased job creation, especially for the youths. The policy agenda of the government going forward is also discussed.

### I ECONOMIC PERFOMANCE DURING 2004 AND FIRST HALF OF 2008

4. Macroeconomic performance was remarkably strong during 2003-2008 period,. Real GDP

growth averaged 7.1 percent. Growth was generally broad-based, as all the sectors with the exception of the oil sector recorded substantial growth. Fiscal and external positions strengthened significantly, as evidenced in sustained surplus in the current account balance (CAB) and enhanced Foreign Direct Investment (FDI) and remittances flow as well as portfolio investments. These developments culminated in robust external reserves, reaching an historical high of about US$65 billion on August 8, 2008. The country earned debt forgiveness of US$18.0 billion and repaid US$12.0 billion, which led to an exit from the Paris Club of creditors. Nigeria has also successfully exited its London Club debt by redeeming par bonds (US$1.486 billion) and repurchasing its promissory notes, culminating in a sustainable public debt position. Convergence between the official and parallel market exchange rate was achieved. In addition, the financial sector deepened with the consolidation of the banking and insurance sub-sectors. A favourable sovereign rating (BB-) has facilitated placements by Nigerian banks on international markets.

5. The strong economic performance was underpinned by critical reforms, including: (i) the adoption of an oil-price based fiscal rule, which has allowed the government the opportunity to smoothen expenditure, thereby reducing the historical strong correlation between government's expenditure and oil-related revenue; (ii**)** the introduction of Medium-Term Sector Strategies (MTSSs) and Medium Term Expenditure Frameworks (MTEFs), with the objective of ensuring consistency between sectoral spending plans, existing government development priorities, and envisaged resource envelopes; (iii) enactment of Fiscal Responsibility Legislation and Public Procurement Acts; (iv) the establishment of Debt Management Office (DMO), which has contributed immensely to effective debt management in the country as well as the strengthening of the debt markets; and (v) successful use by the Central Bank of Nigeria of indirect (market) instruments, especially the open market operations (OMO) and discount window operations for monetary control.

6. Additional measures were put in place with the objective of increasing transparency as well as ensuring improved governance, including: (i) the introduction of a Value for Money audit in government procurement contracts,; (ii) the rolling out of Accounting Transactional Recording and Reporting System (ATRRS), culminating in timely availability of fiscal data; (iii) the establishment of a computerized federal payroll management system (IPPIS); (iv) the establishment of the Economic and Financial Crimes Commission (EFCC); and (v) the adoption of the Nigeria Extractive Industries Transparency Initiative (NEITI) to improve governance of the oil and gas sector. The government continues to regularly provide information on revenue allocations to all levels of the government in widely circulated newspapers and also on government websites.

7. Despite these overall positive developments, the power sector is facing enormous challenges. Continuous power supply at the required quality remains a critical challenge, mainly as a result of inadequate investment overtime. As at December 2008, installed capacity stood at 8,000 MW, of which only around 50% is in operable condition. The gap in the power sector has far reaching implications for sustained economic growth and social wellbeing of Nigerians. About 45% of the population has access to electricity, with only about 30% of their demand for power being met. The Investment Climate Assessment of Nigeria, completed in 2008, with the joint support of the World Bank and the African Development Bank (AfDB) found that electricity is by far the most binding constraint to doing business in Nigeria.

8. To redress the situation, the Government launched the Nigerian Integrated Power Project (NIPP) initiative and enacted the Electric Power Sector Reform Act (EPSRA) in 2005. The objective of NIPP was three-fold: (a) to complete by end-2007 the construction of three new power stations that were under construction (1,084 MW); (b) to deliver an additional 2,700MW of generation capacity by end-2011; and, (c) to reinforce and expand the transmission and distribution infrastructure to evacuate the additional generation capacity by end-2007. Overall, the results of the reforms and initiatives have been modest. Under the NIPP, the three stations set for construction were commissioned in 2007. However, the impact of the stations on the power situation has been modest, mainly because of gas shortage resulting in under-capacity utilization. The NIPP initiative was stalled in 2008 while the National Assembly conducted a review of the power sector. The EPSRA enabled the establishment of the Nigerian Electricity Regulatory Commission (NERC) EPSRA and also enabled the unbundling in 2005 of the National Electric Power Authority (NEPA) and the creation of 18 successor companies (six generation, one transmission and eleven distribution companies) under the umbrella of the Power Holding Company of Nigeria (PHCN), as a transitional phase toward complete privatization. The NERC developed the Multi-Year Tariff Order (MTYO) and also put in place a set of technical and operational standards. The MTYO is a tariff setting mechanism which sets tariffs for generation transmission and distribution/retail over a 15 year period, with two reviews after five and ten years respectively. The implementation of MYTO started on 1st July 2008.

## II THE GLOBAL ECONOMIC SLOWDOWN AND THE MACROECONOMIC ENVIRONMENT IN NIGERIA

9**.** The global financial crisis and the associated economic downturn have affected Nigerian macroeconomic indicators**,** as manifested in: (i) lower share prices and market capitalization on the Nigerian Stock Exchange (NSE); (ii) balance of payment pressures emanating from lower commodity prices especially oil; (iii) reduced government revenue; (iv) capital outflows due to foreign investor flight from the stock market and withdrawal of dollar-denominated assets from some banks; and (v) marked naira depreciation and (vi) reduced foreign exchange reserves.

10. Indications are that the macroeconomic environment is improving, a consequence of government's response to the global economic slowdown (as discussed below) and improved external environment. The NSE has witnessed improved performance, as reflected in improved share prices and market capitalization; and there has been a narrowing of the premium between the market and official exchange rates. The government, however, recognizes that global developments will negatively affect real GDP growth in Nigeria in 2009. In this context and in view of endemic infrastructure and unemployment challenges, the government plans to put in place strategic interventions that would address infrastructure bottlenecks, particularly in the power sector, and reduce unemployment.

11. Against this background and in effectively responding to the on-going global financial crisis, the Federal Government of Nigeria is seeking financial support from the World Bank and the African

Development Bank (AfDB). The envisaged credit from the AfDB is expected to provide needed financing assistance for strategic interventions and development priorities in the power sector as well as support the government in sustaining its current economic reform path in fiscal management, and governance.

## IIII NIGERIA's RESPONSE TO THE GLOBAL ECONOMIC CRISIS

### A. The New Framework for Economic Management

12. To address the challenge posed by the global crisis, a new framework for National Economic Management was put in place by the government. The framework aims at strengthening the capability to respond to the global meltdown and at the same time laying a good foundation for sustainable development. The Presidential Steering Committee on Global Economic Crisis (PSCGEC), which is at the apex of this new framework, was inaugurated in January 2009. The PSCGEC has broad Stakeholder Composition, including Executive Governors of Four States, Ministers, Chief Economic Adviser, Principal Secretary to the President, Governor of the CBN, Independent Economist, representatives of the Private and Financial Sectors and Labour Unions. A reinvigorated and reconstituted National Economic Management Team, with wider membership that cut across the critical sectors of the economy, was put in place to provide technical support to the Presidential Committee and the Federal Executive Council. Technical Working Groups, bothering on macroeconomic management, public finance, the real sector and infrastructure were constituted with mandates and work programs. Second-tier linkages and coordination mechanisms are being developed with Ministries, Departments and Agencies that are involved in implementing the 7-Point Agenda. This new institutional framework for economic management has proven to be an effective mechanism for consensus building and in-depth discussion of critical policy issues.

### B Monetary and Credit Policies and the Global Financial Crisis

13. Monetary policy instruments were aptly adopted to address the adverse impact of the global financial crisis on the macroeconomic environment. The focus has been on: improving liquidity in the banking system; ensuring the stability and strengthening of the banking system and avoiding undue exchange rate volatility. There has been increased emphasis on the importance of sound regulatory framework and enhanced supervision of financial system. The Development Policy Credit granted by the World Bank is intended to support specific measures in the financial sector, the implementation of strategic interventions and major reforms in fiscal management and governance

### C. The 2009 Budget and the Global Economic Slowdown

14. The 2009 budget was prepared against the backdrop of a changed global landscape and guided by three main principles**.** First, priority has been given to critical infrastructure that would aid the development of the private sector, thereby increasing income-generating opportunities so as to reduce unemployment and poverty. Second, we have sought measures that have the potential to improve the competitiveness of our economy. Third, with a view to accelerating the return to healthy GDP growth rates, we have sought measures that promote a more diversified economic base, tap new opportunities, and provide new economic drivers to benefit Nigeria in the long run. In this context, accelerating power sector reforms is of paramount importance.

15. In the light of the challenges in the oil market, the 2009 budget puts increased emphasis on widening the base for non-oil taxes**.** Specifically, non-oil revenue is projected to increase by 51.8% from the N1.3 trillion achieved in 2008 to the N1.973 trillion projected for 2009. The budgeted increases in non-oil revenues are expected to come not from higher tax rates, but from securing

improvements in the efficiency of collection by the major revenue generating agencies. The 2009 Budget envisages a total revenue for the Federal Government of N2.2652 trillion.

16. The Federal Government has also rationalized expenditure by reprioritizing spending to deliver on the promises of the Seven-Point Agenda**.** The 2009 Budget allocates 93% of the Capital Expenditure to five key priority sectors: (i) critical infrastructure **-** power, aviation, petroleum resources, works, transport and infrastructural projects within the Federal Capital Territory; (ii) human capital development; (iii) land reform and food security; (iv) Security; and (iv) the Niger Delta. The Aggregate Expenditure is budgeted at N3.1018 trillion and has the following elements: N1.0223 trillion for Capital Expenditure; N1.6273 trillion is budgeted for Recurrent Expenditure; N168.62 billion for Statutory Transfers; and an amount of N283.65 billion for Debt Service. It should be mentioned that the total 2009 appropriations for the Ministry of Power amounts to N99.6 billion.

17. Another special feature of the 2009 Budget is the focus on specific deliverables in terms of public goods and services that the MDAs have undertaken to provide to Nigerians. This focus on achieving and tracking the impact of resources utilized on the welfare of Nigerians is part of the ongoing reforms to introduce a comprehensive performance-based budgeting system. The measurable targets and outputs set include:

- Power Generation: delivering 1.2 billion SCF of gas to the domestic market to ensure the attainment of the target 6,000MW of power by the end of 2009. The target set by December 2011 is 10,000MW;

- Works, Housing & Urban Development: completing the construction and rehabilitation of 3,293km of roads and maintenance of over 10,000km of federal roads every year for the next 3 years;

- Health: completing modernising work on three Teaching Hospitals in Awka, Calabar and Ife, and seven Specialist Hospitals in Kaduna, Lagos, Kano, Calabar, Enugu, Maiduguri and Abeokuta;

- Security: the Police are increasing their investment in community policing and are targeting a 40% reduction in crime in 7 cities nation-wide, namely Abuja, Lagos, Kano, Ibadan, Port Harcourt, Maiduguri and Onitsha.

- Food Security: increasing land under cultivation by 5%, optimising 220,000 hectares of irrigated land and irrigating 12,000 hecatares of arable land to increase crop yields by between 50% and 250%, and increase agriculture's contribution to GDP by 5%; and

- The Federal Capital Territory: completing three key headquarters structures, namely the Foreign Affairs Headquarters, the Shehu Shagari Complex and the Federal Secretariat Building Phase II (Bullet House) so that MDAs can relocate to these premises instead of embarking on multiple headquarters projects.

18. The projected fiscal balance at the federal level for 2009 is a deficit of about N836.6 billion (3.02 percent of GDP). The deficit is to be financed by a combination of sources, including outstanding signature bonuses, proceeds from privatization and withdrawal of some accumulated reserves that the Government has with the African Development Bank's Nigeria Trust Fund. The balance is expected to be financed by borrowing from the domestic and international financial markets. The projected deficit is to make up for falling oil revenues while ensuring that we keep our commitment to maintaining essential expenditure, particularly in critical infrastructure. However, it is our expectation that as the global recession recedes and our revenues improve, this deficit will be reduced over the next few years to a more modest level.

19. The request for AfDB's assistance is predicated on the need to finance strategic interventions and development priorities in the context of the 2009 budget, that would help address infrastructure bottlenecks, particularly in the power sector, reduce unemployment and alleviate poverty. The envisaged credit support from the AfDB in conjunction with the World Bank's Development Policy Operation and planned reforms in the public financial management areas would further help in enhancing the effectiveness and productivity of government's expenditure and accelerate the implementation of power sector reforms. Against this background and in effectively responding to the on-going global financial crisis, the Federal Government of Nigeria is seeking financial support from the AfDB. The envisaged credit is expected to support key policy measures in the power sector to be implemented in the short-run, in order to improve access to electricity and create an enabling environment for active private sector participation in the medium- to long-run. As macroeconomic stability is a necessary condition for addressing the critical challenges in the power sector, the credit will also support the government in sustaining its current economic reform path in public finance management and budget priorities, in order to sustain growth and contribute to job creation and poverty alleviation.

20. The government is committed to further enhancing expenditure efficiency in combination with expenditure prioritization. The Excess Crude Account is also being used to smoothen the adverse impact of the global economic slowdown on the budgetary revenue. In this connection, the National Economic Council reached a consensus in March to share US$1.5 billion from the Excess Crude Account. It must however be indicated that there is a limit to which the Excess Crude Account can be used to meet the revenue shortfalls, in view of the 2007 Memorandum of Understanding, which sets a minimum threshold of N1 trillion in the excess crude account. Notwithstanding more-recent recovery in oil prices, there are still uncertainties surrounding the duration and depth of the global economic recession with attendant adverse impact on the budgetary revenue. In this connection, it is critical that the government continues to exercise caution in the use of Excess Crude Account with a view to preventing its fast depletion and the associated negative impact on macroeconomic indicators. The government continues to work on the modalities for putting in place a Nigerian Sovereign Wealth Fund.

21. Additional efforts are being made towards ensuring effective implementation of the 2009 budget. A Cash Management Committee has been established with the objectives of: (i) managing and controlling cash available to Government at any point in time; (ii) supporting budget implementation and promoting efficient resource allocation; (iii) ensuring that budgetary revenues are realized and that adequate machineries are put in place for prompt collection, accounting and remittance to the relevant revenue accounts on a real-time basis; and (iv) integrating government cash and debt management.

22. While efforts are being made to further reprioritize spending as envisaged in 2009 budget, it is essential that critical expenditures are preserved and government puts in place strategic interventions that would help address infrastructure bottlenecks and unemployment in the context of sharper global economic downturn relative to the level envisaged in the 2009 budget. In an attempt to further respond to the global economic recession, we plan to urgently put in place measures that would help address supply bottlenecks and unemployment. Such interventions would help contribute to the diversification of our economy as well as putting the country in an enhanced position to be able to withstand any future global economic challenges.

23. The envisaged credit will provide support to the 2009 budget's objective of sustaining growth through sound macroeconomic policies and budget priorities. We made efforts in making sure that the 2009 budget was based on a conservative oil price of US$ 45 /bbl, in the light of uncertainties in the oil markets. The Federal Government remains committed to continue to implement a policy under

which the Excess Crude Account is credited with excess oil revenue, after compensating for shortfall in revenue. These measures would put us in a position to have the Federal Government expenditure in 2009 remain within a range of 23-25 percent of non-oil GDP.

24. The envisaged credit is also in support of the strategy to ensure that expenditure is tilted toward critical infrastructures that would help enhance the economy's growth potential. In this regard, the 2009 budget contains recurrent non-debt expenditure at N1.6 trillion (61.4%) and increases capital spending to about N1 (38.6%) of the Federal Government expenditure (excluding statutory transfers and debt service) . With a view to ensure high capital implementation rate, capital expenditure of N187 billion for the first quarter of 2009 was released by January.

25. The proposed credit, in our view, will also support our efforts towards further enhancing transparency in budget preparation, execution and reporting. In this connection, the government has implemented interim Accounting Transaction Recording and Reporting System (ATRRS). With the progress made in automating accounting statement, we expect that about 75% of our MDAs will produce month end financial statement within 7 days. In view of lower-than-envisaged revenue in the first quarter of 2009, the Cash Management Committee has been resuscitated**,** with the main objective of supporting budget implementation and promoting efficient resource allocation. In the area of public procurement, the Public Procurement Act and Implementation regulations are consistent with international best practices. They are operational and made available to the public. Contract awards are published in National Procurement Journal (bi-monthly) and BPP website. With the progress already made, we are committed to ensuring that at least 65% of Federal Government contracts are based on national standard bidding documents and 95% of Federal Government contract awards above N75 million are published.

26. With a view to addressing the impact of the global financial crisis on the Nigerian economy, the Presidential Steering Committee on Global Economic Crisis has agreed to a framework on strategic interventions to help address infrastructure bottlenecks and unemployment. Indeed, in view of the uncertainties surrounding the depth and duration of the global economic slowdown, the government remains committed to preserving critical infrastructure expenditures. The National Assembly approved, at the end of July, a supplementary budget for 2009, which stresses further strategic interventions, including the power sector.

27. In the power sector, the reforms have regained traction vigorously in 2009. In January 2009, the Federal Government gave approval for the continuation of NIPP. An amount of US$5.3 billion was injected into the project. A programme of rehabilitation of existing power stations and the transmission and distribution infrastructure is underway. Efforts in these areas would raise available generation capacity to 6,000MW by end-2009, up from the current level of 4,000MW. The next phase of the government's efforts will be to boost available generation capacity to 10,000MW by end-2011 through the completion of the NIPP programme. Significant progress has been made so far towards achieving the set target set for end-December. As of August, available power generation capacity has reached close to 4500MW. Ongoing rehabilitation, reinforcement and expansion of the transmission and distribution systems will ensure sufficient evacuation and supply capacities. A potential constraint to maximum generation is the availability of gas, which fire to the majority of power stations. However, progress is being made by the NNPC to ensure gas availability.

28. Efforts are also being made to improve the framework for active private sector participation. Transitional management boards have been established for all PHCN successor companies, giving each company the commercial freedom to act in own interest without first soliciting the approval of the umbrella PHCN organisation. Further efforts will be accelerated in this area to arrive at full privatization.

## V POLICY AGENDA GOING FORWARD

### A National Development Plan

29. The Government's Development Strategy draws from President Umaru Musa Yar'Adua's 7-Point Agenda, draft NEEDS 2 and Vision 2020**.** President Yar'Adua has set out his administration's goals in the form of a seven-point agenda encompassing the key issues of critical infrastructure-particularly electricity and transport; Niger Delta Regional Development; Food Security; Human Capital Development (Health, Education and Trainining); Land Tenure Changes and Home Ownership; National Security; and Wealth Creation.

30. The National Planning Commission (NPC) is working closely with the Federal MDAs to develop indices, clear deliverables and timelines for objectively tracking the implementation process. The Government is also in the process of developing a comprehensive medium term development plan. This is expected to bring in the perspectives of States, Local Government Authorities (LGAs) and private sector into the formulation of National Development Plan (NDP)[19] .

31. The major thrust of the 5th NDP is to achieve high levels of pro-poor growth, the MDG target and make Nigeria one of the top twenty largest economies in the world by year 2020. This is also designed at tackling the problems in the real sector, especially with respect to physical and human infrastructure, rising levels of unemployment and poverty as well the current structural and institutional weaknesses in the economy. The target is to ensure an average annual GDP growth of 7.5% with the non-oil sector being the growth driver from 2010 and beyond.

32. As part of the efforts in facilitating effective implementation of the process, it is planned that the NDP framework will be replicated at the state level. In this regard, the leadership of State Governments are being encouraged to buy-in into the process to facilitate accelerated development of the country.

33. The long-term economic development strategy of Government is anchored on the Vision 20:2020. The Vision 2020 framework has been approved by the Federal Executive Council (FEC). The current Administration has also formally inaugurated the framework for developing Nigeria's Vision 2020 plan. At the peak of the framework is the National Council on V2020, which is chaired by Mr. President. The Council is closely supported by the National Steering Committee which is the operational arm and chaired by the Honourable Minister/Deputy Chairman of NPC. The other key supportive structures include the Business Support Group, Stakeholder Development Committees and the National Technical Working Groups (NTWGs) which consist of private sector experts in relevant thematic areas. The NV20:2020 plan is expected to be launched by the President in October 2009. The medium term development plan (5$^{th}$ NDP) is also to serve as operational vehicle for the implementation of the NV20:2020 plan.

### B Strengthening Public Financial Management (PFM) Systems

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[19]In this regard, the draft NEEDS-2 has been harmonized with the 7-Point Agenda to form the draft 5$^{th}$ NDP to span from 2009-2012. The process is expected to be completed within 5 months.

34. Recent progress in further enhancing transparency in the implementation of the budget included the constitution of the Fiscal Responsibility Commission. Fiscal prudence is considered important to macro-economic stability, enhanced growth, wealth creation and poverty reduction. In this regard, the government will continue to apply the oil-price- based fiscal rule. The Medium Term Sector Strategies for key sectors will continue to form the basis for budgeting and investment planning.

35. The government remains committed to moving forward reforms in the Public Financial Management areas. Envisaged reforms in this area include: (i) computerization of the Budget Office and Office of the Accountant General of the Federation (OAGF), with a view to interconnecting their operations with those of the Bureau of Public Procurement (BPP) and CBN, under the Government Integrated Financial Management Information System (GIFMIS); (ii) establishing a well functioning Treasury Single Account; (iii) institutionalizing a predictable and timely disbursement of budgeted funds to MDAs; (iv) major initiatives in ICT applications, which are already underway and include the IPPIS and the GIFMIS. Government has also directed the fast-tracked implementation of an e-payment system and integration of IPPIS into the GIFIMIS.

## C. IMPROVING THE POWER SYSTEM IN A SUSTAINABLE MANNER AND THE BUSINESS ENVIRONMENT FOR PRIVATE SECTOR PARTICIPATION

36. The objective of the government is two-fold: (i) increasing access to affordable and reliable electricity to all Nigerians; (ii) creating an environment that would attract private sector participation in the power sector. We remain unambiguously committed to our generation targets required to stabilise, maintain and optimise the power system. The targets set are 6,000MW by December 2009 and 10,000MW by December 2011. The Ministry of Power has developed a strategic plan that will enable the attainment and sustainability of 6,000MW by December 2009 and beyond.

37. The action plan to meet the desired target of 6,000MW of available generation capacity and provide the necessary transmission and distribution infrastructure to evacuate and supply electricity by end-December 2009 is based on: (i) Optimizing the existing capacity of successor PHCN power plants through an aggressive repair and rehabilitation exercise. The repairs and rehabilitation programme will result in available generation capacity of 4,500MW by end-October 2009 and 6,000MW by end-December 2009; (ii) Rehabilitating, reinforcing and expanding the transmission and distribution network to evacuate and supply 4,500MW by end-October 2009. Intensive work on providing additional transmission and distribution capacity to meet the requirements of 6,000MW of generation capacity by end-December 2009 is ongoing.

38. The ultimate medium-term target of the government is to extend access to electricity by providing 10,000MW of available generation capacity together with the associate evacuation and supply infrastructure by end-December 2011. This objective will be met through continued rehabilitation of existing stations, the commissioning of new NIPP plants and the commissioning of new IPP stations which are under construction. Rehabilitation, reinforcement and expansion of the transmission and distribution system will continue. Furthermore, as part of a broader fuel diversity and security strategy, we intend to initiate work on diversifying fuel mix for power generation to enhance security and long-term sustainability of the power sector.

39. To create an investor friendly environment, work will begin in the fourth quarter of 2009 to provide additional gas processing and delivery facilities capable of supporting all gas-fired power generation. The construction of three new gas processing facilities and the connection of the western and eastern gas pipeline systems will begin in the fourth quarter of 2009. Completion of the gas project will ensure sufficient gas to fire all available gas-fired plants by end-2011.

40. Transitional management boards have been established for all PHCN successor companies, giving each company the commercial freedom to act in own interest without first soliciting the approval of the umbrella PHCN organization. The sector regulator, NERC, has also implemented the MYTO which will allow tariffs to rise to cost reflective levels by 1st July 2011. This will tie in with a Gas Sales Agreement between the power and gas sectors to be signed in October which will allow the price of gas to power to rise to commercial levels on 1 July 2011. The latter will provide the incentive needed by gas sector operators to gather process and transport gas at the appropriate quality to their power sector customers. Furthermore, we intend to broaden the installation of prepayment meters to improve revenue collection efficiency in the power sector.

41. In conclusion, we would like to reiterate the commitment of the Government to all these reforms, and we trust that this request for World Bank support for their implementation will receive your favorable consideration.

Yours sincerely,

**Mansur Muhtar**
**Minister of Finance**
**Federal Government of Nigeria**

## ANNEXE III: OPERATIONAL POLICY MATRIX

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| **Component 1 : IMPROVE THE ELECTRICITY SYSTEM IN A SUSTAINABLE MANNER AND THE BUSINESS ENVIRONMENT** | | | | | | |
| **<u>Sub-component A</u> : Icrease access to electricity - Paragraph 3.4** | | | | | | |
| **1. Increase in available generation, transmission and distribution capacities** | 1. Allocate 70% of total power sector budget allocation before 1st disbursement<br><br>2. Rehabilitate power station<br><br>3. Rehabilitate and expand transmission/ distribution systems<br><br>4. Phased commissioning of NIPP power stations | 1. Achieve full disbursement of total power sector budget allocation before 2nd disbursement<br><br>2. Rehabilitate power stations<br><br>3. Rehabilitate and expand transmission/ distribution systems<br><br>4. Phased commissioning of NIPP power stations | 1. Achieve full disbursement of power sector budget allocation<br><br>2. Continue with the rehabilitation of power stations<br><br>3. Phased expansion of transmission system under NIPP<br><br>4. Phased expansion of distribution system under NIPP<br><br>5. Phased commissioning of NIPP power stations | 1. 70% of total power sector budget allocated before 1st disbursement<br><br>2. Full disbursement of total power sector budget achieved before 2nd disbursement<br><br>3. 4.5GW available generation capacity achieved before 1st disbursement<br><br>4. 6GW available generation capacity achieved end-2009.<br><br>5. 10GW available generation capacity achieved end-2011.<br><br>6. Power transmission capacity - end-2008: 11,015Km of lines; end-2010: | 1. 45% of population has access to electricity: 2008<br><br>2. 50% of population has access to electricity: 2009<br><br>3. 55% of population has access to electricity: 2010<br><br>4. 60% of population has access to electricity: 2011<br><br>5. Feasibility study on coal to power completed<br><br>Responsible institution: NDPHCL, PHCN, Federal Ministry of Power | **Provide access to affordable and reliable electricity supply to all Nigerians to sustain non-oil growth, alleviate poverty and create jobs** |

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| | | | | 14,000Km of lines<br><br>7. Power distribution capacity – end-2008:298,859Km of lines; end-2010:495,000Km of lines | | |
| **2. Coal to power strategy adopted** | 5. Draft terms of reference for coal to power in conjunction with Federal Ministry of Mines and Steel | 5. Initiate coal study | 6. Conduct detailed feasibility study of recoverable coal reserves suitable for power generation | 8. Interim report on coal study completed | | |
| **3. Renewable energy strategy adopted** | 6. Adopt Renewable Energy Master Plan<br><br>Responsibility: NDPHCL, PHCN, Federal Ministry of Power | 6.<br><br>Responsibility: NDPHCL, PHCN, Federal Ministry of Power | 7. Responsibility: NDPHCL, PHCN, Federal Ministry of Power | Responsibility: NDPHCL, PHCN, Federal Ministry of Power | | |
| **Subcomponent B: Improve environment for private sector participation Paragraph 3.5** | | | | | | |
| **1. Incentive based regulatory regime adopted**<br><br>**2. Drive domestic** | 1. Implement tariffs that would attract private sector participant<br><br>2. Monitor performance of new tariffs<br><br>3. Continue | 1. Assess any perceived shortcomings of tariff structure & implement necessary changes<br><br>2. Implementation of | 1. Implement any necessary amendment to tariffs<br><br>2. Phased implementation of | 1. Tariff structure that attracts private sector actors: mid-2010<br><br>2. 1.2 bscf of gas available to feed gas-fired portion of 6GW generation | 1. Number of IPPs generating electricity: end-2008<br><br>2. Number of new IPPs in advance stages of pre-construction work: | **Provide access to affordable and reliable electricity supply to all Nigerians to sustain non-oil growth, alleviate poverty and create jobs** |

| Medium term policy objectives | Policy actions (outputs) /Responsible institutions<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | Outputs (Monitoring indicators)<br><br>Short term | Outcomes (Monitoring indicators)<br><br>Medium term | CSP goals to which the program is contributing ( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| **use of gas** | implementation of Gas Master Plan | Gas Master Plan | Gas Master Plan | capacity by end-2009<br><br>3. 2.4 bscf of gas available to feed 10GW generation capacity by end-2010 | end-2009<br><br>3. Number of new IPPs in advance stages of pre-construction work: end-2010<br><br>4. Sufficient gas supply to fire available gas-fired share of 4.5GW of available generation capacity by end October 2009 | (CSP second pillar, section 3.1, page 12) |
| **3. Transitional management boards for PHCN successor companies created**<br><br>**4. Prepayment meter installation widened** | 4. Establish selection criteria for successor companies' boards<br><br>5. Continue installation of pre-payment meters<br><br>6. Dialogue with labour representatives continues | 3. Establish transitional management boards for PHCN successor companies<br><br>4. Continue installation of pre-payment meters<br><br>5. Dialogue with labour representatives continues | 3. Continue installation of pre-payment meters | 4. **Transitional Management boards for PHCN successor companies established**<br><br>5. 2009: 20% of target premises have pre-payment meters<br><br>6. 2010: 25% of target premises have pre-payment meters | 5. Autonomous PHCN successor companies operating along commercial lines<br><br>6. Sufficient gas supply to fire available gas-fired share of 6,000MW of available generation capacity by end-December 2009<br><br>7. Sufficient gas | |

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| 5. **Resolving outstanding labour issues** | Responsibility: BPE, NNPC/Federal Ministry of Petroleum | Responsibility: BPE, NNPC/Federal Ministry of Petroleum | 4. Reach agreement with labour representatives<br><br>Responsibility: NNPC/Federal Ministry of Petroleum | 7. 2011: 30% of target premises have pre-payment meters<br><br>8. Optimum personnel head count achieved<br><br>Responsibility: BPE, NNPC/Federal Min of Petroleum | supply to fire available gas-fired share of 10,000MW of available generation capacity by end-December 2011<br><br>8. Full liberalisation of electricity sector | |
| **Component 2: SUSTAINING GROWTH THROUGH SOUND MACROECONOMIC POLICIES AND BUDGET PRIORITIES** | | | | | | |
| **Sub-component A: Strengthen the overall macroeconomic and public finance management** | | | | | | |
| ***1. Supporting macroeconomic stability and non-oil growth through sound fiscal policies*** | *1. Enact a 2009 budget using a conservative oil price of US$ 45/bbl*<br><br>*2. Continue to implement a policy under which the Excess Crude Account is credited with excess oil revenue (after compensating for* | *1. The government maintains the oil-price based fiscal rule and use a conservative oil price in the preparation of budget 2010*<br><br>*2. Continue to implement a policy under which the Excess Crude Account is credited with excess oil revenue (after compensating for* | *1. Enact a 2010 budget using a conservative oil price and GOVT maintains the oil-price based fiscal rule*<br><br>*2. Continue to implement a policy under which the Excess Crude Account is credited with excess oil revenue (after compensating for* | *. Federal government expenditures in 2009 and 2010 remain within a range of 23-25 percent of non-oil GDP (21.2 in 2008, 25.4 in 2007)* | *1. Overall consolidated fiscal balance contained below -10% in 2009*<br><br>*2. Overall consolidated fiscal balance contained below -2.5% in 2010*<br><br>*3. Non-oil sector real GDP growth rate* | **To sustain non-oil sector growth, in order to create jobs and alleviate poverty** |

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| | *shortfalls in revenue* | *shortfalls in revenue* | *shortfalls in revenue* | | *at 9%: 2008* | |
| | *3. Compose the Fiscal Responsibility Commission to monitor and ensure the provisions of the Fiscal Responsibility Act, 2007* | *3. Fiscal Responsibility Commission issue report to the National Assembly including all cases of contravention investigated during the year* | *3. Fiscal Responsibility Commission issue report to the National Assembly including all cases of contravention investigated during the year* | | *4. Non-oil sector real GDP growth rate around 4.8% in 2010 and 5.2% in 2011* | |
| ***2. Adjusting expenditure priorities to economic challenges*** | *4. Enact a 2009 budget containing recurrent spending to [N1.6273] trillion (61.4 percent) and increasing capital spending to [N1.0223] trillion (38.6 percent) of budge (excluding statutory transfer and debt service)*[20] | *4. The Government in a consistent manner with 2009 approved budget*<br><br>*5. The Government continues to implement Medium Term Sector Strategies for key sectors to form the basis for budgeting and investment planning* | *4. Enact a 2010 budget consistent with preserving critical infrastructure expenditures* | *2. Execution rate of the federal capital budget (in percent of the 2009 budget as finally approved by the National Assembly) rises from [43.9]% in 2008 to more than [60] percent in 2009* | *5. Execution rate of the federal capital budget (in percent of the 2010 budget as finally approved by the National Assembly) rises to more than [60]% in 2010* | |
| | *5. Release at least 75% of capital vote by third quarter of 2009* | *6. The Government implements in a consistent manner* | *5. Government continues to implement Medium* | | | |

[20] In 2008 (after the budget was amended late in the year), figures were 62.8 for recurrent spending and 37.2 for capital spending. Because of the late enactment of additional capital spending in a supplement in November, execution rates of the additional allocations were generally low.

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| | *6. Appoint a Presidential Steering Committee on the Global Economic Crisis to manage the government's crisis response*<br><br>*7. Preserve critical infrastructure expenditures* | *the 2009 budget* | *Term Sector Strategies for key sectors to form the basis for budgeting and investment planning* | | | |
| ***3. Raising non-oil revenue*** | *8. Initiate audit of processes in revenue collecting agencies*<br><br>*9. Create customs reform committee* | *7. Complete audits of revenue collecting agencies and begin implementation of recommendations* | *6. Implements recommendations of audits of revenue collecting agencies* | *3. Non-oil revenue collected at the federal level [21] (as percentage of non-oil GDP) increases from 8.6% in 2008 to 9% in 2009/2010* | *6. Non-oil revenue collected at the federal level (as percentage of non-oil GDP)remains at around 9% in 2010/2011* | |
| ***4. Enhancing transparency and accountability for use of public funds through effective*** | *10. Implement interim Accounting Transaction Recording and Reporting System (ATRRS)* | *8. Phase in the Government Integrated Financial Management Information System (GIFMIS) in the* | *7. Implement the Government Integrated Financial Management Information System* | *4. Month-end financial statements produced by 75% of federal government MDA's within 7 days. (Baseline:* | *7. Month-end financial statements produced by more than 75% of federal government* | |

[21] This includes import and excises duties, companies' income tax, value added tax, federal government independent revenue. The total non-oil revenue collected at federal level was about N1.3trillion in 2008 (IMF estimates).

| Medium term policy objectives | Policy actions (outputs) /Responsible institutions (Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | Outputs (Monitoring indicators) Short term | Outcomes (Monitoring indicators) Medium term | CSP goals to which the program is contributing ( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| ***oversight arrangements*** | *11. Adopt Cash Management Policy* | *Office of the Accountant General and Budget Office of the Federation*<br><br>*9. Phase in publication in-year budget outturn reports within 30 days of end of each quarter (FRA 50)*<br><br>*10. Phase in Performance/Value for Money (VFM) audit conducted for key priority MDAs*<br><br>*11. Minister of Finance phases in publication within 30 days of enactment of the Appropriation Act a disbursement schedule in line with Annual Cash Plan prepared by the Accountant General (FRA 25-27)* | *(GIFMIS) in the Office of the Accountant General and Budget Office of the Federation*<br><br>*8. Publish in-year budget outturn reports within 30 days of end of each quarter (FRA 50)*<br><br>*9. Performance/Value for Money (VFM) audit conducted for key priority MDAs*<br><br>*10. Minister of Finance to publish within 30 days of enactment of the Appropriation Act a disbursement schedule in line with Annual Cash Plan prepared by the Accountant General (FRA 25-27)* | *formerly no automated statements)* | *MDA's within 7 days. (Baseline: formerly no automated statements)* | |
| 5. ***Enhancing*** | *12. Public Procurement Act and* | *12. Ensures that Public Procurement Act and* | *11. Continue ensuring that Public* | *5. 65% of Federal Government* | *8. More than 65% of Federal* | |

| **Medium term policy objectives** | **Policy actions (outputs) /Responsible institutions**<br><br>(Conditionality policy actions in bold – Common policy actions with other donor(s) in italics) * | | | **Outputs (Monitoring indicators)**<br><br>Short term | **Outcomes (Monitoring indicators)**<br><br>Medium term | **CSP goals to which the program is contributing**<br>( CSP References) |
|---|---|---|---|---|---|---|
| | **Policy actions taken 2009** | **Policy actions before Board approval and by December 2009** | **2010** | **Targeted indicators Baseline-timeframe 2008 - 2010** | **Targeted indicators Baseline-timeframe 2008 – 2010/2011** | |
| ***Accountability, Effectiveness and value for money in Public Procurement*** | *Implementation Regulations consistent with international best practices, operational and made available to the public*<br><br>13. *Contract awards published in National Procurement Journal (bi-monthly) and BPP website* | *Implementation Regulations are fully implemented and applied by MDAs* | *Procurement Act and Implementation Regulations are fully implemented and applied by MDAs* | *contracts using national standard bidding documents.*<br><br>6. *95% of Federal Government contract awards above N [75 ] million are published* | *Government contracts using national standard bidding documents.*<br><br>9. *More than 95% of Federal Government contract awards above N [75 ] million are published* | |

**Table 1. Nigeria: Selected Economic and Financial Indicators, 2007–12**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | Act. | Act | Proj. | Proj. | Proj. | Proj. |
| **National income and prices** (annual percentage change, unless otherwise specified) | | | | | | |
| Real GDP (at 1990 factor cost) | 6.4 | 6.0 | 2.9 | 5.0 | 5.2 | 5.9 |
| Oil and Gas GDP | -4.5 | -6.2 | -4.8 | 6.0 | 5.4 | 7.3 |
| Non-oil GDP | 9.5 | 9.0 | 4.5 | 4.8 | 5.2 | 5.7 |
| Production of crude oil (million barrels per day) | 2.21 | 2.09 | 2.06 | 2.11 | 2.21 | 2.35 |
| Nominal GDP at market prices (trillions of naira) | 20.9 | 24.6 | 24.8 | 30.0 | 34.7 | 40.4 |
| Nominal non-oil GDP at factor cost (trillions of naira) | 13.1 | 15.2 | 17.8 | 20.4 | 23.3 | 26.7 |
| Nominal GDP per capita (US$) | 1,153 | 1,401 | 1,071 | 1,156 | 1,214 | 1,281 |
| GDP deflator | 4.8 | 11.0 | -2.0 | 15.3 | 10.2 | 9.7 |
| Non-oil GDP deflator | 3.5 | 6.3 | 12.1 | 9.0 | 8.6 | 8.6 |
| Consumer price index (annual average) | 5.4 | 11.6 | 11.9 | 8.9 | 8.5 | 8.5 |
| Consumer price index (end of period) | 6.6 | 15.1 | 9.3 | 8.5 | 8.5 | 8.5 |
| **Consolidated government operations** (consists of federal, state, and local governments; percent of GDP) | | | | | | |
| Total revenues and grants | 28.4 | 32.8 | 22.2 | 27.4 | 27.7 | 28.3 |
| *Of which:* oil and gas revenue | 21.9 | 26.6 | 14.8 | 20.2 | 20.6 | 21.1 |
| Total expenditure and net lending | 29.5 | 29.2 | 31.6 | 29.6 | 28.6 | 27.9 |
| Overall balance | -1.1 | 3.7 | -9.4 | -2.2 | -0.9 | 0.3 |
| Non-oil primary balance (percent of non-oil GDP) | -30.3 | -30.8 | -27.1 | -27.0 | -26.4 | -25.7 |
| Excess crude account (US$ billions) [1] | 14.2 | 18.3 | 13.1 | 16.6 | 15.3 | 17.5 |
| **Money and credit** (change in percent of broad money at the beginning of the period) | | | | | | |
| Broad money | 44.2 | 57.8 | 19.1 | ... | ... | ... |
| Net foreign assets | 16.4 | 26.6 | -10.7 | ... | ... | ... |
| Net domestic assets | 27.8 | 31.1 | 29.8 | ... | ... | ... |
| Credit to consolidated government | -3.5 | -15.0 | 18.2 | ... | ... | ... |
| Credit to the rest of the economy | 54.8 | 50.2 | 11.3 | ... | ... | ... |
| Velocity | 2.3 | 1.7 | 1.6 | ... | ... | ... |
| Treasury bill rate (percent; end of period) | 8.7 | 5.4 | ... | ... | ... | ... |
| **External sector** (annual percentage change, unless otherwise specified) | | | | | | |
| Current account balance (percent of GDP) | 18.8 | 20.4 | 7.1 | 13.1 | 13.7 | 14.2 |
| Exports, f.o.b. | 15.9 | 26.3 | -40.5 | 25.9 | 9.8 | 10.1 |
| Oil export volume | 4.2 | -7.5 | -1.2 | 3.1 | 4.0 | 6.3 |
| Imports, f.o.b. | 34.5 | 21.2 | -14.0 | -1.4 | 6.3 | 6.2 |
| Terms of trade | 0.4 | 16.8 | -25.3 | 13.0 | 2.8 | 1.5 |
| Price of Nigerian oil (US$ per barrel) | 71.1 | 97.0 | 58.0 | 70.0 | 74.0 | 76.8 |
| Nominal effective exchange rate (end of period) | 99.8 | 100.6 | ... | ... | ... | ... |
| Real effective exchange rate (end of period) | 109.7 | 124.0 | 106.1 | 106.1 | 0.0 | 0.0 |
| External debt outstanding (US$ billions) | 4.0 | 4.5 | 5.0 | 5.5 | 6.1 | 6.7 |
| Gross international reserves (US$ billions) | 51.3 | 53.0 | 39.0 | 39.5 | 43.3 | 50.8 |
| (equivalent months of imports of goods and services) | 12.1 | 13.9 | 10.3 | 9.7 | 10.0 | 11.0 |

Sources: Nigerian authorities and IMF staff estimates and projections.
[1] Including the naira-denominated component.

**Table 2: Federal Government**
(billions of naira)

| | 2007 | 2008 | 2009 | | 2010 | | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| | | | Budget | IMF | $50 | $65 | | |
| Total revenue | 2,296 | 3,005 | 2,265 | 1,747 | 2,860 | 2,860 | 3,406 | 4,118 |
| Oil revenue | 1,752 | 2,515 | 1,018 | 1,126 | 2,098 | 2,098 | 2,529 | 3,103 |
| *Of which:* Signature bonus ($1 billion) | 88 | 4 | - | - | - | - | - | 63 |
| Non-oil revenue | 544 | 490 | 883 | 621 | 762 | 762 | 876 | 1,015 |
| Import and excise duties | 109 | 127 | 226 | 135 | 159 | 159 | 179 | 203 |
| Companies' income tax | 152 | 194 | 273 | 243 | 284 | 284 | 334 | 392 |
| Value-added tax | 41 | 54 | 78 | 67 | 78 | 78 | 91 | 107 |
| Federal government independent revenue | 243 | 115 | 306 | 175 | 242 | 242 | 272 | 312 |
| Unspent account balances | - | - | 365 | - | - | - | - | - |
| Total expenditure | 2,343 | 2,625 | 3,102 | 2,986 | 3,188 | 3,188 | 3,555 | 4,017 |
| Recurrent expenditure | 1,569 | 1,958 | 2,080 | 2,168 | 2,338 | 2,338 | 2,605 | 2,917 |
| Personnel | 915 | 1,081 | 1,018 | 1,018 | 1,137 | 1,137 | 1,285 | 1,459 |
| Overheads | 347 | 471 | 335 | 335 | 371 | 371 | 410 | 478 |
| Other service wide votes | - | - | 233 | 333 | 255 | 255 | 277 | 301 |
| Interest | 205 | 244 | 284 | 272 | 366 | 366 | 437 | 458 |
| Transfers[1] | 102 | 163 | 209 | 209 | 209 | 209 | 197 | 223 |
| Capital expenditure | 774 | 667 | 1,022 | 818 | 850 | 850 | 950 | 1,100 |
| Overall balance | (47) | 380 | (837) | (1,239) | (328) | (328) | (149) | 100 |
| Financing | (993) | (347) | 837 | 1,239 | 328 | 328 | 149 | (100) |
| External | (43) | (31) | 63 | 47 | (26) | (26) | (30) | (27) |
| Borrowing | - | - | 63 | 91 | 8 | 8 | - | - |
| Amortization | (43) | (31) | - | (44) | (34) | (34) | (30) | (27) |
| Domestic | (963) | (316) | 524 | 1,085 | 354 | 354 | 180 | (73) |
| Share of excess oil revenue | … | … | - | (133) | (852) | (255) | (267) | (307) |
| ECA extraordinary receipts | … | … | - | 220 | - | - | 204 | - |
| Unspent account balances | … | … | - | 300 | - | - | - | - |
| Borrowing | … | … | 524 | 699 | 1,206 | 609 | 243 | 234 |
| Privatization proceeds | 12 | - | 100 | - | - | - | - | - |
| Recovered funds ($200m recall from ADB in 2009) | - | - | 25 | 30 | - | - | - | - |
| Signature bonus | - | - | 125 | 76 | - | - | - | - |
| Statistical discrepancy | (1,040) | 34 | - | - | - | - | - | - |
| Memorandum items: | | | | | | | | |
| Budget oil price | 40.0 | 59.0 | 45.0 | 45.0 | 50.0 | 65.0 | 69.0 | 71.8 |
| Overall balance (% of GDP) | (0.2) | 1.5 | (3.0) | (5.0) | (1.1) | (1.1) | (0.4) | 0.2 |
| Non-oil primary balance (% of non-oil GDP) | (12.1) | (12.4) | (13.6) | (11.7) | (10.1) | (10.1) | (9.6) | (9.5) |
| Nominal GDP | 20,874 | 24,553 | 27,672 | 24,760 | 29,972 | 29,972 | 34,749 | 40,375 |
| Non-oil GDP | 13,124 | 15,199 | 18,419 | 17,815 | 20,358 | 20,358 | 23,253 | 26,676 |
| Exchange rate N/$ | 126 | 119 | 125 | 152 | 166 | 166 | 179 | 191 |

[1] Includes earmarked spending for National Judicial Council, Universal Basic Education, and Niger Delta Development Corporation.

**Table 2a: Consolidated Government**
(billions of naira)

| | 2007 | 2008 | 2009 | 2010 $50 | 2010 $65 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| Total revenue | 5,926 | 8,063 | 5,503 | 8,211 | 8,211 | 9,639 | 11,408 |
| Oil revenue | 4,564 | 6,535 | 3,667 | 6,051 | 6,051 | 7,155 | 8,537 |
| Non-oil revenue | 1,362 | 1,529 | 1,835 | 2,160 | 2,160 | 2,485 | 2,871 |
| Import and excise duties | 241 | 281 | 300 | 352 | 352 | 398 | 450 |
| Companies' income tax | 327 | 417 | 523 | 609 | 609 | 717 | 843 |
| Value-added tax | 302 | 405 | 498 | 580 | 580 | 679 | 799 |
| Other (education tax and customs levies) | 92 | 129 | 141 | 161 | 161 | 185 | 213 |
| Federal government independent revenue | 243 | 115 | 175 | 242 | 242 | 272 | 312 |
| SLG independent revenue | 158 | 182 | 199 | 216 | 216 | 234 | 254 |
| Total expenditure | 6,149 | 7,159 | 7,836 | 8,043 | 8,861 | 9,949 | 11,271 |
| Federal government expenditure | 2,343 | 2,625 | 2,986 | 3,188 | 3,188 | 3,555 | 4,017 |
| Extrabudgetary funds[1] | 367 | 265 | 345 | 384 | 435 | 532 | 605 |
| Subnational expenditure | 2,582 | 3,529 | 3,003 | 2,709 | 3,475 | 4,245 | 4,987 |
| Shared infrastructure spending | 205 | - | 245 | 624 | 624 | 400 | 300 |
| Other[2] | 653 | 741 | 1,256 | 1,137 | 1,137 | 1,217 | 1,362 |
| Overall balance | (223) | 904 | (2,333) | 168 | (649) | (310) | 137 |
| Financing | (988) | (511) | 2,333 | (168) | 649 | 310 | (137) |
| External | (4) | 2 | 164 | 20 | 20 | 17 | 57 |
| Borrowing | 53 | 43 | 224 | 66 | 66 | 57 | 94 |
| Amortization | (57) | (41) | (59) | (46) | (46) | (40) | (36) |
| Domestic | (997) | (513) | 2,062 | (189) | 629 | 293 | (194) |
| Share of excess oil revenue | … | … | (353) | (2,019) | (604) | (634) | (728) |
| ECA extraordinary receipts | … | … | 984 | 624 | 624 | 883 | 300 |
| Unspent account balances | … | … | 531 | - | - | - | - |
| Borrowing | … | … | 899 | 1,206 | 609 | 43 | 234 |
| Other (privatization; recovered funds; signature bonus) | 12 | - | 107 | - | - | - | - |
| Statistical discrepancy | (1,211) | 393 | - | - | - | - | - |
| Memorandum items: | | | | | | | |
| Budget oil price | 40.0 | 59.0 | 45.0 | 50.0 | 65.0 | 69.0 | 71.8 |
| Overall balance (% of GDP) | (1.1) | 3.7 | (9.4) | 0.6 | (2.2) | (0.9) | 0.3 |
| Non-oil primary balance (% of non-oil GDP) | (30.3) | (30.8) | (27.1) | (23.0) | (27.0) | (26.4) | (25.7) |
| Implicit fuel subsidy | 239 | 377 | 239 | - | - | - | - |
| Total spending (% growth) | 22.2 | 16.4 | 9.4 | 2.6 | 13.1 | 12.3 | 13.3 |
| FG spending (% growth)[3] | 40.3 | 12.1 | 13.8 | 6.8 | 6.8 | 11.5 | 13.0 |
| SLG spending (% growth)[3] | 9.3 | 36.7 | (14.9) | (9.8) | 15.7 | 22.1 | 17.5 |
| Gross domestic debt (% of GDP) | 12.8 | 11.6 | 14.5 | 16.0 | 16.0 | 15.2 | 13.5 |
| Net domestic debt (% of GDP) | 19.4 | (0.0) | 7.1 | 5.2 | 9.9 | 10.7 | 9.1 |
| ECA balance (billions of naira) | 1,664 | 2,430 | 1,600 | 3,619 | 2,204 | 1,954 | 2,382 |
| ECA balance (billions of USD) | 14.2 | 18.3 | 13.1 | 24.9 | 16.6 | 15.3 | 17.5 |

[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] Includes cash calls, explicit fuel subsidy, and foreign-financed capital expenditure.

[3] Excludes contribution to shared spending

**Table 3a. Nigeria: Central Bank of Nigeria (CBN) Analytical Balance Sheet, 2007–09**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| | Dec. | Dec. | Dec. |
| | Act. | Act. | Proj. |
| Net foreign assets[1] | 5,983 | 6,948 | 6,244 |
| Net domestic assets | -4,788 | -5,399 | -4,393 |
| Net domestic credit | -3,107 | -4,135 | -3,031 |
| Net claims on consolidated government | -3,487 | -4,139 | -3,179 |
| Excess crude account | -268 | -884 | 105 |
| Net claims on federal government | -3,103 | -3,095 | -3,156 |
| Statutory funds | -116 | -160 | -129 |
| Other net claims | 380 | 3 | 148 |
| Other items net | -1,681 | -1,264 | -1,362 |
| Reserve money | 1,195 | 1,549 | 1,850 |
| Currency in circulation | 961 | 1,155 | ... |
| Banks reserves with the CBN | 234 | 394 | ... |
| *Memorandum items*: | | | |
| Reserve money y/y growth rate | 31.2 | 29.6 | 19.5 |

Sources: Nigerian authorities and IMF staff estimates and projections.
[1] CBN presents long-term liabilities in other items net.

**Table 3b. Nigeria: Monetary Survey, 2007–09**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| | Dec. | Dec. | Dec. |
| | Act. | Act. | Proj. |
| | (Billions of naira) | | |
| Net foreign assets | 6,679 | 8,228 | 7,245 |
| Central Bank of Nigeria (net) | 5,983 | 6,948 | 6,244 |
| Commercial and merchant banks (net) | 696 | 1,279.6 | 1,001 |
| | | | |
| Net domestic assets | -870 | 939 | 3,673 |
| Net domestic credit | 3,275 | 5,345 | 8,128 |
| Net claims on consolidated government | -1,694 | -2,564 | -894 |
| Excess crude account | -268 | -884 | 105 |
| Net claims on federal government | -1,397 | -1,670 | -1,337 |
| States and local governments | 88 | 150 | 467 |
| Statutory funds | -116 | -160 | -129 |
| Claims on private sector | 4,740 | 7,657 | 8,693 |
| Other net claims | 229 | 253 | 329 |
| Other items (net) | -4,145 | -4,406 | -4,456 |
| | | | |
| Broad money | 5,810 | 9,167 | 10,918 |
| (y/y growth rate) | 44.2 | 57.8 | 19.1 |
| | | | |
| *Memorandum items* : | (contribution to broad money growth, unless otherwise stated) | | |
| | | | |
| Net foreign assets | 16.4 | 26.6 | -10.7 |
| Net domestic assets | 27.8 | 31.1 | 29.8 |
| Net domestic credit | 56.0 | 35.6 | 30.4 |
| Net credit to the consolidated government | -3.5 | -15.0 | 18.2 |
| Claims on private sector | 54.8 | 50.2 | 11.3 |
| Other items (net) | -28.2 | -4.5 | -0.5 |
| Velocity (non-oil GDP/broad money) | 2.26 | 1.66 | 1.63 |
| Gross international reserves (billions of US$) | 51.3 | 53.0 | 39.0 |

Sources: Nigerian authorities and IMF staff estimates and projections.

**Table 4. Nigeria: Balance of Payments, 2007–12**
(Billions of U.S. dollars, unless otherwise specified)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | Act. | | Proj. | | | |
| Current account balance | 31.2 | 42.3 | 11.5 | 23.6 | 26.6 | 30.0 |
| Trade balance | 36.2 | 47.2 | 18.3 | 31.8 | 36.0 | 40.9 |
| Exports | 66.6 | 84.1 | 50.1 | 63.0 | 69.2 | 76.2 |
| Oil/gas | 65.0 | 82.0 | 48.5 | 60.2 | 66.2 | 73.0 |
| Other | 1.6 | 2.1 | 1.6 | 2.8 | 3.0 | 3.2 |
| Imports | -30.4 | -36.9 | -31.7 | -31.3 | -33.2 | -35.3 |
| Oil/gas | -5.6 | -8.2 | -4.3 | -5.5 | -6.1 | -6.7 |
| Other | -24.8 | -28.7 | -27.4 | -25.8 | -27.2 | -28.6 |
| Services (net) | -11.1 | -12.3 | -12.1 | -12.2 | -13.2 | -14.0 |
| Receipts | 1.5 | 2.0 | 1.9 | 2.1 | 2.3 | 2.5 |
| Payments | -12.6 | -14.2 | -14.0 | -14.3 | -15.5 | -16.5 |
| Income (net) | -11.9 | -12.0 | -12.7 | -13.7 | -13.9 | -14.7 |
| *Of which:* Interest due on public debt | -0.6 | -0.7 | -0.1 | -0.1 | -0.1 | -0.2 |
| Transfers (net) [1] | 18.0 | 19.3 | 18.0 | 17.7 | 17.7 | 17.8 |
| Capital and Financial account balance | 2.7 | -13.3 | 1.9 | 4.1 | 4.6 | 4.8 |
| Capital Account (net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial Account (net) | 2.7 | -13.3 | 1.9 | 4.1 | 4.6 | 4.8 |
| Direct Investement (net) | 5.6 | 3.6 | 4.4 | 3.3 | 3.8 | 4.0 |
| Portfolio Investment (net) | 0.8 | -6.7 | -3.0 | 0.3 | 0.3 | 0.3 |
| Other Investment (net) | -3.7 | -10.2 | 0.6 | 0.6 | 0.5 | 0.5 |
| Public Sector (net) | -0.5 | -2.1 | 0.5 | 0.6 | 0.6 | 0.5 |
| Disbursements | 0.4 | 0.4 | 0.9 | 0.8 | 0.8 | 0.7 |
| Amortization due | -0.9 | -0.4 | -0.4 | -0.3 | -0.2 | -0.2 |
| Private Sector (net) | -3.2 | -8.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | -24.8 | -27.3 | -27.3 | -27.3 | -27.3 | -27.3 |
| Overall balance | 9.0 | 1.7 | -13.9 | 0.4 | 3.9 | 7.5 |
| Net international reserves (increase -) | -9.0 | -1.7 | 13.9 | -0.4 | -3.9 | -7.5 |
| Exceptional financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net accumulation of arrears (decrease -) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items*: | | | | | | |
| Gross official reserves, end-of-period | 51.3 | 53.0 | 39.0 | 39.5 | 43.3 | 50.8 |
| In months of next year's GS imports | 12.1 | 13.9 | 10.3 | 9.7 | 10.0 | 11.0 |
| Current account (percent of GDP) | 18.8 | 20.4 | 7.1 | 13.1 | 13.7 | 14.2 |
| GS exports (percent of GDP) | 41.0 | 41.6 | 31.9 | 36.1 | 36.7 | 37.3 |
| GS imports (percent of GDP) | 25.9 | 24.7 | 28.1 | 25.3 | 25.0 | 24.5 |
| External debt [2] | 4.0 | 4.5 | 5.0 | 5.5 | 6.1 | 6.7 |
| External debt (percent of GDP)[2] | 2.4 | 2.2 | 3.0 | 3.1 | 3.1 | 3.2 |
| External debt (percent of GS exports)[2] | 5.9 | 5.2 | 9.5 | 8.5 | 8.6 | 8.5 |
| External debt[2, 3] | 8.6 | 6.6 | 13.7 | 11.2 | 11.3 | 11.2 |
| External debt service due (percent of GS exports) | 2.3 | 1.2 | 1.0 | 0.6 | 0.5 | 0.4 |
| GDP (at market prices) | 165.9 | 207.1 | 162.6 | 180.4 | 194.6 | 211.1 |

Sources: Nigerian authorities and IMF staff estimates and projections.

[1] Includes capital transfers.
[2] Nominal public sector short- and long-term debt, end of period.
[3] Percent of general government fiscal revenues.

## NIGERIA: EPSERP
## Country Readiness Assessment and
## Compliance with Bank Group Guidelines

Overall, Nigeria meets the Bank's prerequisite conditions (both general and technical) for Sector Budget Support Loan (SBSL), as detailed out in the table hereunder.

### EPSERP: General and Technical Prerequisite Conditions

| Prerequisite conditions | Observations for Nigeria |
|---|---|
| **General Prerequisites** | |
| **Political stability** | ▪ Since 1999, a democratic regime was established, with the first-democratically elected President (who spent two four-year terms in power).<br>▪ April 2007: the first democratic political transition in the country's history, with the election of President Yar' Adua of the People Democratic Party (PDP). PDP holds majority in Parliament.<br>▪ President Yar' Adua mandate was strengthened by the December 2008 Supreme Court ruling which upheld his 2007 election.<br>▪ March 2009: Adoption of major electoral reforms by the Federal Executive Council, which are likely to ensure more peaceful general elections in 2011. |
| **Economic stability and Government's commitment** | ▪ Since 2003, Nigeria is on a robust reforms track and economic performance. The PSI of the IMF was successfully completed in October 2007. The IMF recently provided a positive assessment on the adequacy of the medium term economic framework.<br>▪ The letter of development policy signals the authorities' strong commitment to ambitious policy reforms and communications strategy, particularly in the context of the global financial crisis and economic downturn.<br>▪ Government commitment to resolving the security issues in the Niger Delta (recent creation of a Ministry & a high increase in budgetary allocations as well as initiation, in August 2009, of the Amnesty Program of militants). |
| **Technical Prerequisites** | |
| **Comprehensive sector policy framework drawn from a well designed PRSP or NDP and existence implementation mechanisms** | ▪ Power clearly features as a critical infrastructure and is very well articulated in the 7-Point Agenda of the Government and the 2009 budget, with a consistent envelope and specific measurable deliverables/output indicators.<br>▪ Major reforms in introducing a comprehensive performance-based budgeting system are ongoing and well advanced. The objective is to establish a sound monitoring and evaluation system on achieving and tracking the impact of resources utilized on the welfare of Nigerians.<br>▪ MDG Office established to target and implement pro-poor spending/programs on basic social and infrastructure services.<br>▪ Creation in January 2009 of the Presidential Steering Committee on Global Economic Crisis (PSCGEC) within the new framework for National Economic Management to address appropriately the challenge of the global crisis. The PSCGEC has broad stakeholder composition across the nation.<br>▪ The PSCGEC has agreed to a framework on strategic interventions to address infrastructure bottlenecks (power in particular) and unemployment. A coordination mechanism was developed with Ministries, Departments and Agencies involved in the implementation of the 7-Point Agenda. This new institutional framework for economic management has already proven to be an effective mechanism for in-depth discussion and consensus building on critical policy issues. |
| **Viable macro-economic and sector financial medium term framework** | ▪ **MTEF and MTSS**: Updated Fiscal Strategy Paper 2008-2010. Introduction of Medium-Term Sector Strategy (MTSS) and MTEF, which ensure consistency between sector spending plans, FGN priorities and available resource envelopes.<br>▪ **Positive IMF Assessment Letter (**September 2009): on the adequacy of the medium term framework. |
| **Strong partnership between RMC and donors in the sector and strong partnership among donors in the sector** | ▪ Coordination is expanding particularly in the context of the Country Partnership Strategy (CPS II). CPS-II brought together partners accounting for 80% of Nigeria's development assistance (AfDB, DFID, USAID and World Bank), in coordination with Government.<br>▪ Power is a focal area of concentration under the CPS II<br>▪ Strong coordination established among AfDB, IMF, World Bank and DFID in the |

| | |
|---|---|
| | context of this reform program |
| **Satisfactory fiduciary review of the public financial management system (use of country system)** | ▪ **Since 2003, major governance and PFM reforms undertaken by the FGN, with significant improvement in the system.**<br>▪ **2007 PEMFAR assessment:** Satisfactory. Noted significant advances in macroeconomic and debt management, budget formulation, accounting, and procurement reform. Less progress was noted in capacity building and budget reporting, monitoring, and disclosure. Since then remedial actions have been taken with notable progress. Outstanding reforms to enhance transparency and accountability in budget preparation, execution and reporting are ongoing with the support of donors, in particular the IMF, the World Bank and the Bank's programs and DFID.<br>▪ **PEFA assessment:** Planned in 2009/2010 to track progress in PFM reforms.<br>▪ **2000 CPAR assessment (Public Procurement):** The public procurement system was for a long time the subject of abuse and corruption. On the basis of the CPAR recommendations, ambitious reforms were undertaken with tangible results in obtaining substantial improvements in transparency and value for money in public procurement (also confirmed by 2007 PEMFAR): effective implementation of the Public Procurement Act (which meets international standards) adopted in 2007, publication of its regulations, and publication of Government contract awards in the National Procurement Journal (bi-monthly) and on the Bureau of Public Procurement website. The outstanding reform goal is to achieve by 2010 the publication of 65% of FGN contracts using national standard bidding documents and 95% of FGN contract awards above N75 million.<br>▪ **Transparency International Ranking:** Corruption perceptions dropped significantly from 101st out of 102 countries (2002) to 121st out of 180 in 2008. |

**NIGERIA: EPSERP**
**Application of good practice principles on conditionality**

**Principle 1: *Reinforce Ownership***

The EPSERP is fully owned by the Government. It is based on home-grown strategies and programs (NEEDS, 7-Point Agenda, Framework for Strategic Interventions, NIPP), appropriated reflected in the country's budget priorities, planning and processes. The policy actions of the EPSERP are consistent with measures which Government has proposed and is committed to implement. Appropriate budget allocations were accordingly made for, which are released in a timely manner. As of August 2009, about 70% of the power sector budget appropriation was released. There is a political and popular consensus that power sector bottlenecks need to be urgently and adequately addressed. Clear time-bound targets were set.

**Principle 2: *Agree up front with the government and other financial partners on a coordinated accountability framework***

The medium-term policy matrix outlines short and medium-tern actions with clear and measurable outcome indicators and targets. The matrix was developed jointly with the Nigerian authorities and shared with other donors, particularly the IMF, the World Bank and the DFID. The program and its associated policy matrix also build on realistic achievements made to date. The EPSERP has even a component on PFM and macro policy issues which is fully harmonized with the second pillar of the World Bank's DPO. In close coordination with other donors, the main goal is to maintain dialogue with the Government on broad PFM, governance and macro stability issues that are crucial for the achievement of the development objectives of the EPSERP.

**Principle 3: *Customize the accountability framework and modalities of Bank support to country circumstances***

The EPSERP is the Bank response to a formal request made by the FGN for a fast-disbursing fiscal stimulus ADF loan aimed at supporting its efforts to mitigate the adverse impact of the global financial crisis, while maintaining its reform path and addressing urgently major gaps in the power sector. The design of the program is based on the Government's own diagnosis, priorities, objectives, measures and realistic output and outcome indicators, based on analytical work and actual progress to date towards set targets.

**Principle 4: *Choose only actions critical for achieving results as conditions for disbursement***

The policy matrix focuses on key actions that are critical intermediate objectives (e.g. releasing allocated budget, achieving targeted available power generation capacity, etc.) for achieving the set outcome goals, i.e. maintaining macro stability, increasing access to electricity for households and businesses, improving the business environment and sustaining non-oil sector growth to create jobs and alleviate poverty. The triggers/prior conditions for disbursement, limited to six for the first and the second tranches, were discussed and agreed with the Government and Stakeholders.

**Principle 5: *Conduct transparent progress reviews conducive to predictable and performance-based financial support***

The result-based Logical Framework and Policy Actions Matrix of the EPSERP provide the Performance Assessment Framework (PAF), discussed and agreed with the Government. The EPSERP uses the official M&E mechanism and reporting instruments, also discussed and agreed with the Government including the type of evidence to be provided to satisfy the prior conditions. The Bank's regular supervision and program completion missions as well as continued country dialogue will also apply. Periodic IMF normal reviews and those of the World Bank will also be used, particularly in the context of its Development Policy Operation.

**Annex VII**

**NIGERIA: Summary of Bank Group Ongoing Operations (14th September 2009)**
**(Million UA)**

| | PROJECT NAME | Source of Finance | Approval date | Signature Date | Closing date | Effective date | Last disburse-ment | Approved Amount | Undis-bursed Balance | Total Disb | Net Loan | Disb Rate (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **SECTOR : AGRICULUTURE** | | | | | | | **60.00** | **44.56** | **15.45** | **60.00** | **25.75%** |
| 1 | Community- Based Agric. & Rural Development Project | ADF Loan | 11.09.03 | 12.12.03 | 31.12.11 | 19.12.05 | 07.11.08 | 13.00 | 11.08 | 1.92 | 13.00 | 14.80% |
| 2 | Institutional Support to Agric. & Rural Institut. | ADF Grant | 27.04.05 | 17.05.05 | 30.12.09 | 27.03.06 | 19.08.09 | 3.00 | 0.67 | 2.33 | 3.00 | 77.70% |
| 3 | National Fadama Development Project | ADF Loan | 10.12.03 | 12.12.03 | 31.12.11 | 28.10.05 | 14.09.09 | 22.00 | 12.88 | 9.13 | 22.00 | 41.50% |
| 4 | Support to the Nat. Progr. for Food Security in Ekiti, Ondo and CRS States | ADF Loan | 18.10.06 | 26.02.07 | 31.12.13 | 12.07.07 | 20.12.07 | 22.00 | 19.93 | 2.07 | 22.00 | 9.41% |
| | **SECTOR : TRANSPORT** | | | | | | | **35.27** | **35.16** | **0.12** | **35.27** | **0.32%** |
| 5 | Rural Access and Mobility Project | ADF Loan | 18.07.07 | 24.12.07 | 31.12.11 | 03.07.08 | 17.08.09 | 35.27 | 35.16 | 0.12 | 35.27 | 0.32% |
| | **SECTOR : WATER SUPPLY & SANITATION** | | | | | | | **51.00** | **50.19** | **0.81** | **51.00** | **1.59%** |
| 6 | Rural Water Supply and Sanitation Program (RWSSI) | ADF Loan | 10.10.07 | 15.05.08 | 31.12.13 | 05.12.08 | 03.06.09 | 51.00 | 50.19 | 0.81 | 51.00 | 1.59% |
| | **SECTOR : SOCIAL** | | | | | | | **84.74** | **37.29** | **47.48** | **84.74** | **56.03%** |
| 7 | Community-Based Poverty Red. Project | ADF Loan | 03.11.00 | 02.02.01 | 31.12.09 | 11.09.02 | 15.09.09 | 20.00 | 0.84 | 19.16 | 20.0 | 95.80% |
| 8 | Health Systems Development Project (IV) | ADF Loan | 11.09.02 | 15.10.02 | 31.12.10 | 25.06.04 | 18.05.09 | 34.74 | 7.5 | 27.24 | 34.74 | 78.42% |
| 9 | Skill Training and Vocational Educ. Project | ADF Loan | 27.07.05 | 22.05.06 | 31.12.11 | 25.09.07 | 01.09.09 | 30.00 | 28.95 | 1.05 | 30.00 | 3.50% |
| | **SECTOR : MULTI-SECTOR** | | | | | | | **4.00** | **0.18** | **3.82** | **4.00** | **95.38%** |
| 10 | Institutional Support for Governance and Capacity Building | ADF Grant | 18.10.01 | 07.12.01 | 30.06.09 | 09.10.02 | 14.05.09 | 4.00 | 0.18 | 3.82 | 4.00 | 95.38% |
| | **MULTINATIONAL OPERATIONS** | | | | | | | **162.09** | **147.18** | **14.91** | **162.09** | **45.7%** |
| 11 | NEPA-CEB Power Interconnection | ADF Loan | 27.11.02 | 25.03.03 | 31.10.09 | 01.11.04 | 18.01.08 | 11.87 | 2.08 | 9.79 | 11.87 | 82.48% |
| 12 | Invasive Aquatic Weeds Project | ADF Loan | 22.09.04 | 11.02.05 | 31.12.11 | 31.01.07 | 25.05.07 | 1.61 | 1.50 | 0.11 | 1.61 | 6.83% |
| 13 | NERICA Dissemination Project | ADF Loan | 26.09.03 | 12.12.03 | 31.12.10 | 05.02.05 | 20.02.09 | 5.57 | 4.42 | 1.15 | 5.57 | 20.58% |
| 14 | Capacity Building Program for Supervision of Aviation Safety in West and Central Africa (COSCAP) | ADF Grant | 27.04.05 | 19.05.05 | 31.12.09 | 19.05.05 | 23.07.07 | 4.60 | 3.24 | 1.36 | 4.60 | 29.57% |
| 15 | ECOWAS Peace and Development Project (PADEP) | ADF Grant | 29.09.04 | 05.11.04 | 31.12.10 | | | 10.00 | 8.81 | 1.19 | 10.00 | 11.90% |
| 16 | International Comparison Project for Africa (ICP – Africa) | ADF Grant | 09.10.04 | 01.10.05 | | | | 1.49 | 0.18 | 1.31 | 1.49 | 88.20% |
| 17 | Transport Facilitation Programme (Nigeria-Cameroon) | ADF Loan | 25.11.08 | | | | | 114.41 | 114.41 | N.A. | 114.41 | N.A. |
| 18 | Support to Network of Regional Institutions of Science & Technology (AUST & 2iE) | ADF Grant | 03.2009 | | | | | 7.0 | 7.0 | N.A | 7.0 | N.A. |
| 19 | Lake Chad Basin Sustainable Development (PRODEBALT) | ADF Loan | 12.12.08 | | | | | 5.54 | 5.54 | N.A. | 5.54 | N.A. |
| | **TOTAL PUBLIC SECTOR (NATIONAL)** | | | | | | | **235.01** | **167.38** | **67.68** | **235.01** | **29.00%** |
| | **TOTAL PUBLIC SECTOR (Incl. Multinationals)** | | | | | | | **397.1** | **314.56** | **82.59** | **397.1** | **31.2%** |
| | **PRIVATE SECTOR** | | | | | | | | | | | |
| | Lekki Toll Road Project | ADB Loan | 18.06.08 | 18.09.08 | 18.09.10 | 14.10.08 | 01.09.09 | 85.0 | 40.78 | 44.22 | 85.0 | 52.02% |
| 17 | Zenith Bank LOC II | ADB Loan | 13.12.06 | 19.04.07 | 01.08.13 | 18.05.07 | 28.12.07 | 100.0 | 0.00 | 100.00 | 100.0 | 100.00% |
| | LOC to FSB International Bank | ADB Loan | 18.10.01 | 05.03.02 | 28.02.04 | 01.07.03 | 28.10.03 | 18.0 | 0.00 | 18.00 | 18.0 | 100.00% |
| | LOC Zenith Bank PLC | ADB Loan | 02.03.05 | 17.05.05 | 16.0506 | 05.07.05 | 01.03.06 | 70.0 | 0.00 | 70.00 | 70.0 | 100.00% |
| | LOC Guarantee Trust Bank | ADB Loan | 12.12.05 | 17.05.06 | 31.12.07 | 21.07.06 | 21.12.07 | 40.0 | 0.00 | 70.00 | 70.0 | 100.00% |
| 18 | Line of Credit to Access Bank | ADB Loan | 13.12.06 | 27.08.07 | 31.12.08 | 17.10.07 | 02.02.09 | 35.0 | 0.00 | 35.00 | 35.00 | 100.00% |
| | **TOTAL PRIVATE SECTOR** | | | | | | | **378.00** | **40.78** | **337.22** | **378.00** | **86.6%** |

# MAP OF NIGERIA


This map is intended exclusively for the use of the readers of the report to which it is attached. The names used and borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.