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NIGERIA

JOINT IDA-IMF STAFF ADVISORY NOTE

ON THE

**NATIONAL ECONOMIC EMPOWERMENT AND DEVELOPMENT
STRATEGY**

OCTOBER 6, 2005

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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

NIGERIA

Poverty Reduction Strategy Paper

Joint Staff Advisory Note

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

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October 6, 2005

I. Overview

1. **The 2004 National Economic Empowerment and Development Strategy (NEEDS) focuses on Nigeria's commitment to rapid and sustainable growth and poverty reduction.** NEEDS is based on three pillars: (i) empowering people and improving social service delivery; (ii) fostering economic growth, in particular in the non-oil private sector; and (iii) enhancing the effectiveness and efficiency of government and improving governance. This Joint Staff Advisory Note (JSAN) was prepared in response to two recent events: (i) the e-classification of Nigeria as an IDA-only country on June 2, 2005, and (ii) the authorities' request for the IMF to support their reform program under a proposed non-borrowing instrument. Since NEEDS was prepared about 18 months ago, the JSAN presents an assessment of the strategy itself, progress in its implementation to date and the staffs' advice on key priorities for strengthening NEEDS and its implementation.

2. **The staffs of IDA and the IMF consider NEEDS a significant achievement.** NEEDS presents a first attempt to clearly articulate a coherent and comprehensive vision for economic growth and poverty reduction in Nigeria. In the view of the staffs, NEEDS correctly identifies the key development challenges Nigeria faces and proposes a response that is broadly sound. However, more work is needed to (i) understand better the nature and dynamics of poverty in Nigeria; (ii) prioritize and sequence the different elements of the strategy; (iii) make NEEDS more operational by detailing and costing specific sectoral strategies and programs to achieve the goals and objectives; and (iv) design and implement a strong evaluation and monitoring framework. Implementation of the strategy in 2004 and the first half of 2005 has been impressive, especially in the area of macroeconomic policies, but implementation of the overall strategy will need to be deepened and sustained over a period of time to begin to yield the desired impact on poverty.

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3. **Within the framework of Nigeria's federation, policy coordination between the three tiers of government is critical for achieving poverty reduction objectives.** This presents an important challenge that cuts across all sectoral initiatives and requires a much better definition of the roles and responsibilities of the various levels of government. The federal government has set up a framework to make subnational governments active partners in a nationally coordinated economic reform and poverty reduction strategy. Under the umbrella of NEEDS, all 36 states have now developed state specific poverty reduction strategies—State Economic Empowerment and Development Strategies (SEEDS), and 35 states have volunteered to be assessed on their SEEDS and on their implementation performance to date. This presents, for the first time, an avenue for coordinated macroeconomic and sectoral policies, including reform strategies in priority areas.

4. **The staffs recommend that the federal government accelerate the preparation of the first annual progress report and revise and update NEEDS based on the recent implementation experience.** Special attention should be paid to clarification of program targets in the core social sectors, as well as stronger linkage between NEEDS targets and MDGs. In addition, several sectoral strategies will have to be developed to facilitate implementation of NEEDS policies.

II. Poverty Diagnosis

5. **Poverty diagnosis in NEEDS is constrained by weak statistics on poverty, particularly on income poverty.** Surveys in 1980 and 1992 showed an increase in percentage of Nigerians living below the relative poverty line (defined as expenditures of less than 2/3 of the average per capita household expenditures), from 28 percent to 43 percent. A 1996 survey suggested a further increase in this level to 67 percent, but this is likely to be an overestimation in the light of the trend in GDP per capita over the same period (in addition, the various household surveys are not fully comparable over time). Based on the 1996 survey, the NEEDS document indicates that in 1999, over 70 percent of Nigerians lived below this relative poverty line, with an estimated 70 percent of this group living in rural areas. The available data on non-income indicators are weak as well, but they also suggest a high incidence of non-income poverty, especially in the rural areas. Life expectancy is a mere 54 years, and infant mortality (100 per 1000 live births) and maternal mortality (704 per 100,000 live births) are among the highest in the world. Only 64 percent of school age boys and 58 percent of girls attend primary school. These outcomes vary widely by income and by geographic location.

6. **A National Living Standards Measurement Survey (LSMS) was completed in 2004. Preliminary data from this source provide some of the first high-quality data on poverty levels in Nigeria.** Based on this data, the National Bureau of Statistics (NBS) estimates that in 2004, 54 percent of Nigerians lived below the relative poverty line of 2/3 of per capita household expenditures, while 22 percent lived below the extreme relative poverty line of 1/3 of average per capita household expenditures. Due to differences in coverage, these data are not directly comparable to earlier surveys. However, the current data provide a good

baseline for future poverty measurements. The LSMS also provides a good opportunity for stronger poverty diagnosis to inform the updating and operationalization of NEEDS.

7. **To move towards an effective poverty monitoring system, the staffs recommend that the government strengthens its framework for generating, regularly updating and disseminating income and non-income poverty data.** Capacity for poverty monitoring and analysis at the NBS needs to be strengthened as part of the ongoing restructuring of the agency. An important short term priority in this area is the implementation of a national Core Welfare Indicators Questionnaire (CWIQ) survey in 2005.

III. Macroeconomic Policies and Framework

8. **The staffs of IDA and the IMF support the thrust of the macroeconomic policies proposed in the NEEDS document.** The introduction in 2004 of a reference oil price in budget decisions is central to Nigeria's efforts to strengthen management of the volatility of oil revenue. Fiscal restraint, along with tight monetary policy was consistent with macroeconomic stability and inflation was reduced significantly by end-2004. Developments in the first half of 2005 were characterized by a pick-up in inflation and broad money growth. However, in June, the Central Bank of Nigeria (CBN) initiated actions to reduce broad money growth, including an increase in commercial banks' reserve requirements. The authorities have committed to implement a prudent fiscal policy consistent with maintaining macroeconomic stability and will therefore contain the 2005 non-oil primary deficit to 41 percent of non-oil GDP, while the deficit in 2006 is expected not to exceed 38 percent of GDP.

9. **The medium-term macroeconomic framework presented in the NEEDS document is broadly in line with staff projections under a policy reform/high growth scenario.** The medium-term macroeconomic outlook is positive against the backdrop of international oil prices that have increased substantially after the completion of the NEEDS document. Accordingly, external reserves have increased much faster than anticipated in NEEDS. NEEDS aims at achieving a medium-term annual growth of 7-9 percent in the non-oil economy, equivalent to real per capita income growth of about 4 percent, while maintaining single digit inflation, raising gross international reserve coverage to 7-8 months of imports (goods), and reducing the public debt burden to sustainable levels. Such sustained high growth rates are necessary to halve poverty by 2015 to meet the MDGs. To achieve these goals, which are very ambitious, overall favorable economic conditions and a strong coordinated implementation of reform policies will be needed across all main economic sectors. As done in some other countries preparing PRSPs, it may be useful to consider in the future alternative macroeconomic scenarios, some of which may be more in line with past experience. The staffs also recommend that fiscal projections in future NEEDS documents focus on the consolidated fiscal position, rather than just the federal government's fiscal position.

10. **NEEDS provides for a considerable increase in public investments, which primarily reflects the government's desire to address the country's vast development**

requirements. Nevertheless, this may result in a wider non-oil fiscal deficit and complicate the management of monetary policy, while leading to spending inefficiencies and crowding out exports and private investment. The staffs stress the importance of improving expenditure management, including by cost-benefit analyses for large investment projects, in order to reduce these risks (see below).

11. **The staff considers the passage and implementation of the Fiscal Responsibility Bill proposed in NEEDS as central to the sustained implementation of prudent fiscal policy, and to the reduction of the risks posed to macroeconomic stability by Nigeria's fiscal federalism.** The bill clarifies intergovernmental fiscal relations and the roles of the executive and the legislature in the budgetary process and sets out transparency requirements, sanctions for noncompliance, guidelines for budgetary practices, and a fiscal framework centered on an oil price-based rule. This will help improve macroeconomic management over the medium term. The staffs urge the authorities to complete work on the draft and intensify their efforts to garner support for the bill in the National Assembly and amongst state governors. As indicated in NEEDS, more work is also needed to improve revenue administration.

12. **NEEDS rightly recognizes that Nigeria's trade and tariff policies are out of tune with the rest of ECOWAS and with other developing countries and envisages a move to the ECOWAS Common External Tariff and the removal of the myriad of ad-hoc non-tariff barriers currently existing in Nigeria.** The staffs recommend that the government ensures that this major reform of the foreign trade regime is implemented in the second half of 2005 as scheduled. The new tariff system has four tariff bands (0, 5, 10 and 20 percent). A temporary 50 percent tariff band will be applied to selected imports that compete with locally produced goods. Import bans will be phased out by end-2006 and the 50 percent tariff band by end-2007, respectively. These measures are expected to enhance growth, redress anti-export bias in the current regime, and diminish incentives for smuggling and parallel market foreign exchange transactions. The staffs advise against NEEDS' proposal to use import restrictions to facilitate the restructuring of selected firms and industries, as this will harm other sectors of the economy.

IV. Public Expenditure Management

13. **NEEDS places considerable emphasis on strengthening public expenditure management to ensure that spending is effective, efficient, and clearly linked to the achievement of objectives of NEEDS.** The key elements of the strategy—improving the budgetary planning process, maintaining an oil-price based fiscal rule, adopting a Medium Term Expenditure Framework (MTEF), making public procurement open and competitive, strengthening the budget office, and ensuring better collaboration between the executive and the legislature on the budget—are sound. The authorities are now preparing an MTEF. Eight major ministries will formulate their medium term objectives and strategies in line with NEEDS and the MDGs, and link their spending programs to these objectives within the MTEF. In addition, a virtual poverty fund will be set up to track poverty-reducing spending. The authorities also aim to undertake annual public investment reviews and cost-benefit analyses for large investment projects to ensure rationalization of capital spending. However, more work is needed to detail the strategy to strengthen public expenditure management and

the timeline for implementation. Financial management processes need to be modernized and a system for poverty-focused expenditure tracking and reporting for state and local governments needs to be developed. The staffs also recommend that the authorities renew efforts to secure passage of the Public Procurement Bill, which provides for establishment of a Public Procurement Bureau to oversee all public procurement.

V. Sectoral Policies

14. **Agriculture is identified as a major priority in NEEDS, but the strategy for achieving the ambitious performance targets needs to be better articulated and operationalized.** Agriculture is the backbone of the rural economy, and since about 70 percent of the poor live in rural areas, agricultural growth would have a high impact on reducing poverty. Nigeria's rich endowment of land and water resources confers a high potential for agricultural growth, but this potential is not being realized. The staffs stress that the achievement of the government's vision for agriculture as a major driver of growth and poverty reduction will require development of a comprehensive agricultural development strategy that directly addresses issues related to (i) the coordination of policies, including government support, in the sector; (ii) access to key production inputs such as seeds, fertilizer, and credit; (iii) definition of roles and responsibilities among the various actors in the sector, (iv) sequencing of interventions, and (v) strengthening cross-sector linkages.

15. **The staffs agree with the education and training strategy outlined in NEEDS, and urge the authorities to flesh out the operationalization and costing of the strategy.** More detailed analysis of the institutional and administrative structure for implementation is also recommended. The staffs also urge the authorities to prepare national and state secondary and tertiary education strategies in line with the objectives of NEEDS that aim to realign education with the needs of the labor market. More analysis of the growing demand for middle and higher level skills and how the quality of graduates can be improved at each level is needed. The staffs propose that the authorities review experiences in other federal systems regarding the use of matching grants in education and health to help define more clearly how the matching grants system suggested in NEEDS can be operationalized.

16. **The Universal Basic Education (UBE) Act, passed in May 2004, sets out roles and responsibilities and a new organizational structure at the federal level.** It includes a definition of the roles of federal agencies for formal education, non-formal programs, early childhood and nomadic education. Despite the considerable effort in the preparation of the UBE program, implementation will be challenging and will require close coordination between federal, state and local governments.

17. **NEEDS provides a comprehensive list of necessary activities in the health sector and supports the finalization of important legislation defining a national health system and the responsibilities of the three levels of government in the sector.** The health sector strategy outlined in NEEDS is extremely ambitious in terms of what can realistically be accomplished within the proposed time frame. Moreover, there is no clear indication of priorities and little indication of a sequence for introducing the changes. The staffs recommend that the authorities work to prioritize and detail the strategy, including by

articulating elements that, as the NEEDS indicates, are yet to be prepared. The staffs stress the need for policies to address the large disparities across regions in health services utilization and health outcomes and the need for increased funding of the sector, especially at state and local government levels. In addition, within the new set of government responsibilities defined in the National Health Act, all stakeholders will have to work hard to build the ownership and capacity of state governments, while simultaneously getting federal agencies to play a more facilitating, as distinct from implementing, role.

18. To implement NEEDS' health sector strategy, the authorities have prepared a new National Health Policy (approved in 2004) and a detailed Action Plan for achieving progress towards the MDGs. Key elements of the action plan include (i) a strengthening of the role of state governments in supporting local governments to provide basic health services (ii) developing a National Health Insurance Scheme to help more effectively channel the significant private resources in the system; and (iii) strengthening the federal government's direct support to primary health care under the Health Act. Each of these elements presents a significant coordination and technical challenge.

19. With a prevalence rate of 5 percent, Nigeria is at the tipping point for an expansion of HIV/AIDS. NEEDS unambiguously recognizes the potential negative impact of HIV/AIDS on the economic and social well being of Nigerians and outlines a sound strategy for meeting this challenge.

20. NEEDS recognizes the importance of a competitive private sector for rapid and broad-based economic growth in Nigeria. The strategy focuses on reducing administrative and regulatory barriers, promoting privatization, enhancing access to key infrastructure and specific measures to promote growth in selected key sectors. The discussion of private sector development however focuses on the formal capital intensive segment of the sector. The staffs recommend that greater emphasis be placed on strategies to develop the currently non-formal small scale sector and allow these enterprises to transit to the formal economy. The authorities will also need to pay greater attention to analytical work on labour market dynamics and the extent to which labour market regulations constrain productivity and growth.

21. As part of the strategy to develop the private sector, NEEDS highlights the importance of a well developed and stable financial sector and outlines an ambitious strategy in this regard. Progress has been already made in its implementation. The CBN announced a major bank restructuring reform in July 2004. The minimum capital requirement will be increased from about US\$15 million to US\$190 million at end-2005. The capitalization program is supported by measures to encourage bank consolidation through mergers and acquisitions. A high-level steering committee to guide the process was established in June 2005. While welcoming these steps, the staffs recommend that the CBN develops a strategic plan to deal with failing banks, strengthen its legal powers to close them, and enhance banking supervision. Moreover, the scope of the financial sector reform program needs to be broadened to improve the lending environment for banks and increase the capacity of the financial system to fulfill the financial service needs of the economy.

22. NEEDS emphasizes rapid development of energy resources as critical for growth and poverty reduction. It outlines an ambitious strategy to raise generation capacity by over 3000 MW in the next three years through public private partnerships. The staffs recommend that in parallel with this effort to raise generation, adequate attention be paid to strengthening and improving transmission and distribution networks. The staffs also recommend that the recently adopted Electric Power Sector Reform Act be fully implemented, particularly in terms of expeditious set up of the regulatory framework and establishment of a competitive market for open access to the grid, to ensure the proper environment for more active engagement of the private sector. Since incremental power generation will depend crucially on access to domestic natural gas and associated essential infrastructure investments, the staffs also urge sustained pursuit of reforms in the gas sector. In addition to steps to improve transparency in the petroleum sector, the staffs advice completion of ongoing commercialization of the NNPC, the privatization of the oil refinery complexes and the articulation of a national petroleum sector strategy, which should include a plan for the re-introduction of a market-based mechanism for setting petroleum product prices. Considerable work has been done on appropriate strategies to encourage development of the local gas market. Reform legislation, which is now under consideration in the National Assembly, has to be adopted shortly. In addition, more attention could be paid in the strategy on the issue of access and affordability of energy services (and in fact other basic infrastructure services) at the household level, especially for the poor.

23. The weak financial discipline in the power sector requires further government attention. The annual subsidy from the federal budget to cover financial losses and investments in the sector amounts to nearly US\$400 million, higher than the federal budget for health. It will be important to identify the “full costs” of providing power and begin to translate this into appropriate pricing of the service, while introducing adequate mitigation measures to protect vulnerable groups. As part of efforts to improve financial discipline in the sector, the government is also implementing a strategy called CREST (Commercial Reorientation of Electricity Sector Toolkit) that targets loss reduction, energy accounting, commercial improvements and customer service enhancements. The objective is to build value in the distribution business in order to pave the way for further reforms and private sector participation.

24. Implementation of the reforms underpinning the power strategy gained momentum with the unbundling of National Electric Power Agency into eleven distribution business units, six generation units and a Transmission Business Unit between January and October 2004. These units are now operating as virtual companies as a prelude to their eventual set up as registered public companies under the new Electric Power Sector Reform Act.

25. The transport strategy which focuses on rapidly privatizing key infrastructure services; providing targeted transport service interventions for the poor and vulnerable; and encouraging public-private partnership in the delivery and management of transport infrastructure is appropriate. It also stresses the importance of sustainable road maintenance arrangements. The staffs recommend that the specific institutional and policy reforms needed to ensure service efficiency and sustainability be elaborated. The staffs also

urge the government to pay specific attention to (i) enacting the Public-Private partnership in Infrastructure Bill, and entrenching the principle of balanced share of risks by adoption of a transparent costing process in the infant stages of the partnerships; (ii) drafting and enacting legislation to establish the proposed Federal Highway Authority; (iii) drafting and enacting legislation to establish the National Roads Board and the Road Fund to finance road maintenance on a sustainable basis; and (iv) assisting states in improving mobility of and access to all season roads by rural communities.

26. In line with this strategy, the government has now begun implementation of both port and railway reforms aimed at institutional restructuring, streamlined staffing, improved private sector participation and establishment of an independent regulator. Negotiations are underway for the management of four port terminals to be handed over to private operators.

27. NEEDS highlights the government's desire to accelerate privatization. While the privatization strategy is sound, the pace of the process was disappointing in 2004. However, the authorities have ambitious plans for further privatizations and concessioning in 2005-06, including in key sectors such as oil and gas, power, telecommunications and transport. The government is also taking steps to upgrade legal and regulatory frameworks, creating a regulator for each sector to ensure transparency and accountability, and expanding market opportunities for private sector participation, including in unbundled services for the power and oil and gas sectors. In the area of privatization as well as in a number of other sectoral reform areas considered above, it will be important for the authorities to consider conducting Poverty and Social Impact Analyses of the potential impact of selected reforms on the poor.

VI. Governance, Transparency and Accountability

28. Strengthening the accountability and transparency of public policies, fighting systemic corruption in public institutions, and enforcing the rule of law are central elements in NEEDS. The authorities believe that weak governance practices have been the root cause for Nigeria's poor economic performance and stalled reform efforts. The NEEDS strategy is comprehensive and broadly sound. Its specific elements include greater budget transparency; transparency in the oil sector; procurement reform, strengthening of anti-corruption agencies such as the Independent Corrupt Practices and Related Offences Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC); and review and strengthening of relevant laws and regulations. Implementation of these measures has been vigorous. The government has raised the profile of its anticorruption drive through the arrest and trial of high-level officials. A civil service reform program has recently been extended from the pilot ministries and agencies to the entire civil service, and work is under way to computerize the civil service roster and the payroll.

29. Nigeria has made significant progress in advancing its commitment to the Extractive Industries Transparency Initiative (EITI). Passage of an EITI bill, expected before end-2005, will provide the legal basis for collecting and publishing oil revenue data. Furthermore, an international firm is auditing the oil and gas accounts of both government and oil companies for 1999-2004. Physical and cost audits of the oil and gas industry will follow

and the results are expected to be published by the end of 2005. Campaigns have also started to inform the wider public about the objectives of EITI and its relevance to the Nigerian population. Other critical actions include the publication of audited NNPC accounts and transparent licensing of new exploration and production rights. The staffs advice that in line with the EITI, the above transparency and good governance initiatives be extended beyond the government departments/ministries to cover major parastatals.

VII. Participation, Coordination, and Monitoring

30. The authorities have deepened civil society consultation and participation during NEEDS preparation and implementation. Core information is being provided to the Nigerian public on the management of public expenditures and on the NEEDS objectives. This is empowering Nigerians to demand accountability from the government. The federal government has also begun efforts to bring civil society into consultations on budget preparation.

31. The poverty reduction strategy has been an important vehicle for donor coordination. Nigeria's donor partners worked closely to support the preparation of the NEEDS and have also supported the ongoing benchmarking of states' performance under their SEEDS. Donors are now framing their assistance around NEEDS and SEEDS, thus bringing greater coherence into donor support programs. The World Bank and DFID have prepared a joint strategy of assistance to Nigeria and other donors are likely to join this partnership. On the side of the government, donor coordination is being strengthened through the consolidation of this function within the federal Ministry of Finance.

32. The government has recently inaugurated a high level Committee for Monitoring progress towards the implementation of NEEDS/SEEDS and the MDGs. This is chaired by the President and includes state governors, key ministers and directors of federal agencies. A technical secretariat to inform the work of this high level committee has also been set up. An MDG monitoring framework, which includes an expenditure tracking system, is being put in place. However, monitoring of NEEDS/SEEDS and the MDGs and tracking expenditures is complicated by Nigeria's federal structure and the considerable autonomy of states and local governments. A particular challenge will be to define proper roles and build adequate capacity for several agencies (such as Joint Planning Board, National Council on Development Planning, etc.) that are central to program monitoring. The staff highlighted the need for considerable technical assistance over a period of time to build needed capacity, particularly at the state and local levels. Building capacity of civil society to engage on budgets and on NEEDS will need to be a central element of this effort. The staffs noted the critical importance of considerably strengthened statistics for adequate monitoring and evaluation of the NEEDS.

VIII. Conclusion

33. In sum, Nigeria's poverty reduction strategy is a major first step forward in defining a credible agenda and framework for economic growth and poverty reduction. Given the complexity of Nigeria's poverty reduction challenge, more work is needed in

subsequent revisions of the NEEDS to further prioritize, detail and operationalize the strategy, amend it in light of implementation experience and prepare a detailed costing of the program. In addition, a strong monitoring and evaluation framework needs to be built to regularly assess outcomes and impact. Implementation of the macroeconomic aspects of the NEEDS in 2004 and early 2005 has been impressive. The authorities have taken bold steps to improve macroeconomic policy management and to tackle corruption, in keeping with their intention to consolidate democracy and improve the business climate.

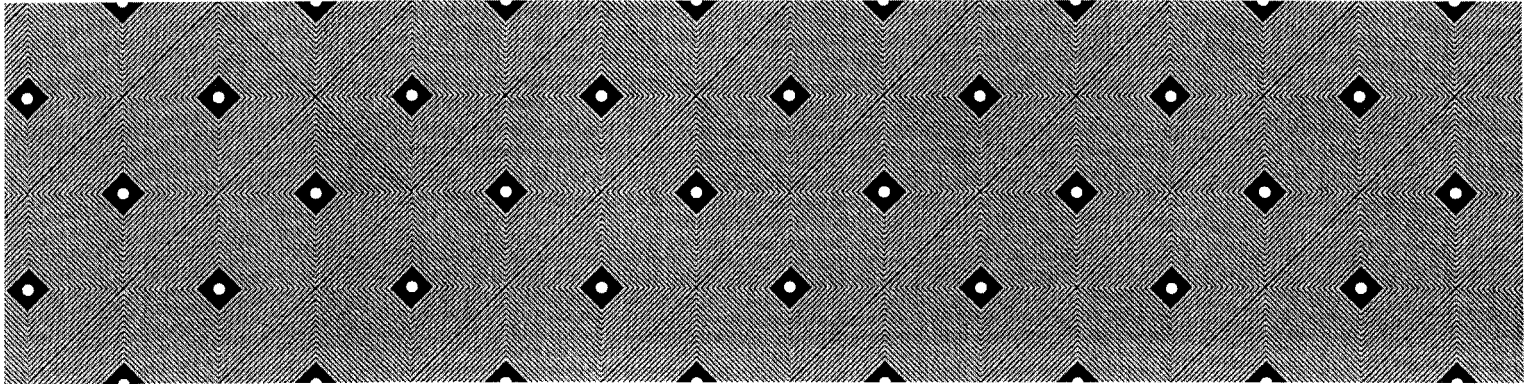
34. At the same time, the staffs point to considerable risks for successful implementation of the NEEDS. Domestic political support for reforms could diminish as Nigeria approaches the 2007 national elections. There are also fundamental risks associated with a possible negative oil price shock. Finally, institutional and technical capacity within the public service to implement and monitor the NEEDS is limited. To reduce these risks, the staffs recommend (i) adhering to the oil-price based fiscal rule, based on a conservative international reference price for oil; (ii) accelerating adoption of core reform laws (such as fiscal responsibility, procurement, and EITI bills); (iii) strengthening the government communication strategy to increase understanding of the benefits of reforms; and (iv) focusing implementation efforts to achieve “quick wins” in service delivery.

35. As the government strengthens the focus and implementation of its poverty reduction strategy, the main challenges are:

- to maintain sound macroeconomic policies and strengthen the links between the poverty reduction strategy and annual government budgets by the timely development and update of a Medium-Term Expenditure Framework aligned with the strategy;
- to strengthen the basis for private sector growth by improving power and transport infrastructure;
- to improve transparency and accountability of the public sector, rationalize the public investment program, and reduce corruption;
- to secure adequate resource allocations for the health and education sectors, improve service delivery, and develop a poverty-related expenditure tracking and reporting system for all government levels; and
- to update NEEDS, develop sectoral strategies, strengthen the links between NEEDS and SEEDS, and develop NEEDS-based performance targets and progress reporting.

IX. Issues For Discussion

- Do Directors support the staffs’ view that NEEDS is a major first step forward in defining a credible agenda for economic growth and poverty reduction in Nigeria?
- Do Directors agree with the priorities for strengthening NEEDS and its implementation, as identified by the staffs?
- Do Directors agree with the major risks to the strategy, and the measures that could be taken to mitigate these risks, as identified by the staffs?



Meeting Everyone's Needs

National Economic Empowerment and Development Strategy

Nigerian National Planning Commission

Abuja 2004

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Foreword

The National Economic Empowerment and Development Strategy (NEEDS) is the response to the development challenges of Nigeria. In 1999, most people grossly underestimated the extent of social, political, and economic decay of the country. Since 1999, we have succeeded in stabilizing the polity, consolidated the democratic governance structure, and made modest progress in the social and economic spheres. Over the next few years (2003–07), NEEDS will consolidate the achievements of the previous four years and lay a solid foundation for sustainable poverty reduction, employment generation, wealth creation, and value reorientation.


Nigeria has all it takes (human and material resources) to become the strongest economy in Africa—and one of the leading economies in the world in the longer term. The goal of NEEDS is to mobilize the resources of Nigeria to make a fundamental break with the failures of the past and bequeath a united and prosperous nation to generations to come.

I am particularly happy that if there is anything like a home-grown reform programme, NEEDS is it. For the first time, we embarked on an extensive consultative and participatory process, involving major stakeholders in the design of NEEDS. It is this national ownership, together with the results already visible, that will

ensure the sustainability of the NEEDS beyond 2007. As we all know, it is only bad plans that do not allow for periodic amendments. NEEDS is a living document, and aspects of it may be modified in the light of implementation experiences. Nigerians have agreed, however, that the major thrusts of NEEDS are what Nigeria needs to move forward.

The reform programme is rightly ambitious. For one thing, we need focused goals and ambition to make progress. The programme reflects the impatience of Nigerians to see things change dramatically and also the fact that Nigeria has immense potential waiting to be unleashed, talents to be tapped. Having lost some decades, we are in haste to cover lost ground, catch up with our contemporaries, and become the largest and strongest economy in Africa. We are, however, mindful of the need to sequence the reforms to minimize the costs and preventable pitfalls while maximizing the benefits.

While we look forward to a better future under NEEDS, we are not unmindful of the long and difficult journey ahead. The economic and development agenda under NEEDS must of necessity be complemented by other reforms—especially in the electoral and political governance architecture that is consistent with deepening and sustaining democracy. The



political class, legislature, and judiciary need to also think about and act on reforms so that we all can build a more sustainable future.

Some state governments have already designed and are implementing their own State Economic Empowerment and Development Strategy (SEEDS). Other states need to complete their own SEEDS as necessary complements to NEEDS. As the saying goes, if you fail to plan, you plan to fail. Medium-term planning also needs to be mainstreamed at the local government levels, and more effective accountability and transparency need to be instituted at the lower levels of government. For sustainable poverty reduction in Nigeria, the

states and local governments also need serious reforms.

Finally, let me commend NEEDS to all Nigerians and to all stakeholders in the Nigerian economy. It is your plan: seize it with both hands. It should be our collective responsibility to ensure effective implementation and monitoring. Chapter 11 on implementation details the roles and responsibilities of everyone in ensuring effective implementation. Everyone has a role to play. If everyone plays it well, Nigeria will surely be great again—and soon. In my dreams I see a new Nigeria in the hands of God. As I traverse all parts of Nigeria, I feel a new Nigeria emerging. Let us therefore join hands and make Nigeria even better.

Olusegun Obasanjo, GCFR
President, Federal Republic of Nigeria



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Preface

This is the first volume of the National Economic Empowerment and Development Strategy (NEEDS) working document. After two months of nationwide consultations and debates on the earlier draft document, it was substantially revised, as comments and contributions received from stakeholders and government officials were incorporated. The volume specifies the broad strategic thrusts, targets, and instruments of NEEDS, charting the overall direction of change, the destination, and how to get there. Volume II, the Implementation Guide, includes matrices of objectives, specific targets, implementation timelines, responsible agencies, and similar detail for each reform element described in this volume.

Work is still ongoing on some technical aspects of the strategy, especially on costing the programme; developing nationally coordinated sectoral strategies for agriculture, the environment, health, education, water, and infrastructure; and streamlining and rationalizing implementation agencies and the coordination framework. The federal ministries responsible for these issues will collaborate with the National Planning Commission, with the respective state government ministries, and with relevant stakeholders to develop the national sectoral strategies and project plans. National sectoral councils will play a critical role in this process. The output of these sector-wide strategies will feed into the revisions of the NEEDS document.

NEEDS provides a framework for a nationally coordinated programme of action by the federal, state, and local governments. Most of what is articulated here refers to actions by the federal government. However, with state and local governments controlling half of consolidated public sector spending, effective coordination among the tiers of government in the federation

is key for success. Without state and local governments, federal programmes alone would amount to attempting to clap with one hand.

The importance of coordination was recognized very early in the development of NEEDS. Through the statutory organs for intergovernmental coordination (the National Economic Council, the National Council for Development Planning, and the Joint Planning Board), state governments not only endorsed the thrusts of NEEDS but also committed to developing State Economic Empowerment and Development Strategies (SEEDS).

The states also agreed on a minimum set of priorities that each state government must reflect in its SEEDS, namely, agriculture, small and medium-size enterprises, rehabilitation and maintenance of infrastructure (especially roads), and public finance reforms and transparency. The National Planning Commission is collaborating with donor agencies to provide technical assistance to the states in developing their SEEDS as a necessary complement to NEEDS. Using the Guidance Manual it prepared, the National Planning Council is organizing training workshops for the states in the six geopolitical zones of the country on preparing, monitoring, and evaluating state plans.

In addition, work will soon begin on a full Medium-Term Expenditure Framework and a clearly articulated Project Plan for the medium term. A policy matrix (indicating the status of each policy measure) is also being prepared.

The 2004 budget proposals already reflect some of the major thrusts of NEEDS. The sectors that are key to poverty reduction—health, education, electricity, roads, and water—received the highest priority in resource allocation, receiving about 60 percent of the total capital budget.



Overview

What Is NEEDS?

NEEDS—the National Economic Empowerment and Development Strategy—is Nigeria's plan for prosperity. It is the people's way of letting the government know what kind of Nigeria they wish to live in, now and in the future. It is the government's way of letting the people know how it plans to overcome the deep and pervasive obstacles to progress that the government and the people have identified. It is also a way of letting the international community know where Nigeria stands—in the region and in the world—and how it wishes to be supported.

What is the vision for Nigeria? What kind of Nigeria do we want for ourselves, for our children, and for the rest of the world? These questions were our starting point in creating a plan for prosperity. In the three years it took to develop NEEDS, a dedicated team travelled the country, holding meetings and workshops to identify what the Nigerian people want for the future, what problems they face, and what can be done to overcome them.

NEEDS is the people's plan. It is up to regular Nigerians as well as the government to see that it is implemented.

A Vision of Tomorrow's Nigeria

The NEEDS vision is based on the Constitution; the Kuru Declaration (box 1); previous initiatives, such as *Vision 2010*; and the widespread consultation and participation throughout Nigeria that was part of the NEEDS process. The programme's core values draw on the *Vision 2010* report, which recognized the importance of respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence, and moral courage.

Before the restoration of democracy, Nigeria suffered setbacks that tarnished its reputation. A primary aim of NEEDS is to create a new Nigerian citizen who values hard work and who realizes that one cannot have something for nothing. Achieving this aim may be the strongest action Nigeria can take to build a better future for its people.

Box 1 The Kuru Declaration

The 2001 Kuru Declaration embodies the vision we have for Nigeria: to build a truly great African democratic country, politically united, integrated and stable, economically prosperous, socially organized, with equal opportunity for all, and responsibility from all, to become the catalyst of (African) Renaissance, and making adequate all-embracing contributions, subregionally, regionally, and globally.

*NEEDS is Nigeria's
plan for prosperity*



Although Nigeria is rich in natural and human resources, 7 of every 10 Nigerians live on less than \$1 a day. NEEDS wishes to make poverty a thing of the past in Nigeria. It aims to create a Nigeria that Nigerians can be proud to belong to and grateful to inhabit, a Nigeria that rewards hard work, protects its people and their property, and offers its children better prospects than those they may be tempted to seek in Europe or the United States. All citizens, regardless of gender, race, religion, or politics, should feel that they have a stake in Nigeria's future and that their loyalty and diligence will be rewarded. The NEEDS vision is also one in which Nigeria fulfils its potential to become Africa's largest economy and a major player in the global economy.

How Can NEEDS Help Realize This Vision?

NEEDS focuses on four key strategies: reorienting values, reducing poverty, creating wealth, and generating employment. It is based on the notion that these goals can be achieved only by creating an environment in which business can thrive, government is redirected to providing basic services, and people are empowered to take advantage of the new livelihood opportunities the plan will stimulate (figure 1).

NEEDS sets out far-reaching public reforms that will make clear that corruption and graft will

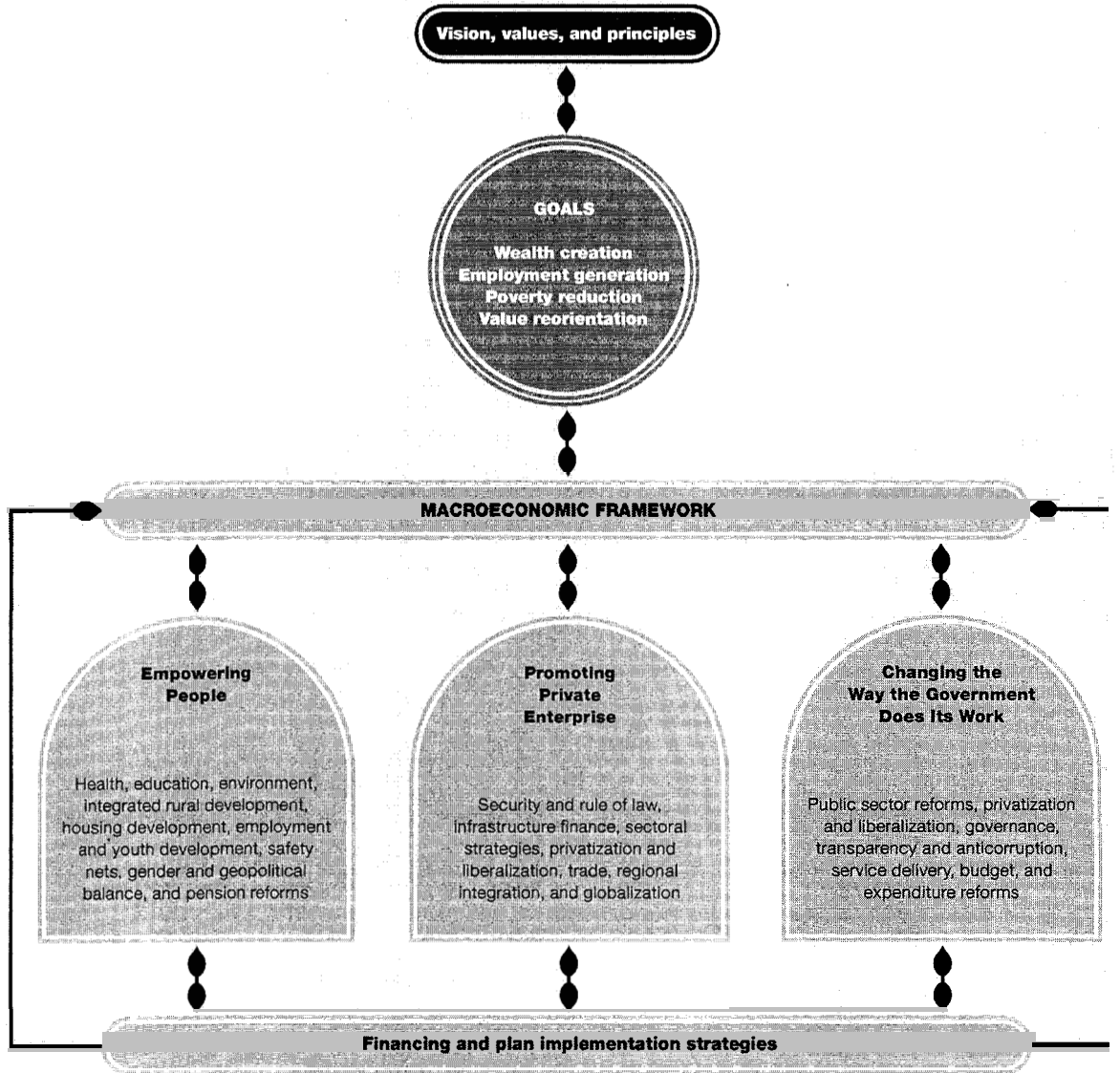
be punished. The National Orientation Agency and its state-level counterparts will be strengthened to lead a campaign to re-instill the virtues of honesty, hard work, selfless service, moral rectitude, and patriotism. The campaign will draw on resources from a variety of government agencies, nongovernmental organizations (NGOs), and community-based organizations, including schools colleges, universities, and private sector, religious, social, cultural, and traditional organizations.

NEEDS is about the Nigerian people. Their welfare, health, employment, education, political power, physical security, and empowerment are of paramount importance in realizing this vision of the future. To reduce poverty and inequality, the plan proposes acting on several fronts:

- Offering farmers improved irrigation, machinery, and crop varieties will help boost agricultural productivity and tackle poverty head on, since half of Nigeria's poor people work in agriculture. Supporting small and medium-size enterprises will help create jobs. Together with the state economic empowerment and development strategies (SEEDS), NEEDS seeks to implement an integrated rural development programme to stem the flow of migration from rural to urban areas.

NEEDS focuses on four key strategies: reorienting values, reducing poverty, creating wealth, and generating employment

Figure 1 **NEEDS at a Glance**



- Half of Nigeria's people are children, the bridge to a prosperous future. NEEDS recognizes the importance of children by making the improvement of the education system a top priority.
- HIV/AIDS is a major social and health problem. It also threatens the country's productivity and economy. The plan is to improve the system of health care delivery, with emphasis on HIV/AIDS and other preventable diseases, such as malaria, tuberculosis, and reproductive health-related illnesses.
- NEEDS calls for replacing the pension scheme, which is in crisis, with a contributory scheme. It proposes special programmes targeting people who have the weakest political voice and who are most vulnerable to the ravages of poverty. Laws and programmes will be implemented to empower women, children, the disabled, and the elderly.

NEEDS emphasizes the critical importance of improving infrastructure. More—and more reliable—electricity and a new and better maintained network of roads will encourage businesses to expand.

NEEDS gives special support to agriculture, industry, small and medium-scale enterprises, and oil and gas. Under the plan, the government will seek long-term capital for investment. Trade policy, so critical to Nigeria's stake in the regional economy, will be modified to unburden business of the red tape and complex procedures that hinder it from flourishing. NEEDS envisages forging stronger links between educational institutions and industry to stimulate rapid industrial growth and efficient exploitation of resources.

Empowering people. By allowing the private sector to thrive, NEEDS creates opportunities for

employment and wealth creation. It empowers people to take advantage of these opportunities by creating a system of incentives that reward hard work and punish corruption, by investing in education, and by providing special programmes for the most vulnerable members of society.

Promoting private enterprise. The private sector will be the engine of economic growth under NEEDS. It will be the executor, investor, and manager of businesses. The government will play the role of enabler, facilitator, and regulator, helping the private sector grow, create jobs, and generate wealth. Deregulation and liberalization will diminish governmental control and attract private sector investment.

Changing the way the government does its work. NEEDS aims to restructure the government to make it smaller, stronger, better skilled, and more efficient at delivering essential services. It seeks to transform the government from a haven of corruption to an institution that spurs development and serves the people.

The number of government jobs will decline, and the cost of running the government will fall dramatically, as in-kind benefits for civil servants, such as subsidized housing, transport, and utilities, are monetized. Reforms and regulations will be implemented to ensure greater transparency and accountability, and corrupt practices will be outlawed. Government activities and budgeting will be informed by a framework that connects policy with government income and expenditure.

Our Future, Our Plan

NEEDS is a development plan like no other ever seen in Nigeria. It identifies the major problems we face today and suggests how we can begin

NEEDS aims to restructure the government to make it smaller, stronger, better skilled, and more efficient at delivering essential services



Box 2 We Are Already Making Progress

NEEDS builds on the progress made between 1999 and 2003. It used the information and insights generated during the two-year effort to prepare the Interim Poverty Reduction Strategy Paper and the wide consultative and participatory processes associated with it.

The government has already delivered significant benefits.

International relations

- Nigeria has reintegrated with the regional and international community.
- Nigeria is a founding member of the New Economic Partnership for African Development and the Economic Community of West African States (ECOWAS).
- Nigeria is the current chair of the Office of the Commonwealth.
- Nigeria has shown that it has strategic importance in Africa and is a source of stability in West Africa. It led an international peacekeeping force to Liberia and Sierra Leone and is playing a continuing peace-keeping role in the subregion.

Infrastructure development

- Electricity generation in Nigeria has doubled since 1999.

- The number of telephone lines rose from just 400,000 in 1999 to about 3 million in 2003.

Economic development

- Government support to agriculture has boosted productivity. According to the UN Food and Agriculture Organization, Nigerian agriculture grew an unprecedented 7 percent in 2003.
- Industrial capacity more than doubled, from 29 percent in 1999 to 60 percent in 2003.
- Income grew at an average rate of 3.6 percent between 1999 and 2003—a significant increase over the 2.8 percent rate of growth during the 1990s.
- Unemployment fell from 18 percent in 1999 to 10.8 percent in 2003, and 3.5 million new jobs were created.
- Foreign direct investment in the nonoil sector grew at an average annual rate of 3.6 percent between 1999 and 2003.

Security

- The police force doubled in size between 1999 and 2003.

The government is committed to consolidating and expanding these achievements under NEEDS.

NEEDS differs from earlier development plans in three important ways

- *It is the people's plan for prosperity*
- *It coordinates action at the federal and state levels*
- *It is a feasible plan*

to solve them over the next four years. It sets realistic targets for progress and outlines a way of funding activities to achieve them.

NEEDS is the first Nigerian development plan that integrates economic development efforts at the federal and state levels. It does not confine itself to specific sectors or limit itself to addressing only the major challenges identified. Instead, it looks at the big picture, examining how the challenges identified in each sector affect one another.

The plan enjoys widespread commitment, from the President to village chiefs. The government has set up a monitoring framework at the federal, state, and local government levels

through commercial enterprises and community-based organizations. Using this framework, it can check the progress it is making against the targets set out in NEEDS.

How Is This Plan Different?

NEEDS differs from earlier development plans in three important ways. First, it really is the people's plan for prosperity. Our government wrote the plan, using the information it collected from the Nigerian people.

Past development plans have been made without sound knowledge of the causes of poverty. Before drafting this plan, for the first time the government investigated how ordinary

Nigerians live. The process began in 2001, when people from all walks of life and all parts of Nigeria were given the chance to tell the government about their needs and ambitions. Information collected from farmers, labourers, factory owners, teachers and university professors, community-based organizations, charities, and other stakeholders was used to draft an Interim Poverty Reduction Strategy Paper.

NEEDS builds on the information gathered for that strategy paper. We continued to consult with stakeholders in preparing the first draft of NEEDS. The government circulated the draft plan in April 2004, asking the people who took part in earlier consultations for their comments. This process gives us confidence that the final version of NEEDS reflects the true feelings of the Nigerian people about where the country stands today and how it should develop and grow over the next three years.

Second, NEEDS coordinates action at the federal and state levels. It connects problems on the ground with programmes at the federal and state levels. Each state drafts its own SEEDS, which identifies priority programmes for key areas of development.

This coordination is critically important when it comes to financing development programmes. For the first time in Nigeria, government and key beneficiaries will work at the national level to develop sector-wide strategies for key sectors, including agriculture, solid minerals, and small and medium-scale enterprises. The federal government will be able to budget accurately for development programmes at the national and state levels.

Finally, NEEDS is a feasible plan. The fact that Nigerians have spent so much time and effort giving their views allowed the drafting committee to write a plan based on a thorough understanding of what life is like for people at all levels of

society. The targets for progress are realistic, not “pie in the sky” objectives that will never be achieved. The targets are achievable, because they were set after taking into account the extent of the problems, the skills and funds needed to address them, and the amount of funding and expertise that can be mobilized over the next three years.

What Prevents Progress?

Despite great natural wealth, Nigeria is poor and social development is limited. If present trends continue, the country is not likely to meet the Millennium Development Goals.

Three main problems hamper progress:

- Not all our people enjoy the same chance of prosperity.
- Past governments in Nigeria, instead of focusing on delivering essential public services, assumed control of major sources of national income. In the process, corruption thrived in public service and gained a strong foothold in society.
- The environment in Nigeria is hostile to private enterprise, not one that helps businesses generate jobs and create wealth.

Poverty and Inequality

The plan for prosperity must address a startling paradox: more than two-thirds of the Nigerian people are poor, despite living in a country with vast potential wealth. Although revenues from crude oil have been increasing over the past decades, our people have been falling deeper into poverty. In 1980 an estimated 27 percent of Nigerians lived in poverty. By 1990, 70 percent of the population had income of less than \$1 a day—



The plan for prosperity must address a startling paradox: more than two-thirds of the Nigerian people are poor, despite living in a country with vast potential wealth



Perhaps the greatest hindrance to progress has been the boom-and-bust mode of economic management, encouraged by the dominance of oil in the economy

and the figure has risen since then. Poverty levels vary across the country, with the highest proportion of poor people in the northwest and the lowest in the southeast.

Why are so many of our people poor? Poverty is dynamic and has many dimensions. People may move in and out of poverty as a result of natural disasters or health problems, lack access to credit, or the lack of natural resources. Poor people are more likely to live in rural areas, be less educated, and have larger families than the rest of the population.

Poverty has many causes, all of which reinforce one another. One source of poverty is the lack of basic services, such as clean water, education, and health care. Another is lack of assets, such as land, tools, credit, and supportive networks of friends and family. A third is lack of income, including food, shelter, clothing, and empowerment (political power, confidence, dignity). Some of these factors directly affect poverty. Others contribute indirectly, by producing inequality—by stifling the political power of certain sectors of the population, for example, or denying them their dignity or human rights. All of these factors are affected by the environment in which people live. Discrimination on the grounds of gender, race, disability, age, or ill health increase vulnerability to poverty. So do natural or human-caused shocks—market collapses, conflicts, droughts, or floods.

The many strands of poverty intertwine and can pull people into a downward spiral. Because tackling one factor may not be enough to lift a family out of poverty, an effective poverty-reduction strategy must attack poverty on all fronts at the same time. Poverty is not the same as inequality, but solving the problems of inequality can help lift people out of poverty. One of the key ways in which NEEDS is different from

previous development plans is that it relies on a holistic view of the social and economic challenges facing Nigeria and offers a multi-pronged approach to tackling them.

Weak and Inappropriate Public Sector

Nigeria's legacy of mismanagement and corrupt governance has encouraged many people to seek ways of sharing the national cake instead of helping bake it. By 1999 corruption was practically institutionalized. Government was widely regarded as a provider of large contracts, distributed by officers in power to people wealthy enough to buy their influence. This was particularly so in the case of the oil industry. Over time, the judiciary became intimidated, as the rich and powerful manipulated laws and regulations to their advantage. Instead of engaging in productive activities that would help our economy grow, people chose instead to peddle their influence and position. The legitimacy and stability of the state suffered, as people began to devise ways to survive that lay outside the law.

Poor Economic Management

Perhaps the greatest hindrance to progress has been the boom-and-bust mode of economic management, encouraged by the dominance of oil in the economy. Past governments allowed oil income to influence spending: when income was high, spending was high, while dips in oil prices were treated as temporary. Together with poor coordination between federal and state governments in budgeting and expenditure, this practice led to spiralling debt. Today all tiers of government spend far more than they earn: the deficit for the past five years alone amounts to more than ₦1 trillion. With external and domestic debt of 70 percent of GDP, current revenue is largely eaten up just by debt service.

Nigeria has one of the weakest economies in the world, and it has lost decades of development as a result of slow economic growth. Despite oil export earnings of about \$300 billion since the mid-1970s, average income in 2000 was 20 percent lower than in 1975. Despite the mounting debt burden, past governments did not control public expenditure. Policies were not coordinated within federal departments or between federal and state governments. As a result, the national plan and budget have little relevance today as a guide to funding and implementing development programmes.

Hostile Environment for Private Sector Growth

Overdependence on oil and traditional sectors, such as agriculture and services, is partly due to the hostile business environment. Businesses wishing to operate in Nigeria face many constraints, including poor infrastructure, particularly road networks and electricity supply; inadequate physical security; corruption; weak enforcement of contracts, and the high cost of finance. These factors have deterred foreign entrepreneurs from investing in Nigeria and induced many Nigerians to take their money and skills abroad.

How Will NEEDS Change Things?

The success of NEEDS rests on three pillars: empowering our people, creating a legal and financial environment that enables us to make the most of our natural resources and flair for business, and reforming our laws and the way our government works. Remove or weaken any of these three pillars and NEEDS will topple, just like a three-legged stool will fall if any of its legs is removed.

Empowering People


Meeting the needs of our people and nation is the primary aim of the plan for prosperity. NEEDS insists that every Nigerian has the right to adequate water and sanitation, nutrition, clothing, shelter, basic education, and health care, as well as physical security and the means of making a living. NEEDS proposes a contract between the Nigerian people and their government in the form of a social charter, or bargain. This charter recognizes the people's rights to government services that provide basic needs for life. In return, the people agree to work hard and honestly to make NEEDS a success. In formalizing the contract between the people and the government, NEEDS empowers the people to challenge the government if it does not keep its side of the bargain.

NEEDS recognizes that poverty has many strands and must therefore be tackled from several different directions at once. It recognizes that the government must work not only to improve incomes but to tackle the many other social and political factors that contribute to poverty. These are very difficult to separate and are therefore often thought of as a bundle of factors that result in social exclusion. A poorly educated farmer is less likely to know how to keep his family healthy and less able to find alternative employment. As a result, he is more vulnerable to external shocks, such as drought or falling market prices. NEEDS empowers the poor by tackling social exclusion head on, paying particular attention to generating jobs to improve incomes, housing, health care, education, political power, and physical security.

To improve the lives of the Nigerian people, NEEDS includes plans for creating jobs, creating affordable housing, improving health care services, strengthening the skill base, protecting the vulnerable, and promoting peace and security.

NEEDS recognizes that the government must work not only to improve incomes but to tackle the many other social and political factors that contribute to poverty and social exclusion





Nigeria's future prosperity depends on producing children who are well prepared to take their place in tomorrow's society

Creating jobs. At 5.3 percent, the rate of urbanization in Nigeria is among the highest in the world. Since manufacturing is stagnant, there are few jobs for the growing urban population, and urban unemployment is currently estimated at 10.8 percent. The major focus of NEEDS is therefore economic empowerment. NEEDS policies will create about 7 million new jobs by 2007 by making it easier for private enterprises to thrive, by training people in skills relevant for the world of work, and by promoting integrated rural development in collaboration with the states (through their SEEDS programmes).

Creating affordable housing. Nigeria needs more houses that average Nigerians can afford. To address the problem, NEEDS will take several steps:

- Make it easier for developers to buy land on which to build affordable housing.
- Cut the cost of building houses by encouraging the use of local building materials.
- Train a new generation of architects in designing low-cost housing.
- Enable construction companies and local and state governments to assume responsibility for providing low-cost housing.

Improving health care services. NEEDS will fully review health care services in order to design a strong national health system that can deliver effective, good-quality, and affordable services to all Nigerians. The new policies will target priority diseases, such as malaria, tuberculosis, HIV/AIDS, and reproductive health-related illnesses. A stronger emphasis on health education will help make Nigerians more aware of their rights and obligations regarding health services as well as promote disease prevention.

NEEDS will also prioritize the creation of a National Health Insurance Scheme and a Blood Transfusion Service. It will support the establishment of a strong manufacturing base for essential drugs and reagents. Antenatal, postnatal, and family planning services and outlets will receive targeted support in order to reduce maternal and infant mortality.

Strengthening the skill base. Nigeria's future prosperity depends on producing children who are well prepared to take their place in tomorrow's society. The NEEDS strategy therefore seeks to implement the Universal Basic Education law in order to increase school enrolment and provide better schools and colleges and better-trained teachers and trainers. Specifically, NEEDS will ensure that more funds are spent on:

- Providing courses that build vocational and entrepreneurial skills
- Building technical schools and buying equipment
- Improving training and exposure to information and communication technology at all levels
- Making French compulsory from primary through secondary schools
- Providing special distance learning programmes for specific segments of the population, including nomadic peoples.

NEEDS will promote strict adherence to the University Autonomy Act, which permits universities to attract private-sector funding and institute new mechanisms to cover their operating costs. The courses taught at universities will be changed to reflect the priority demands of the economy. Science and technology, particularly information and communications technology, will be mainstreamed. Innovative approaches will be developed to ensure that lecturers have access to

continuing professional development so that they remain at the cutting edge of their disciplines. Wages will be linked to performance, and students will be exposed to mobilization and reorientation campaigns that emphasize the critical importance of hard work, discipline, and selfless service.

Protecting the vulnerable. In addition to these comprehensive measures, special attention must be paid to particularly vulnerable groups. NEEDS provides a safety net that will prevent people from becoming poor or poorer. Special programmes will protect the rural and urban poor, people living with HIV/AIDS, women, widows and widowers, and victims of ethnic violence, crime, unemployment, or loss of income (table 1).

Promoting peace and security. To promote peace and security, a national action plan will:

- Reform the security sector.

- Reorient police officers to offer more people-friendly service.
- Establish an early warning and response system that will detect conflicts.
- Provide a fairer allocation of revenues and responsibilities between federal and state governments.
- Mainstream conflict prevention by establishing structures and processes that promote a peaceful culture.

Promoting Private Enterprise

If the private sector is to become Nigeria's engine of growth, its motor needs to be primed. The government has to make certain fundamental changes to create an environment in which business will thrive. In the language of economists, it has to create a macroeconomic framework—a kind of overarching, national housekeeping budget—that will ensure that Nigeria makes the most of what it earns as a

If the private sector is to become Nigeria's engine of growth, its motor needs to be primed

Table 1 Targeted Instruments for Protecting Vulnerable Groups

Group	Instruments and Interventions
Rural poor	Access to credit and land; participation in decisionmaking; agricultural extension services; improved seeds, farm inputs, and implements; strengthening of traditional thrift, savings, and insurance schemes
Urban poor	Labour-intensive public works schemes; affordable housing, water, and sanitation; skill acquisition and entrepreneurial development; access to credit; scholarships and adult education
Women	Affirmative action (to increase women's representation to at least 30 percent) in all programmes; education, including adult education; scholarships; access to credit and land; maternal and child health
Youth	Education, entrepreneurial development, skill acquisition, access to credit, prevention and control of HIV/AIDS and other sexually transmitted diseases
Children	Children's Parliament, juvenile justice administration, universal basic education, education for girls, care of orphans and vulnerable children (children affected by HIV/AIDS), prevention and treatment of childhood diseases
Rural communities	Water, rural roads, electricity, schools, health facilities, communications

nation, that it spends only what it can afford, and that all levels of government use the same budget.

NEEDS proposes that the government not spend more than it takes in, not pay for unbudgeted programmes or projects, not purchase goods or services that do not contribute to Nigeria's development. It also suggests increasing taxes to pay for basic services. Under NEEDS the government will try to stabilize the value of the naira and create a system to ensure that it has sufficient foreign exchange to buy the goods it needs from other countries.

Under NEEDS, the government will:

- Diversify the economy away from oil and solid minerals in order to increase economic stability and generate jobs.
- Privatize, deregulate, and liberalize publicly owned industries to promote competition, expand industries, generate employment, create wealth, and receive value for money.
- Develop infrastructure, particularly power generation, transport, and telecommunications infrastructure, to stimulate growth of the private sector.

NEEDS proposes the following strategies to stabilize and rationalize public spending, increase domestic savings and private investments, and address the issue of public debt:

- Adopt a medium-term expenditure framework to ensure predictable and sustainable public financing at all levels of government.
- Implement tax reforms to increase revenues.
- Enact a Fiscal Responsibility Pact to ensure the coordination of government expenditure across all tiers of government.
- Adopt an oil price-based fiscal rule and a fund for excess revenues from crude oil sales.

- Adopt a public expenditure rule that prohibits the deficit from exceeding 3 percent of GDP.

Many of Nigeria's laws and regulations stifle private enterprise. NEEDS seeks to simplify import and export procedures to make importing and exporting a less daunting prospect and to increase the turnover of businesses in the sector. The reform programme will also:

- Increase access to credit.
- Implement a coherent and consistent trade policy.
- Implement the comprehensive tax reform bill to eliminate multiple taxation and remove barriers to the growth of a vibrant private sector.
- Hold regular dialogue with private sector operators and participate in economic planning based on market principles.
- Grant land use rights and facilitate private sector development in the area of social and environmental responsibility (box 3).
- Empower indigenous small and medium-size enterprises by imposing minimum quotas for local produce in tendering and procurement processes.

Improving infrastructure. Reforms in the transport sector aim to complete the 3,000-kilometre network of roads and strengthen the Roads Maintenance Agency, which oversees the repair and rehabilitation of some 500 roads. The government aims to develop the country's sea ports to handle modern shipping activities, upgrade the railways, and achieve total radar coverage of Nigerian airspace.

Power alone accounts for 5 percent of new business start-up costs. Simply providing more and more reliable power could triple the amount Nigerian industries produce by 2007. Under

Simply providing more and more reliable power could triple the amount Nigerian industries produce by 2007

Box 3 Maintaining the Environment

Nigeria is endowed with a rich and diverse natural environment, but over the years it has reaped its riches with insufficient care for the livelihoods and well-being of future generations. NEEDS will address several areas of concern:

- *Waste production and disposal.* Development has proceeded with no regard for waste management or pollution control. Cities have inadequate systems for the safe disposal and treatment of waste. As rural emigration to urban areas grows, the problem worsens.
- *Deforestation.* Some 92,000 hectares—a quarter of our land—was once covered in forest. Today just half of our forests remain, and the potential for their future exploitation is extremely limited. Deforestation has been followed by erosion and desertification in some areas.

- *Conservation of unique habitats.* Nigeria has two-thirds of Central Africa's mangrove stands and wetlands. These are among the most important mangrove habitats in the world, but they are under threat from exploitation of timber, oil spills, gas flaring, and the impacts of increasing coastal urbanization.
- *Pollution and other problems.* Our environmental laws are inadequate and are not enforced. We do not know how much biodiversity has been lost as a result of oil and gas development.

NEEDS aims to turn this bleak picture around by establishing a regulatory agency to enforce environmental laws, monitor industry compliance, conduct environmental audits and impact assessments, and set standards. NEEDS seeks to develop a private-public sector partnership scheme to address the increasing problems of waste management.

NEEDS the National Electric Power Authority, formerly a government enterprise, will be unbundled into distinct business units, which will eventually be privatized. The industry will be regulated by a new regulatory agency, and a fund will be set up to increase access to electric power in rural areas.

Many people in Nigeria spend one to three hours a day collecting water for domestic use. Providing them with access to safe water can offer them the chance to use those hours in more economically productive activities. NEEDS aims to increase access to safe drinking water for at least 60 percent of the population.

Promoting industry. NEEDS proposes developing the industrial sector by relying more on local resources and less on imports. It will be guided by a local research and development strategy that seeks to promote science and technology-based small and medium-size

enterprises. These enterprises will be developed in science and technology parks and technology incubation centres. They will focus on food processing, industrial chemicals, information and communication technologies, biotechnology, electronics and space technology, and energy, oil, and gas.

A major policy thrust of NEEDS is the idea that Nigeria should stop squandering its natural resources by selling them as crude products. The more these products can be processed within Nigeria, the more jobs they will create and the more export earnings they will generate. NEEDS sets ambitious targets for the sector: 7 percent annual growth, 70 percent capacity utilization, and 70 percent of investment made by the private sector by 2007.

Improving agriculture. Agriculture is Nigeria's second-largest source of national wealth, after oil. NEEDS will promote the cultivation of improved,

Changing the way the government works is a colossal task, but NEEDS will build on processes that have already begun to make a difference



higher yielding crop varieties and provide extra support to agricultural research and training. NEEDS aims to encourage business interests to provide credit and supply and distribute agricultural inputs, such as seeds, fertilizers, and machinery. Silo complexes will be refurbished to increase the capacity of the food reserve programme and move closer to food security.

Promoting other sectors. NEEDS will promote programmes that develop information and communication technology, tourism, and entertainment and financial services. Proposed trade policy reforms will aggressively promote exports and harmonize tariffs with regional trade organizations while protecting local industries. The plan also envisages developing a deep sea port, free trade zones, and a shipbuilding facility in order to boost coastal shipping, international trade, and regional integration.

Changing the Way the Government Does Its Work

NEEDS seeks to restore trust in government as a facilitator of development, an institution that creates or maintains an environment that enables Nigerians to implement livelihood strategies and achieve personal goals. The government has to stop trying to run businesses and redirect its effort to providing essential services. It must sell off the businesses currently under its control in order to free up labour and funds that it can use to improve basic services.

Changing the way the government works is a colossal task, but NEEDS will build on processes that have already begun to make a difference. The administration has already put several essential building blocks in place.

In privatization and liberalization, the government has auctioned licences and begun

the process of attracting private investment in areas such as power generation and infrastructure development. To prevent nepotism, favouritism, and corruption, the government has transformed the process by which private companies bid for government contracts. It established the new Budget Monitoring and Price Intelligence Unit, which reviews, oversees, and certifies government contracts to ensure value for money. Commonly known as “due process,” this mechanism has already saved the Treasury hundreds of millions of naira.

The government has also instituted massive anticorruption campaigns and established the Independent Corrupt Practices and Other Related Crimes Commission and the Economic and Financial Crimes Commission, which outlaw corrupt practices. The government is committed to the Extractive Industries Transparency Initiative, which encourages oil companies to fully disclose revenues and costs of operations. The government’s televised auction of digital mobile licences was hailed as one of the most transparent licence auctions in the world.

Under NEEDS, the government will build on these efforts by:

- Strengthening and modernizing the anti-corruption organizations it has established.
- Exposing unethical and illegal practices and punishing those who engage in them.
- Encouraging organizations to adopt and publish formal codes of ethics.
- Establishing formal training in ethics and fostering leadership by example.
- Enacting a Fiscal Responsibility Pact and a Right to Information Act. The Fiscal Responsibility Pact will require government agencies to publish annual audited accounts within six months of their financial year end and set up a revenue

NEEDS policies will ensure that all levels of government adopt an annual budget framework and guidelines

stabilization fund into which windfall revenues will be transferred. The Right to Information Act will promote openness and feedback.

To reform the bureaucracy, the government has begun cutting civil service benefits. The government has monetized benefits such as utilities, domestic assistance, and drivers and reduced the incentive for corruption by offering civil servants higher wages, bonuses, and improved working conditions.

NEEDS policies will ensure that all levels of government adopt an annual budget framework and guidelines. The guidelines will promote balanced budgets, implementation of priority programmes, budget discipline, cost effectiveness, and the generation of internal revenues and savings. A peer review mechanism will enable heads of government agencies to compare their performance and nurture a common culture of excellence. The Joint Planning Board, the Joint Tax Board, and the National Economic Council will work together to achieve a more effective system of economic management. The NEEDS period should be characterized by the punctual release of annual budgets. As participants in the plan for prosperity, the Nigerian people will be kept informed of how well these measures are performing by the press and by special reports.

How Will NEEDS Be Implemented?

NEEDS is a holistic plan that touches all aspects of the economic and political life of our country. To ensure a high level of coordination, the NEEDS Secretariat is located within the National Planning Commission, the hub of all governmental planning processes (figure 2). Coordination will be the responsibility of the National Council on

Development Planning, which will also provide a forum for dialogue between government and the business community. This dialogue will be intensified under NEEDS; the business community will participate more in statutory coordinating meetings, especially in the Independent Monitoring Committee at the National Council on Development Planning.

The framework for decisionmaking and implementing NEEDS will be regular meetings of the National Economic Council, the Economic Advisor and Planning Commissioners, the Joint Planning Board, the National Planning Commission Directors and Directors of Planning, the research and statistics departments of all line ministries, and representatives from the Ministry of Finance, the Nigeria Institute for Social and Economic Research, and the Federal Office of Statistics.

Putting NEEDS into operation will rely on the instruments of the plan and the budget, the medium-term expenditure framework, Presidential directives, legislation, and decisions of the Executive Council. The National Planning Commission will establish consultation meetings with the priority sectors of agriculture, industry, small and medium-size enterprises, solid minerals, culture, tourism and others that the President may specify.

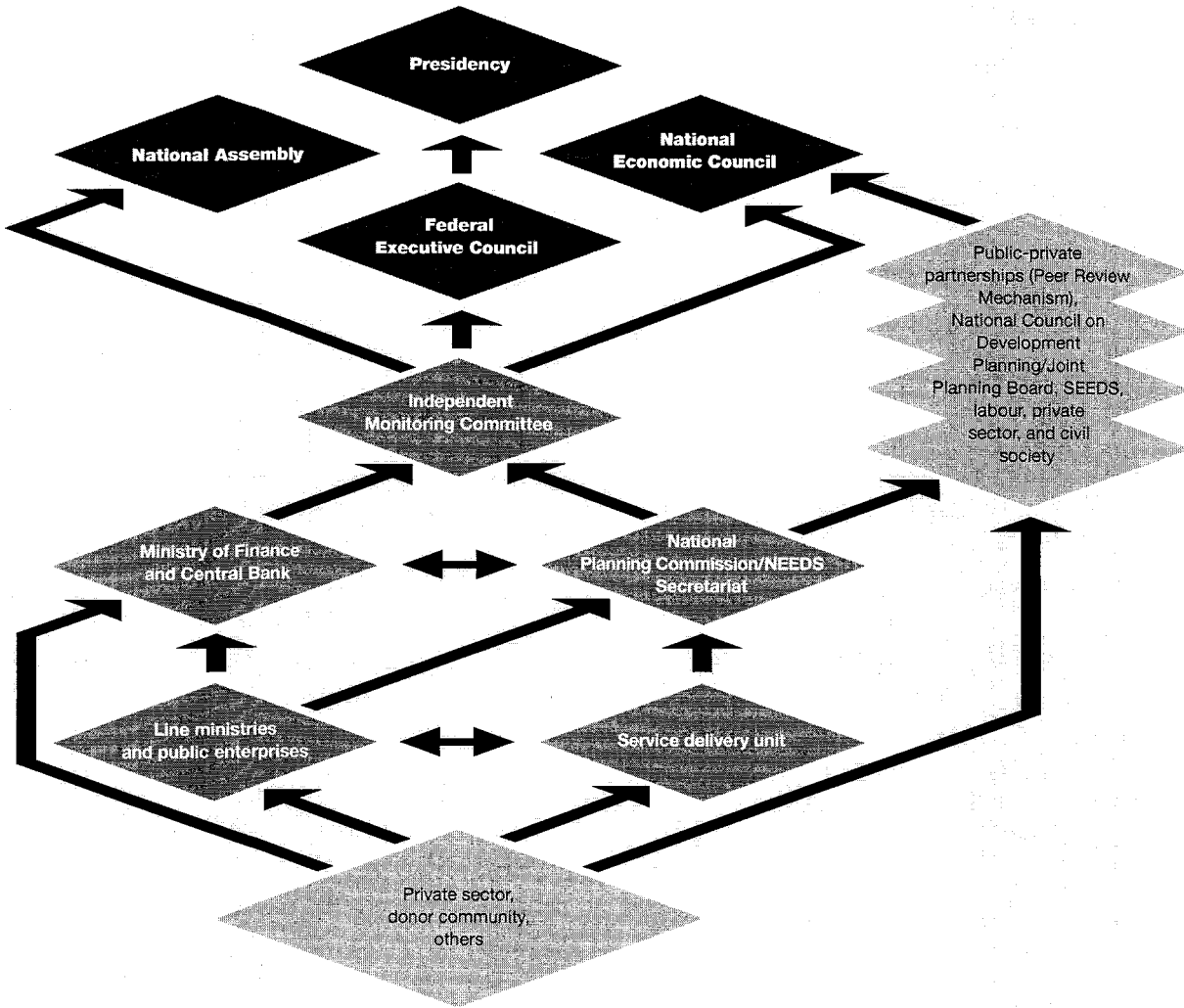
How Will We Pay for NEEDS?

NEEDS will cost about \$4.5 billion through 2007, much of which will have to come from outside Nigeria. Overseas development assistance—in the form of grants, loans, and technical assistance—is being sought. As the reforms begin to change the perceptions of Nigeria abroad, about \$1.5 billion in foreign direct investment can be expected in manufacturing, steel, construction, solid minerals, and large-



NEEDS will cost about \$4.5 billion through 2007, much of which will have to come from outside Nigeria

Figure 2 **How NEEDS Will Be Implemented**



scale farming. At the same time, the government will increase its income by eliminating waste, selling assets, and reforming the tax laws.

How Will We Know If NEEDS Is Working?

A new organization, the Independent Monitoring Committee, made up of members of the government, the private sector, the media, and civil society, will periodically monitor and evaluate programmes implemented under SEEDS and NEEDS. The committee will report directly to the National Assembly for information and to the President, through the National Economic Council, for appropriate action. The Federal Office of Statistics will be responsible for providing the data necessary to monitor the progress of the plan.

In collaboration with the National Planning Commission, the Presidency will select 15–20 large projects for intensive monitoring. In addition, national consultative councils will be set up for agriculture, industry, health, and education.

Representatives of the federal government, the national legislature, the states, local government, business, labour organizations, civil society organizations, and international organizations will take part in an annual joint

monitoring tour of all states to view progress and challenges. Their report will be presented to the National Economic Council for peer review and to the National Assembly for information.

The following information will be collected and analyzed as part of the monitoring and evaluation programme:

- Income per capita
- Changes in the cost of goods
- Amount and type of investment
- Income patterns across the population
- Development indices (infant mortality, primary school enrolment)

The Success of NEEDS Depends on All of Us

NEEDS is an excellent plan, but it is only a plan. However well thought out, plans remain merely thoughts on paper unless they are implemented. The President and his key advisors and ministers, governors and their key staff—all are fully committed to the reform programmes and to the massive changes that NEEDS calls on all Nigerians to make. All Nigerians have a stake in making NEEDS a success. The people of Nigeria must ensure that the government implements the reforms, and they must keep their side of the bargain by working hard to make NEEDS a success.

*All Nigerians have a
stake in making
NEEDS a success*



Table 2 Selected Targets under NEEDS, 2003–07

	2003	2004	2005	2006	2007
Macroeconomic					
Growth in real GDP (percent)	10.2	5.0	6.0	6.0	7.0
Growth in oil sector (percent)	23.0	0.0	0.0	0.0	0.0
Growth in nonoil sector (percent)	3.3	7.3	8.5	8.3	9.5
Reduction in poverty incidence (percent)	5.0	5.0	5.0	5.0	5.0
Minimum number of new jobs (millions)	—	1.0	2.0	2.0	2.0
Growth in real private consumption (percent)	—	4.8	4.8	4.8	4.8
Growth in real private consumption, per capita (percent)	—	2.0	2.0	2.0	2.0
Inflation rate (percent)	15.0	10.0	9.5	9.5	9.0
Sectoral					
Growth in agricultural sector (percent)	7.0	6.0	6.0	6.0	6.0
Growth in manufacturing sector (percent)	—	7.0	7.0	7.0	7.0
Manufacturing capacity utilization (percent)	53.0	—	—	—	70.0
Number of tourist visitors (percent)	—	10.0	10.0	10.0	10.0
Communication (teledensity)	1:40	—	—	—	1:25
Solid minerals	Self-employment for at least 500,000 Nigerians				
Agricultural exports	—	—	—	—	\$3 billion
Environment	Reduce all forms of environmental degradation by 30% of 2004 levels by 2007				
Fiscal					
Maximum public deficits (percent of GDP)	—	3.0	3.0	3.0	3.0
Maximum ways and means (percent of previous revenue)	12.5	10.0	10.0	10.0	10.0
Total expenditure (percent of GDP)	25.1	23.5	23.4	22.9	22.3
Recurrent expenditure (percent of total budget)	70.0	65.0	60.0	60.0	60.0
Capital expenditure (percent of total budget)	30.0	35.0	40.0	40.0	40.0
External sector					
External reserves (\$ millions)	7,187	7,687	8,687	9,687	10,687
Growth in imports (percent)	—	15.0	18.0	25.0	30.0
Growth in exports (percent)	—	10.0	20.0	25.0	30.0
Earning from nonoil exports (percent of total exports)	<5	—	—	—	>10
Food (percent of total imports)	14.5	—	—	—	7.5
Unrequited transfers	At least \$3 billion a year from remittances				
Financial					
Growth in credit to private sector (percent)	30.0	30.0	30.0	30.0	30.0
Education					
Adult literacy rate (percent)	57.0	—	—	—	65.0

Table 2 Selected Targets under NEEDS, 2003–07 (continued)

	2003	2004	2005	2006	2007
Health					
HIV/AIDS prevalence rate (percent)	6.1	—	—	—	5.0
Immunization coverage (percent)	39.0	—	—	—	60.0
Access to safe water (percent)	64.1	—	—	—	70.0
Access to adequate sanitation (percent)	53.0	—	—	—	65.0
Infrastructure					
Power generation (megawatts)	—	4,000	5,000	7,000	10,000
Roads (rehabilitation, maintenance and new roads)	3,000	3,500	3,500	4,000	4,000
Public sector reforms					
Public sector reform					
Economic coordination and institutional reforms					
Public-private sector partnership					
Security and administration of justice					
Judicial service reforms					
Prison reforms					
Eliminating corruption; improving transparency and accountability					
E-Governance					
Strengthening of National Statistical System					
Millennium Development Goal Targets					
Literacy rate of girls					
Primary school enrolment and completion					
Maternal mortality					
Infant mortality					

- Review the nature and relevance of collected data
- Restructure and strengthen the institutional capacity and professionalization of the statistical system
- Ensure production of timely, reliable, and relevant statistics

Note: The GDP growth projections are very conservative. The growth potentials are huge—not only in terms of the abundant human and material resources, but also for the fact that Nigeria mimics a post-conflict economy with lots of idle resources. With the various targeted presidential initiatives on agriculture, the increased coordination with the states on key priority sectors—agriculture, small and medium-size enterprises, infrastructure and social sectors—the growth effects are expected to be substantial. However, the projections are kept low, with clear possibilities that they could be exceeded.

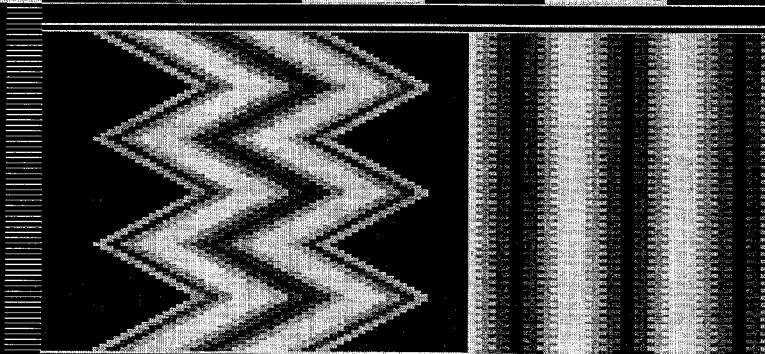
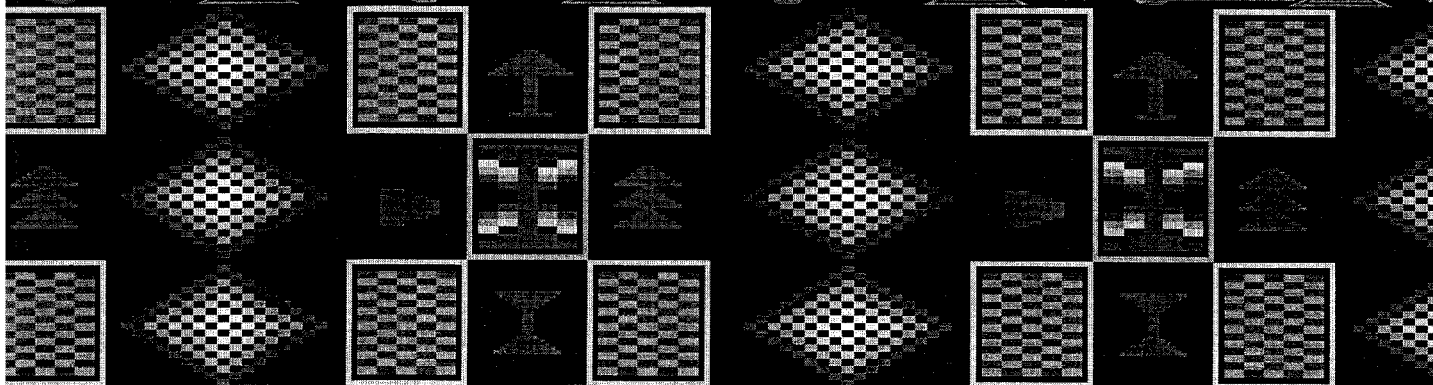
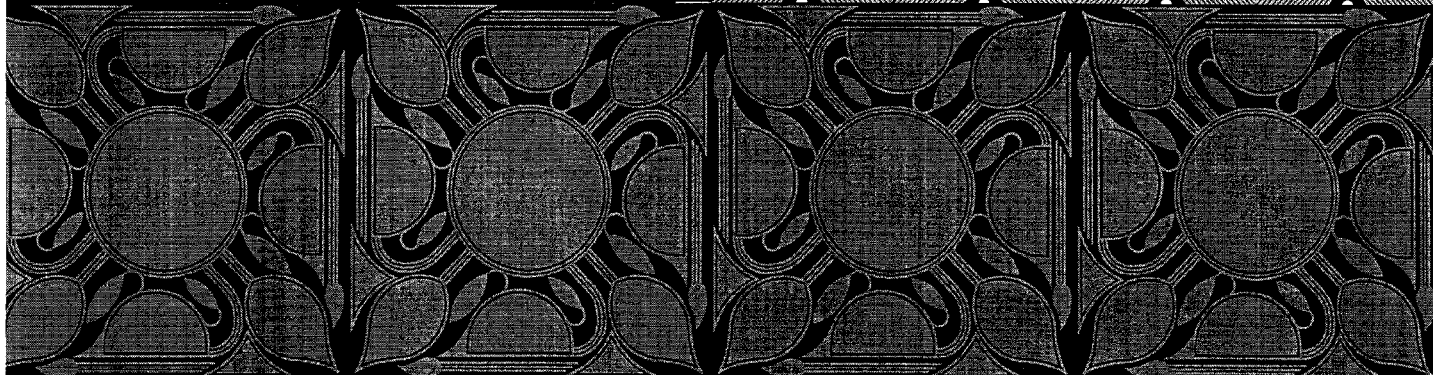
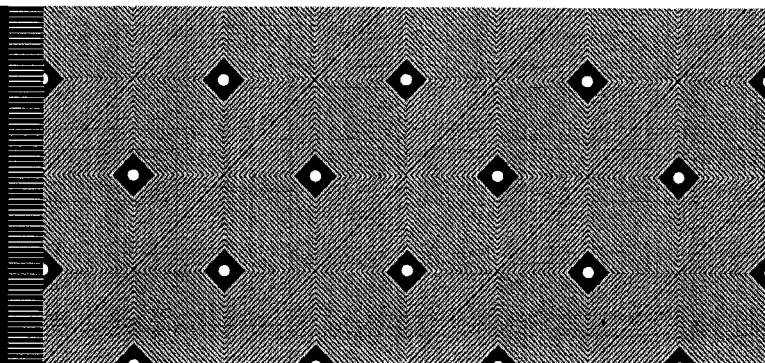
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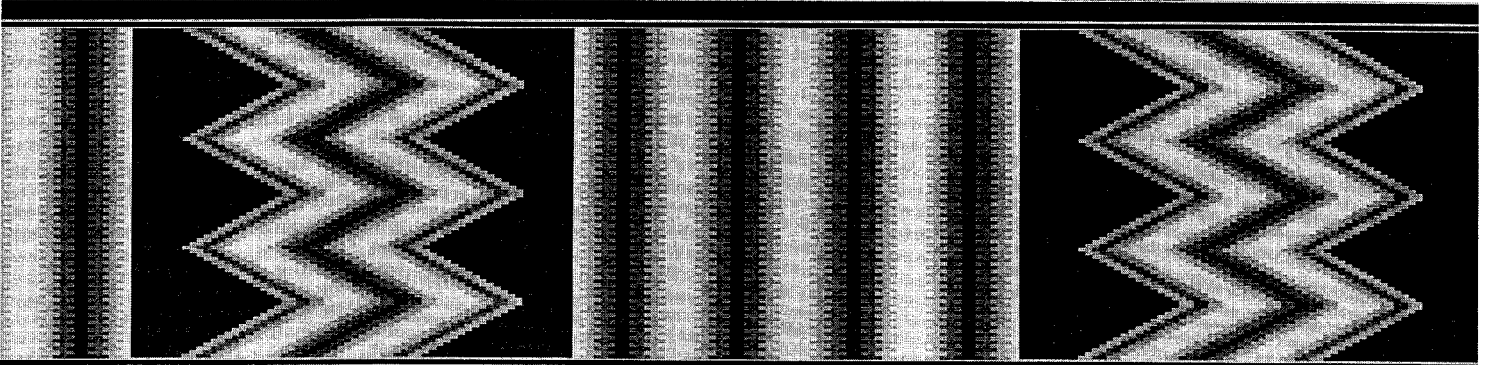
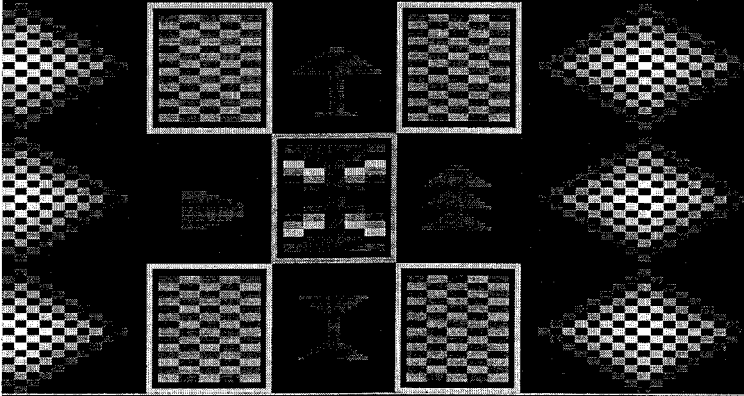
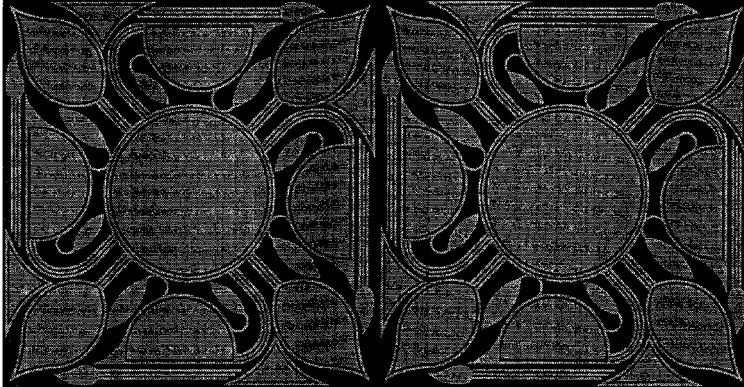
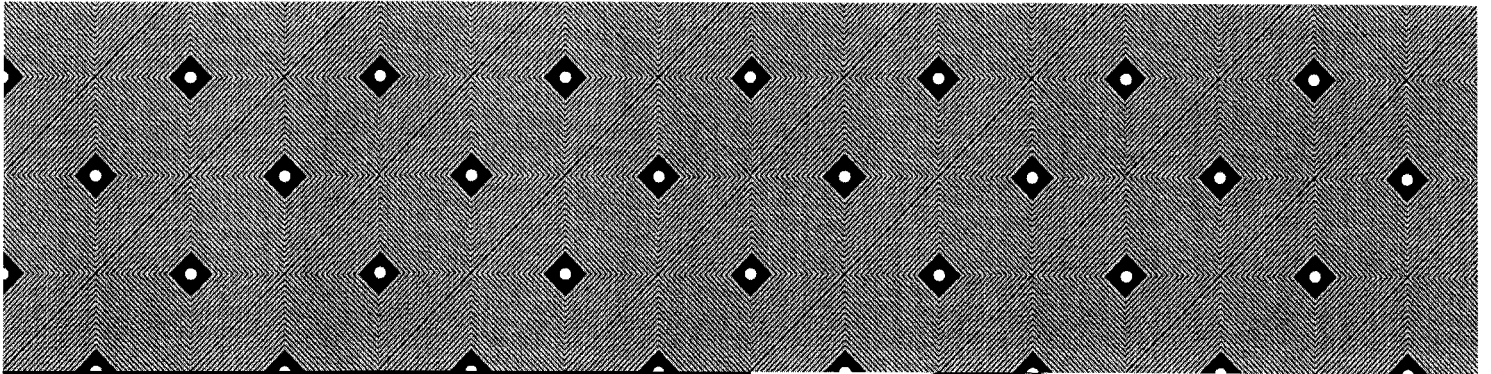
Vision and Macroeconomic Framework

Chapter 1
Statement of Vision, Values, and Principles

Chapter 2
The Development Challenges Facing Nigeria

Chapter 3
The Macroeconomic Framework







Chapter 1 Statement of Vision, Values, and Principles

NEEDS is not just a plan. It defines a process of development anchored by a clear vision, sound values, and enduring principles

NEEDS is not just a plan. It defines a process of development anchored by a clear vision, sound values, and enduring principles.

The vision for Nigeria's development derives from the country's history, endowments, experience, and aspirations. Development of this vision has drawn inspiration from the views of a cross-section of stakeholders and the aspirations of Nigerians as conveyed in provisions of the Constitution. The vision underscores the necessity and urgency of building a modern Nigeria that maximizes the potential of every citizen, of becoming the largest and strongest economy in Africa, and of becoming a force to be reckoned with in the world before the middle of the twenty-first century (box 1.1). Nigeria envisions a twenty-first century that is Africa's century, with Nigeria among the leading nations.

This vision was articulated in the 2001 Kuru Declaration, which states:

To build a truly great African democratic country, politically united, integrated and stable, economically prosperous, socially organized, with equal opportunity for all, and responsibility from all, to become the catalyst of (African) Renaissance, and making adequate all-embracing contributions, subregionally, regionally, and globally.

President Olusegun Obasanjo's government seeks to use NEEDS as a nationally coordinated framework of action, in close collaboration with state governments and other stakeholders, to consolidate the achievements of the past four years and build a solid foundation for the attainment of Nigeria's long-term vision. Over the medium term, NEEDS will lay the foundation and achieve significant progress in wealth creation, employment generation, and poverty reduction.

Core Values

NEEDS is anchored in the imperative to restore the fundamental values of Nigeria, which have been weakened over the years. As described in *Vision 2010*, "Nigeria is a multiethnic society, with a value system that derives from the diversity of its people, religion and cultures. The elements of this value system include respect for elders, honesty and accountability, cooperation, industry, discipline, self-confidence and moral courage." President Obasanjo captures the essence of the new value system as one that puts Nigeria, selfless service to country, and love of fellow citizen above all else. According to the President, "Always ask what is in it for Nigeria. I see a new Nigeria in the hands of the Lord. Our Mission is the creation of a New

Box 1.1 Nigeria at a Glance

Nigeria had an estimated population of 125 million in 2001—nearly one-quarter of Sub-Saharan Africa's population. It is estimated that one in every six black people in the world is a Nigerian. The country has more than 200 ethnic groups, with three major tribes, the Igbo (East), the Hausa (North), and the Yoruba (West). More than 500 indigenous languages and dialects are spoken. Average life expectancy at birth is 54 years.

Nigeria spans an area of 924,000 square kilometres, bordered by the Gulf of Guinea, Cameroon, Benin, Niger, and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. The Sahara Desert encroaches upon the extreme northern part of the country, while gully erosion threatens the carrying capacity of lands in the south. Some 10 percent of the land is covered with forest, including large stands of mahogany, walnut, and obeche. Bountiful flora and fauna create a rich source of biodiversity that serves as a reservoir of the pharmaceutical industry and a sustainable source of genetic materials for improving the nation's food production potential. But rapid deforestation has reduced Nigeria's forest by 50 percent in the past 15 years. The country's fishery resources are small, concentrated in the coastal area.

Agriculture is the dominant economic activity in terms of employment and linkages with the rest of the economy. Roughly 75 percent of Nigeria's land is arable, of which about 40 percent is cultivated. The United Nations Food and Agriculture Organization rates the productivity of Nigeria's farmland as low to medium—but with medium to good productivity if properly managed. Despite two major rivers, the Niger and the Benue, agriculture is predominantly rain fed. Yams, cassava, rice, maize, sorghum, and millet constitute the main food crops. The principal export crops are cocoa and rubber, which together account for nearly 60 percent of nonoil merchandise exports.

Nigeria has estimated proven oil reserves of 32 billion barrels, mainly in the southeastern and southern coastal area, and is the sixth-largest producer in OPEC. At the

current rate of production, these reserves are sufficient to last about 37 years. Proven natural gas reserves are estimated at 174 trillion cubic feet, with energy content slightly greater than the country's oil reserves. At current production levels, these reserves will last 110 years. Nearly 80 percent of the natural gas produced is currently being flared; most of the remaining 20 percent is used to generate electricity. It is expected that the export of gas will be substantial after 2004. Nigeria's rivers also constitute a substantial energy resource, providing the country with nearly half of its electricity.

Nigeria is blessed with abundant solid mineral deposits, including coal, tin ore, kaolin, gypsum, columbite, gold, gemstones, barites, graphite, marble, tantalite, uranium, salt, soda, and sulphur.

Nigeria has more than 60 universities and boasts an educated labour force. Various independent estimates put the unemployment and underemployment rate at more than 15 percent of the labour force, with a very high rate of unemployment among university graduates. The adult illiteracy rate is 49 percent. About 76 percent of children of primary school age attend school; the participation rate falls to 20 percent for children of secondary school age.

Capacity utilization in industry is about 50 percent. Independent estimates suggest that capital flight has been significant. If appropriate policies and enabling environment were in place to induce Nigerians to repatriate just the interest earnings on their assets, Nigeria could reap an estimated \$2–\$3 billion a year in return foreign direct investment—multiples of the current inflow of barely \$1 billion a year.

Nigeria has a large domestic market, which could serve as a springboard for entering export markets. These and many other national assets could pave the way for seizing the many development opportunities that come with cross-border cooperation and the globalization of industry, trade, and investment. With skillful management, such opportunities could be converted into higher per capita income, job creation, and reductions in poverty.



Nigeria where all the negative values in our society are reversed and in their place are established enabling values of a caring, well-governed society where justice and equity reign.”

These are the fundamental values upon which NEEDS rests. The strategy hopes to lay a solid foundation for a national rediscovery and strong values based on the following principles:

- Enterprise, competition, and efficiency at all levels
- Equity and care for the weak and vulnerable
- Moral rectitude, respect for traditional values, and pride in Nigeria’s culture
- A value system for public service that results in efficient and effective service delivery to the citizens
- Discipline at all levels of leadership

According to the 2001 Kuru Declaration (box 1.2), all public officials, elected and appointed, swear to abide by certain codes of values embodying Nigeria’s development objectives and human capital needs. NEEDS recognizes that these values cannot take root and be sustained unless conscious efforts are made to mobilize the Nigerian people around them. Without paradigm shifts, fundamental changes in mindset, and acknowledgment that business as usual is not acceptable, especially by the elite, the change that NEEDS seeks to bring about will be difficult to attain and sustain.

Furthermore, the National Assembly is poised to enact the relevant legislation for effective implementation of NEEDS. Some of these are listed in chapter 11.

Fundamental Principles

Under the Fundamental Objectives and Directive Principles of State Policy, the 1999 Constitution

of the Federal Republic of Nigeria mandates the following:

- The security and welfare of the people shall be the primary purpose of government.
- The state shall, within the context of the ideals and objectives for which provisions are made in this Constitution, harness the resources of the nation, promote national prosperity and an efficient, dynamic, and self-reliant economy and control of national economy in such a manner as to secure the maximum welfare, freedom, and happiness of every citizen on the basis of social justice and equality of status and opportunity.
- The state shall direct its policy towards ensuring
 - The promotion of a planned and balanced economic development
 - That the material resources of the nation are harnessed and distributed as well as possible to serve the common good
 - That the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of a few individuals or a group.
 - That suitable and adequate shelter, suitable and adequate food, a reasonable national minimum living wage, old age care and pensions, and unemployment, sick benefits, and welfare of the disabled are provided for all citizens.
- The government shall direct its policy towards ensuring that there are equal and adequate educational opportunities at all levels.
- The national ethic shall be discipline, integrity, dignity of labour, social justice, religious tolerance, self-reliance, and patriotism.

*NEEDS' focus is
wealth creation,
employment
generation, poverty
reduction, elimination
of corruption, and
values reorientation*

Box 1.2 The Kuru Declaration

- 1 We adopt the New Orientation as an agenda for dealing with immediate and future issues of governance in Nigeria; removing impediments to efficiency and effective implementation and execution of programmes initiated by the federal government; expeditious actualization of government objectives and vision of national renewal and re-construction.
- 2 We rededicate ourselves and those who serve under us to the values of patriotism, honesty, hard work and diligence, merit and excellence, trustworthiness, personal discipline, tolerance and mutual respect, justice and fairness, love, care and compassion.
- 3 We pledge to eschew corruption, slothfulness, nepotism, indiscipline, bitterness, prejudice and other manifestations of anti-social behaviours.
- 4 We shall undertake a critical review of practices and procedures in every ministry and department of government, with the aim of introducing and inculcating modern management techniques and procedures in every department of government, so as to rapidly increase their productivity and service delivery to the public.
- 5 We shall foster a culture of efficiency in the management of funds and other resources, maintaining high standards of resource management and reducing waste at all times.
- 6 We shall effectively supervise all government departments and agencies, ensuring timely reports and returns and undertaking regular spot-checks.
- 7 We shall abide by the terms of the code of conduct which we all have signed, as expression of our commitment to the crusade against corruption, and work closely with all relevant agencies, such as the Independent Corrupt Practices and Other Related Offences Commission, the Code of Conduct Bureau, and the Public Complaints Commission.
- 8 We undertake to strengthen the partnership in working with the private sector, since this partnership translates to a better appreciation of the wealth-creating and job-creating capacity of this sector, and the need for government, through its various ministries and legislative processes, to create an enabling environment for the sector to function efficiently as the major driver of the economy.
- 9 We shall strive to strengthen and inculcate the culture of working closely and in consultation with the leadership of labour and civil society organizations.
- 10 We shall mobilize, involve and promote the interest of all stakeholders, namely, the society in general, since, in the ultimate, all decisions and actions of government are primarily concerned with promoting the security and general well-being of the people. There is also the need for a new attitude that has that concern permanently in focus, as the only goal, and that the economic well-being of all citizens in a truly democratic environment is of cardinal importance.
- 11 We shall design strategies and techniques of implementation for the New Orientation so as to ensure that the values being inculcated permeate all levels of management and staff.

The Constitution clearly stipulates that public policy must be directed to balance the objectives of efficiency, effectiveness, and equity in order to ensure a broad-based, poverty-reducing growth and development strategy, the dividends of which will be distributed fairly across all classes.

NEEDS is based on these principles. It aims to achieve the directive principles of state policy. Its focus is the creation of wealth, the generation of employment, the reduction of poverty, the elimination of corruption, and the general reorientation of values.



Three other principles underpin NEEDS. They commit the government to:

- Create an incentive structure that rewards and celebrates private enterprise, entrepreneurial spirit, and excellence.
- Establish new forms of partnership with all

stakeholders in the economy—all branches of government, the public and private sectors, civil society and the international community—to promote prosperity.

- Create a public sector that delivers prompt and good-quality service.



Chapter 2 The Development Challenges Facing Nigeria

Since the transition to democracy in 1999, Nigeria has laid a solid foundation for economic growth and development (box 2.1). NEEDS is a development strategy that consolidates the gains achieved over the past four years, unlocks Nigeria's dormant potential, and provides the base for sustained development. The strategy signals a break with past efforts to pursue several unsustainable strategies.

Nigeria's rich human and material resource endowments give it the potential to become Africa's largest economy and a major player in the global economy. But much of its potential has remained untapped, putting attainment of the Millennium Development Goals by 2015 in jeopardy.

Development Challenges Remain Daunting

Significant improvements have been recorded in many areas since 1999, but the development challenges remain daunting. NEEDS aims to address many of these challenges, including the following:

- Per capita GDP in Nigeria was among the lowest in the world during the 1980s and 1990s, costing it decades of development. Annual per capita GDP remained stagnant

in the 1990s, and it grew just 0.8 percent between 1999 and 2003—far lower than the 4.2 percent per capita growth needed to significantly reduce poverty. Compared with other African and Asian countries, especially Indonesia, which is comparable to Nigeria in most respects, economic development in Nigeria has been disappointing. With GDP of about \$45 billion in 2001 and per capita income of about \$300 a year, Nigeria has become one of the poorest countries in the world. As of 2000 it had earned about \$300 billion from oil exports since the mid-1970s, but its per capita income was 20 percent lower than in 1975. Meanwhile, the country has become so heavily indebted—external and domestic debt amount to about 70 percent of GDP—that it has serious difficulty servicing debt. Regional and sectoral unevenness in growth performance is high. The real sector is still dominated by the primary production sectors. Agriculture, predominantly small farmers with low and declining productivity, accounts for 41 percent of the real sector, while crude oil accounts for 13 percent. The secondary sector, especially manufacturing, has been stagnating at about 5–7 percent of GDP, making Nigeria one of the least

Nigeria's rich human and material resource endowments give it the potential to become Africa's largest economy and a major player in the global economy

Box 2.1 Nigeria's Economy Is Improving

Confidence in Nigeria is high, the environment for doing business is improving, and both Nigerian and foreign businesses are reacting positively to recent developments in the country. The government has consolidated democracy and improved governance, and the economy has begun to turn around.

During the 1990s the economy stagnated, growing at an average annual rate of just 2.8 percent, leaving the per capita income growth rate at zero. By 1998 Nigeria was faced with both a failed state and a failed economy, and Nigerians were leaving the country in droves.

Today many of these trends have been reversed. Corruption and other economic and financial crimes are being vigorously fought. More than 200 Nigerians are currently being detained or tried for fraud, and illegally obtained assets worth more than \$500 million have been confiscated. The introduction of due process in government procurement has saved the government more than \$600 million. Aggregate annual GDP growth averaged about 5 percent between 1999 and 2003, and preliminary estimates of growth in 2003 stood at 10.23 percent, the highest rate of growth in three decades.

The superlative growth of 2003 was driven mainly by improvements in agriculture, which grew 7 percent, and the oil sector, which grew 23 percent. The minimum rediscount rate fell steadily, from 20.7 percent in 1999 to 15 percent in 2003. Other rates followed the same trend, with the prime lending rate falling from 22.5 percent to 19.6 percent and the rate on time deposits held more than a year falling from 15.3 percent to 12.3 percent. The annual depreciation of the exchange rate averaged 9.7 percent over the period, down from 29.4 percent for 1994–98 and 114 percent for 1986–93. The country's external reserves as of the end of March 2004 stood at about \$10.2 billion, about 10 months' import cover.

The liberalization of the service sector yielded significant results. In the first 40 years of Nigeria's independence, aggregate installed telecommunication lines stood at about 450,000. With the licensing of GSM and other wireless landline operators, this number

grew nearly 1,000 percent, to more than 4 million lines in 2003. Growth in the hotel and tourism industry was also extraordinary. The total number of hotel beds nearly tripled, from 12,900 in 1999 to 37,528 in 2003. Room occupancy rate also increased, from 71 percent in 1999 to 82.5 percent in 2003. The number of visiting foreign nationals nearly tripled, from 1,392 to 3,897, with annual growth rates in 2002 and 2003 averaging 30 percent.

Foreign direct investment in the nonoil sector also rose, from divestment in the 1990s to a few billion dollars in 1999–2003. Heineken built its largest plant in the world and upgraded its existing plants, investing about €500 million. The British American Tobacco is making large investments in Ibadan, and Solgas, a U.S. company, is investing in the Ajaokuta Steel Mill. A survey of 108 medium and large-scale firms operating in Nigeria showed that they invested more than \$10 billion during the period. Private investment in power and other infrastructure is also growing steadily, with a number of acquisitions and new investments already approved by the administration.

These developments have increased employment, causing the unemployment rate to fall from about 20 percent in 1999 to 10.8 percent in 2003. Male unemployment fell from 18 percent in 1999 to 10.6 percent in 2003, while female unemployment fell from 18.2 percent in 1999 to 11.2 percent in 2003. There has also been a reversal of the decade-long decline in real take-home wages, with real wages rising about 30 percent between 1999 and 2003. The results of an ongoing household survey will provide more recent socioeconomic statistics. (The poor quality of socioeconomic data in Nigeria is being addressed by restructuring and strengthening the Federal Office of Statistics. Efforts are ongoing to refine the national accounts data using best-practice methodology. A household survey that will provide up-to-date statistics on basic socioeconomic conditions is also being conducted. The analysis in this report could be revised when new data become available.)

industrialized countries in Africa. Services has been the fastest-growing sector since independence.

- Between 1975 and 2000 Nigeria's broad macroeconomic aggregates—growth, the terms of trade, the real exchange rate, government revenue and spending—were among the most volatile in the developing world. Over the past three decades, high macroeconomic volatility has become a key determinant—as well as a consequence—of poor economic management. The economy has been caught in a low growth trap, characterized by a low savings-investment equilibrium (at less than 20 percent). Industrialization and exports remain low. With an average annual investment rate of barely 16 percent of GDP, Nigeria is far below the minimum investment rate of about 30 percent of GDP required to unleash a poverty-reducing growth rate of at least 7–8 percent per year.
- In the more than 40 years since independence, Nigeria has never grown at 7 percent or more for more than three consecutive years. Because of perceptions of risks and the high costs of doing business, private agents keep the bulk of their assets abroad, and more than 2 million Nigerians (mostly highly educated) have emigrated to Europe and the United States. Most foreign direct investment into the country goes into the oil and extractive sectors. Only since 1999 has foreign direct investment in the nonoil sectors begun to rise significantly. Nigeria's economic structure remains highly undiversified. Oil exports account for 95 percent of total exports, while manufacturing accounts for less than 1 percent. Since the 1970s

Nigeria has lost international market share even in its traditional (agricultural) exports.

- Macroeconomic policy has been highly circumscribed by inefficient, highly volatile, and unsustainable public sector spending and by unusually high volatility of major macroeconomic aggregates. Fiscal decentralization has proved a challenge to effective macroeconomic stabilization and efficient public finance management. There has been a lack of policy coherence between the states and the federal government and even among the various agencies of the federal government. The traditional instruments of economic management—the national plan and budgeting processes—have been rendered ineffective.
- Finances at all levels of government are in poor shape. Domestic debt increased more than 200 percent between 1999 and 2002 (to about \$9 billion). The external debt burden, which the government is barely able to service, represents about 50 percent of contractual service obligations. Government finance is also characterized by a pension crisis, arrears of salaries of civil servants, huge debts to government contractors and suppliers of goods and services, a boom and bust cycle of revenue and expenditure, misallocation and mismanagement of resources, and other problems. At the state government level, a major crisis is looming but goes largely unnoticed. Many states are accumulating debt at unsustainable levels, institutions are weak, and economic governance is poor.
- The very low productivity of the private sector and the lack of diversification of the economy are due mainly to the inhospitable

Nigeria's economic structure remains highly undiversified: Oil exports account for 95 percent of total exports, while manufacturing accounts for less than 1 percent





Despite efforts to promote a private sector-led market economy, Nigeria still faces the challenge of transition from an economy dominated by the public sector

business environment. The constraints to businesses include infrastructure deficiencies, poor security of lives and property, corruption and rent-seeking, low access to and the high cost of finance, weak institutions, poorly defined property rights and enforcement of contracts, and unstable macroeconomic policies, especially fiscal and trade policy. Although these conditions have begun to improve since 1999, significant obstacles need to be addressed.

- Nigeria's urbanization rate—about 5.3 percent a year—is one of the fastest in the world. With a stagnant secondary sector, urban unemployment—and its attendant problems of slums, crime, and sociopolitical tensions—is high. In March 1999, 23.2 percent of the rural labour force and 12.4 percent of urban dwellers were without jobs. By March 2003 the rural unemployment rate had dropped to 12.3 percent and the urban rate to 7.4 percent, yielding a composite unemployment rate of 10.8 percent.
- Nigeria faces the challenge of meeting the Millennium Development Goals. Statistics from the 1996 survey indicate that poverty is deep and pervasive, with an estimated 70 percent of the population living in poverty. (Many analysts question the 1996 poverty statistics, especially the methodology used. The ongoing Living Standard Measurement Survey will give a more accurate picture of the actual level of poverty in Nigeria. See chapter 4 for a detailed analysis of the nature, dimensions, and causes of poverty in Nigeria, as well as a survey of the interventions the government has used to tackle it.) Poverty in Nigeria varies widely by region, sector, and gender. Other social indicators are also under stress: income inequality in

Nigeria is very high; unemployment is threatening social cohesion, security, and democracy; and the imminent HIV/AIDS epidemic is a potent time bomb waiting to explode, with potential dire consequences for productivity in the economy. Social exclusion and discrimination against women hamper their ability to fully contribute to the development of the economy.

- The educational system is dysfunctional, as graduates of many institutions cannot meet the needs of the country. Institutions are in decay, strikes and cultism are common, and corruption has become rampant. Youth militarism has now gone beyond the walls of schools to the heart of society.
- Despite efforts to promote a private sector-led, competitive market economy framework, Nigeria still faces the fundamental challenge of transition from statism and rent-seeking in an economy dominated by the public sector. The deep vested interests that profit from the system have proved resilient. They are strengthened by evidence of weak institutions. As a result, implementation failures in Nigeria are persistent.

What Went Wrong?

The problems NEEDS addresses reflect decades of corruption and mismanagement, especially under military rule. The old development models of import substitution industrialization and statism, in which government assumed the dominant role as producer and controller in the economy, created perverse incentives, inefficiencies, and waste. In an oil-producing economy (where rents from oil are easy sources of government revenue), a culture of rent-seeking

quickly developed. The government became an instrument for instant acquisition of wealth, distorting the incentive to work and to create wealth in the private sector. With government as the major source of patronage and rent-seeking, the fight for public office became fierce.

These factors created an incentive framework that did not reward private enterprise, transparency, or accountability. Frequent regime changes and changes in policy were defining features in Nigeria in the past. Military dictatorships allowed weak institutions to endure. Inappropriate development frameworks, poor and frequently changing policies and programmes, lack of clear vision and commitment to development, and a citizenry that acquiesced to the culture of patronage are the major causes of Nigeria's failed past.

Prospects for the Future

The Nigerian economy faces enormous challenges—and a bleak future if fundamental steps are not taken to redress the legacies of the past. Among the many requirements for rejuvenating the economy is rapid and broad-based growth. Creating the conditions for such growth will require

that Nigeria adopt fundamental new policies in order to break out of the low-growth poverty trap it finds itself in.

What are the implications of alternative growth scenarios for per capita income and poverty in the medium to long run (table 2.1)? Three scenarios are examined:

- In Scenario A Nigeria maintains the average growth performance recorded between 1999 and 2002 (about 3.5 percent) through 2030. Assuming that per capita income was \$300 in 2000, it would increase by just \$23 by 2015 and by just \$48 in 2030. If current trends in the rest of the world continue, this rate of growth would leave Nigeria one of the poorest countries in the world. Under this scenario, poverty worsens, engulfing as much as 80 percent of the population by 2030.
- In Scenario B growth rises to the average level of the late 1980s (5 percent). This level of growth is sufficient to prevent poverty from worsening, but it is not strong enough to reduce it. By 2030 the incidence of poverty remains at 70 percent, while per capita income increases to \$416 in 2015 and \$576 in 2030, still leaving the average Nigerian very poor.

Creating the conditions for rapid and broad-based growth will require fundamental new policies to break out of the low-growth poverty trap

Table 2.1 Implications of Alternative Growth Scenarios for Key Development Indicators, 2000, 2015, 2030

Scenario	Indicator	Assumed	2000		
		GDP growth	(Actual)	2015	2030
A	Per capita income	3.6	\$300	\$328	\$352
	Incidence of poverty	3.6	70 percent	75 percent	80 percent
B	Per capita income	5.0	\$300	\$416	\$576
	Incidence of poverty	5.0	70 percent	70 percent	70 percent
C	Per capita income	7.0	\$300	\$556	\$1,031
	Incidence of poverty	7.0	70 percent	35 percent	17 percent

- In Scenario C Nigeria fundamentally changes its strategy and achieves an average annual rate of growth of 7 percent. This rate of growth is adequate to meet the Millennium Development Goal of cutting the incidence of poverty by half by 2015. Under this scenario, the percentage of people living below the poverty line could fall to less than 20 percent.

Of course, the impact of growth on poverty depends on the sources of growth. Even with rapid growth of 7 percent a year, the incidence of poverty may not decline significantly if growth is not pro-poor. The effects on poverty of growth led by agriculture, small and medium-size enterprises, and manufacturing would be very different from those of growth led by the mining and quarrying sector. A policy that targets the very poor states would have a greater effect on poverty reduction than one that does not.

Scenarios A and B reflect high population growth and urbanization. If the population continues to grow at 2.8 percent a year, there will be 182 million Nigerians by 2015, 87 million of them (48 percent) living in urban areas, and 275 million Nigerians by 2030, 182 million of them urban (66 percent). If the secondary sector, especially manufacturing and services, does not grow sufficiently to absorb the inflow of labour to urban areas or rural areas are not transformed enough to stem the rate of rural-urban migration, the rate of urban unemployment could soar.

All of the scenarios reflect increasing desertification, land use intensification, and rain-fed agriculture with low productivity. If current trends continue, agriculture will not be able to support the economy in terms of employment or income. The average age of the labour force in agriculture is about 48–60 years. The growing food import bill (about 10 percent of total imports) attests to the

potential food security crisis. Nigeria's natural resource base is rapidly being depleted, and the process of diversification is proceeding very slowly. As a result of the declining educational system, an increasing proportion of graduates are unemployable. All these factors have grave implications for poverty and unemployment.

Nigeria's size and strategic importance in Africa (especially in West Africa) mean the stakes are very high. Nigeria is the source of stability in West Africa. It led multilateral peacekeeping forces in Liberia and Sierra Leone, and it continues to play a peacekeeping role in the subregion. On the economic front, Nigeria accounts for about 60 percent of West Africa's GDP. A vibrant and growing Nigerian economy will thus act as a strong growth pole for West and even Central Africa. Sub-Saharan Africa as a region cannot succeed in reducing poverty and it cannot reach the Millennium Development Goals by 2015 unless Nigeria, with one-fifth of the African population, develops successfully.

The Potential for a New and Strong Beginning under NEEDS

Nigeria has abundant human and material resources to initiate and sustain rapid and broad-based growth and development. It can also take advantage of opportunities offered by globalization (including prospects for leapfrogging) and by the preferential and differential trade arrangements and concessions under the Economic Community of West African States (ECOWAS) Treaty; the African Growth and Opportunity Act; and the Cotonou Agreement trade pact and impending economic partnership agreement between the European Union and the African, Caribbean, and Pacific countries. If appropriate incentives are in

A vibrant and growing Nigerian economy will act as a strong growth pole for West and even Central Africa

place, the brain drain of Nigerians could be turned into a brain gain—through increased remittances, technology transfer, and even return of capital flight (which could repatriate up to \$2–\$5 billion a year). In other words, there are ample opportunities to jump-start faster growth—if the right strategy can be crafted and implemented.

Some momentum for change has been building since the transition to democracy in 1999. This momentum can be accelerated and sustained. Since 1999 foreign direct investment in the nonoil sector has risen from almost zero to billions of dollars, capacity utilization in industry has doubled, unemployment rates are leveling off, and GDP growth has risen moderately. Increasing numbers of Nigerians in the diaspora are willing to return and contribute to the economy, and many of the donor agencies that boycotted Nigeria during the military era have returned. More fundamentally, the new political leadership at the federal and state levels as well as consensus among key stakeholders in the economy seems to be committed to a significant change.


Several factors suggest that NEEDS is a strategy that is likely to succeed. First, the current administration's policy thrust is consistent with the provisions of NEEDS. The 2004 budget signals a fundamental change in strategy. The liberalization of the downstream oil sector has begun, with the full elimination of subsidies, and the refineries will soon be privatized. The conversion of public servants' perquisites into cash to reduce government expenditure and waste associated with maintaining these facilities is on course. Actions to fight corruption and increase transparency have been taken, and commitment to the Extractive Industries Transparency Initiative has been reinvigorated. The piloting of public service reforms has begun, the privatization programme is on course,

infrastructure rehabilitation and maintenance are proceeding, and an emphasis on agriculture led to an unprecedented bumper harvest in 2003. Furthermore, there is a broad national consensus around the reform agenda.

Second, effective mechanisms are being instituted for coordinating state and federal government programmes and jointly monitoring performance. The statutory organs for such coordination and monitoring (such as the National Economic Council, the National Council on Development Planning, and the Joint Planning Board) are being strengthened. The impact of the federal programme will be increased as the 36 states develop their own reform programmes (known as State Economic Empowerment and Development Strategies, or SEEDS) consistent with the broad thrusts of the federal reforms.

Third, the right people are in place to adopt and implement NEEDS. A critical mass of reform-minded representatives are serving in the National Assembly, which is ready to enact the relevant legislations for effective implementation of NEEDS (see chapter 11). The President has constituted a very strong economic team to drive the process of reforms. There is a strong team spirit in government, which is critical for implementing and sustaining the reform effort.

Fourth, NEEDS will become the basis for government budgets and the eventual formulation of a medium-term expenditure framework. Implementation is a key element for success. The President is leading efforts at implementation, chairing a weekly, 90-minute meeting of the economic management team designed to monitor and coordinate implementation among key agencies and ministries. The agenda is focused and selective, and aspects of it will be implemented by the private sector, nongovernmental organizations (NGOs), and donor agencies.



There is a strong team spirit in government, which is critical for implementing and sustaining the reform effort

Chapter 3 The Macroeconomic Framework

NEEDS proposes bold steps to achieve macroeconomic stability and support a more efficient use of resources to grow the economy

Many factors inhibit growth in Nigeria, including:

- Inconsistent macroeconomic policy
- Instability and policy reversals
- Conflicts between different macroeconomic policy goals
- Public sector dominance in production and consumption
- Pervasive rent-seeking and corruption, facilitated by the fact that the government is the hub of economic activities
- Inadequate and decaying infrastructure
- High volatility of major macroeconomic aggregates
- Weak institutional capacity for economic policy management and coordination
- Unsustainability of public finance at all levels of government
- Lack of effective coordination across levels of government
- Large debt overhang

Many of these problems are institutional.

Others reflect the fact that the means are inadequate to achieve the goals.

NEEDS aims to redress these imbalances, based on an overall macroeconomic framework. The analyses and projections presented in this chapter are based on the four basic macroeconomic accounts: the real sector, the fiscal account, the balance of payments

accounts, and the monetary sector accounts (table 3.1). A workable programme requires that the four accounts be consistent, so that they ensure predictability and sustainability of the macroeconomy and spur rapid and broadly shared pro-poor growth.

The Real Sector

Overall, growth in Nigeria has been disappointing. Annual growth averaged less than 3 percent for most of the three decades following the discovery and exploitation of oil. This era, through 1999, was bedeviled by waste, a bloated public sector, high public expenditures, a distorted budgeting system, and a weak private sector. Changes occurred, but they were minor. Coming at a time when some of the world's fastest growing economies were growing by more than 10 percent a year, 3 percent real GDP growth was sad news, particularly given annual population growth of 2.8 percent. Efforts clearly needed to be stepped up to improve the performance of the economy.

With the return to democracy in May 1999, hopes were rekindled about prospects for jump-starting the economy. Everyone underestimated the magnitude of the decay and hence the

Table 3.1 Selected Macroeconomic Projections, 2003–07

Indicator	2003 ^a	2004	2005	2006	2007
Real sector					
Growth in real GDP (percent)	10.2	5.0	6.0	6.0	7.0
Growth in oil sector (percent)	23.0	0.0	0.0	0.0	0.0
Growth in nonoil sector (percent)	3.3	7.3	8.5	8.3	9.5
Oil production, including condensates (millions of barrels a day)	2.2	2.2	2.2	2.2	2.2
Gross national savings (percent of GDP)	12.4	14.1	17.2	23.9	29.0
Inflation rate (percent)	11.0	10.0	9.5	9.5	9.0
Federal government finance (percent of GDP)					
Overall fiscal balance	-3.3	-1.9	-3.2	-3.2	-3.2
Primary balance	-1.4	0.1	-1.7	-1.5	-1.4
Retained revenue	9.7	9.7	7.8	7.6	7.3
Total expenditure	25.0	23.5	23.4	22.9	22.3
External sector					
Overall balance (percent of GDP)	-7.7	-10.8	-9.2	-4.4	-1.3
Current account balance (percent of GDP)	2.7	-2.9	-2.3	-0.5	0.3
External reserves (\$ millions)	7,187	7,687	8,687	9,687	10,687
Growth in money and credit (percent)					
Net domestic credit	28.3	24.5	24.6	22.5	21.8
Net credit to government	44.4	29.9	29.9	23.5	21.5
Credit to private sector	30.0	30.0	30.0	30.0	30.0
Narrow money (M1)	10.3	10.8	8.3	16.7	19.8
Broad money (M2)	15.0	15.0	15.5	15.5	16.0

a. Provisional.

challenges that needed to be faced. Aggregate growth has been slow and the sectoral distribution of growth uneven. While some sectors, such as telecommunications, have enjoyed very rapid growth, others, such as mining, have contracted. Some of the sectors that recorded very high growth rates in 2001 slumped in 2002. Oil refining, for example, grew 191 percent in 2001 but declined about 8 percent in 2002. Indications are that average

growth of about 21 percent in the electricity subsector in 2002 may be threatened.

This unstable growth—a hallmark of sectoral performance—presents an enormous challenge. Putting the economy back on the path of sustainable growth requires a systematic and consistent framework. NEEDS proposes bold steps to plug leakages in order to achieve macroeconomic stability and support a more efficient use of resources to grow the economy.

Policy Thrusts

NEEDS supports the following policy thrusts:

- Sustain a rapid, broad-based GDP growth rate outside of the oil sector that is consistent with poverty reduction, employment generation, and a sustainable environment.
- Diversify the production structure away from oil and mineral resources.
- Make the productive sector internationally competitive.
- Systematically reduce the role of government in the direct production of goods, and strengthen its facilitating and regulatory functions.

Key Strategies

NEEDS proposes achieving its goals in the following ways:

- Privatize, deregulate, and liberalize key sectors of the economy.
- Coordinate national sectoral development strategies for agriculture, industry (especially small and medium-size enterprises), and services (especially tourism).
- Develop infrastructure, especially electricity, transport, and water.
- Address the problems of financing the real sector, and mobilize long-term savings and investment.
- Create effective regulatory regimes that include environmental standards.
- Target programmes to promote private sector growth and development.

A major target of the current reform effort is the reduction of poverty. But the effects of some structural changes will be felt only after a lag. Medium-term growth performance is projected based on the assumption that given the reform

efforts, almost every sector will perform better in the coming years. Stronger growth performance is expected as the private sector takes advantage of the different reform strategies and policies and as the government reduces its role in the economy and redresses the perverse incentive structure facing investors. Growth projections attach weights to different informal sector activities in order to capture the overall share of the sector in projected economic growth. Changes in agriculture will generally drive increases in growth.

Critical to growth performance is improvement in power and other infrastructure; a reduction in the cost of doing business; creation of a more conducive investment environment, including security of life and property; and training and development of the human resources needed to increase capacity and productivity. Human resource development is needed to reduce the reliance on expatriates and increase the contribution of the local labour force in foreign investment.

Strong growth is expected in the primary and secondary sectors, particularly agriculture, manufacturing, and solid minerals. The manufacturing sector is expected to grow at least 7 percent a year between 2004 and 2007, while agriculture is expected to grow about 6 percent. Growth in other sectors may not be as strong as growth in the primary sector. Aggregate output for the four years of NEEDS is projected to increase 5 percent in 2004, 6 percent in 2005, 6 percent in 2006, and 7 percent in 2007. Output in the oil and gas sector is expected to remain unchanged. The projected decline in oil production as Nigeria maintains its OPEC quota is expected to be offset by increases in gas production, leaving net output in the sector unchanged. Growth of the nonoil

NEEDS supports systematically reducing the role of government in the direct production of goods and strengthening its facilitating and regulatory functions

sector, the major target of the diversification effort, is expected to rise from 6.8 percent in 2003 to more than 9 percent in 2007.

Annual private consumption is expected to grow 4.8 percent in real terms. With projected population growth rate of 2.8 percent, this will mean a 2 percent growth in annual real per capita consumption. At the same time, public consumption expenditure is expected to steadily decline. Investible resources will be reallocated from the public sector to the private sector, and the investment pattern by both government and private investors will change. For example, with agriculture as a priority area in the medium term, the government will increase incentives for investment in the sector.

Fiscal Operations and Policy: Budget, Tax Reforms, and Public Expenditure Management

Fiscal policy is the most important instrument of macroeconomic management in Nigeria. Reforms at this level are therefore critical for overall macroeconomic consistency.

Despite plans to diversify the government's revenue base, Nigeria's fiscal and budget landscape has been dominated by oil income, which accounts for at least 70 percent of total government revenues. Swings in the international oil price and production create enormous volatility in government revenue. In periods of boom, government expenditures increase, while drops in oil prices are treated as temporary. The same pattern is repeated by the states and local governments.

Other problems include inefficient use of resources, waste and misplaced priorities in government expenditure, high fiscal deficits at all

tiers of government, weak institutional structure, a fiscal federalism structure that places little or no premium on intertemporal fiscal solvency, and a weak institutional mechanism for regulating the actions of the different tiers of government and their agencies. These problems have led to a heavy debt burden, huge recurrent expenditure burdens at all tiers of government, inefficient public delivery of services, and distortions in the incentive structure for both the private and public sectors. Currently, all tiers of government spend far more than they earn: cumulative deficits over the past five years alone stand at more than \$1 trillion, excluding arrears of pensions and gratuities and debt to local contractors. With foreign debt of about \$31 billion in fiscal 2001 (in a \$45 billion economy), the government spends a huge proportion of current revenue in debt-servicing and interest payments.

The budgeting process reached the point of near collapse before the democratic government came to power. The main problems have to do with lack of political will and commitment to abide by stipulated rules and budget guidelines. This has led to a high incidence of extra-budgetary expenditures and the breakdown of medium- to long-term plans to guide the budgeting process, with projects implemented haphazardly without proper evaluation and coordination. As a result, hundreds of projects lie uncompleted or abandoned; completing the projects would cost more than \$100 billion. Allocation to projects became ineffective and often arbitrary. Spread thinly over a large number of projects, the allocations had little impact for the most part. A high level of recurrent expenditures and the lack of cooperation between tiers of government and line ministries with the coordinating agencies (such as the National Planning Commission and the Ministry of

Currently, all tiers of government spend far more than they earn: cumulative deficits over the past five years alone stand at more than \$1 trillion



Finance) undermine the budget process. The lack of a formal mechanism for dealing with budget surpluses or shortfalls has led to the issuance of warrants without cash backing.

Policy Thrusts

The key policy thrusts of NEEDS include the following:

- Create a predictable macroeconomic environment in which resources are used efficiently, predicated on a Medium-Term Expenditure Framework that ensures predictable and sustainable public finance at all levels of government.
- Adopt policies that are consistent with raising domestic savings and increasing private investments.
- Maintain a sustainable level of public debt.

Key Strategies

The key strategies and instrument include the following:

- Adopt a budget strategy that strengthens the planning process and project and programme evaluation, with early involvement of stakeholders.
- Adopt tax reforms aimed at raising revenues and diversifying the revenue base.
- Strengthen the Budget Office.
- Adopt a medium-term expenditure framework and a fiscal strategy paper consistent with the thrusts of NEEDS.
- Establish intergovernmental fiscal coordination based on a Fiscal Responsibility Act or similar initiative.
- Reform and strengthen the procurement process.
- Establish a fiscal rule based on the price of oil, and establish a stabilization fund for

excess revenue from crude oil sales, with specific conditions for the fund's use.

- Establish a public expenditure rule that holds the deficit to no more than 3 percent of GDP.

Projections on the fiscal account are based on consolidated public sector revenue and expenditure profiles. The international price of oil is expected to decline over the period, but production and earnings in the gas subsector are expected to rise significantly, offsetting any negative oil price movements that may occur.

A basic assumption made in the fiscal account is that state and local governments balance their budgets. However, the federal government can borrow up to 12.5 percent of the previous year's retained revenue from the central bank to finance its deficits. This provision, which is consistent with the Central Bank Act, is expected to lapse in fiscal 2004.

Beginning in fiscal 2005, the projections in the fiscal account reflect the provisions of the West African Monetary Zone, which stipulates that no more than 10 percent of the previous year's retained revenue can be financed by the central bank. An oil price-based rule using projections of oil prices that are lower than the expected international price of oil over the timeframe is also adopted. Public sector (consolidated) deficits are constrained not to exceed 3 percent of GDP. While the reform plan has a long-term component, the framework is designed principally with a medium-term focus.

Given the proposed public sector reforms, overall recurrent expenditure as a proportion of total expenditure is expected to continue to fall. Currently, recurrent expenditure consumes about 70 percent of total revenues at both the federal and other levels of government. Given the planned increase in government efficiency,

The success (or failure) of the reform programme hinges largely on greater fiscal coordination

recurrent expenditure is expected to fall gradually over the reform period. State governments are assumed to maintain previous levels of recurrent expenditure (about 80 percent of total revenue) in 2004. The ratio of recurrent to capital expenditure is expected to improve to 70/30 in 2005 and to 60/40 in 2006 and 2007.

All tiers of government in Nigeria suffer from the volatility of revenue and expenditure. State and local governments account for about 50 percent of consolidated public sector spending. This figure could increase with the proposed new revenue allocation formula. Over time it has been difficult to control the intertemporal distribution of expenditure of state and local governments using monetary and fiscal policies as the Constitution grants each state full autonomy over its fiscal actions. The success (or failure) of the reform programme hinges largely on greater fiscal coordination.

The Fiscal Responsibility Pact, expected to come into effect no later than 2005, will help achieve such coordination. Under the provisions of the bill, executive office holders are expected to structure their expenditures in line with the provisions of the capital and recurrent expenditure provisions of the reform programme. In addition, the central bank is currently discouraging bank lending to all tiers of government. According to the new rule, any bank is free to lend to any government agency, provided it provisions 50 percent of the loan value to the Central Bank of Nigeria if the loan is considered performing or 100 percent if the loan is considered nonperforming. The Securities and Exchange Commission is also revising the conditions for borrowing, lending, and floating bonds by all tiers of government to maintain consistency in the pattern of capital market access and usage by all tiers of government.

Coordination will be improved by the active use of the formal organs of government, including the National Council on Development Planning, the Joint Planning Board, and the National Economic Council.

While the key challenge is to rein in government spending and get all tiers of government to spend no more than they take in, spending must also be in line with predetermined priorities and reap value for money spent. Thus part of the strategy of the reform effort is to strengthen the due process mechanism and the institutions set up by the administration. Based on established sectoral priorities, the government will set expenditure ceilings through lump-sum allocations to public enterprises and government agencies, and it will monitor the performance of these agencies. The overall aim is to gradually but consistently reduce the government deficit from the current 5 percent to no more than 3 percent of GDP over the lifespan of NEEDS. Doing so will require a roll-back of recurrent expenditures by all three branches of government—executive, legislature, and judiciary—as well as by all tiers of government, primarily through efficiency gains.

The budgeting framework will adopt a mandatory calendar that ensures early involvement of the legislature and finalization of the budget at least three months before the beginning of a new budget year. In collaboration with the National Planning Commission, the Budget Office will produce and disseminate quarterly monitoring and evaluation reports to the general public. The budget process will also be reformed to reduce or eliminate arbitrariness. Essentially, the budget will be in line with the policies and priorities of NEEDS, subject to more detailing of programmes and projects by line ministries and state enterprises.

While the key challenge is to rein in government spending and get all tiers of government to spend no more than they take in, spending must also be in line with predetermined priorities and reap value for money spent



In the immediate term (2004 and 2005), the aim will be to introduce a more orderly and disciplined budget formulation process that tries to corral the numerous sources of extra-budgetary expenditures, a process that involves input upfront from both the executive and the legislative branches on priorities. The lack of ownership by the legislature of the priorities set forth by the government in previous budgets—as well as attempts to add priorities, regardless of the impact on the overall fiscal position—virtually derailed the budget process in 1999–2003. Part of the new strategy will be to introduce a more collaborative approach between the two branches of government in order to enhance the effectiveness of the budget process.

The bloated federal recurrent budget is unsustainable, as is the unwieldy capital account, a substantial part of which is made up of abandoned and underfunded projects. State governments also have bloated recurrent expenditures and little room for capital programmes. The challenge is to design appropriate strategies and action plans to redress the situation.

The public sector capital programme will be rationalized to give priority to health, education, agriculture, power supply, and the maintenance of infrastructure projects that have high linkage effects with other projects and those that will generate employment at minimal cost. A sunk cost approach will be introduced in determining whether to proceed with ongoing and abandoned projects. Rigorous project selection criteria will be imposed on new projects, including the need to ensure funding to completion. The cleaning up of the budget will produce a more concise capital programme in fiscal 2005.

Pruning waste. NEEDS will support new procurement procedures by strengthening the due

process mechanism and developing a catalogue of commonly procured equipment, supplies, and services as a reference for ministries and agencies. Tender procedures will be enforced, and the scope of checks on value for money will be expanded.

Procedures for competitive bidding, contract review, and award of various levels of contracts have been introduced. The Budget Monitoring and Price Intelligence Unit was created in the Presidency to oversee the procurement reforms and push implementation of the due process review and contract certification process. The mechanism will be strengthened and upgraded into the Federal Procurement Commission. Accounting officers will ensure that excessive expenditures discovered by postauditing checks are recovered from those responsible. Every department will have internal and external auditors, who will be responsible for tracking expenditures and ensuring value for money.

Increasing revenue generation and supporting tax reforms. The reforms also aim at strengthening the machinery for tax collection, tracking all government revenues paid into different bank accounts as well as recovering debts, misappropriated and looted funds, and payments for work not executed. State and local governments are expected to gear up their efforts to generate revenue rather than depend on statutory allocation from the federation account or borrowing on the capital market.

In the short to medium term, the strategy will address six issues:

- The structure of the tax system
- Revenue generation
- Efficiency of collection
- Tracking and response to comparative and international standards
- Investment promotion
- Coordination of tax administration

Part of the new strategy will be to introduce a more collaborative approach between the executive and legislative branches of government in order to enhance the effectiveness of the budget process

The structure of the tax system overwhelmingly favours indirect taxes. Although these taxes are generally regressive, the high rate of evasion of direct taxes—attributed mainly to poor data on people and sources of income (the result of a large informal sector)—makes indirect taxes attractive. This structure will continue over the NEEDS period. The main sources of nonoil revenue include customs tariffs, value-added tax, and sales taxes. Governments at all levels will continue to explore the possibilities of collecting user charges on infrastructure and some social services.

The government is collecting far less in income tax (individual and corporate, including withholding taxes) than it should. The tax collection machinery will therefore be revamped, restructured, and strengthened for more effective collection.

A new phenomenon is the loss of revenues arising from the system of remittance of tax revenues paid through banks to the appropriate authority. Significant revenue is being lost through diversion and inadequate monitoring of the process. Such leakages will be plugged, and defaulting banks will be delisted and subject to substantial penalties.

In addressing the level and structure of taxes, attention will be paid to competitiveness. Taxation and fiscal policy will be pro-poor and used as an instrument for reducing high income disparities, as well as providing incentives for investment and productivity growth. Direct taxes on lower income groups will be reduced, while those of the highest groups will be increased. But the structure will pay attention to the competitiveness of Nigeria relative to countries at similar levels of development with which Nigeria has to compete for foreign direct investment. The tax structure will establish a level playing field, adjusting for the cost of doing business due to

poor infrastructure, and stimulate private investment in the real sector.

A major nuisance to businesses operating in Nigeria is the multiplicity of taxes imposed at the federal, state, and local levels. While NEEDS will not encourage the pooling of all taxes in a federal system, it will seek agreement among all tiers of government on which level should collect which taxes and how, in order to avoid too great a multiplicity of taxes and conflicting methods of collection. The Joint Tax Board and the peer review mechanism to be established under this strategy will help achieve a more harmonized tax system and ensure coordination and compliance.

Efforts will also be intensified to increase the contributions to public sector financing of major public enterprises, such as the Nigeria Maritime Authority, the Nigeria Ports Authority, the Federal Airports Authority of Nigeria, the Shippers' Council, the National Civil Aviation Authority, the Securities and Exchange Commission, and NICON Insurance. Over time, these public enterprises have made minimal contributions to development.

The Balance of Payments

Historically, the Nigerian external sector account could be referred to simply as an oil account. Because of the economy's lack of diversity, swings in OPEC quotas and large changes in the international price of oil have continued to dictate the direction and pace of shifts in the external account. As a result of increases in the OPEC quota, especially since 2000, the country's current account balance and reserves showed remarkable improvements, with reserves reaching a 10-year high of \$10.4 billion in 2001. There are few assurances that the government's efforts to secure

Historically, the Nigerian external sector account could be referred to simply as an oil account



additional increases in the country's OPEC quota will be successful in the short term, however.

The volume of imports in Nigeria is high, and imports are diversified. Imports range from capital goods and machinery to unprocessed food and other primary items. This high propensity to import food items and the associated health hazards they pose has been a source of concern to the government, which has imposed temporary bans on some items.

Nigeria's tariff and trade policy is characterized by uncertainty and highly varying rates of protection, and its customs and ports clearance system is inefficient. Policies are out of tune with trends in the Economic Community of West African States (ECOWAS) and in other developing countries. External reserves are volatile, capital flight persists (albeit at a lower rate than under the military regimes), and inflows of portfolio and foreign direct investment into the nonoil sectors remain weak relative to the size of the economy. The external debt overhang remains ominous, with total debt service payment about equal to the federal government's capital budget (even when the government is not fully servicing all the service payments due).

The balance of payments situation is not sustainable. Oil prices cannot continue to rise indefinitely, and increases in the OPEC quota are not guaranteed. Aggressive export diversification and expansion as well as gradual import liberalization represent the winning strategies for moving forward.

Policy Thrusts

NEEDS is based on four main policy thrusts:

- Promote exports and diversify exports away from oil.
- Gradually liberalize imports, harmonize tariffs with ECOWAS' common external

tariffs, and use special levies and import prohibitions to protect local industries.

- Establish a market-determined nominal exchange rate regime, and avoid overvaluation of the real exchange rate.
- Seek debt reduction to make Nigeria's debt service sustainable.

The trade balance has been in surplus in recent years, as a result of the rise in oil prices. Balance of payments projections assume no change in Nigeria's OPEC quota and stable oil prices of \$22–\$23 a barrel between 2004 and 2007. This cautious posture is due mainly to the expected re-entry of Iraq into the oil market and the unpredictable behaviour of Russian oil supply. However, negative changes in the international oil market may not be fully reflected in the balance of trade because of expected positive changes in the gas subsector, where production and earnings are expected to rise.

Export earnings should be diversified. In the short run, the emphasis should be on the export of food and other primary products, with value added to exports over time. Incentives will be given to domestic producers in manufacturing and agriculture to exploit opportunities provided by the numerous bilateral and multilateral trade concessions of which Nigeria is a potential beneficiary.

Despite these incentives, only small changes are expected in the volume of imports in the short run. Although Nigeria has banned the importation of some products, the share of these products in total imports is small. Furthermore, the lowering of tariffs in tandem with the rates set by the West African Economic and Monetary Union is likely to increase the import bill, perhaps offsetting the effects of the import bans. Factor payments arising from industrialization programmes and the import of industrial raw materials will continue, at

Nigeria's tariff and trade policies are out of tune with trends in the Economic Community of West African States and in other developing countries

least in the short run, to put some pressure on the current account. Thus annual current account deficits of about 0.52 percent of GDP are expected between 2004 and 2007.

With modest deficits, net reserves will grow slowly but steadily, from \$7.7 billion (about five months' imports cover) in 2004 to \$10.7 billion (more than six months' import cover) in 2007. This growth is expected to arise from a larger export base and slower growth of imports. The projection for reserves is within the minimum stipulations of the West African Monetary Zone, allowing Nigeria to keep pace with the regional integration process while pursuing its domestic reform programmes.

Assumptions on debt service payment are optimistic. Only 53 percent of the \$12.3 billion of debt service due between 2004 and 2007 is expected to be paid in full. The states will account for 25 percent of payments, while the federal government will take up the other 75 percent. If the reforms stay on course, with policy consistency and increased prudence in the management of public resources, Nigeria is expected to be able to get debt relief, substantially reducing external debt service payments.

Debt relief would also reduce the debt stock, significantly affecting the overall balance. Additional resources from debt relief are expected to show up in increased spending on the social sectors (health, education, water, and infrastructure). This reallocation would increase the impact of the reform programme on human capital development, a major policy goal of reform. In addition, current efforts by the Debt Management Office to sensitize state governments to the implications of their fiscal actions will be increased. In this regard, civil society has a responsibility to demand accountability from public office holders.

Securitized domestic public debt nearly quadrupled between 1996 and 2003, rising from about ₦343 billion to about ₦1.3 trillion. The domestic debt stock is characterized by a number of deficiencies. One is that the stock is concentrated at the short end of the market. About 60 percent of the stock is made up of 91-day Treasury bills; longer term debt constitutes less than 25 percent. This implies a mismatch between assets and liabilities, as much government expenditure is long term.

Another defect is that nonbank public holdings of government securities represent just 6 percent of all debt; the central bank and deposit banks hold about 94 percent. The large holding of government securities by the banking system has adverse implications for the growth of the money supply and the effectiveness of monetary policy. Although reliable figures on nonsecuritized public debt are not available, indications are that the figures run into the trillions of naira for all tiers of government.

Key Strategies

During the medium term, policy will focus on:

- Restructuring existing securities into longer term bonds
- Reducing central bank holdings of the government debt so that the Central bank of Nigeria has wider room for efficient and unconstrained monetary policy
- Financing government deficits by floating bonds in the capital market
- Developing an efficient capital market

In August 2003 the government floated ₦150 billion of federal bonds, with tenors of 3, 5, 7, and 10 years—the first bond issue in 17 years. A major goal of domestic debt management during the programme period will be to sustain this effort by lengthening the term structure of debt and

If reforms stay on course Nigeria is expected to be able to get debt relief, substantially reducing external debt service payments



increasing nonbank public holding of government debt in order to bring government borrowing under the discipline of the capital market.

In addition, domestic borrowing guidelines will be developed and applied to all tiers of government and their agencies. These guidelines will help ensure that the unsustainable and defective domestic debt portfolio of the federal, state, and local governments does not deteriorate.

- Restructure the composition of credit to the private sector to boost production.
- Provide more credit to the private sector, especially long-term credit for real sector development.
- Create effective regulatory and supervisory mechanisms to ensure orderly development of the financial system.
- Continue to use the retail Dutch auction system to determine the nominal exchange rate regime, and adopt a wholesale Dutch auction in the medium to long term.

The conduct of the monetary, credit, and exchange rate policies will continue to be guided by the central bank's monetary, credit, foreign trade, and exchange policy guidelines, which are now issued for two-year periods. The current guideline, Monetary Policy Circular No. 37, covers the policy guidelines for fiscal 2004 and 2005. The overall goal of monetary policy remains price and exchange rate stability; the instruments are those consistent with a deregulated financial system.

Given that the government is committed to a tighter fiscal stance, the inflation rate is expected to drop progressively over the four-year time horizon, reaching 9 percent by 2007. The decline in inflation is expected to improve the macroeconomic environment for planning and to reduce pressure on domestic costs and real interest rates. Interest rates will remain deregulated and market determined, but policy will aim at rates that are above the inflation rate in order to mobilize savings. The reform programme will aim to reduce the spread between lending and deposit rates of interest.

Historically, the structure of credit allocation has been a problem. It is widely believed that public sector demand for credit crowded out the private sector. Credit to the private sector has

The conduct of the monetary, credit, and exchange rate policies will continue to be guided by the central bank's guidelines, now issued for two-year periods

Monetary and Exchange Rate Policies

Historically, monetary policy in Nigeria was mainly short term, but the Central Bank of Nigeria has recently moved to a medium-term framework. Given the fiscal posture for the reform period, monetary policy outcomes will depend largely on the government's fiscal stance. The disparity between monetary targets and outcomes is wide largely because of the statutory financing of budget deficits and the inability of the apex bank to sterilize the liquidity effects of government expenditures. Thus monetary policy intervention has been basically reactionary and short term, leading to missed targets and ineffectiveness in performance. Despite the fact that the basic goal of monetary policy has been price stability, inflation has been relatively high and above the West African Monetary Zone targets.

Policy Thrusts

NEEDS supports several main policy thrusts:

- Strive to meet the second West African Monetary Zone's convergence criteria.
- Maintain low real lending interest rates.
- Maintain a competitive but stable exchange rate regime.

also been affected by the low absorptive capacity of the economy. Monetary projections for the reform period envisage lower public sector deficits, increasing the availability of funds for lending to the private sector. Banks need inducements to lend to the private sector rather than trade in government instruments, conduct foreign exchange transactions, or finance short-term (commercial) activities.

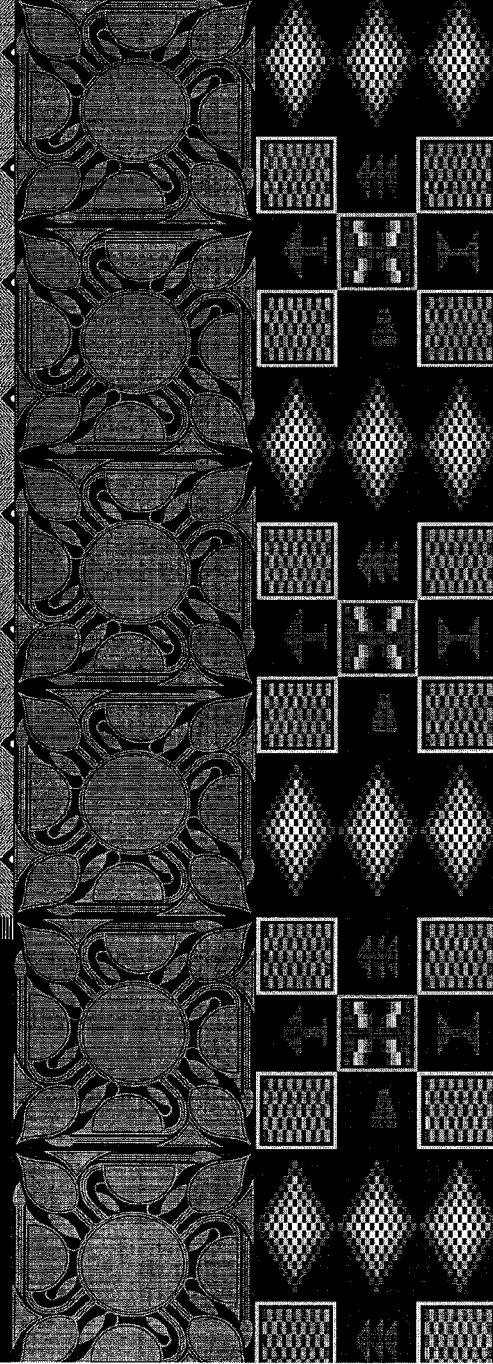
Providing credit to the private sector will be encouraged through a set of incentives. The central bank has already introduced a credit (risk) guarantee scheme for commercial bank lending to small and medium-size enterprises and the agricultural sector. Other incentives, such as the

rediscounting and refinancing schemes of commercial bank debts for small and medium-size enterprises, will be intensified. The aim is to create incentives that alter the structure of banking from deposit driven to credit giving. Given these incentives, credit to the private sector is projected to grow at least 30 percent a year. The framework also provides for steady but slow average annual changes in broad money over the reform period. With a substantial decline in government borrowing, less financing of government deficits by the central bank, and reduced dependence on oil income for foreign exchange earnings, changes in broad money are expected to be less volatile.

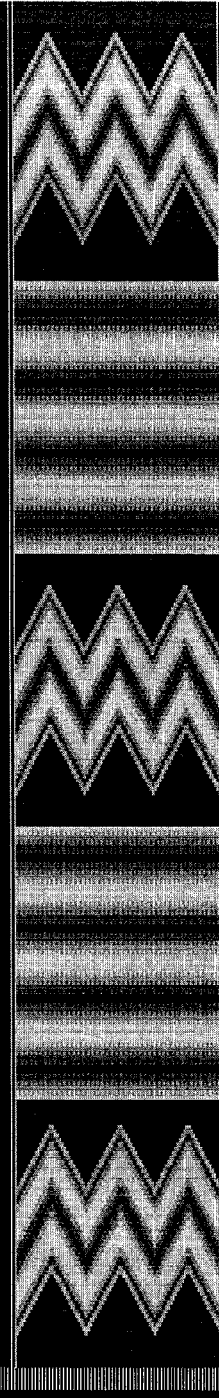


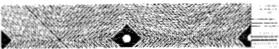
Part Two

Empowering People



Chapter 4
The Social Charter:
Investing in the Nigerian People





Chapter 4 The Social Charter: Investing in the Nigerian People

NEEDS is about the Nigerian people—their health, education, employment, happiness, sense of fulfillment, and general well-being (box 4.1). This chapter presents the social agenda that underpins the NEEDS programme.

Current Challenges

The social charter refers to the contract between the individual and the government in which the government recognizes the individual's rights and responsibilities and promises to deliver the basic necessities for a decent human existence. These necessities include potable water, food, clothing, shelter, adequate nutrition, basic education, primary health care, productive assets, security, and protection from shocks and risks.

Social conditions in Nigeria present a startling paradox: despite a rich endowment of natural and human resources, most of the country is poor. For decades the country has struggled to improve socioeconomic conditions, which have declined despite increasing revenue from crude oil.

The growing incidence and the dynamics of poverty in Nigeria have stratified and polarized Nigerian society between the haves and the have-nots, between the north and the south, between the educated and the uneducated. Poor parents

beget poor children, creating a kind of dynasty of the poor. The resulting tensions and social conflicts have eroded the fabric that held society together.

The challenge is not only to reform the economy in order to boost economic growth but also to empower the people as a means of revitalizing the weakened social pillar. Doing so calls for a human rights approach to development planning that places people at the centre of development efforts. The added value provided by this approach is that the norms and values enshrined in it have the potential to empower the poor. This is important, because it is now widely recognized that effective poverty reduction is not possible without doing so.

Poverty Reduction

Poverty reduction is the most difficult challenge facing Nigeria and its people and the greatest obstacle to pursuit of sustainable socioeconomic growth. The poverty rate in Nigeria increased from 27 percent in 1980 to 66 percent in 1996 (table 4.1); by 1999 it was estimated that more than 70 percent of Nigerians lived in poverty. Life expectancy is a mere 54 years, and infant mortality (77 per 1,000) and maternal mortality (704 per 100,000 live births) are among the

Box 4.1 Measuring the Quality of Life: Comments by President Olusegun Obasanjo

Too often we attempt to measure progress by statistical aggregates and technical prowess. We thereby tend to overlook that the main goal of life is to ensure survival and to enable everyone to realize his full potential for well-being, fulfillment, and accomplishment in happiness, joy, love, and contentment. National income figures neither reveal the real beneficiaries nor the composition of that income. They do not value the things that human beings consider important for themselves but have little or no market value for others or those beholden to statistical aggregates—freedom of choice, better nutrition and health care, security against crime and physical violence, better working conditions, access to knowledge and information, closeness of family life and community life, satisfying leisure and recreational facilities and time, a sense of participation in the economic, cultural, religious, and political activities of their communities. People also want higher incomes, but income is never the sum total of human life. For most people, health, security, freedom, love, recognition, and fulfillment through active participation and accomplishment are some of the important things in life.

We must not continue to stress the pursuit of a high growth rate in statistical terms and fail to reduce the social and economic deprivation of a substantial number and group of our people. We must not absolutely pursue wealth and growth at the expense of inner well-being, joy, satisfaction, fulfillment, and contentment of human beings. This, to me, is human development. The human development idea pioneered by Mahbub ul Haq, Pakistan's former Minister of Finance, and under the UNDP's (United Nations Development Programme) leadership from other concepts of growth and development. Economic growth is surely necessary but not sufficient for human development. For this purpose and to ease the complexity of measurement, UNDP concentrates on only three yardsticks of well-being which are regarded as the essentials of human life—longevity, knowledge, and a decent standard of living. I will add security, participation, and choice.

With relative poverty, a careful, judicious and equitable use of available resources can achieve wonders. There is no reason why most of the essential goals of human endeavor should not be achieved for nearly all Nigerians in the first decade of the twenty-first century. We have the knowledge and enough resources for this purpose. We only need the political will to break the mould and to remain resolutely consistent and undeviated. Our reform policies, which must be doggedly pursued, are fundamental, life-giving, and indispensable to human development. With sound and laudable reform policies resolutely and successfully implemented, there must, of necessity, be improved income. There can be no sustained momentum over the period without a rise in revenue and income at the national, state, community, family, and individual levels. This will entail some element of income redistribution. National economic growth must be pursued relentlessly, but at the same time we must ensure fair and reasonable distribution of its fruits. Eradication of corruption will certainly enhance human development.

For betterness of human development nationwide, our reform policies must impact on the urban population as well and as much as on the rural population. Progress in provision of electricity, water, roads, health, and sanitation in urban and rural areas must continue to be accelerated. The rural areas, in particular, must be made more livable and worth living in. Along with the physical aspects of village and rural renewal and development must be access to education, which will include adult education and distance learning.

Human development will be grossly undermined and impaired without employment. Agriculture and small and medium enterprises are the areas that can and must provide reliable employment opportunities. Attention and direction must be turned to this. Human development may not necessarily mean uniform human progress, but it must indicate discernible and reasonable progress, fulfillment, and satisfaction for almost all.

Source: Letter from President Obasanjo in Chicago, September 2001.

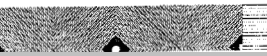


Table 4.1 Incidence of Poverty in Nigeria, Selected Years

	1990	1992	1995	1999
Geopolitical zones				
National	28.1	46.3	42.7	65.6
Northwest	35.6	54.9	54.0	70.1
North Central	37.7	52.1	36.5	77.2
Southwest	32.2	50.8	46.0	64.3
South Central	12.9	30.4	41.0	53.5
South East	13.4	38.6	43.1	60.3
South West	13.2	45.7	40.8	58.2
Sector				
Urban	17.2	37.8	37.5	58.2
Rural	28.3	51.4	46.0	69.3
Gender of head of household				
Male	29.2	47.3	45.1	66.4
Female	26.9	38.6	39.9	58.5
Size of household				
1 person	2.0	7.0	29.0	13.1
2-4 people	8.8	19.3	19.3	59.3
5-9 people	30.0	50.5	51.5	74.8
10-20 people	51.0	71.3	66.1	88.5
More than 20 people	80.9	74.9	83.3	93.6
Education of head of household				
None	30.2	51.3	46.4	72.6
Primary	21.3	40.6	43.3	54.4
Secondary	7.6	27.2	30.3	52.0
Postsecondary	24.3	24.4	25.8	49.2
Age of head of household				
15-24	16.2	25.3	28.7	37.4
25-34	17.8	33.4	28.5	52.7
35-44	26.7	46.0	42.1	64.6
45-54	27.1	49.7	45.7	71.3
55-64	38.7	55.7	48.2	69.9
Older than 65	28.8	49.1	49.5	68.0

Note: The Federal Office of Statistics is conducting a new household survey. When current data will be available shortly. Source: Federal Office of Statistics.

have no control, such as primary commodity prices, the volume of rainfall, pest attacks, fire outbreaks, changes in soil conditions, and social conflicts. Lack of food is the most critical dimension of poverty, reflected in the popular saying that "when hunger is excised from poverty, the burden of poverty is light."

Causes of Poverty

Inadequate growth is the main cause of poverty in Nigeria. The lack of growth is compounded by the volatility of the oil sector, which affects a range of activities in the economy. High and growing unemployment increases the number of poor people. Other factors that have contributed to the level and evolution of poverty in Nigeria include problems in the productive sector, widening income inequality, weak governance, social conflict, and gender, intersectoral, and environmental issues (table 4.1).

Problems in the productive sector. The limited growth of investment and technological innovation has constrained the labour absorption capacity of the nonagricultural sector, especially manufacturing. This lack of capacity has exacerbated poverty, especially in urban areas. Two other factors—problems associated with the transition away from high-cost industries that are heavily dependent on imports and the impact of globalization on domestic industries that are unable to compete with imported substitutes—also appear to have contributed to the limited growth of domestic production and employment. International evidence from countries in roughly comparable circumstances suggests that the savings propensity in Nigeria is low, providing weak underpinning for the sustained domestic investment growth needed in the fight against poverty.

highest in the world. Other social indicators (from 1999) are also weak:

- Only about 10 percent of the population had access to essential drugs.
- There were fewer than 30 physicians per 100,000 people.
- More than 5 million adults were estimated to be living with HIV/AIDS.
- Among children under five, almost 30 percent were underweight.
- Only 17 percent of children were fully immunized—down from 30 percent in 1990—and almost 40 percent had never been vaccinated.
- Only about half the population had access to safe drinking water (40 percent in rural areas, 80 percent in urban areas).
- Some 29 percent of the total population lived at risk from annual floods.
- More than 90 percent of the rural population depended on forests for livelihood and domestic energy sources.
- Rural households spent an average of 1.5 hours a day collecting water and fuel wood, with household members walking an average of one kilometre a day to collect water and fuel wood.

Qualitatively, poverty in Nigeria has many manifestations and dimensions, including joblessness, over-indebtedness, economic dependence, lack of freedom, inability to provide the basic needs of life for self and family, lack of access to land and credit, and inability to save or own assets. Poor people tend to live in dirty localities that put significant pressure on the physical environment, contributing to environmental degradation. The poor, especially farmers, perceive their economic circumstances to be fraught with uncertainty, affected by events over which they

contributed to poverty in Nigeria include problems in the productive sector, widening income inequality, weak governance, social conflict, and gender, intersectoral, and environmental issues



Income distribution. Widening income inequality has contributed significantly to the increase in poverty in Nigeria. Economic growth has tended to benefit people who work in public sector management. Fiscal policies have not promoted income redistribution. A related problem is the decline in the living standards of a growing number of persons (including retired members of the Nigerian middle class), due to underfunding and management problems of pension arrangements in public and private sector institutions.

Weak governance. Weak governance (including corruption) is believed to have contributed significantly to poverty in Nigeria. Governance problems are widely thought to have been among the major reasons why past poverty alleviation programmes have had little effect. The capacity of individuals and businesses to exploit the potential of the Nigerian economy has been hampered by the costs associated with corruption.

Social conflict. The economic and social dislocations caused by internal conflicts have negatively affected the economic well-being of individuals and businesses in various ways. Conflicts often lead to the deaths of principal income earners or the destruction and loss of major assets, such as houses or land. Those not displaced from conflict areas often face inadequate infrastructure and other facilities needed to earn a decent living. The occurrence—and in several cases recurrence—of social conflicts in various localities in Nigeria has increased poverty, not only in areas directly affected by the conflict but also in areas affected by inflows of internally displaced people. The uncertainties associated with actual or potential conflict situations also tend to discourage domestic and foreign investments.

Governance problems are widely thought to have been among the major reasons why past poverty alleviation programmes have had little effect

Gender. As in many developing countries, women in Nigeria are more likely than men to be poor. They also have fewer options than men for escaping poverty. Partly due to traditional property rights and inheritance practices, widows are more vulnerable to poverty than widowers. Partly because they have less formal education than their male counterparts, women generally benefit less from using employment to fight poverty. *Children's and Women's Rights in Nigeria: A Wake-Up Call*, a 2001 study published by the National Planning Commission and UNICEF, provides detailed information on the problems, progress, and possibilities facing women and children in Nigeria. The study is a valuable source of information for developing gender policies as the implementation of NFFDS proceeds.

Intersectoral factors. Some evidence suggests that the rural sector, where about 70 percent of Nigeria's people live, has been facing a more serious poverty situation than the urban sector. The difference is caused by a variety of factors, including the following:

- Sharp seasonality in the flow of production, income, and employment opportunities in the rural sector
- Shortage of social and economic infrastructure compared with urban areas
- Migration of the educated workforce to urban areas and the consequent aging of the rural population
- Low productivity of rural (and especially agricultural) production, due partly to limited access to credit, pesticides, extension services, and modern technology for agricultural production, processing, and preservation

At the same time, increases in population are putting pressure on limited resources in urban

areas, which face serious problems of unemployment, underemployment, and housing and other environment-related problems.

Environmental factors. Empirical evidence shows that poverty and environmental degradation are inextricably linked in Nigeria, because 75 percent of rural people depend on natural resources for their livelihood. Environmental degradation reduces opportunities for poor people to earn sustainable incomes. Left with no other viable options, they engage in extractive activities, contributing to the vicious cycle of poverty and environmental degradation. Rural dwellers are also more vulnerable to environmental disasters and hazards and have few or no strategies for coping with these stresses. In urban areas the poor live in slums, where they are exposed to overcrowded living quarters, unsafe water, improper waste disposal, and other health risks. These conditions reduce savings and investment at the individual, household, and national levels.

Other factors. Other factors affecting poverty in Nigeria include the following:

- Historically, actual and potential participants in economic activity faced an unstable and inconsistent policy environment, which hindered the sustained pursuit of personal or corporate economic improvement plans.
- Poor maintenance has caused Nigeria's infrastructure to deteriorate, increasing the cost of production and limiting opportunities for employment growth and other means of exit from poverty.
- Nigeria faces significant debt service payments, which eat up resources that could otherwise have been used to expand social services and other antipoverty programmes.

• Nigeria's population is growing at the relatively rapid rate of rate of 2.85 percent a year, making it difficult to increase per capita income.

Weakness of Past Antipoverty Initiatives
The response of various administrations to the poverty problem appears to have been largely ad hoc and uncoordinated. A recent survey of policies and interventions chronicles 28 federal projects and programmes with poverty reduction thrusts. Several state governments have also put poverty reduction schemes in place.

Programmes such as community banks, family support programmes, the National Directorate of Employment, the Peoples Bank, Better Life for Rural Women, and the Directorate of Food, Roads, and Rural Infrastructure were established by different governments to address various manifestations of poverty, such as unemployment, lack of access to credit, and rural and gender dimensions of poverty. While none of these programmes was completely without merit, none of them had a significant, or sustainable positive effect.

With the advent of democratic government in 1999, measures were adopted to streamline poverty-related institutions, review past poverty alleviation programmes, and harmonize sectoral efforts. Several major factors hindering the success of government efforts to reduce the level of poverty were identified. They included:

- Poor coordination
- The absence of a comprehensive policy framework
- Excessive political interference
- Ineffective targeting of the poor, leading to leakage of benefits to uninterested beneficiaries
- The unwieldy scope of programmes, which caused resources to be thinly spread across too many projects



Empirical evidence shows that poverty and environmental degradation are inextricably linked in Nigeria



- Overlapping functions, which led to institutional rivalry and conflicts
- The absence of sustainability mechanisms in programmes, and projects
- Lack of involvement of beneficiaries in project design, implementation, monitoring, and evaluation

Policy Thrust and Targets

NEEDS seeks to significantly improve the quality of life of Nigerians; create social safety nets for the vulnerable, and meet the needs of people displaced by the reform process. Economic empowerment is the main focus of the new strategy. Given that overall economic growth may not generate poverty reduction at the desired pace, actions to facilitate individual economic empowerment, particularly among the poor and other vulnerable groups, are imperative.

To reduce poverty, NEEDS will seek to meet the following broad targets:

- Increase average per capita consumption by at least 2 percent a year.
- Create about 7 million jobs by 2007.
- Increase immunization coverage to 60 percent by 2007.
- Increase the percentage of the population with access to safe drinking water to at least 70 percent by 2007.
- Significantly increase school enrolment rates, especially for girls, and increase the adult literacy rate to at least 65 percent by 2007.
- Significantly improve access to sanitation.

Sectoral Strategies

Achievement of the social sector targets depends critically on collaboration by all stakeholders—federal, state, and local governments, as well as

the private sector, nongovernmental organizations (NGOs), and the international community. Sector-specific strategies will be developed in 2004 to ensure synergy and complementarity in the interventions of the various actors in each of the social sectors. National councils for education, health, environment, and other social sectors will serve as the forum for the development of such strategies, which will complement the NEEDS document. The objectives of the sector-wide strategies are to eliminate duplication and waste, clearly delineate roles and responsibilities, and prioritize and cost sectoral programmes, by creating targets and benchmarks, monitoring mechanisms, and timelines. The strategies will address the effectiveness of service delivery in each sector. Increasingly, public spending in these sectors will rely on key performance benchmarks.

Empowering People through Education

The Constitution of Nigeria gives all citizens the right to education. But the delivery of education in Nigeria has suffered from years of neglect, compounded by inadequate attention to policy frameworks within the sector. Findings from an ongoing educational sector analysis confirm the poor state of education in Nigeria. The national literacy rate is currently 57 percent. Some 49 percent of the teaching force is unqualified. There are acute shortages of infrastructure and facilities at all levels. Access to basic education is inhibited by gender issues and socio-cultural beliefs and practices, among other factors. Wide disparities persist in educational standards and learning achievements. The system emphasizes theoretical knowledge at the expense of technical, vocational, and entrepreneurial education. School curricula need urgent review to make them relevant and practice oriented.

Educational goals and key strategies. NEEDS sets six goals for education. The first is to ensure and sustain unfettered access to education for the total development of the individual. Targets for achieving the goal include the following:

- Increase the percentage of graduates of primary schools who acquire functional literacy and numeracy to 100 percent.
- Increase the percentage of junior secondary school graduates who go on to senior secondary school or senior secondary technical school to 80 percent.
- Increase the percentage of senior secondary school and senior secondary technical school graduates who go on to tertiary institutions to 20 percent.
- Increase the adult literacy rate to 65 percent.
- Reduce the number of cases of examination malpractice in educational institutions by 40 percent.
- Reduce the number of cases of cultism in educational institutions by 90 percent.
- Increase to 90 percent the percentage of primary and secondary schools that establish sustainable programmes of physical development.
- Ensure that all tertiary institutions establish sustainable programmes of physical development.

The second goal is to improve the quality of education at all levels. Targets for achieving the goal include the following:

- Ensure that 80 percent of primary school teachers acquire the minimum teaching qualification (the National Certificate in Education).
- Ensure that 90 percent of secondary school teachers obtain professional qualifications (B.Ed., PGDF).

NEEDS recognizes the vital role of education as the vehicle for a formidable instrument for socioeconomic empowerment.

NEEDS recognizes the vital role of education as the vehicle for a formidable instrument for socioeconomic empowerment.





- Ensure that 80 percent of teachers in tertiary institutions acquire pedagogical skills.
- Ensure that 80 percent of teachers at all levels are professionals.
- Ensure that 50 percent of primary schools have conducive teaching and learning environments.
- Ensure that 60 percent of secondary schools have conducive teaching and learning environments.
- Ensure that 60 percent of all tertiary institutions have conducive teaching and learning environments.
- Ensure that 60 percent of head teachers and assistants undergo training in school-level management.
- Establish an efficient institutional framework for monitoring learning and teaching process at all levels.

The third goal is to use education as a tool for improving the quality of life through skill acquisition and job creation for poverty reduction. Targets for achieving the goal include the following:

- Ensure that Nigerians who have completed basic education acquire the literacy, numeracy, and basic life skills needed to live meaningful lives, and contribute to national development.
- Ensure that 50 percent of secondary school students have access to good-quality vocational and entrepreneurial education.
- Ensure that 50 percent of tertiary education graduates acquire sufficient technical skills, entrepreneurial skills, and knowledge to be self-employed and wealth creators.

The fourth goal is to ensure periodic review and effective implementation of the curriculum at the secondary level to meet the requirements of

- higher education and the world of work. Targets for achieving the goal include the following:
- Complete the curricular revision exercise to reflect the dynamism of society and emerging global issues.
 - Rehabilitate vocational basic technology and resource centres nationwide.
 - Establish new basic technology and resource centers nationwide.
 - Produce education materials that reflect the revised curricula.
 - Establish libraries and information resource centers for teachers and students to complement formal and life-long education and create awareness of their importance.
 - Involve local craftspeople in the delivery of vocational education in schools.

The fifth goal is to mobilize and develop partnerships with the private sector and local communities to support and fund education.

- Targets for achieving the goal include the following:
- Improve collaboration among major stakeholders.
 - Achieve 80 percent community involvement in the management of schools.
 - Achieve 60 percent private sector involvement in managing and funding education.
 - Retain the 2 percent education tax and enforce 100 percent compliance.

The sixth goal is to promote information and communication technology capabilities at all levels. Targets for achieving the goal include the following:

- Ensure that 10 percent of primary school graduates are computer literate.
- Ensure that 80 percent of secondary school graduates are computer literate.
- Ensure that 80 percent graduates of tertiary institutions are computer literate.

- Ensure that 50 percent of school managers and proprietors are computer literate.
 - Ensure that 30 percent of secondary schools have functional information and communication technology facilities.
 - Ensure that 80 percent of tertiary institutions have functional information and communication technology facilities.
 - Ensure that 50 percent of teachers at all levels are trained in computer skills.
- Strategies for achieving the goal include the following:

- Complete and harmonize all on-going educational planning programmes and initiatives in the Ministry of Education and its agencies.
 - Make learning and teaching environments child and teacher friendly.
 - Train and retrain teachers, through formal and distance learning programmes.
 - Review curricula at all levels for relevance, and make them competency based to meet global challenges, and the needs of the job market.
 - Provide adult and youth vocational centers with materials and equipment for functional literacy and the acquisition of occupational skills.
 - Establish effective partnership and collaboration with the organized private sector and the informal sector.
 - Produce textbooks and other instructional materials to reflect the curricula.
 - Integrate local craftspeople in curricular delivery to accelerate the number of craftspeople and improve access to their products.
 - Involve parents and community leaders in the planning and management of schools in their communities.
- Tertiary education. Under NEEDS the government recognizes the critical importance of tertiary institutions for developing high-quality human resources, especially in an increasingly technology-driven world economy. The government also recognizes the challenges facing these institutions, challenges that include inadequate funding and facilities, curricula that are inadequate to meet the challenges of nation building, inadequate and inappropriate staffing (especially among the lecturers), cutlism, and low moral and academic standards among students. Higher institutions in Nigeria currently depend almost exclusively on government subsidies. The bulk of federal government spending on education goes to tertiary institutions; state governments spend at least 20 percent of their budgets on education, mostly primary and secondary education. Almost total dependance on the government for funding higher education is neither practical nor sustainable. There is therefore a need for fundamental reforms of the higher education system. The strategy for reform includes the following:
- Strictly adhere to the provisions of the University Autonomy Act.
 - Diversify funding by attracting private sector funding and considering more appropriate pricing of facilities and services (including hostel accommodation).

Education is critical to meeting the goals set by NEEDS

NEEDS recognizes the critical importance of tertiary institutions for developing high-quality human resources, especially in an increasingly technology-driven world economy





- Update and restructure curricula to meet the demands of the national economy. Mainstream science and technology, especially information and communication technology.
- Establish effective monitoring of public and private universities to ensure strict adherence to standards.
- Develop innovative approaches to ensure continuing retooling and capacity building of lecturers so that they operate at the cutting edge of their disciplines.
- Increasingly move towards a decentralized and competitive wage bargaining system, which promotes a performance-based reward system.

NEEDS advocates greater involvement and participation by the private sector in educational

Private sector participation in the education sector. The NEEDS initiative advocates greater involvement and participation by the private sector in educational development. An enabling environment will be created to increase private sector participation. Establishment of good-quality privately owned educational institutions at all levels will be encouraged to ensure that gaps in the provision of education are filled. Efforts will be made to achieve 100 percent compliance in paying the 2 percent corporate profit tax that funds education. Linkages between educational institutions and the private sector will be strengthened to ensure the appropriate interface with the world of work.

Improving Health

The goal of the NEEDS health component is to improve the health status of Nigerians in order to reduce poverty. The strategy will continue to emphasize the strengthening of preventive and curative primary health care services. The initiative will involve comprehensive health sector reform, aimed largely at strengthening the

national health system and enhancing the delivery of effective, efficient, good quality, and affordable health services.

- Policy thrusts. Under NFEEDs the government will:
- Improve its stewardship over policy formulation, health legislation, regulation, resource mobilization, coordination, monitoring, and evaluation.
 - Strengthen the national health system and improve its management.
 - Improve the availability and management of health resources (financial, human, infrastructure, and so forth).
 - Reduce the disease burden attributable to priority diseases and health problems, including malaria, tuberculosis, HIV/AIDS, and reproductive health-related illnesses.
 - Improve physical and financial access to good-quality health services.
 - Increase consumers' awareness of their health rights and obligations.
 - Foster effective collaboration and partnership with all health actors.

Major strategies and interventions. The government will adopt the following strategies to meet its goals:

- Redefine the roles and responsibilities of the Ministry of Health and other federal public health structures and institutions in providing and financing good-quality health services.
- Reorganize and restructure the Ministry of Health and other public health structures within the context of the redefined roles and responsibilities.
- Review existing health policies and strategies as well as health legislation. Publish a new national health policy and enact a National Health Act that defines

the national health system and the health functions of each of the three levels of government.

- Strengthen the capacity of the Ministry of Health in policy formulation and implementation.
- Improve existing or set up new mechanisms to generate and use evidence and information for developing and implementing health policy, programmes, and plans.
- Strengthen local governments' capacity in primary health care management.
- Refurbish primary health care facilities and make them operational.
- Implement the Vamed Engineering Project for refurbishing teaching hospitals and standardizing their equipment.
- Establish a national hospital services commission to improve management of tertiary health institutions.
- Establish systems for efficient management of health resources, including finance, human resources, and physical infrastructure.
- Construct and institutionalize National Health Accounts.
- Develop and implement a comprehensive health care financing strategy, including the fast-tracking of the National Health Insurance Scheme.
- Rehabilitate and refurbish the National Drug Production Laboratory.
- Fully operationalize the National Institute for Production of Vaccines and Biologicals.
- Establish a national blood transfusion system.
- Create an enabling environment for local manufacture of about 70 percent of Nigeria's needs for essential drugs and supplies and antiretroviral drugs and reagents.

- Improve data on the burden and socio-economic impact of diseases in Nigeria.
- Develop and implement a well-costed strategic plan for combating malaria, tuberculosis, and other diseases.
- Develop and implement an appropriate response to the HIV/AIDS pandemic.
- Create or strengthen mechanisms for checking the transmission of polio by the end of 2004, detecting, diagnosing, and responding to epidemics in a timely manner, and rapidly and sustainably increasing routine immunization coverage.
- Strengthen existing programmes and initiatives for eradicating or eradicating specific diseases, such as Guinea worm.
- Develop and implement a mechanism for measuring the performance of tertiary health institutions.
- Develop and implement a strategy to improve health workers' attitude, morals, and commitment.
- Establish a reliable system for supplying good-quality drugs and medical materials to health facilities.
- Strengthen the ability of the National Agency for Food and Drug Administration and Control to perform its regulatory functions.
- Develop and implement a strategy to increase consumers' knowledge and awareness of their personal obligations and rights to better health.
- Develop and implement a strategy to enhance community participation in providing and financing health services.
- Use the results of the study on the private health sector to formulate policy for promoting public-private partnerships in health care provision and financing.

The goal of the NEEDS health component is to improve the health status of Nigerians in order to reduce poverty





- Develop and implement a nationwide enhancing effective coordination of development partners.
- Integrate all tiers of care, as well as traditional medical practitioners. Traditional medical practitioners are included in the referral chain of medical care, as they provide low-cost care and are the first point of contact for rural dwellers.
- Strengthen the ability of the Nigeria Natural Medicine Development Agency and related agencies to develop standards and monitor practitioners to carry out clinical trials to confirm the efficacy and proper dosage of preparations, for example.

Many of the diseases that affect Nigerians are due to unhealthy environmental conditions

- Assess the environmental health impact on communities in oil-producing and mining areas.
- Promote community-based integrated sanitation services.
- Promote sound food sanitation practices to ensure food security.
- Promote the safe use of pesticides and other agro-chemicals.
- Increase antenatal, postnatal, and family planning services and outlets in order to reduce maternal mortality from the current level of 704 per 100,000 live births and infant mortality from the current level of 77 per 1,000.
- Intensify the campaign to eradicate harmful traditional practices, such as female genital mutilation and child marriage. Several state governments have already passed the necessary legislation, and many more are in the process of doing so.

Tackling the HIV/AIDS Challenge

HIV/AIDS is a cross-cutting issue, with links to education, health, agriculture, defence, labour, and other sectors. The HIV/AIDS epidemic in Nigeria has extended beyond high-risk groups. More than 2.7 million Nigerians are now infected with the virus. An estimate based on a 2001 seroprevalence survey conservatively puts prevalence at 5.4 percent of the population. The figure suggests that the nation is in real danger of facing explosive growth in the epidemic, with dire consequences for economic growth, health, and social development. HIV/AIDS is already having a disastrous impact on social and economic development in Nigeria. If not adequately contained, the epidemic will prove to be the greatest single obstacle to reaching national poverty reduction and other targets for social and economic

- Improving Environmental Health**
- Good health remains unobtainable unless the environments in which people live promote health. Many of the diseases that affect Nigerians—including malaria, tuberculosis, diarrhea, and dysentery—are due to unhealthy environmental conditions. Environmental health considerations therefore remain vital to achieving the objectives of NEEDS.
- Under the environmental health reform programme, the government will:
- Articulate a national environmental health policy and national environmental health action plan.
 - Review and harmonize existing sanitation laws.
 - Develop environmental health performance indicators.
 - Develop procedural guidelines for an environmental health impact assessment.
 - Develop a national solid waste management master plan.



development. The devastation caused by HIV/AIDS is unique, because it is depriving families, communities, and the entire nation of their young and productive people. The epidemic is deepening poverty, reducing human development achievements, increasing gender inequalities, eroding the ability of government to provide essential services, reducing labour productivity and supply, and putting a brake on economic growth.

By 2001 it had become clear that the complexity of the HIV/AIDS epidemic required a developmental, holistic, coordinated, and multisectoral approach. The strong political commitment of the President of Nigeria, to fight HIV/AIDS served as a powerful catalyst and motivator for establishing a supra-ministerial and sectoral body, the National Action Committee on AIDS (NACA) under the Presidency. A national policy on HIV/AIDS was launched in August 2002 to give policy direction and to make a policy statement on the transformation of NACA from a committee to a full-fledged agency that is well positioned and poised to scale up the fight against the epidemic.

The response to HIV/AIDS being coordinated by NACA has focused on the challenges of containing the epidemic and preventing new infections through advocacy, information and education campaigns, behaviour change communication, condom distribution, targeting of groups particularly vulnerable to infection, and other key interventions. It also focuses on treatment and care of people living with HIV/AIDS. Both prevention and treatment are top priorities to NACA, not only because they save lives and reduce human suffering but also because they limit the future impact of the epidemic on human development and poverty reduction efforts.

Through an International Development Association credit, NACA provides funds for NGOs, community-based organizations, and federal line ministries throughout the country to support implementation of high-priority and demand-driven programmes. NACA is also the principal recipient of funding from the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Those funds are disbursed to the Ministry of Health to finance voluntary counselling and testing, and antiretroviral treatment for people living with AIDS. The multisectoral response is being implemented in collaboration with developmental partners, including the World Bank, the U.S. Agency for International Development, the Department for International Development, UNAIDS, the Canadian International Development Agency, the World Health Organization, UNICEF, the United Nations Development Programme, the United Nations Population Fund, and other organizations. Positive outcomes of these efforts are the increasing flow of resources for community and sectoral responses, as well as broad ownership of the national response beyond the health sector.

Projected impact of HIV/AIDS on Nigeria's economy and development. HIV/AIDS is projected to affect many sectors of the Nigerian economy.

- *Macroeconomic effects.* Studies in Africa suggest that the HIV/AIDS epidemic reduces annual GDP growth by about 1–2 percent.
- *Health sector.* The epidemic affects demand for and supply of medical care, staffing levels by function, training and replacement costs, employment terms, quality of care, and health care delivery.

HIV/AIDS is having a disastrous impact on social and economic development in Nigeria



The provision of HIV/AIDS-related services adversely affects the provision of other health care services.

- Education. The epidemic affects staffing, replacement and training needs, employment policies, contracts, employer liabilities, costs, delivery, and quality.
- Agriculture and food security. HIV/AIDS has serious adverse impacts on food security in Nigeria, potentially affecting subsistence and small-scale commercial agriculture, rural livelihood strategies, and household and community support systems. Both economic and noneconomic losses will result from the epidemic.
- Urban livelihoods. HIV/AIDS has grave implications for urban dwellers. The epidemic will affect employment, labour market operation, income inequality, and access to services of people living in urban areas.

The NEEDS HIV/AIDS policy aims to create an environment in which all Nigerians will be able to live socially and economically productive lives free of the disease and its effects

The following targets have been set to guide programme planning and implementation:

- Achieve at least a 25 percent reduction in the adult prevalence of HIV every five years.
- Increase the use of safe-sex behaviour among the general population and high-risk groups by 20 percent by 2005 and by 50 percent by 2007
- Reduce the prevalence and incidence of sexually transmitted infections by 50 percent by 2007.
- Ensure that at least 20 percent of all local government areas offer home-based care to people living with HIV/AIDS by 2007
- Ensure that 30 percent of health institutions will be able to offer effective care for and management of HIV/AIDS by 2007
- Ensure that 5 percent of communities affected by HIV/AIDS will have programmes designed to provide social safety nets for people living with HIV/AIDS by 2005, and increase the proportion of communities with such programmes to 15 percent by 2007.
- Reduce mother-to-child transmission of HIV by 50 percent by 2007
- Increase ready access to voluntary confidential counseling and testing services to at least 50 percent by 2007.
- Ensure access to antiretroviral drugs in all states by 2007.

Strategies. To achieve the goal of controlling the spread and mitigating the impact of HIV/AIDS, NACA will adopt the following strategies:

- Promote a national multisectoral and multidisciplinary response to the epidemic, and establish an appropriate legal and institutional framework for its coordination.

Housing

The housing strategy is aimed at developing affordable houses for the masses. The Land Use Act will be reviewed with the aim of making the acquisition of land cheaper for developers in order to make houses more affordable. Review of the act will also aim at expediting the acquisition of title by individual land allottees to facilitate access to mortgage finance.

Efforts will be intensified to popularize the use of local raw materials, such as cement, stabilized laterite and burnt bricks, to reduce the cost of housing construction. Faculties of architecture and building at tertiary institutions will be encouraged to teach their students to design and build with low-cost, local materials. Public buildings (schools, hospitals, post offices, barracks, markets) will lead in the adoption of these materials. As matter of policy, the production of houses will be the responsibility of the private sector and state and local governments. Except in the federal capital territory, the federal government will assist housing producers only through matching grants for developing sites and providing services.

- Identify sectoral roles and assign responsibilities for implementing programmes based on sectors' comparative advantages and core competencies.
- Increase awareness of and sensitivity about HIV/AIDS among the general population.
- Foster behaviour change as the main means of controlling the epidemic.
- Improve national understanding and acceptance of the principle that all people must accept responsibility for the prevention of HIV transmission and the provision of care and support for those infected and affected.
- Provide access to cost-effective support and care, including antiretroviral drugs, to people with HIV/AIDS.
- Protect the rights of people infected and affected by HIV/AIDS, as guaranteed under the Constitution and the laws of Nigeria.
- Remove all barriers to HIV/AIDS prevention and control.
- Empower people infected and affected by HIV/AIDS to cope with their circumstances, through training, counseling, and education.
- Support research, monitoring, and evaluation of programmes; relevant documentation of activities related to the epidemic; and the dissemination of information to stakeholders and the general population.
- Ensure that prevention programmes are developed and targeted at vulnerable groups, such as women and children, adolescents and youth, sex workers, long-distance commercial vehicle drivers, prison inmates, migrant workers, and others.
- Transform MACA into a statutory body, and provide adequate resources for it to meet the goals and targets set for HIV/AIDS prevention and control.

Employment Generation

The rate of urbanization in Nigeria—about 5.3 percent a year—is one of the fastest in the world. Urban unemployment is estimated at about 10.8 percent. If manufacturing and services sectors do not grow sufficiently to absorb the surge of labour to urban areas; and if rural areas are not transformed to stem the growth in migration to urban areas, the rate of urban unemployment could become unmanageable. The implications for poverty and crime, conflict, and the maintenance of democracy—are grave.

If manufacturing and services sectors do not grow sufficiently to absorb the surge of labour to urban areas, and if rural areas are not transformed to stem the growth in migration, urban unemployment could become unmanageable



NEEDS recognizes the urgency of the unemployment situation, but it understands that there will be a lag in the expected job-creation effects of the reform programme. It also recognizes the need for specific steps to facilitate individual empowerment, particularly among young people and other vulnerable groups, through the creation of new jobs.

The private sector is expected to generate most of the new jobs in Nigeria (table 4.2). The role of the government will be to:

- Create an enabling environment by adopting specific sectoral programmes that permit the private sector to prosper.
 - Empower people by providing for the acquisition of relevant skills to prepare them for the world of work.
 - Promote integrated rural development, in collaboration with the states.
- Coordinated implementation of NEEDS at the federal level and State Economic Empowerment and Development Strategies (SEEDS) at the state level is expected to lead to about 7 million new jobs.

NEEDS seeks to fully integrate women by enhancing their capacity to participate in the economic, social, political, and cultural life of the country

- Support legislation for the abolition of all forms of harmful traditional practices against women.
- Mainstream women's concerns and perspectives in all policies and programmes.
- Promote access to microfinance and other poverty alleviation strategies, with a view to reducing poverty among women.
- Reduce women's vulnerability to HIV/AIDS and other sexually transmitted diseases by empowering them through sustained advocacy, education, and mobilization.
- Establish scholarship schemes at the secondary and tertiary levels to expand educational opportunities for female students where necessary. Expand adult and vocational education programmes that cater to women beyond formal school age.
- Increase the access of women, youth, and children to information on key national issues.
- Provide social security for unemployed women, youth, and poor children.

Empowering Women

NEEDS seeks to fully integrate women by enhancing their capacity to participate in the economic, social, political, and cultural life of the country. To do so, the government will adopt the following measures:

- Ensure equitable representation of women all over the country in all aspects of national life by using affirmative action to ensure that women represent at least 30 percent of the workforce, where feasible.
- Implement the provisions of the UN Convention on Elimination of all forms of Discrimination against Women.

Empowering Youth

Joblessness has resulted in a rising incidence of social ills among young people. Policies will target youth empowerment and development in order to reverse the negative consequences associated with the past pattern of development. Specific interventions include the following:

- Expand opportunities for vocational training and entrepreneurial development.
- Provide facilities for sports and recreation (public sports facilities and parks).
- Promote the arts and culture.
- Wage a sustained campaign against drug use and abuse, cultism, prostitution, and trafficking of women.

Table 4.2 Projected Sources and Means of Employment Generation under NEEDS

Sectors of growth	Means of employment generation
Agriculture and rural development	<ul style="list-style-type: none"> • Increased productivity of small farmers • New jobs in rural areas arising from improved rural infrastructure • Increased employment from commercial agriculture
Manufacturing and small and medium-size enterprises	<ul style="list-style-type: none"> • Increased production through coordinated programme by the federal and state governments • Federal state collaboration in the development of industrial clusters and parks
Solar minerals	<ul style="list-style-type: none"> • New investment • Improved infrastructure at mining sites • Implementation of national strategy for solid minerals (expected to create at least 500,000 new jobs)
Information and communications telecommunication	<ul style="list-style-type: none"> • Expansion of telecommunications industry and the coming on board of second national carrier
Services (especially tourism)	<ul style="list-style-type: none"> • Increases in distributive trade as a consequence of growth in the productive sectors and services • New focus on tourism (which will lead to more direct and indirect employment, at the Obudu Cattle Ranch, for example)
Oil and gas	<ul style="list-style-type: none"> • Growth in entertainment industry, especially export of domestic videos • Enforcement of local content policy • Growth in gas sector
Power	<ul style="list-style-type: none"> • Increased participation of independent power providers, which will expand productivity and lead to greater demand for both skilled and unskilled workers in all sectors of the economy
Education	<ul style="list-style-type: none"> • Universal basic education and the increasing growth of private provision of education and skill training
Public works and housing construction	<ul style="list-style-type: none"> • Use of public works in construction of roads and other public utilities, especially by state and local governments • New and continuing boom in housing construction all over the country
Intervention schemes	<ul style="list-style-type: none"> • Microcredit and concessional credit to provide start-up capital for new businesses
Environment	<ul style="list-style-type: none"> • Divestiture of responsibility for waste management to private sector (waste-to-wealth initiative) • Export cottage industries (such as manufacture of cane products) • Extraction, processing, and marketing of non timber forest products, including fuel wood and medicinal plants

Note: These sectors of growth are not exhaustive. The sectors include, accompanied with working conditions, such as the licensed ports (generally banking, transportation and telecommunication technology, and the forestry industry, and real-estate). Also included is the informal sector, the largest employer of metropolitan and rural low-skilled workers. Specific measures will be taken to provide special support for development to retain youth and to open employment opportunities to women and people with disabilities.



- Increase awareness about the dangers of HIV/AIDS and other sexually transmitted diseases;
- Use public works, such as road maintenance and agriculture-based schemes, to reduce youth unemployment;
- Inculcate in Nigerian youth the virtues of patriotism, discipline, selfless service, honesty, and integrity through revitalization of organizations such as the Boy Scouts, the Girls Guide, and the Boys Brigade;
- Promote targeted youth employment to deal with the short-run consequences of the reform process;
- Increase access of women and youths to credit under existing arrangements;
- Increase opportunities for Nigerian youth, especially in the choice of profession, through youth exchange programmes and other avenues that expose them to international best practices;
- Eliminate factors that promote ethnic, religious, and social divides among Nigerian youths.

Policies will target youth empowerment and development in order to reverse the rising incidence of social ill-health among young people

- Trafficking of narcotics and psychotropic substances
 - Child trafficking
 - All forms of violence
 - Preventable diseases and diseases associated with hunger and malnutrition, particularly early in life
- It will also:
- Recognize children's right to participate in recreation, leisure, association, and matters affecting their lives by promoting representation, association, and participation opportunities (through the Children's Parliament, for example)
 - Bridge the gender gap in school enrolment and retention.

Liberalizing Sports Administration

Worldwide, sporting activities represent a major source of earnings and employment. Huge profits are generated in many countries through ticket sales; sponsorship deals; the sale of advertising, radio, and television rights; product endorsements; and public and movie appearances by sports stars. Athletes' earnings are reinvested in the economy, creating employment.

Nigeria has not enjoyed the benefits of professional sports, because of the government's domination of sports administration and management and the status given to sports as an extension of social services. The existence of cumbersome laws regulating sports administration has prevented sports from becoming a job-creating industry.

Under NEEDS the enormous potential of the sports industry would be unleashed by liberalizing the sector. The private sector has

Ensuring the Welfare of Children

Children's welfare will be protected by strict enforcement of the Child Rights Act of 2003 by child rights implementation committees at the federal, state, and local government levels. These committees will strictly enforce the protection of children from:

- Communal and armed conflict
- All forms of abuse, neglect, and exploitation, including economic exploitation, sexual exploitation, and the use of children in criminal activities or the production and



Strengthening Safety Nets

Social protection consists of interventions aimed at safeguarding the poor from becoming poorer and the non-poor from becoming poor. NEEDS seeks to protect against various risks (table 4.3). NEEDS will also ensure that the most vulnerable groups in society are protected (table 4.4).

Strengthening Peace and Internal Security

The Institute for Peace and Conflict Resolution, charged with the in-depth study of peace and internal security issues, was established within the Presidency. A conflict assessment carried out by the institute in 2002, in collaboration with civil society, the World Bank, and other development partners, reached several conclusions:

- Political corruption stemming from interference and aimed at the control of the state machinery for private or sectarian interests is at the root of pervasive social conflict in Nigeria.
 - Policymakers and other well-meaning stakeholders, even as they nurture the growth of democratic institutions over time, may need to undertake deliberate interventions at times in the interests of peace, security, and poverty alleviation.
 - Although democracy may make it easier for internal social conflicts to surface, it provides the best long-term mechanism for resolving such conflicts.
- The findings led to the development of a national action plan. Elements of the plan include the following:
- Security sector reforms will address the retraining of personnel in the security

Conflict prevention will be mainstreamed to put in place structures and processes that encourage a culture of peace, in which conflicts are addressed before they degenerate into violence

Table 4.3 Risks, At-Risk Groups, and Formal Responses

Risks	At-Risk Groups	Formal Responses
Nature: Droughts, floods, erosion, ransomes, and food losses due to pests	Well-to-do, poor, rural men and young men, rural women and young women	Environmental extension services; afforestation, agro-forestry, agricultural insurance
Environmental: Deforestation, desertification, oil spillage	Poor, rural men and young men, rural women and young women	Environmental measures to stem pollution, tree-planting campaigns; agro-forestry; incentives to convert to alternative energy use; enforcement of standard of farm practices
Labour: Loss of job, drop in income	Poor, urban youth	Institutionalization of unemployment insurance
Social: HIV/AIDS, infant and maternal mortality	Well-to-do, poor, rural men and young men, rural women and young women, urban men and young men, urban women and young women	Comprehensive health centers; government immunization and inoculation programme; health insurance schemes; HIV/AIDS programmes; universal basic education
Gender: Unwanted pregnancies and sexually transmitted diseases; job discrimination, harmful traditional practices	Poor, urban and rural women and young women	Sex education at appropriate stages in school; social welfare counseling; endorsement of rights; appropriate legislation; advocacy
Life events: Death of spouse, old age	Well-to-do, poor, urban men and young men, urban women, rural women and young women	Persons and reform of inheritance laws
Conflict: Ethnic conflicts, armed robbery, child abuse	Well-to-do, poor, rural and urban women, young women, and girls; urban men and young men	Police; social welfare counseling; National Refugee Commission Criminal Justice System
Macroeconomic: Macroeconomic instability, unemployment	Poor, urban men, women, and youth	Stable macroeconomic policy; social safety nets

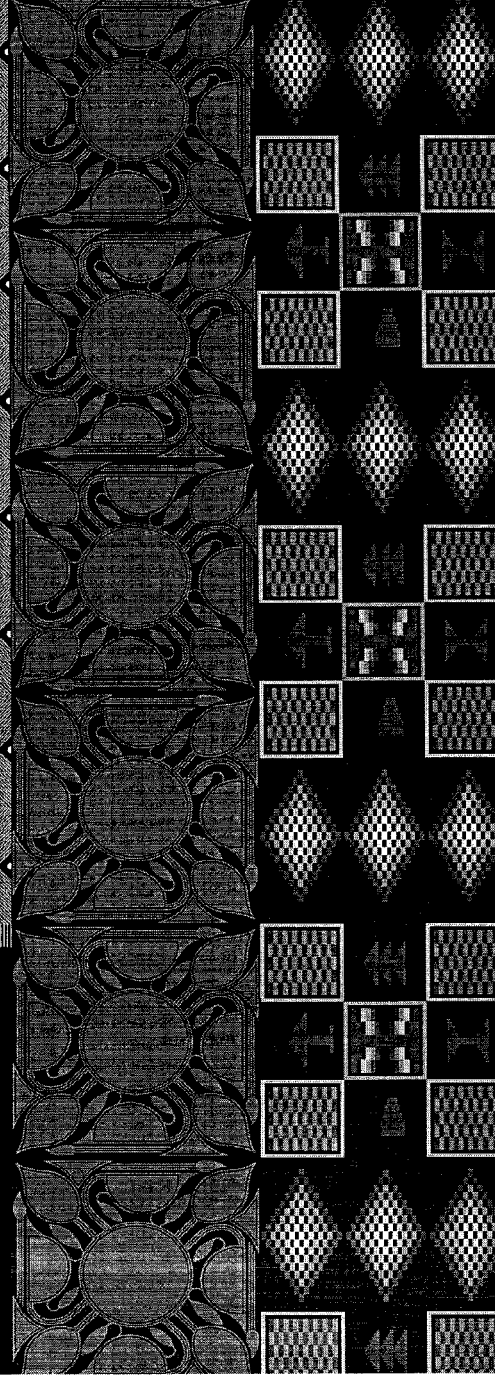
Table 4.4 Targeted Instruments for Protecting Vulnerable Groups

Group	Instrumenting and Interventions
Rural poor	Access to credit and land; participation in decisionmaking; agricultural extension services; improved seeds, farm equips, and implements; strengthening of traditional thrift, savings, and insurance schemes
Urban poor	Labour intensive public works schemes; affordable housing, water, and sanitation; skill acquisition and entrepreneurial development; access to credit; scholarships and adult education
Women	Alternative action to increase women's representation to at least 30 percent in all programmes; education, including adult education; scholarships; access to credit and land; maternal and child health
Youth	Education, entrepreneurial development, skill acquisition, access to credit, prevention and control of HIV/AIDS and other sexually transmitted diseases
Children	Children's Parliament, juvenile justice administration, universal basic education; education for girls; care of orphans and vulnerable children (children affected by HIV/AIDS); prevention and treatment of childhood diseases
Rural communities	Water, rural roads, electricity, schools, health facilities, communications

• Conflict prevention will be mainstreamed to put in place structures and processes that encourage a culture of peace, in which conflicts are addressed before they degenerate into violence, and in which public officers as well as civil society members have the opportunity to be trained in the prevention, management, and resolution of conflicts.

Part Three

Promoting Private Enterprise



Chapter 5
Creating a Competitive Private Sector

Chapter 6
Sectoral Strategies

Chapter 7
Regional Integration and Trade Policies





Chapter 5 Creating a Competitive Private Sector

For decades Nigeria's economy was characterized by the growing dominance of the public sector, overreliance on a single commodity (oil), and the pursuit of a highly import-dependent, import-substituting industrial strategy. While these policy thrusts were justified at their inception, experience has shown that growth based on expansionary public expenditure, import-substitution industrialization, and reliance on the export of a few primary commodities is neither efficient nor sustainable. That the strategy did not work in Nigeria is evident from several indices of suboptimal performance: low per capita GDP, a low growth rate, a weak industrial base with declining industrial output and capacity utilization, large budget deficits and deterioration in the social and infrastructure facilities, low productivity in the real sector, and a high level of unemployment.

The private sector has been dogged by weaknesses inherent in its skewed structure. It is dominated by a few large multinationals that are heavily dependent on imports and operate largely as enclaves and a large segment of small and medium-size enterprises with very little, if any, linkage to the multinationals. A rent-seeking and unproductive culture of overdependence on government patronage and contracts, with very little value-added, governs the sector.

As a result of these factors, Nigeria has become a nation of traders, with a very weak and stagnant domestic private sector. Other frequently cited problems in efforts at growing the private sector include the poor state of physical infrastructure; the high cost, and limited access to appropriate financing; insufficient domestic demand and the low level of patronage by public sector institutions; the high cost of imported raw materials, equipment, and spare parts; and the lack of skilled labour. Growing the private sector also hinges crucially on domestic policies, environmental factors, and investment flows.

Strategic Thrusts for Growing the Private Sector

The primary goal of the NEEDS strategy is to build a private sector that can take advantage of the opportunities that abound in the domestic, regional, and global markets. The strategy builds on the achievements of the past few years in transforming the private sector. The main strategic thrusts include the following:

- Redefine the role of government as a facilitator and promoter in the economy, recognizing that market failures in developing economies require targeted

incentives and interventions in specific areas to promote specific sectors and industries. The government hopes to complement the usual enabling environment model of development with some targeted entrepreneurial interventions to bolster weak and vulnerable sectors.

- Consolidate and strengthen an enabling environment for a competitive private sector. Specific measures in this area include the following:

- Continue to improve security, the rule of law, and the timely enforcement of contracts.
- Continue to reduce policy-related costs and risks, such as corruption, red tape, and administrative barriers to businesses; a weak legal system; inadequate protection of property rights; inadequate enforcement of tariffs; dumping of fake and substandard products; and policy and other uncertainties associated with exchange rate and other prices.
- Invest heavily in infrastructure, especially electricity, transport, and water. Studies indicate that about 25 percent of business start-up costs are spent on private power generators, and privately generated electricity costs about two and a half times as much as electricity provided by the National Electric Power Authority. Reforming the power sector could significantly reduce the cost of doing business and improve competitiveness.

- Provide targeted interventions as incentives to grow the private sector. The government aims to play an active developmental role, while avoiding the mistakes of past direct

interventions in the economy, by adopting the following strategies:

- *Nationally coordinated strategies for the key sectors that drive growth*—agriculture, small and medium-size enterprises, manufacturing, oil and gas sector, solid minerals, and services (especially information and communication technology and tourism). Explicit strategies and interventions are designed for each of these sectors to harness and maximize their potential for growth and poverty reduction.
- *Cheap and easy access to finance.* In the medium to long run, the government plans to drastically reduce the many costs businesses in Nigeria face. In the short to medium term, it will direct low-cost credit to the productive sectors as an incentive to jump-start the private sector.
- *Privatization and liberalization.*

Privatization of public enterprises is aimed at shrinking the domain of the state and enlarging the size of the private sector. It is also aimed at improving the efficiency and competitiveness of enterprises, leading to their long-term sustainability and contribution to poverty reduction. The liberalization of sectors hitherto monopolized by the government is expected to unleash competition by the private sector—and hence spur growth and employment generation.

- *Promotion and development of industrial and science and technology parks and industrial clusters.* The federal government will work with state governments and the private sector to promote the development of industrial

The goal of the NEEDS strategy is to build a private sector that can take

advantage of the opportunities that abound in the domestic, regional, and global markets.

The strategy reaffirms the role of government as a facilitator and promoter in the economy



clusters and science and technology parks as pilots for creating industrial growth poles in the country. Export processing zones are also being developed and strengthened.

- *Rationalization of fiscal, monetary, and legal incentives to ensure that firms have access to them.* The new paradigm that mainstreams service delivery as the key function of the public sector aims to provide public services to businesses efficiently and effectively.
- *Imposition of selective import restrictions and aggressive export promotion as part of a strategy of industrial development.* Recent empirical evidence from firm-level data across developing countries indicates that big bang import liberalization can hurt industrial development. Under a big bang liberalization, only a small proportion of firms operating at the frontier gain from competitive pressures; the vast majority of firms often risk being wiped out, with dire social and economic consequences. While the government is reducing the cost of doing business in Nigeria, it will use restrictions on imports as part of a strategy to ensure orderly restructuring of the industrial sector. The government will aggressively promote exports and general commercial policy to attract foreign direct investment, and it will pursue export orientation as a deliberate policy.

- Create public-private partnerships. For government to be effective in its entrepreneurial or developmental role, it needs to actively interact with the private sector on an ongoing basis to ensure continuing feedback. Government at all

levels will maintain structured interactions with private sector operators to ensure a true partnership in the development process.

NEEDS sees the rapid growth of a resilient and competitive private sector as a key component of a sustainable reform programme. As part of the transformation agenda, the government is trying to diversify the economic base and reduce the dominance of the oil sector, mainstream the informal sector while strengthening its linkages to the rest of the real sector, increase local value added, increase the share of manufactured goods in total exports, and create incentives for a vibrant private sector that can respond to the rigors of market forces. The government has already taken a number of steps in this direction—by establishing the Nigeria Investment Promotion Commission and technology business incubation centers, for example. These centers provide conducive environments for nurturing the start up and growth of small and medium-size enterprises engaged in value-added and technology-related manufacturing.

NEEDS aims to alter the strategy for industrial development, to make it less import dependent, more local resource-based, and more related to local research and development strategies, particularly those focused on small and medium-size enterprises. This strategy will lead to the promotion and development of science and technology-based small and medium-size enterprises. It will ensure that process technologies and the design and manufacture of machinery and equipment for small and medium-size enterprises are developed through domestic capacity-building processes. Small and medium-size science and technology-based enterprises will be nurtured in science and technology parks and technology incubation centers. These enterprises, which will

be based mainly on national research and development activities and innovations, will generate spin-offs and provide opportunities for creating entrepreneurial activities. They will target the following priority areas: food processing, industrial chemicals, information and communication technologies, biotechnology, electronics and space technology, energy, oil, and gas.

NEEDS will also strengthen the growing partnership between the private and public sectors, while advancing the policy of private sector-led growth. Enterprising Nigerians, irrespective of their location, will be encouraged to participate in the transformation of Nigeria into an economy that is robust, stable, dynamic, competitive, and export-led. The role of government will be redefined as that of a facilitator and a catalyst. Where it is in the public interest, deregulation will be vigorously pursued, with the government playing a supervisory and regulatory role. The tremendous achievements in the telecommunications sector, where the National Communications Commission acts as a pivotal agency for regulation and consumer protection, clearly illustrate the possibilities inherent in a successful deregulation programme. In 2004 the National Assembly is expected to enact a law to give effect to the Competition Policy and Anti-Trust legislation, a key component of the private sector growth strategy.

The Role of Government

These policy thrusts are realistic and realizable. All stakeholders in Nigeria would be better served if the concept of a symbiotic relationship between the public sector as enabler and the private sector as the primary engine of growth of the nation's economy were fully established. In

NEEDS aims to alter the strategy for industrial development, to make it more local resource-based and more related to local research and development strategies

The public sector will emphasize reforms that lay a solid foundation for a prosperous and globally competitive private sector

this context of partners in progress, public investment in economic activities that compete directly with the private sector will be drastically reduced. The public sector will emphasize reforms that lay a solid foundation for a prosperous and globally competitive private sector. This includes policy and regulation, public services, and facilitation and intervention to support other actors by targeting and addressing key drivers that will improve firm-level efficiency and reduce the cost of doing business (box 5.1). Government at all levels (federal, state, and local) commits to systematically:

- Mobilize national resources to facilitate the development of strategic economic infrastructure that improves the attractiveness of Nigeria as a preferred investment destination.
- Eliminate bottlenecks and red tape, and improve the social, legal, and regulatory regime in order to strengthen security of life and property, governance, the rule of law, and respect for the sanctity of contracts and rights of others.
- Increase opportunities for access to financial resources and strengthen or support other assistance initiatives, such as the Small and Medium Industries Equity Investment Scheme, that aim to improve efficiency and productivity, reduce production costs, nurture entrepreneurship, and enhance the attractiveness of Nigerian products and small and medium-size enterprises in an intensely competitive marketplace.

- Adopt and implement a simplified and transparent import tariff regime by harmonizing Nigerian tariffs with the common external tariff of the Economic Community of West African States (ECOWAS). Implement fundamental reforms

Box 5.1 Institutional and Administrative Reforms to Reduce the Cost of Doing Business

NEEDS proposes reducing the cost of doing business in Nigeria through the following set of reforms:

- Streamline Corporate Affairs Commission processes by reducing the number of forms and reviewing stamp-duty procedures; and the in-house registration with other intellectual property rights protection procedures. Enhance staff capabilities through adequate training, and improve investor information and service delivery. Currently, new firms can be registered within 24 hours. The goal is to further simplify the processes and shorten the time.
- Transform the Nigerian Investment Promotion Commission into a promoter, facilitator, and advocate by improving the investor information it provides; and streamlining the registration process for foreign direct investment.
- Streamline Federal Inland Revenue Service/Ministry of Commerce processes by simplifying forms, eliminating site visits, instituting an automatic declarative process, and reducing or rationalizing the number of incentive schemes.
- Streamline the process for land access and transfer as well as for site development and environmental clearance by reducing documentation requirements, fees, and steps; site-visit protocols; and processing deadlines. Review the stamp duty, as well as committee-based, single-stop decision-making, processing deadlines, and dissemination of information and gazetted regulations.
- Consolidate immigration matters, including visas, expatriate positions, work permits, and "permanent until revoked" status. Improve the dissemination of information and provide

coordinated, focused training of consular officials on immigration matters.

- Rationalize the number of agencies with responsibility for clearing goods at port facilities; institute simultaneous document verification, increase diligence in applying Automated System for Customs Data (ASCUDA) programmes, and ensure that the customs service remains the only local port for cargo clearance and that goods clear ports within 48 hours.
- Institute an information clearinghouse at the Nigerian Investment Promotion Council or the Nigerian Export Promotion Council, rationalize and simplify the incentives and acquisition schemes, fully open the incentives regime to exports of services.
- Improve the process for protecting rights and enforcing contracts by training judges and lawyers in specialized areas; broadening the dissemination of decisions; improving facilities and equipment in courthouses; creating an alternative dispute resolution system; launching a public awareness campaign; and establishing commercial courts.
- Strengthen regulatory institutions and enforce competition policy. As the government withdraws from active business engagements, regulatory institutions will be strengthened to ensure a level playing field for individual businesses, especially through more effective enforcement of competition and anti-trust laws. The anti-trust laws will seek to protect consumer rights as well as prevent unfair trade practices that may hinder the growth of weaker firms in any industry.

research that forges linkages and enhances productivity.

- Progressively reduce the government's direct role in economic and business activities. Vigorously pursue the process of accelerated privatization of major utilities



and public enterprises, liberalization, and deregulation of key sectors, accompanied by appropriate competition and consumer protection policies.

Implement the comprehensive Tax Reform Bill in order to ensure the elimination of multiple taxation and fiscal harassment. Enforce jurisdictions, improve collections, and remove barriers to the growth of a vibrant private sector.

Conduct a regular dialogue with private sector operators, and play an active role in economic planning based on market principles. Continue to promote periodic public-private sector dialogue under the auspices of the Better Business Initiative, Annual Competitiveness Forum, Nigerian Economic Summit, and other forums. A new annual forum for public-private partnership and poor review mechanism for performance evaluation of NEEDS and SEEDS will be instituted under the auspices of the Nigerian Economic Empowerment and Development Summit. State and local government levels also commit to dialogue periodically with the private sector and the civil society. Provide a robust fiscal and monetary policy regime for the smooth functioning of the economy. Adopt financing strategies that do not crowd out the private sector.

- Improve the process of granting land use rights.
- Provide appropriate structures for regulating and propelling the private sector to develop in a socially and environmentally responsible direction. Empower domestic small and medium-size enterprises by purchasing their products and improving tendering and procurement

processes that stipulate minimum levels of local content.

- Encourage the private sector to take advantage of global trade initiatives (such as carbon trading).
- Encourage the private sector to increase its investment profile in research and development activities at Nigerian research institutes and universities.

Seven specialized science and technology parks (one in each geopolitical zone and the Federal Capital Territory) will be established in a phased manner, with appropriate government support. Each park will house 300–500 companies aimed at unleashing Nigerian entrepreneurship. Some companies will have partnerships with global high-tech enterprises. Support facilities will include venture capital funds, business support services, human resources development facilities, intellectual property rights protection services, global technological databanks, and market support incentives. The parks, managed essentially by the private sector, will act as pilots. The model could be replicated in many more states based on lessons of experience. Each of the pilots would be located near a commercial center in order to exploit economies of scale. Each park could act as a growth pole in each zone, leading to an integrated national industrial infrastructure. To enhance rapid industrial growth and efficient exploitation of resources, government will encourage the development of strong linkages between industries in the science and technology parks, research and development institutions, and university researchers. In addition, actions will be taken to promote technology acquisition and diffusion from within as well as across national boundaries to ensure global quality standards and competitiveness. Such actions will enhance the

Government will encourage the development of strong linkages between industries in the science and technology parks, research and development institutions





successful transition from an import-dependent economy to a knowledge-based, export-promoting, diversified national economy.

- In supporting private entrepreneurship and the drive for efficiency, competitiveness, and private sector-led growth, the government is fully aware of its duty to protect or expand access by vulnerable groups to basic social and infrastructure services. Government must also guard against the exploitation of consumers. Government at all levels will therefore remain committed to its overarching responsibility of ensuring access to basic services for all. It will enact consumer protection laws aimed at protecting consumers from monopolistic and unfair trade practices that are direct consequences of market deregulation and privatization. The strategies will be regularly fine-tuned on the basis of feedback to ensure that benefits to all stakeholders are maximized at all times.

The private sector will be expected to become more proactive in creating productive jobs and improving the quality of life

improving the quality of products and services and using the skills and professionalization of local human resources.

- Transform the structure of the economy, by supporting research and development in focal economic sectors and significantly enhancing the potential of Nigeria to meet the demands for domestic production and consumption; by adapting to changing patterns of supply, demand, and competition; and by developing strong linkages across the economy.
- Stimulate the rapid implementation of the local content policy, especially in the extractive and construction industries, by forming business partnerships and linkages that engender the processes of learning and technology transfer. According to the National Committee on Local Content, this is "the quantum of composite value added to or created in the Nigerian economy through a deliberate utilization of Nigerian human and material resources in the exploration, development, exploitation, transformation and sale of Nigerian crude oil and gas resources without compromising quality, health, safety and environmental standards."
- Take steps to preserve environmental resources and maintain environmental balance.

Infrastructure Development

Infrastructure needs cut across sectors and are central to economic development. Nigeria's infrastructure does not meet the needs of the average investor, inhibiting investment and increasing the cost of doing business. Infrastructure development is one of the key areas in which NEEDS intends to make a

difference. The government intends to leave routine management of businesses to the private sector and to devote its own efforts to providing adequate infrastructure and a regulatory framework that is conducive to business.

Policy Thrust

The government's policy thrust is to develop and maintain adequate and appropriate infrastructure that is conducive to private sector-driven economic growth and development, ensuring private sector participation in the process and creation of a competitive business environment. Under NEEDS the government will:

- Rapidly privatize key infrastructure services to ensure effective service provision.
- Enhance and enforce relevant laws to improve competition and protect consumer welfare in industries providing infrastructure services.
- Provide targeted interventions in the provision of infrastructure, especially to rural areas and vulnerable groups.
- Encourage private sector initiation and participation in the provision of infrastructure, using such methods as build-operate-and-transfer (BOT), build-own-operate-and-transfer (BOOT), rehabilitate-operate-and-transfer (ROT), and concessioning.
- Provide counterpart funding for major infrastructure projects for which either the structure involvement is too high or the incentive too low for private sector participation.
- Increase the share of renewable energy in the total energy mix.

Transport Sector

Infrastructure reforms in the transport sector will aim to:

- Complete ongoing construction of a 3,000-kilometre network of roads, and embark on new construction if fund-specific assistance or finance becomes available. Rehabilitate and maintain the 500 roads commissioned by the President under Operation 500 Roads.
- Strengthen the newly created roads maintenance agency, and involve the private sector in the management of roads.
- Create a prominent role for Nigerian sea ports within ECOWAS by encouraging private sector participation in coastal shipping activities.
- Develop a seaport with capacity to handle modern shipping activities, and establish inland dry ports. Provide incentives to use other seaports.
- Make Nigeria's ports more efficient and competitive, with capacity to handle modern shipping activities. Implement policies that target local human capital development.
- Rehabilitate and upgrade the railways with a view to restoring their relevance in transporting bulk, haulage, and passengers.
- Ensure the achievement and maintenance of world class standards in all aspects of aviation operations, by developing local manpower and maintenance capacity and adopting other measures.
- Achieve total radar coverage of Nigerian airspace, and establish an effective and efficient emergency rescue unit under the Federal Airports Authority.

Specific strategies for the sector include the following:

- Provide, through the draft Public-Private Partnership in Infrastructure Provision Bill, the enabling legal framework for private



sector participation in several infrastructure projects, including roads, railways, and port development.

- Privatize or concession Nigerian Railways to the private sector in order to rehabilitate and modernize it. The government will continue to restructure and strengthen the company to make it functional until it is privatized or concessioned.
- Mainstream the maintenance culture for all infrastructure facilities.
- Provide the Road Maintenance Agency with sufficient capacity to undertake rehabilitation and maintenance of federal roads.
- Ensure that infrastructure development is consistent with environmental regulations.

Power is the most important infrastructure requirement for moving the private sector forward

- No major overhaul of plants was carried out between 1990 and 1999.
- Only 19 out of 79 generating units were in operation in 1999.
- Actual daily generation fell to less than 2,000 megawatts (MW) in 1999.
- No transmission lines have been built since 1987.
- Federal government funding to the sector decreased continually between 1980 and 2000.

Some improvement took place between 1999 and 2003, with generation rising to about 4,000 MW a day. Problems of adequacy, transmission, and distribution remain, however. Improvement occurred largely as a result of the President's mandate and the new funds and capacity injected into the National Electric Power Authority (NEPA). Some of the highlights of the mandate include the following:

- Expediently implement the electric power sector reform programme.
- Generate 10,000 MW a day by 2007, from existing plants, new host generation, and reasonably priced independent power plants.
- Develop the capacity to transmit and distribute the higher level of generation.
- Explore alternative energy sources, such as coal, solar power, wind power, and hydropower.
- Renew attention to the question of electricity tariffs.
- Deregulate the power sector to allow increased private sector participation.

These mandates imply increased system capacities (generation, transmission, distribution, marketing) and reform of the electricity industry through deregulation to encourage private sector participation and attract investment. Deregulation and liberalization of the electricity industry will

encourage development and use of alternative energy sources. They will also affect electricity tariffs, which will require regulatory attention.

Policy thrust and targets. NEEDS proposes a set of targets for the power sector to meet before 2007:

- Increase generation capacity from 4,200 MW to 10,000 MW (an increase of 138 percent).
- Increase transmission capacity from 5,838 megawatt amperes (MVA) to 9,340 MVA, a 60 percent increase.
- Increase distribution capacity from 8,425 MVA to 15,165 MVA (an increase of 80 percent).
- Increase tariff collections from 70 percent to 95 percent.
- Reduce transmission and distribution losses from 45 percent to 15 percent.
- Reduce controllable costs by at least 30 percent.
- Rightsize to reduce staff strength by about 15 percent.
- Create 11 semi-autonomous business units (profit centers). (This target was met in January 2004.)
- Make the transmission company a semi-autonomous unit by April 2004.
- Unbundle generation by the fourth quarter of 2004.

The electricity supply industry is capital intensive and cannot be funded adequately by the federal government alone. The sector therefore needs to be reformed in order to attract private sector participation.

Key strategies. Necessary reform of the electricity industry cannot take place without enactment of the Electric Power Sector reform

bill. Competition (facilitated by unbundling of NEPA and private sector investment) will not take place without an appropriate legal and regulatory framework, clearly defined market rules and adequate trading arrangements, tariffs that reflect costs, and improvement in tariff collection. Reform of the industry is therefore predicated on the federal government's national electric power policy and the enabling legislation. The proposed Electric Power Sector Act will entail:

- Unbundling NEPA into distinct business units
- Establishing a regulatory agency for the electricity industry
- Establishing a rural electrification agency and fund
- Increasing access to electricity
- Privatizing business units that will emerge from unbundling NEPA

The electricity supply industry needs to be reformed in order to attract private sector participation.

Power Sector
Power is a strategic sector. Indeed, it represents the most important infrastructure requirement for moving the private sector forward.

NEEDS envisions reforms that will transform the power sector into one led by the private sector, with the role of government primarily in policy formulation and establishment of an appropriate legal and regulatory framework. Full implementation of the NEEDS reforms would eliminate generation deficits; rehabilitate, reinforce, and expand transmission and distribution networks; impose payment and collection discipline; and increase rural access to electricity, using grid and off-grid approaches.

Nigeria's power system is so inadequate that it has held back economic progress and social well-being. The system is unreliable and incapable of meeting the demands placed on it. The following facts underscore the neglect of the sector:

- No new power stations were built between 1990 and 1999.

The unbundled entities can be incorporated into separate legal entities only after the Electric Power Sector reform bill is enacted. Nonetheless, actions are being taken to operationalize the unbundling programme and to carry out other transitional initiatives that are consistent with the overall reform process and have the potential of fast-tracking the restructuring and privatization of the sector.

There are several other important strategies for the power sector:

- **Revenue enhancement measures.** The Commercial Re-Orientation of Electricity Sector Toolkit (CREST) initiative has commenced in some NEPA business units. An extensive metering programme has begun, with a view to metering all customers within the next two to three years. Particular attention will be given to industrial and high-demand customers. Efforts are under way to put all government establishments on prepaid meters by the

end of 2004. Outsourced revenue collection contracts will be strengthened, and measures will be introduced to discourage late payment of bills.

- *Distribution and customer service.* Some short-term external managerial and technical support will be provided to the unbundled entities. Expansion and reinforcement of the distribution network will be carried out to improve the quantity and quality of supply and to reduce losses. The proposed expansion and reinforcement will be funded largely from internally generated revenue, since the unbundled distribution companies will be the first to be divested to the private sector.
- *Transmission.* The government will continue to own most of the major transmission company (TransysCo), but the company could be operated under a management contract. TransysCo will be responsible for electricity transmission and for market and system operations. Meanwhile, projects to close the grid loop and decongest bottlenecks in the network will continue.

Reform of the power sector is predicated on the federal government's national electric power policy and the enabling legislation

developed as a strategic alternative source of electricity, mainly through private-public partnership, a proven option for this sort of activity. An initial integrated coal utilization project proposed for Enugu will incorporate a 500–1,000 MW power station. Before its implementation, comprehensive studies will be undertaken to ascertain actual levels of coal reserves. Other proposed programmes include development of the Mambilla and Zungeru hydro stations on a private-public partnership basis (with project development studies for Mambilla to be completed in 2004) and commencement of the second phase of major rehabilitation of some power stations (Jebba, Kainji, Egbin) to prevent a reduction in capacity.

- *Gas pricing.* The gas and electricity industries in Nigeria are very interdependent. Reform in both sectors is imperative. Gas producers will need to make gas-gathering investments, while the Nigeria Gas Company will need to expand or upgrade its transportation infrastructure. The Nigeria Gas Company and NEPA have agreed on gradual adjustments in gas prices compatible with NEEDS economic empowerment and rural development priorities.
- *Vandalism.* Preventing vandalism of distribution and transmission infrastructure is a major challenge. (The timely completion of the Abuja-Shiroro line was threatened by vandalism.) The high cost of emergency repairs of the power infrastructure as well as lost revenue during periods of repairs are of grave concern and pose threats to the reform process. The government will consider forming a special security unit for policing power installations.

The ongoing World Bank-assisted transmission development plan project will be concluded. Multilaterals will provide up to \$500 million to develop the additional transmission capacity required for the enhanced generation.

- *Generation.* The private sector is already participating in electricity generation. The federal government is funding four new stations, with a total capacity of about 1,400 MW. Most of the anticipated new capacity will come from the private sector. Generation will be unbundled by the fourth quarter of 2004, ahead of its ultimate privatization. Coal-fired generation will be

present and future water resources needs in all demand sectors—including human consumption, animal husbandry, agriculture, hydropower, inland waterways, environmental protection, and industry. The key objectives of the water resources policy include:

- Ensuring the development and management of water resources in an integrated manner and as a national strategic resource
- Protecting water resources and the environment for balanced social and economic development
- Involving all stakeholders—particularly the private sector—in the sustainable development of water resources through coordinated management and holistic utilization
- Optimizing the use of water resources at all times for present generations to survive on without compromising water supplies for future generations

The government's policy direction commits to eradicating water borne diseases and to improving water supply and management

Strategies

- Develop and implement a system of quality assurance consistent with WHO standards—with hydrogeological mapping and water quality laboratories
- Reactivate the River Basin Development Authority and other existing urban water development schemes
- Protect watersheds to enhance underground water supply for sustainable aquifer recharge
- Establish a legal and regulatory framework to promote rational use and protect water resources
- Create an institutional framework and participatory approach encompassing all stakeholders in a public-private partnership in the sustainable development of the nation's water resources

Water Resources

Nigeria is blessed with abundant water resources. Annual runoff at the Iloko gauging station on the Niger River has peaked at 165.8 billion cubic metres. There is also a substantial groundwater available in the large sedimentary basins (the Sokoto and the Chad basins) that lie along Nigeria's borders. Surface water potential is estimated at 267.3 billion cubic metres, and groundwater potential is estimated at 51.9 billion cubic metres. Irrigation potential for about 3.14 million hectares is only 0.02 percent utilized, and only 18 percent of the total impoundment of 31 billion cubic metres of water in about 200 dams nationwide is effectively used. The Federal Office of Statistics' 1999 Multi-Indicator Cluster Survey estimated that only 52 percent of urban dwellers (48 percent including semi-urban dwellers) and 39 percent of rural dwellers have access to potable water. Water shortages are increasing in the North, major pollution is growing in the Delta area, and gully erosion is occurring in the southeast.

Policy Thrust

The government's policy direction commits to eradicating water-borne diseases and to improving water supply and management for other productive economic activities. NEEDS particularly recognizes the importance of managing water resources in an integrated and sustainable manner. The policy thrust of the government therefore will build on the National Water Resources Management Strategy (NRMS), which involves all stakeholders to ensure integrated management and development of water resources in the country. The thrust is on more on integrated and sustainable water resources management to meet the nation's



- Build an information and water resources database to coordinate management and utilization of water resources in an integrated and holistic way
- Uphold the principles of water resources economics and financing to ensure adequate funding and economic viability in water resources management
- Maintain high standards in water resources infrastructure and assets management at all times
- Uphold Riparian principles and the philosophy of sharing of benefits in matters of international waters

Because water supply and sanitation are central to

improvements in so many aspects of human development, urban and rural

development, development of industry, and

general economic development—and thus central

to the Government's primary mission of poverty

reduction—water supply and sanitation will remain

a primary focus of the government under NEEDS.

The National Water Supply and Sanitation

Programme proposes an intervention strategy for

the water supply and sanitation sector in four

subsectors: urban areas, small towns, rural areas,

and water resources management and sanitation.

For urban areas, federal and state govern-

ments have agreed to cooperate in financing

capital investment. State governments that are

directly responsible for operational services will

also need fundamentally reorientation their

provision of services. Reform will require basing

institutional and regulatory frameworks on the

concept of water supply as a service industry.

Despite the public monopoly characteristics of

water supply, separating infrastructure investment

and ownership from service operation creates competition with significant efficiency gains. Allowing state water agencies more autonomy and increasing commercialisation through service management, and lease contracts with private firms could increase efficiency. Detailed legal, institutional, and financial preparations are needed for water utilities to be efficiently managed and adequately regulated, and for state water agencies to become asset owners or regulators.

For small towns, government policy is to decentralize ownership and management of water supply systems to attract and involve optimal community involvement and support from the private sector—including operating under contract—and regularizing the services of independent providers or franchisees. In small towns, the focus is on community ownership coupled with local private sector contracting for operations.

For rural areas, government focus is on increasing the water supply to attain 60 percent rural coverage by 2007 with a three-pronged approach of water rehabilitation, expansion, and construction of low-cost rural water schemes. This strategy includes sharing ownership and management by communities and local governments, with communities taking charge of operations and maintenance. In small towns and rural areas, the fiscal focus must be on phasing out subsidies for maintenance altogether and restricting such subsidies to partial capital costs to engender greater community ownership.

Environmental Management

The environment provides the foundation for all development efforts in Nigeria. Its close linkage to other major sectors of the economy is exemplified by the fact that agricultural productivity—and

therefore food security—cannot be guaranteed in a degraded environment. Environmental degradation is caused by declining soil fertility unsustainable land use practices, lack of land for farming, harsh climatic conditions for crop growth and animal rearing, and other factors.

The environment provides numerous opportunities for wealth creation and employment generation, which reduce poverty. The forestry sector provides a plethora of income opportunities for the rural poor, including cottage industries and the extraction of non-timber forest products, such as chewing sticks, ogbono, and a variety of healthful condiments. The majority of the rural population relies on medicinal plants for their health care needs, indicating another important source of income from forests. The coastal environment provides seafood, including fish, sea turtles, and periwinkles, which serve as income sources and foreign exchange earners. The potential to develop ecotourism and to generate income by converting waste to wealth are also worth noting.

High levels of air, land, and water pollution and unsanitary environmental conditions predispose Nigerians, particularly the poor, to disease. The result is an unhealthy workforce and the reduction of the potential for productive activities. A degraded environment also forces people to use resources to treat diseases that could have been prevented by maintaining a healthful environment.

It is a glaring paradox that despite the contribution of the environment to the national economy, environmental considerations are rarely mainstreamed into national development planning in Nigeria. The lapse probably reflects the fact that the contribution of the environment to the economy is not readily captured by traditional measures of growth, such as GDP.

- Critical issues in this sector include the following:
 - Rapidly increasing production of waste

- Uncontrolled development, without regard for waste management or pollution control, and the lack of proper management of waste
- Low level of sanitation, especially in city centers and peri-urban slums
- Absence of significant private sector involvement in waste management
- Environmental degradation, including deforestation, erosion, desertification, and pollution of the air, water, and land
- The impact of oil and gas development on the environment and unsustainable land use
- Weak enforcement of environmental laws
- Loss of biodiversity
- Extreme climatic events, such as droughts, floods, and climate change
- Inadequate environmental data
- Impact of agro-chemicals on the environment and public health
- Absence of a system of national accounting that captures the contribution of the environment to development indices

Policy thrust

NEEDS focuses on ensuring a safe and healthful environment that secures the economic and social well-being of Nigerians on a sustainable basis. The specifics of the agenda are enunciated in the Environmental Renewal and Development Initiative, the primary objectives of which are "to take full inventory of Nigeria's natural resources, assess the level of environmental damage, as well as design and implement restoration and rejuvenation measures aimed at halting further degradation of our environment."

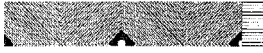
Targets

The reform programme includes several targets:

- Control environmental degradation processes.

The environment provides numerous opportunities for wealth creation and employment generation





- Bring environment and waste pollution in cities and urban centers under control.
- Foster private sector participation in environmental protection.
- Comply with international standards in controlling and monitoring the environment.
- Promote local manufacture of equipment and the use of raw materials for environmental protection and conservation.
- Standardize the use of equipment in environmental services.
- Comply with international safety, health, and environmental standards as they relate to specific industries and sectors of the economy.
- Reverse the loss of biodiversity.
- Phase out persistent organic pollutants.
- Phase out ozone-depleting substances.

NEEDS focuses on ensuring a safe and healthful environment that secures the economic and social well-being of Nigerians

Key strategies

- The government's strategic intent is defined by the following:
- Establish a central self-sustaining regulatory agency responsible for environmental enforcement, compliance monitoring, environmental auditing, impact assessment, and standards setting.
 - Strengthen the machinery for desertification, erosion, and flood control.
 - Promote synergy in implementing environmental conventions.
 - Use space-based research and information technology for environmental management.
 - Develop a private-public partnership scheme to address the increasing urgency of waste management.
 - Promote a programme for private sector investment in waste-to-wealth management in cities and urban centers.

Chapter 6 Sectoral Strategies

Federal government ministries, their state counterparts, and private sector stakeholders are developing strategies for each sector. These strategies will be nationally coordinated, with clearly delineated roles and responsibilities for each level of government, the private sector, and other stakeholders.

The overall strategy is to diversify the productive base of the economy away from oil and to foster market-oriented, private sector-driven economic development with strong local participation. The goal is to develop an indigenous entrepreneurial class capable of competing in a global market in which technology and skills play dominant roles.

As the government continues to redefine its role, resources will be freed up, allowing the government to focus on its primary role of providing basic infrastructure, security, defence, and the social services that are necessary to create a competitive environment that enables the development of sustainable private sector-driven wealth and employment.

For its part, the private sector will be encouraged to commit to genuine and responsible investment, good corporate governance and citizenship, and internationally acceptable standards of quality, business ethics, and practices. It must also commit to transparent

partnership with the public sector, especially in promoting and developing small and medium-size enterprises.

It is in this context that the various sector strategies are couched. Given the interdependent nature of the different sectors of the economy, several cross-cutting issues will need to be addressed. These include:

- Inadequate infrastructure
- The finance and funding gap
- Inappropriate and inadequate technology
- Unfair competition
- Inadequate institutional and legal framework, including bureaucratic procedures and practices
- Policy inconsistency and lack of commitment and political will to implement accepted policies
- Inadequate human capital development respect for contracts

The government will encourage organizations (public and private) to modernize by adopting information and communications technology. The Raw Materials Information System (RMIS) of the Raw Materials Research and Development Council will be updated to increase its usefulness to stakeholders. RMIS will routinely provide the following information to

The goal is to develop an indigenous entrepreneurial class capable of competing in a global market in which skills play a dominant role





investors, industrialists, researchers, policymakers, and other stakeholders:

- Raw materials available by sector
- Location and estimates of reserves
- National demand for raw materials
- Industrial uses
- Processing equipment fabricators in Nigeria
- Science and technology experts in Nigeria
- Quantities and prices of important commodities

To promote harmonized and integrated science and technology-driven socioeconomic development, the government will establish a national Research and Development Coordinating Council, chaired by the President, with all core science and technology-based ministries as members. Other members could include the Minister of Finance and representatives of the Office of the Economic Adviser to the President, umbrella science, engineering, and economics associations, research institutes, and associations of Nigerian academics, universities, and polytechnic schools; the Nigerian Investment Promotion Council; and small and medium-size enterprises, among others.

Agriculture and Food Security

Despite the dominant role of the petroleum sector as the major foreign exchange earner, agriculture remains the mainstay of Nigeria's economy. In addition to contributing the largest share of GDP, it is the largest nonoil export earner, the largest employer of labour, and a key contributor to wealth creation and poverty alleviation, as a large percentage of the population derives its income from agriculture and related activities.

Over the years the rate of growth in agricultural production has stagnated and failed to keep

pace with the needs of a rapidly growing population, resulting in a progressive increase in import bills for food and industrial raw materials. The potential of the agri-business sector as a major employer of the growing labour force and an earner of foreign exchange has also been undermined. As a result, the large majority of Nigeria's population, many of whom live in rural areas, remain poor. Under the NEEDS programme, agricultural development will be vigorously pursued, with the aim of achieving food security and reducing poverty.

Major constraints inhibiting private sector participation in the transformation of agricultural production include the following:

- The rapid shift of the population from rural to urban areas and the shift in consumption patterns from local to imported food items
- Lack of funds, inadequate processing and storage facilities, and inefficiencies in input supply and distribution
- The oil boom, policy inconsistency, and the decline in political commitment to agricultural and rural development
- An inadequate incentive framework and pervasive distortions in the macroeconomy
- Absence of a price support mechanism and pervasive distortions in macro-economic and sectoral policies, including misaligned exchange rates and heavy taxation of agricultural exports
- Continued dependence on rain-led agriculture and the absence of economies of scale
- A land tenure system that inhibits the acquisition of land for mechanized farming
- Inadequate agricultural extension services and the lack of indigenous capacity or technologies responsive to local conditions

• A degraded environment that has reduced agricultural yields

Policy Thrust

Given the dominant role of agriculture in the economy, prospects for food security, the supply of industrial raw materials, and overall economic growth are critically dependent on what happens in this sector. Accordingly, the government is committed to increasing investment in food and agricultural production. Its main policy thrusts include the following:

- Provide the right policy environment and target incentives for private investment in the sector. Implement a new agricultural and rural development policy aimed at addressing the constraints in the sector.
- Foster effective linkages with industry to achieve maximum value-added and processing for export.
- Modernize production and create an agricultural sector that is responsive to the demands and realities of the Nigerian economy in order to create more agricultural and rural employment opportunities, which will increase the income of farmers and rural dwellers.
- Reverse the trend in the import of food (which stood at 14.5 percent of total imports at the end of 2001), through a progressive programme for agricultural expansion. The government is committed to reducing the growing food import bill to stem the rising trade imbalance as well as diversify the foreign exchange earning base.
- Strive towards food security and a food surplus that could be exported.
- Invest in improving the quality of the environment in order to increase crop yields.

Targets
To restore agriculture to its former status as a leading sector in the economy, NEEDS sets the following targets:

- Achieve minimum annual growth rate of 6 percent in agriculture.
- Raise agricultural exports to \$3 billion by 2007. A major component of these exports will be cassava.
- Drastically reduce food imports, from 14.5 percent of total imports to 5 percent by 2007.

The government is committed to increasing investment in food and agricultural production

Strategies

To achieve these targets, the following strategies will be employed:

- Vigorously implement presidential initiatives on cassava, rice, vegetable oil, sugar, livestock, tree crops, and cereals. Under this initiative, Nigeria hopes to generate as much as \$2 billion a year from agricultural exports.
- Take advantage of the various concessional arrangements provided by the World Trade Organization (WTO), the European Union's African, Caribbean, and Pacific states agreement, the U.S. African Growth and Opportunity Act, and the National Partnership for African Development, as well as the huge West African market.
- Strengthen agricultural research, revitalize agricultural training, and streamline the





extension delivery system. Involve NGOs and opinion leaders in extension delivery by building capacity and promoting improved technologies that meet farmers' needs.

- Review the agricultural input supply and distribution system with a view to developing an effective and sustainable private sector-led input supply and distribution system.
- Promote integrated rural development involving agricultural and nonagricultural activities, including through the provision of physical infrastructure such as feeder roads, rural water supply, and rural communications.
- Encourage states to develop model rural communities and farm settlements, providing them with feeder roads, boreholes, vocational training, simple farm tools and equipment, alternative energy sources, and communications centers to provide a wholesome rural life and reduce the incentives to migrate to urban areas.

Agricultural, Cooperative and Rural Development Bank (NACRDB) to provide soft agricultural credit and rural finance. (NACRDB has been restructured and its mandate expanded to include full financial intermediation.)

- Reurbish the eight functional silo complexes and phase completion of the remaining ones to improve and increase the capacity of the food reserve programme as a step towards achieving food security. These facilities would be leased to farmers on an individual or group basis.
- Promote joint venture, private sector-managed, multimodality development and marketing companies to guarantee

remunerative prices for farmers; stabilize consumer prices, and provide alternative markets for farm produce through a buyer-of-last-resort mechanism.

- Support all-season farming by promoting rain-fed and irrigated farming, with an emphasis on *fadama* agriculture.
- Implement the programme for the massive production of tree crop seedlings.
- Increase crop productivity through sound environmental rehabilitation and management.

Manufacturing

Although the manufacturing sector (including micro-, small, and medium-size enterprises) has the potential to create wealth and employment, the sector has stagnated in Nigeria, and its contributions to GDP and employment remain small. The activity mix in the sector is also limited, dominated by import-dependent processes and factors. Although reliable data are unavailable, rough indicators show that capacity utilization in the sector has improved perceptibly since 1999 but that the sector still faces a number of constraints, including the following:

- Lack of demand for the products and services of small and medium-size enterprises, and ineffective linkages between industry and research institutes and universities
- Lack of political will to implement local content and technical know-how policies
- Lack of engineering capacity to translate scientific research results into finished goods and maintain existing machinery; low level of entrepreneurial capacity, complete lack of institutional mentoring

and technological support, and paucity of trained artisanal skills

- Unfair competition from dumped, secondhand, counterfeit, smuggled, and substandard products
- A weak legal framework; weak business, financial, and information management systems and practices; an underdeveloped payment system

- Systemic and operational constraints that impede the competitive capacities of large manufacturing companies

The informal economy, which employs the bulk of Nigerians, faces the following additional constraints:

- Low market access
- Poor access to credit
- Poor information flow
- Discriminatory legislation
- Poor access to land
- Weak linkage among different segments of operations in the sector
- Lack of infrastructure for microenterprises
- Weak safeguards against occupational and other health hazards

Policy Thrust

The overriding objective of industrial policy is to accelerate the pace of industrial development by radically increasing value-added at every stage of the value chain. Under NEEDS, for the most part Nigeria's resources will no longer be traded in their primary state. The government will emphasize increases in total factor productivity by pursuing knowledge- and skill-intensive production on the basis of best practices. Nigeria's industrial development strategy will encourage forward and backward linkages in a few niches. The government will continue to provide the enabling environment for private

sector leadership, facilitate renewal for sunset industries, and encourage innovators. Specific policy thrusts include the following:

- Establish a structured and efficient micro-, small, and medium-size enterprise sector to enhance sustainable economic development, generate employment, and create wealth.
- Facilitate the development of an industrial sector that is internationally competitive and can take advantage of existing preferential arrangements as well as give priority to the processing of Nigeria's abundant resource endowments into intermediate raw materials or finished goods for local consumption and export.
- Develop science and engineering infrastructure—well-trained technical and managerial personnel, physical plants, tools, spare parts, materials, and other inputs needed to operate efficiently and profitably

Targets and Strategies

Targets for the manufacturing sector include the following:

- Increase annual growth of the sector by at least 7 percent a year.
 - Increase capacity utilization to about 70 percent by 2007.
 - Increase the private sector's share of investment in the sector to 70 percent by 2007
- To reverse the dwindling fortunes of the manufacturing sector, the government is committed to the following strategies:
- Remove infrastructure constraints on small and medium-size enterprises, and expedite action on establishing clusters and industrial parks. These critical ingredients

The manufacturing sector has stagnated

The objective of industrial policy is to increase value-added at every stage of the value chain





for increasing the participation of the private sector will be targeted at growth poles.

- Provide appropriate institutional support by undertaking studies aimed at attracting foreign investors and by scanning overseas markets and monitoring developments that could have implications for the sector. The Small and Medium Enterprise Development Agency of Nigeria will be provided with appropriate infrastructure and executive capacity. In collaboration with the relevant agencies at the state and local government levels, it will play the role of promoter, facilitator, and coordinator of all policies affecting small and medium-size enterprises.

- Strengthen the Bank of Industry and other special-purpose finance institutions (the Nigerian Export Import Bank, the Nigerian Agricultural, Rural, and Cooperative Bank) to perform their statutory roles (especially the provision of concessional loans and credit guarantee schemes) and enlarge their scope to include large manufacturing companies.

- Strengthen the legal and institutional framework for the operation of micro-finance institutions by streamlining the operational guidelines and tax incentives for small and medium size enterprises and adopting other measures. Explicitly recognize the informal sector, remove constraints to implementation of the Small and Medium Enterprise Investment Equity Scheme (SMIES), and design incentives targeted at investors who would specialize exclusively in exporting.
- Review and implement a codified tax and incentive structure reform (including providing for necessary tradeoffs) that

supports an export-oriented manufacturing sector and encourages large businesses to foster the growth of small and medium-size enterprises in their value and supply chain.

- Provide targeted incentives (such as tax deductibility) for science, technology, and research and development spending.
- In collaboration with relevant agencies at the state and local government levels, coordinate and facilitate the implementation of an effective competitive industrialization strategy.
- Promote joint ventures and provide incentives to facilitate the flow of foreign direct investment in partnership with existing small and medium-size enterprises.
- Implement a government procurement policy that supports locally produced goods and services, especially of small and medium-size enterprises.
- Promote the production of good-quality goods and services in Nigeria to facilitate a competitive export-oriented manufacturing sector.
- Strengthen the Loan Guarantee Scheme, which will enable banks to make loans to small and medium-size enterprises.

Services

The service sector has witnessed a boom in recent years. Liberalization led to a substantial increase in the volume of activities in the banking and other financial services industries. The recent liberalization of the communications industry led to huge increases in telephone service per capita and created many new job opportunities. Improvements in the service sector are expected to strengthen performance of the real sector.



Information and Communication Technology

The following issues represent challenges to improving information and communication services:

- High cost of private provision of power
- Lack of local manufacture or maintenance of information and telecommunication equipment and the lack of local software development capacity
- Absence of effective and efficient postal communication
- Inadequate human capacity and indigenous technical know-how

Policy thrust. Under NEEDS the government is committed to the following policy thrusts:

- Develop and sustain a modern information and communication technology to support private sector-driven growth and economic development and to improve the quality of life and reduce the level of poverty significantly.
- Improve access to Internet connectivity, and raise the level of computer usage and literacy.
- Facilitate the development of a national multimedia supercorridor, including provision of appropriate incentives for private sector involvement.
- Aggressively promote information and communications technology as an instrument of mass education, growth, and development.

Targets and strategies. NEEDS sets the following targets:

- Increase telephone density to one telephone per 25 people.
- Make telecommunications accessible to a wider range of Nigerians, regardless of where they live.

- Develop a national communications and telecommunications backbone, including a national multimedia supercorridor

NEEDS adopts the following strategies:

- Use a combination of fiscal and financial incentives to encourage private sector investment in service provision in the industry
- Enforce intellectual property rights, and promote entrepreneurship, training, and partnerships
- Pursue a local content policy in the manufacture of electrical and electronic equipment and communications and telecommunications equipment, including handsets, accessories, and components.
- Facilitate access to special financial support (through NEXIM, the Bank of Industry, SMIEES, and other institutions) for private sector-driven wireless telephony and Internet connectivity development in rural areas.
- Foster an enabling environment for developing software capacity.
- Provide incentives to develop industrial parks in information and communications technology.

Tourism

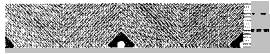
Nigeria's tourism industry has great potential for attracting foreign investment, which would generate employment and foreign exchange. The industry is constrained by several factors, however:

- Inadequate facilities at established tourist centers
- Low level of global awareness of tourist attractions in Nigeria
- Underdeveloped tourist infrastructure
- Lack of security

The service sector has witnessed a boom in recent years

boom in recent years

Improvements in the service sector are expected to strengthen performance of the real sector



- Low level of investment
- Poor attitude and disposition towards recreation and vacation by Nigerians

Target. The primary focus of NEEDS in the tourism sector is to make Nigeria the preferred tourist destination in West Africa. The key target in the immediate term is to increase tourist arrivals into the country by 10 percent a year.

The focus of NEEDS in the tourism sector is to make Nigeria the preferred tourist destination in West Africa

- Strategies.** To achieve this target, the government will:
- Concession existing tourist attractions and provide support infrastructure for tourism.
 - Encourage private sector investment in the tourism sector, and participation in the management of national parks.
 - Improve security to encourage foreign tourists to visit Nigeria.
 - Launch an awareness campaign within and outside the country on the benefits and potentials in the sector.
 - Recruit visa officials to a pro-tourism approach.
 - Establish a tourism database.
 - Establish a private sector-oriented institute for hospitality and tourism, regulated by the government.
 - Pursue an aggressive environment policy that supports and encourages the tourism industry.

Film Industry

The Nigerian film industry has significant foreign exchange-earning capacity. Recent reports indicate that some 2,000 Nigerian videos were rented or sold in a single month in a single outlet in the United States. The potential market for Nigerian films is large, but the industry is held back by several constraints:

- Low level of technological input in the industry
- Uncertain intellectual and proprietary rights
- Underdeveloped distribution structure
- Lack of access to adequate financing
- Lack of professionalism and inadequate human capacity
- High rate of informality

Policy thrust. The government's policy thrust is to facilitate the development of a technologically competitive, private sector-led film industry in Nigeria that will create employment, wealth, and net foreign exchange earnings.

Targets and strategies. NEEDS has established the following targets:

- Facilitate technological input into the production process.
- Foster development of a Nigerian version of Hollywood for film production.
- Encourage the local manufacture of film production inputs, and support services clusters.
- Generate \$200 million in foreign exchange earnings by 2007 from the export of videos.
- Develop standards and provide incentives for private sector investment in the industry.

To achieve these targets, the government will:

- Strengthen the regulatory agency for the industry to facilitate healthy competition, upgrade quality, ensure appropriate controls, monitor standards, and promote standardization.
- Strengthen the capacity of regulatory and promotional agencies to promote the industry, enforce standards, and ensure compliance with copyrights laws. These



- Bank loans and advances are not repaid promptly.

Policy thrust. To build and foster a competitive and healthy financial system to support development and to avoid systemic distress, the thrust of policy under NEEDS is to:

- Deepen the financial system in terms of asset volume and instrument diversity.
- Drastically reduce and ultimately eliminate the financing of government deficits by the banking system in order to free up resources for lending to the private sector.
- Review capitalization of financial institutions in the system.
- Develop a structure of incentives to enable the financial system to play a developmental role by financing the real sector of the economy.

The shift to a private sector-led economy deepens the significance of the financial sector

Strategies. Given that the success of NEEDS will depend, in part, on the ability of financial intermediaries to play their roles, the financial regulatory authorities and monetary policy framework will adopt the following strategies:

- Embark on a comprehensive reform process aimed at substantially improving the financial infrastructure (legal codes, information systems).
- Restructure, strengthen, and rationalize the regulatory and supervisory framework in the financial sector.
- Address low capitalization, the poor governance practices of financial intermediaries that submit inaccurate information to the regulatory authorities, and the consequent costs to the financial system.
- In collaboration with banks and other financial institutions, work out a structured financing plan that ensures less expensive



- and more accessible credit to the real sector.
- Direct government policy towards financial deepening (establishing links between rural and urban, banking and nonbanking, and formal and informal financial systems) and financial product diversification (filling the missing middle for commercial financial services for small and medium-size enterprises with new services based on best-practice technologies for cash flow financing, leasing, and so forth).

Oil and Gas

The oil and gas sector is seen as an external sector, because there is no link between it and the other sectors of the economy. The key issues requiring attention include the following:

- Low local content level and community unrest in locations of proven reserves
- Absence of indigenous technical know-how and a deficient capacity-building programme
- Multiplicity of legislation governing operations in the sector
- Absence of a national gas infrastructure (national gas grid system)
- Price and quota volatility
- Absence of an independent industry regulator for the various subsectors
- Inefficiency and widespread fraud
- Poor safety and regulatory systems
- Inadequate financing arrangement for operations, including cash-call obligations
- Petroleum product supply constraints, including inadequate local refining and distribution capacity
- Lack of value-adding activities and processes (integrated petrochemicals capacity)

Policy Thrust
The government's policy thrust is defined by the need to:

- Increase the level of crude oil reserves.
- Ensure regular supply and distribution of petroleum products through a liberalized and deregulated supply, distribution, and refining system.
- Increase the drive for investments to establish integrated petrochemicals based on gas stream, with a majority private sector interest.
- Increase local content, improving linkages to the rest of the economy.
- Sustain the focus on the terminal date for ending gas flaring.
- Hedge the national economy against volatility in the crude oil market and OPEC quota.
- Harness and exploit the country's huge gas reserves to increase the use of gas in power generation and boost foreign exchange earnings from gas.
- Foster healthy, orderly, and competitive development of oil and gas subsectors through effective and efficient regulation, standards, and quality control agencies.

Targets and Strategies

- NEEDS has established the following targets in the sector.
- Achieve an OPEC quota increase of 7–10 percent in 2004 and a reserve level of 40 billion barrels by 2007
 - Design and facilitate the implementation of a national gas grid by 2007.
 - Completely deregulate and liberalize the downstream petroleum sector, including the distribution network.
 - Unbundle the Nigerian National Petroleum Corporation (NNPC) and privatize its

- downstream subsidiaries, and enable the Nigerian petroleum Development Company and a professionalized NNPC to compete as other oil companies around the world do.
- Increase local content in the oil and gas service sector to at least 50 percent by 2007
- Review and codify the incentives in the oil and gas industry

To achieve the targets, the government will adopt the following strategies:

- In collaboration with the private sector, ensure the effective implementation of a national oil and gas policy and a national gas grid system.
- Explore the use of alternative funding schemes in the sector. Set up long-term financing arrangements in support of local content.
- Develop a database in Nigeria on the country's oil and gas deposits, facilities, and professionals.
- Review, streamline, and codify existing incentives in the sector.
- Facilitate projects that transfer technology and generate employment in the nonoil sector, especially the petrochemical industry.
- Complete deregulation of the downstream sector by privatizing the refineries, product haulage facilities, and distribution network.
- Improve security (against vandalism at facilities) and strengthen the Department of Petroleum Resources and the Ministry of Environment to allow them to perform their regulatory functions properly.
- Encourage transparency in the management of oil revenue by implementing the principles of the Extractive Industries Transparency Initiative.

- Facilitate private sector investment in the development of support industries that use petrochemical products as primary raw materials.
- Encourage oil companies to proactively work towards greater backward and forward integration with the domestic economy, especially in downstream activities, and joint ventures. Where capacity exists, reserve specific jobs for domestic value-adding industry, strengthening the domestic base of the sector. Mable companies' track records in promoting domestic value added a consideration in determining the allocation of future oil and gas blocks.
- Implement the National Oil Spill Contingency Plan.

Independent estimates indicate that solid mineral deposits could provide more revenue and employment than the oil and gas sector

Solid Minerals

Nigeria has abundant solid mineral deposits. Some independent estimates indicate that the country's solid mineral deposits could provide more revenue, foreign exchange, and employment than the oil and gas sector do. Exploitation of these resources could provide a major impetus for growth and development.

But several factors constrain development of the sector. A comprehensive geological survey of all solid mineral deposits has yet to be undertaken. Other constraints include the lack of adequate proven deposits, the lack of adequate capacities in mining and processing, the lack of infrastructural facilities, an unfavourable fiscal regime, and an uncompetitive legal and regulatory framework. A short-term programme to address these constraints will be put in place, especially for minerals that are vital for local





industries, such as barytes, limestone, gypsum, and kaolin, which are currently on the import restriction list. Under NEEDS the government will vigorously promote the exploration and exploitation of solid minerals to provide inputs for local industries as well as for exports.

A serious problem is informal and illegal mining of mineral deposits. Such activities have led to:

- Environmental degradation, including creation of shallow ponds and abandoned pits, pollution of river systems, river siltage, and high exposure to radioactive and hazardous minerals
- Social problems, including child labour and poor working and living conditions at mine sites
- National security risk, due to the migration of foreign nationals from one site to another, working on sites with both registered and unregistered titles
- Low productivity and waste of minerals, due to poor ore and mineral recovery during mining as well as inefficient production and processing techniques
- Lack of regard for health and safety
- High level of smuggling

NEEDS will support exploration for base metals and gemstones, encourage sustainable production, and create self-employment

In many countries informal mining operations have been formalized into economically viable and environment-friendly ventures. These programmes are often used to reduce poverty, as they provide massive employment in rural areas. In addition to making the mine fields attractive to investors, informal and artisanal mining activities contribute to exports.

Formalizing these operations could create sustainable self-employment for at least 500,000 Nigerians, increase revenue payments to the

government, reduce environmental degradation, and diminish social and health problems, such as child labour and the spread of the HIV/AIDS.

Policy Thrust

The goal of government policy in the sector is to provide incentives and an enabling environment for private sector investment. The major policy thrust is to ensure the vigorous and orderly exploitation of solid mineral resources in order to generate employment, increase revenues and exports, and provide inputs for local industries.

The NEEDS action plan will vigorously support exploration for base metals and precious and semiprecious stones, informal sector mining activities will be formalized and supported to encourage sustainable production and create self-employment.

Strategies and Specific Measures

The government will adopt the following strategies:

- Implement the existing legal framework for small and artisan operators in the sector.
- Complete the upgrading of the sector, empower the Geological Survey Agency to become the industry regulator, and provide a comprehensive database of the locations and estimated reserves of all known solid minerals in Nigeria that could be mined.
- Promote and ensure a systematic and orderly allocation of bitumen and tar sands blocks in the vast Nigerian bitumen belt, which stretches from Fctd State to Lagos State.
- Compile a cadastral register of all available mining rights, licences, and leases of known minerals.
- Codify a system of incentives to attract private sector investment in the sector.



- Simplify the process of issuing licences, review the Land Use Act to facilitate entry into the sector.

NEEDS outlines several specific measures for the sector:

- As an immediate first step, conduct a geological survey of the entire country in 2004, using remote sensing (Landsat/RadarSat). That survey will be complemented by aeromagnetic, electromagnetic, and radiometric surveys. The government will conduct ground-truthing surveys using the remote sensing results in the hope of attracting private investment. It will also immediately begin digitalizing existing maps.
- Establish licensed buying centers as the procurement interface between the mining cooperative and licensed miners on one side and local users and export markets on the other. Buying centers can ease the problems associated with marketing products and enable miners to earn premiums on sales of products near operational sites. The centers will also help the government reduce smuggling and collect revenues.
- Create extension services. Technical assistance and support services in prospecting and exploration will be provided to artisanal and small-scale miners in order to enhance and sustain their operations.
- Review current legislation through a consultative process with mining communities, ensuring that public interests (social, economic, and environmental) and

community interests (cultural, social, economic) are considered.

Inventory the number of miners, the environmental status, the market structure, licensing, and other features of artisanal small-scale mining in Nigeria.

Promote mining cooperatives and associations of miners in order to simplify control and assistance (financial and technical) and guarantee the sustainability of mining, in active collaboration with community leaders and state and local governments.

Licensed buying centers can ease the problems associated with marketing solid minerals

- Promote the establishment of central processing units in order to enhance the value of the minerals.
- Promote environmental awareness and environmental rehabilitation of sites after mining.
- Promote training in environmentally acceptable mining and processing methods in order to improve skills and competence and reduce health risks of miners and their dependents.
- Develop basic infrastructure services in mining communities.
- Stimulate and enhance access to financial assistance for artisanal and small-scale miners.
- Promote transparency and participation at all levels of government and management of small-scale mining activity.
- Promote interaction and consultation between different agencies exploiting natural resources (land, forest, minerals). Establish and enforce environmental standards for mining activities.



Chapter 7

Regional Integration and Trade Policies

As a small, open economy, Nigeria depends on the global economy for inflows of human and financial capital, technology, imports of inputs into production and for consumption, and as a market for its output and investment.

NEEDS seeks to deepen Nigeria's integration with the rest of the world and to maximize the benefits of strategic integration. Regional integration and trade are two instruments for maximizing the benefits of globalization.

Regional Integration

With globalization has come the emergence of multinational firms with strong presences in strategically located markets and a convergence of consumer tastes for the most competitive products, irrespective of where they are made. Regional integration represents an effective means of improving the level of participation of countries in the West African subregion in world trade and integrating them into the borderless and interlinked global economy.

Nigeria is committed to the full and complete implementation of the free trade zone agreements of the Economic Community of West African States (ECOWAS), the creation of a single monetary zone, and the unification of West Africa

into a common customs territory. Government policy will be aligned towards realization of the following objectives:

- Adopt a common trade and competition policy in West Africa as a building block towards full integration of African economies.
- Adopt a common currency in West Africa under the West African Monetary Zone Protocol.
- Remove all nontariff barriers to trade and introduce a common external tariff regime in West Africa.

Policy Thrust

The thrusts of the NEEDS trade policy include the following:

- Continue to work towards the macro-economic convergence criteria as well as the harmonization of financial and economic policies that are expected to lead to monetary integration within ECOWAS.
- Strengthen infrastructure, particularly infrastructure that plays a key role in building regional markets (roads, electricity, telecommunications), and reinvigorate intra-African trade
- Continue to cooperate with other West African countries in addressing common

regional concerns, such as conflicts and wars, environmental threats, regional infrastructure, poverty and migration, and governance issues:

- Fully implement the New Partnership for African Development (NEPAD), especially as it pertains to the African peer review mechanism, the promotion of good governance, intra-African trade, investment, and infrastructure development.

Strategies

The government's strategies include the following:

- Harmonize trade and investment codes as well as port and customs clearance procedures across West African countries in order to increase market integration within the subregion. The government will work with the ECOWAS Secretariat and other West African countries to ensure effective implementation of all protocols designed to advance economic integration of the subregion.
- Facilitate the establishment of a regional, private sector-driven stock exchange. Through ECOWAS, the government will encourage harmonization of the operations of the financial and payment systems within the region
- Promote regional trade associations, such as the Federation of West African Manufacturers Association.
- Encourage the private sector to build refineries and distribute refined petroleum products in West Africa as part of the deregulation of the downstream sector
- Promote the concept of regional security integration (as distinct from the regular peacekeeping force of the ECOWAS

Monitoring Group) to provide security and facilitate business linkages.

- Continue to encourage the learning of a second language (French) by all Nigerians to enhance the integration of the people of West Africa.
- Stipulate minimum domestic value added for commodities and manufactures to be traded within ECOWAS under existing protocols, and strictly enforce the rules of origin clauses in intraregional trade.

Trade Policy and Development

Nigeria is a coastal African country with the potential to become the gateway to much of West and Central Africa. Much of this potential has not been realized, because of a number of constraints, including:

- The high cost of doing business in Nigeria, which has constrained investment and production
 - Weak infrastructure
 - Sometimes poorly implemented incentives, especially fiscal and tariff regimes
 - Massive smuggling, counterfeiting, and dumping of products
 - Lack of standardization, required for products to compete internationally
 - Unfavourable international trade rules
- Another constraint has been Nigeria's trade policy stance. Although significant improvements have occurred in trade policy since the late 1980s (with large reductions in tariff rates and nontariff barriers), policy is still unpredictable, especially in the application of tariffs and exemptions, transactions costs at ports, customs clearance procedures, and the use of import bans. Nigeria's tariff and nontariff barriers

Nigeria has the potential to become the gateway to much of West and Central Africa



have on average exceeded those of the other ECOWAS countries.

Policy Thrust

The thrust of policy is to drastically reduce the uncertainty and unpredictability of the trade policy regime, harmonize trade practices with those of other ECOWAS countries (and thus facilitate the Free Trade Area within the region), respect Nigeria's obligations under the multilateral and regional trading system, and create a conducive and competitive environment in which Nigerian businesses can flourish and compete in the global and regional economy. The goal of policy is to lay a solid foundation for fully exploiting Nigeria's potential in international trade and helping it become the gateway to West and Central Africa.

Strategy and Instruments

Nigeria's strategy is to aggressively promote exports and gradually sequence import liberalization. NEEDS aims to promote an export-led growth strategy that will take advantage of globalization and the external trade opportunities that regional and international trade and economic integration arrangements offer. The strategy will encourage the growth of industries that have been hampered by narrow domestic market opportunities, promote technological innovation, and diversify foreign exchange earnings. The elimination of exemptions and adoption of a tariff structure that is harmonized with that of other ECOWAS countries will give investors and producers access to capital goods and raw materials at very low duty rates.

Selective import restrictions are used as safeguards against unfair trade practices and the dumping of counterfeit and substandard goods, as well as for health and cultural reasons. Some

restrictions are warranted to provide temporary protection to firms and industries that need to restructure and upgrade their technologies and operations in the light of global trends or to allow the government to address the high cost of doing business (especially Nigeria's high infrastructure costs). This strategy is expected to create jobs, stimulate domestic investment and industrialization, and earn significant foreign exchange. Through trade policy—a key component of the strategy for economic diversification—total exports are expected to increase significantly over time, and dependence on imported finished consumer goods (especially food products) is expected to decline significantly.

The key instruments and strategies employed to achieve the objectives of policy include the following:

- Drastically reduce the domestic cost structure—especially infrastructure costs—to provide a competitive investment climate as a necessary foundation for production and exporting.
- Aggressively promote exports and economic diplomacy. It is the responsibility of all Nigerians, the private sector, and government agencies and missions abroad to promote Nigeria's commercial interests abroad.
- Harmonize tariffs with the Economic and Monetary Union of West Africa (UEMOA) and other countries to create a common ECOWAS external tariff. The common tariff is expected to come into effect no later than 2005. Already the government, in consultation with stakeholders, has decided to harmonize Nigeria's tariffs with tariffs imposed in UEMOA countries. When the new tariff book comes into effect (after legislation is passed by the National

- Cooperate and collaborate with other African and developing countries to ensure that the WTO trade negotiations address the concerns and interests of Nigeria and Africa. Provide leadership in the negotiation of the Economic Partnership Agreement with Europe, as required under the Cotonou Agreement, to ensure that it promotes rapid economic development in Nigeria and West Africa.

- Continue to actively strengthen links with Nigerians and other Africans in the diaspora to deepen technical and business ties with the rest of the world, and improve export market penetration, especially in textiles, food, and cultural artifacts.
- Reform customs and ports to drastically reduce turnaround time in the ports, enhance prompt and effective collection of government revenues, and ensure customs clearance within 48 hours.
- Develop a deep-sea port, inland container depots, free trade zones, and a shipbuilding facility to enhance coastal shipping, international trade, and regional integration. Nigeria is well positioned geographically to serve as a major hub for regional trade and distribution network in a rapidly expanding global market. To take advantage of these opportunities, the private sector will be encouraged to develop new and creative production arrangements with foreign partners, develop entrepreneurial skills, and significantly increase local capacity in shipbuilding and maritime services.

Assembly), Nigeria will have reduced the number of tariff bands from 19 to 4 (0, 5, 10, and 20 percent). About 65 percent of Nigeria's total imports (capital goods, raw materials, and essential goods, such as medicine and books) are subject to duties of 0–10 percent, before the reform, 83 percent of Nigeria's tariff lines were higher than the UEMOA rates. By harmonizing with the UEMOA rates, Nigeria's average tariff rate is expected to decline more than 50 percent.

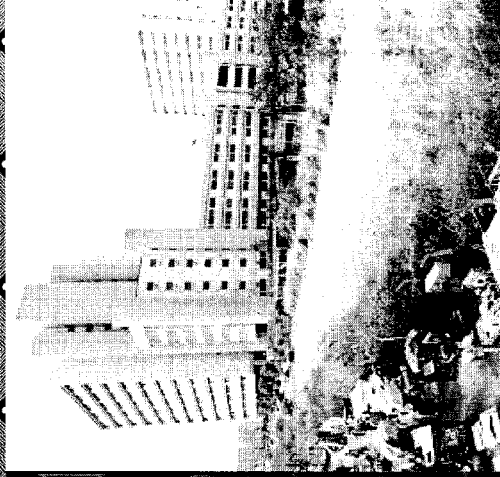
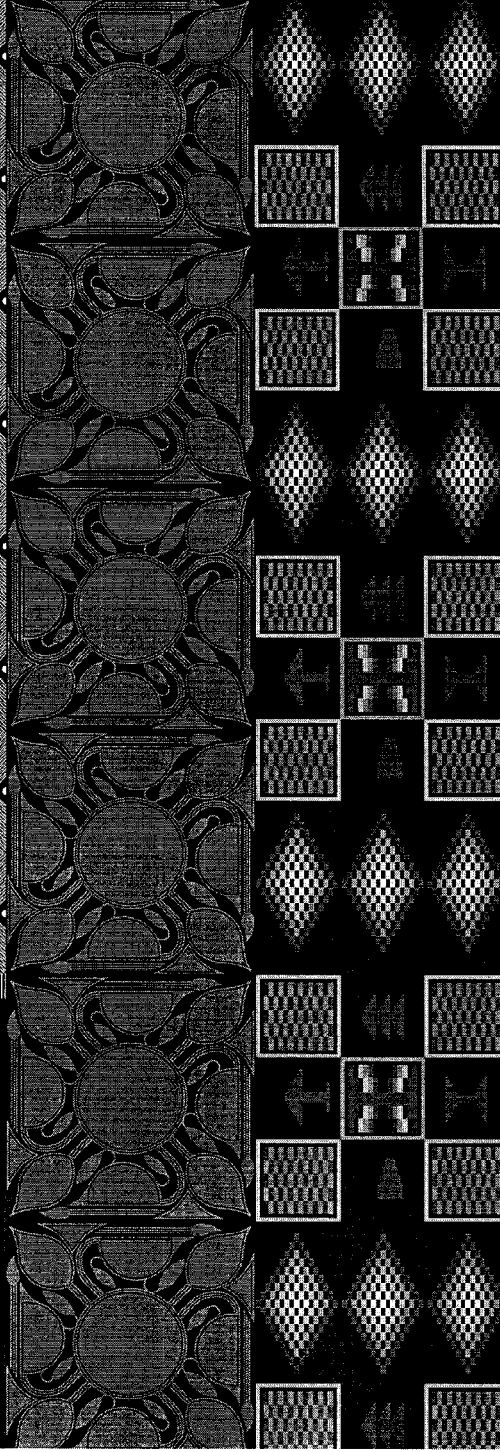
- Continue to use special levies and import restrictions in particular circumstances to protect domestic industries and critical sectors against unfair competition; to protect the health, culture, and environment of Nigerians; and to ensure food security. Import restrictions also give the government time to address the domestic cost structure. But for the high cost structure in Nigeria, domestic firms could be competitive in some industries in which Nigeria has a comparative advantage. The temporary protection will be reduced in step-wise manner as costs are reduced, in order to expose the firms to international competition, thereby encouraging innovation and growth.
- Rationalize and strengthen institutions responsible for promoting and facilitating trade. Task forces will ensure that Nigeria fully harnesses the potential benefits of concessional trade arrangements, such as the U.S. Africa Growth and Opportunity Act and the EU Cotonou Agreement.



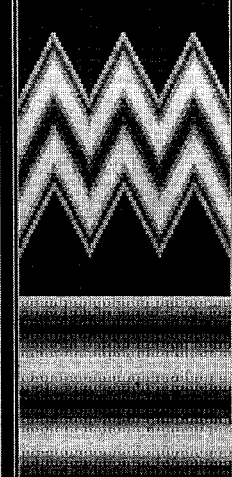
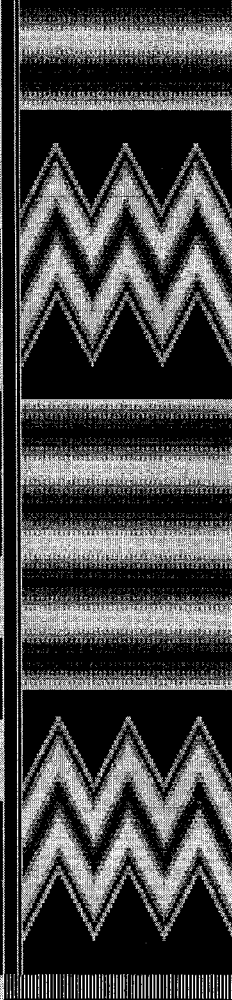
Nigeria's strategy is to aggressively promote exports and gradually sequence import liberalization

Part Four

Changing the Way the Government Does Its Work



- Chapter 6
Creating a More Efficient and Responsive Public Sector
- Chapter 9
Improving Security and the Administration of Justice
- Chapter 10
Tackling Corruption and Promoting Transparency and Accountability
- Chapter 11
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Chapter 8

More Efficient and Responsive Public Sector

Nigeria's public sector has grown tremendously over the years. Among the contributing factors have been inappropriate responses to increased oil revenues; domination of the economy by government in the 1970s and 1980s; rapid expansion of development programmes in response to bureaucratic, political, and international pressures; movement towards a unitary type of government, with the federal government attempting to cover all areas, often resulting in duplication of effort; the large apparatus associated with democratic governance at the federal, state, and local government levels; and the 1988 civil service reforms, which expanded the number of departments in many ministries and created several new ministries.

The state of government in Nigeria's economy is large and has grown significantly in recent years, with consolidated government expenditures rising from 29 percent of GDP in 1997 to 50 percent in 2001. The government is still involved in many production and service delivery activities that it cannot perform well, and the activities that should be at the core of its mandate suffer as a result. Compounding this is the fact that in Nigeria's decentralized governance structure the three tiers of government often step on one another's toes in some areas of economic activity and basic service provision.

The government is perceived as a provider of contracts and a major employer, even though the civil service has been largely deprofessionalized.

The result of developments in the past decade has been a weakened public service; persistent deficits financed by domestic and external borrowing, creating a high debt service burden; the breakdown of the traditional instruments of control, leading to corruption and misappropriation of funds; the high incidence of ghost workers; poor costing of programmes and projects; a large portfolio of abandoned and ongoing projects; and the mushrooming of institutions, especially inefficient and wasteful public enterprises. The system has accumulated pension arrears, and some states and federal government agencies are beginning to accumulate salary arrears and arrears to contractors and suppliers. A country that used to have an adequate civil service, a well-functioning judiciary, and rule of law has seen these institutions severely undermined. An important aspect of the reform programme therefore focuses on restoring the professionalism of the civil service.

The rolling plan hardly informed the preparation of the budget—or indeed major policies. Resource scarcity and political intervention in priority setting rendered impotent comprehensive planning that detailed every public sector project

Policy Thrust: The Reform Agenda

The NEEDS reform agenda for the civil service consists of seven main goals:

- Right-size the sector and eliminate ghost workers.
 - Restore the professionalism of the civil service.
 - Rationalize, restructure, and strengthen institutions.
 - Privatize and liberalize the sector.
 - Tackle corruption and improve transparency in government accounts, accounts of government agencies, and joint venture oil companies.
 - Reduce waste and improve efficiency of government expenditures.
 - Enhance economic coordination.
- Since coming into office, the administration has established a number of institutional and structural measures aimed at redressing the situation. These measures include:
- Open and competitive tender arrangements for government contracts
 - Establishment of a due process mechanism to vet and eliminate fat from government contracts
 - Massive anticorruption campaigns involving all public officials, including the President
 - Public sector reforms to reduce, if not completely eliminate, opportunities for corruption especially through the comprehensive monetization of benefits to public officers
 - A committed focus on privatization and auctions for government licences (leading, for example, to the liberalization of the telecommunications sector)
 - Establishment of an independent anticorruption agency and an economic and financial crimes commission

and programme. Annual budget expenditure priorities and fund releases failed to respect the provisions of the approved budget. Free enterprise and private sector-led growth also pose challenges for planning. NEEDS seeks to refocus the traditional planning process and strengthen the budget process as instruments of development management and control.

Before 1999 corruption was practically institutionalized as the foundation of governance in Nigeria. Societal institutions decayed to an unprecedented extent, as opportunities were colonized by the powerful. As could be expected, this process was accompanied by the inroads of the judiciary, the subversion of due process, the manipulation of existing laws and regulations, the suffocation of civil society, and the containment of democratic values and institutions. Power became nothing but a means of accumulation and subversion, as proactive initiatives were abandoned for purely administrative and transactional activities. The legitimacy and stability of the state became compromised as citizens began to devise extralegal and informal ways to survive.

The corruption quarantine in Nigeria was rooted in the failure and virtual collapse of governance, the contamination of democratic values, the erosion of procedures for accountability, and the prevalence of bad leadership. Waning public confidence in the country's political and economic institutions promoted a culture of contempt for the rule of law and ultimately a societal tolerance for behaviour previously considered abominable.

Neither today nor in the future can Nigeria afford the social, political, or economic costs that systemic corruption has imposed. Reforms aimed at increasing the transparency and accountability of public institutions and government operations are still urgently needed to redress our circumstances.

Nigeria cannot afford the social, political, or economic costs that systemic corruption has imposed



- Establishment in the President's office of a policy and programme monitoring unit to build a comprehensive policy database to follow up on all decisions of the President and monitor programmes in ministries and public enterprises

Enforcing Anticorruption Laws

To enforce existing anticorruption laws, the government established the Independent Corrupt Practices and Other Related Crimes Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC). The leadership of the commissions has demonstrated strong commitment to tackling financial crime, money laundering, and other economic misconduct that has created difficulties for Nigeria with the OECD Financial Action Task Force. In view of the pervasiveness of corruption in Nigeria, early in the NEEDS period the government will set up task forces to help formal institutions attack selected aspects of the problem, including corrupt practices in schools and sales outlets, money laundering, and corruption at the local level.

Progress has been made in introducing competition into the process of bidding for government contracts

The administration recognized that a piecemeal approach to remedying the process of competition for government contracts would be too incremental and not sufficiently far-reaching. It therefore set up the Budget Monitoring and Price Intelligence Unit, which began a process of contract award review, oversight, and certification, commonly referred to as "due process." This simple mechanism certifies for public funding only projects that have passed the test of proper project implementation packaging. Through certification, value for money is returning as the fundamental premise for public expenditure.

In the two years since implementation of the due process mechanism, progress has been made in introducing competition into the process of bidding for federal government contracts. By reviewing contracts, the Budget Monitoring and Price Intelligence Unit has saved the government huge sums, estimated at hundreds of millions of dollars. Several contracts awarded by spending units that failed to comply with open, competitive bid parameters have also been cancelled.

While the government has expressed concerns about the timeframe for contract review, oversight, and certification, the success of the due process mechanism has strengthened the government's resolve to create a Public Procurement Commission with a broader mandate of oversight over all federal procurements. The executive recently withdrew a bill for the establishment of the commission from the National Assembly for comprehensive review through broader stakeholders' consultation. The revised bill should be approved by the Federal Executive Council and resubmitted to the National Assembly by the end of June 2004.

Reforming and Strengthening Public Procurement

Historically, the award of contracts in Nigeria has been perceived as lacking transparency, inflated contract costs and processes that were closed, discretionary, and well designed conduits for abuse of public power were systemic.

Reforming the Bureaucracy
The government has begun implementing a range of administrative reforms that reduce the incentive for corrupt behaviour through strategies such as monetizing benefits (cars, housing, utilities, domestic assistance, divers), redefining and redesigning processes to reduce delays; rotating officers; and increasing supervision. Reducing the size of the bureaucracy will free up resources, which will be directed towards reducing incentives for corruption by giving civil servants higher wages, bonuses, and more favourable working conditions.

Increasing Information and Transparency

A committee has been set up to implement the Extractive Industry Transparency Initiative. The privatization and liberalization of key economic sectors has been a deliberate action to enhance transparency and accountability and to build consensus in support of reforms.

The administration has also embarked on a number of initiatives designed to complement its anticorruption drive. Its emphasis on efficiency, civil service reform, and service delivery and the campaigns for quality leadership at the local level, democratization of political parties, empowerment of civil society, and the transformation of institutions have unleashed new enthusiasm for building accountability throughout Nigeria. The local government reform initiated by the government is designed to check waste, disorganization, inefficiency, and corruption.

Successfully weaning some sections of the private sector from the old guarantees of profit through distortions in public sector operations and policies is a Herculean task. In the short to medium term, it will result in social dislocations, but these dislocations are the price that may

have to be paid to create a more durable, productive, and sustainable system.

Other reforms involve properly redefining and streamlining the role or form of planning, bringing the capital and recurrent budgets together in a manner consistent with the plan. The strengthened Budget Office will collaborate effectively with the National Planning Commission and the Ministry of Finance to ensure proper synergy between capital programmes and recurrent expenditures.

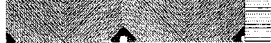
The administration will encourage private sector and civil society checks on the exercise of government power by providing information about government actions. It will publish budgets, records of revenue collection, statutes, and rules and encourage the Nigerian National Petroleum Corporation (NNPC) and the oil companies to fully disclose their revenues and cost of operation. Both the Offices of the Accountant General of the Federation and Auditor General of the Federation will be strengthened to perform their statutory functions as effectively as possible to improve transparency and reduce corruption.

Increasing Transparency in Privatization and Market Liberalization Processes

Privatization and liberalization of key economic sectors have been deliberate and timely, seeking to entrench transparency and accountability and build consensus in support of reforms. The sale of government-held equity stakes in cement, petroleum marketing, and banking companies in 2000 and 2001 was by open, competitive bidding—the first time this level of transparency has been displayed in Nigeria in recent history.

The televised auction of digital mobile licences, carried out with the technical assistance and support of British consultants in 2001, was

The administration will encourage private sector and civil society checks on the exercise of government power





hailed as one of the most transparent licence auctions in the world. Since 2001 the second and third phases of the privatization and market liberalization programme have been implemented with the same degree of transparency. All advisory services being procured and assets and shares being sold have been advertised, and the auctions for all divestiture transactions have been broadcast live on national television.

Improving Economic Coordination and Implementing Institutional Reforms

NEEDS will provide a strong economic coordination platform for federal, state, and local government programmes. The budget process at all levels and tiers of government will be strengthened and made more transparent and cohesive. Efforts will be made to establish an annual budget framework and guidelines that will be followed by all tiers of government.

A Fiscal Responsibility Bill will be enacted into law early on as an essential component of the reform programme. The Peer Review Mechanism to be established under the strategy will enable heads of government agencies to exchange views on how well counterparts are performing and who is violating the agreed principles and guidelines. These principles and guidelines will encourage the government and its agencies to adopt a balanced budget stabilization strategy to encourage "saving for a rainy day," generate revenue internally, implement agreed upon priority programmes, impose budget discipline, reduce the incidence of arbitrariness in the selection of projects and use of public funds, and apply cost-effective methods in implementing projects. The codified guidelines will be discussed with all levels and tiers of government and democratically agreed on. The Joint Planning Board, the Joint Tax Board, and the National Economic Council

will work to achieve a more effective and cohesive economic management system.

At the federal level, ongoing studies to rationalize institutions to streamline and strengthen economic coordination will be completed early in 2004. The roles of various arms of the Presidency, the National Planning Commission, the Ministry of Finance, and other institutions will be redefined to promote harmony and establish an effective framework for economic coordination.

The role of the legislature in the budget process will be addressed to reduce or eliminate conflicts and delays in enacting appropriation bills into law. Release of the annual budget should become more timely under NEEDS.

Regular press releases and special reports will be published and widely disseminated to keep stakeholders abreast of the performance of the budget. Room for discretionary application of funds will be discouraged; only the process of government will be permitted under appropriate circumstance.

Redefining the Role of Government:

Promoting Public-Private Partnerships
The large size of the government has been a barrier to growth in Nigeria. Not only has it promoted inefficient use of resources, it has also distorted market signals and stifled private investment through its impact on inflation, interest rates, the exchange rate, and the pattern of credit expansion. Right-sizing government, reducing budget deficits, and properly structuring the entry of all governments (especially the federal and state governments) into the capital market will enhance macroeconomic stability and stimulate private investment.

The government has begun to withdraw from the dominant role it played in the economy, by

privatizing, liberalizing, and deregulating. That process will be accelerated under NEEDS. The government will withdraw from direct production of goods, except in the oil and gas sectors.

Service provision will be in the key areas of education, health, water supply, science and technology, and capacity building. The public and private sectors, the donor community, and users will share responsibility for infrastructural services. The adoption of build-operate-transfer, build-own-operate-transfer, rehabilitate-operate-transfer, and other innovative schemes to attract private capital will be intensified in power generation and distribution, roads, railways, water supply, ports, prison administration, the courts, and other areas. The administration has already started the process in the power sector (in Sapale and Atani) and the Niger Bridge. More concerted efforts will be made in this direction.

The role of government will become that of a facilitator providing the enabling environment for the private sector to invest and operate in a free market system. For the government to play this role effectively, a significant paradigm shift is needed in the public services, from the old orientation of control and checkmating, risk avoidance, personalizing of governance, patronage, and so forth to the new orientation of efficient and timely delivery of services. The service delivery framework and guidelines will be set up by 2004/05, with implementation commencing immediately thereafter. Efforts will be made to streamline role definition of different agencies and tiers of government to avoid duplication of efforts. E-governance and submission to International Standards Organization (ISO) standards will be pursued as part of the reform. A productive partnership must be forged between the public and private sector, with the public sector facilitating and the private

sector committing to playing by the rules and delivering good-quality and competitively priced goods and services. Less bureaucracy, less paper work, and fewer hurdles will open the way to increased private investment.

Improving Regulation

The free enterprise, market-driven, private sector-led growth strategy does not imply the absence of regulation. Regulation will, however, be aimed at enhancing competition, breaking up monopolies, improving the functioning of the market, protecting weak and vulnerable groups, and stimulating industries and activities in which Nigeria has a medium- to long-term comparative advantage. NEEDS will attempt to explore these areas under special incentive schemes and measures that will not paralyze investment flows. The economy will brace for globalization armed with the appropriate tools and responses. The competition law will be enacted in 2004, supported by antitrust and consumer protection laws.

Improving Service Delivery

Increasing the efficiency of service delivery will form a major thrust of the efforts to reposition government to better serve the people of Nigeria. A service delivery charter will be developed. The monitoring of inputs and outputs and processes of government agencies will be increased, and regular bulletins and publications will be provided to inform the public on the activities and benchmarks of each government agency.

Efforts will be increased to refocus government policies and programmes on improving provision of basic social services and supporting the sources of growth in the economy, such as agriculture, small and medium-size enterprises, oil and gas, solid minerals, and manufacturing,

The televised auction of digital mobile licences in 2001 was hailed as one of the most transparent in the world





They will also seek to improve debt management and develop proposals for debt relief and debt reduction.

These reforms will be accompanied by a modest rudimentary programme of measurement and monitoring of inputs, outputs, processes, and outcomes. The idea is to make policymakers, ministers, and programme managers more aware of the need for accountability for resources used and results obtained. The government will also need to create a consensus building and communications programme that reaches out to the legislature and to the grassroots to explain the rationale for the reforms, get inputs, and keep stakeholders abreast of progress.

As part of a policy to improve service quality, every government agency will be encouraged to implement a service delivery charter that includes checklists, processing deadlines, and other benchmarks for delivery of public services. The charter will mainstream service delivery at the national, state, and local government levels.

Monetizing Fringe Benefits in the Federal Public Service

Over the years the cost of governance has continued to rise, partly because of the in-kind benefits the government provides public servants. These benefits, largely a carryover from the colonial era, include highly subsidized accommodation, transport facilities, chauffeur driven vehicles (for the senior echelon of the service), free medical services, and highly subsidized electricity, water, and telephone services. The cost of providing these amenities has become so large that little is left for funding capital projects. The problem is compounded by the fact that these benefits are not provided in the most cost-effective manner.

To check the spiralling cost of providing these benefits, the federal government monetized

fringe benefits for all categories of public servants. The new policy is designed to stem the ever-rising annual outlay on benefits.

These benefits did not help public servants prepare adequately for life after retirement. On the contrary, for many of them it created a dependency syndrome that was ill suited to postretirement life. Monetization of benefits will help prepare public servants for life after retirement and prevent them from suffering a sharp drop in their standard of living. It should also encourage public servants to make responsible decisions about the use of their resources. The policy is likely to affect the real estate market in the larger cities, especially Abuja, the seat of the federal government, where the rent on leased properties is expected to fall once the government stops leasing houses for its workers.

In addition, the government will release a number of publicly owned houses into the market, putting a downward pressure on housing prices; if not in the short term, at least in the medium to long term.

The monetization policy was given legal teeth with the passage and coming into effect of the Certain Political, Public and Judicial Office Holders Act, 2002, which was extended by circular to cover all federal civil servants. The law took effect July 1, 2003, and was extended, with somewhat modified rates of benefits, to federal civil servants October 1, 2003. The monetized fringe benefits and allowances for federal civil servants are shown in table 8.1.

Challenges and Implementation

Implementation of the policy faces several challenges, including the following:

- Mobilization of the sizeable resources required to fund the terminal benefits and entitlements of the staff who will be phased

Table 8.1 Monetized Fringe Benefits for Federal Civil Servants

Benefit	Pay grade level	Amount
Accommodation subsidy	01-06	50 percent
	07-14	60 percent
	15 and above	75 percent
Transport subsidy	01-17	25 percent
	01-06	N63,000
	07-10	N8,400
	12-14	N9,600
	15-17	N10,800
	Permanent, Secretary and above	N16,200
Utility subsidy	01-16	15 percent
	17 and above	20 percent
Domestic servant	15	1 GL, 3 Step 8
	16-17	2 GL, 3 Step 8
	Permanent, Secretary and above	3 GL, 3 Step 8
Leave grant	01 and above	10 percent
Medical care	01 and above	10 percent (to be paid to National Health Insurance Scheme)
Furniture allowance	01-06	0
	07 and above	40 percent for 5 years
Vehicle loan ^a	01-05	100 percent
	06-07	150 percent
	08 and above	200 percent
Driver	17 and above	1 GL, 3 Step 8

a. Vehicle loans are provided by banks at a single-digit interest rate, subject to repayment capability, in accordance with financial regulations.

- out of the civil service as a result of the monetization policy.
 - Development of equitable criteria that balance the requirement to obtain market value for the government assets sold with the need to allow public servants, whose emoluments were not always market driven, the opportunity to successfully bid for those assets.
 - Challenge of convincing public officers that it is no longer business as usual as far as the employment of the in-kind benefits they were used to.
- The monetization policy is being undertaken in phases. At the federal level, the President has designated the State House as the pilot in a show of his personal commitment to the scheme. Accordingly, the State House has implemented monetization in full. Throughout the public sector, government-owned vehicles have been pooled or sold, with the proceeds paid into the Treasury.





Passage and implementation of the fiscal 2004 budget is expected to give additional impetus to monetization by all arms and agencies of the federal government, especially within the civil service. Monetization will gradually be extended to all aspects of the federal public service. It is expected to reduce expenditure and engender a new orientation and attitude toward public resources and public service. The best practices that are bound to emerge as a result are expected to have a positive demonstration effect, thereby encouraging state and local governments to adopt their own versions of the policy.

Chapter 9 Security and the Administration of Justice

Security of life and property is a fundamental human right guaranteed under Nigeria's constitution. Successive governments have tried to ensure security, especially since 1999. Despite their efforts, however, the level of security in parts of the country has fallen, driven by growing poverty, vice income disparities, high unemployment, social dislocation caused by massive rural-urban migration, and the breakdown of societal values, leading to fraud and community unrest. The institutions established to guarantee security are incapacitated by limited personnel and skills, inadequate funding, poor equipment, and lack of proper orientation and commitment by some. A weak economy can only exacerbate the situation.

The government has taken several measures to deal with the problem. It established the Independent Corrupt Practices Commission and the Economic and Financial Crimes Commission, implemented the recommendations of the Justice Kayode Esho Commission of Inquiry, strengthened institutions for enforcing standards, such as the National Agency for Food and Drug Administration and Control, and substantially improved the personnel strength, equipment, and mobility of the police. Much remains to be done, however, to attain the level of security and the administration of justice that Nigerians deserve.

Overall Policy Thrust

NEEDS seeks to increase the level of security of life and property, reduce uncertainty, and improve the confidence in Nigeria by both Nigerians and investors. The strategy recognizes the role society must play in enhancing security by inculcating the right values and attitudes towards safeguarding life and property. It focuses on growing the economy to reduce unemployment; providing safety nets for vulnerable groups, including children; and fighting corruption and drug abuse. It pays attention to training and equipping security institutions and agencies (judiciary, police, prisons, immigration, customs, and other organs) charged with guaranteeing internal security. An important dimension of the NEEDS policy is achieving a paradigm shift and change of attitude of some of those involved in security matters to see themselves as public servants who should deliver high-quality services to their customers.

Corrupt practices among security operatives will be vigorously fought; corrupt officials will not only be warded out but severely punished. The quality of services delivered will be closely monitored as part of the ongoing reforms.

Society, schools, religious institutions, and families all have key roles to play in creating a disciplined and law-abiding citizenry with the right

NEEDS seeks to increase the level of security of life and property and improve confidence in Nigeria





values. Teachers, parents, and people in positions of authority must recognize that children and youths see them as role models. They must provide young people with the right orientation and advice, especially with respect to using violence to pursue their rights or seek redress.

Increasing National Security

NEEDS plans to increase national security by increasing the effectiveness of the police, reforming the nation's prisons, improving the judicial system, promoting and protecting human rights, increasing women's rights, and ensuring the rights of people living with HIV/AIDS.

Increasing the Effectiveness of the Police
The number of police in Nigeria tripled between 1999 and 2003, rising from 110,000 to about 310,000. The challenge now is to make the police effective. To enable the police to meet the challenges of mixer; policing and crowd control and to eliminate corruption, NEEDS will build capacity by training police personnel, pursue a paradigm shift in the orientation of the police force, and better equip the force to improve its image and its responsiveness to distress calls and to adopt a more proactive approach to crime prevention and detection. Specific policies include the following:

- Change the orientation of the police to improve the quality of service.
- Increase the use of scientific methods in policing (forensic science, lie detectors, psychologists, computerization of vital information) to enhance the quality of evidence and investigation.
- Introduce appropriate equipment (such as custom-built vehicles suitable for sandy or

marshy areas) and develop an exclusive communication system to improve police effectiveness.

- Build capacity, train, and retrain the police, and involve communities in policing.
- Use lethal weapons less often to control crowds.
- Pay all entitlements, especially call and duty allowances, in a timely manner.

The police will be properly trained and equipped to enhance their effectiveness in combating crime. In hiring new police officers, attention will be paid to applicants' educational qualifications and capacity for training and retraining. Particular attention will be paid to attracting more personnel with higher national diplomas and university degrees. GSM telephony, sophisticated equipment, and improved vehicles should improve police performance. The overall goal is to effect a paradigm shift towards friendly, fairer, and firmer interactions between police and the public and to create a police force of dedicated people with shut corruption.

Reforming the Nation's Prisons

The prison system faces great challenges, including the following:

- Congestion and a high proportion of inmates awaiting trial
 - Decaying infrastructure
 - The burden of imprisonment on prisoners and their families (disease exposure, social ostracism, loss of means of livelihood)
 - The cost to society of keeping a large number of people in jail
 - The poor quality of prison personnel
- The prison system will be reformed to emphasize rehabilitation rather than punishment. The number of inmates per square metre will be

reduced. A parole system and system of house arrest will be introduced for offenders who show remorse and display good conduct.

In collaboration with relevant agencies and other stakeholders, the federal government will work to reduce overcrowding in prisons. As an immediate step, the government is committed to taking the following steps:

- Expose and deal with the root causes of the problem, such as missing case files, lack of sureties, abuse of escort due process, lack of functional escort vehicles, and so forth.
- Strengthen the capacity of the Legal Aid Council to provide legal services to the poor.
- Encourage and recognize private practitioners involved in pro bono work. Attorneys wishing to qualify as Senior Advocates of Nigeria may be required to show evidence of having rendered free legal service to poor people.
- Encourage NGOs and other groups working on prison reforms.
- Conduct an up-to-date audit and develop a database on inmates awaiting trial in all prisons.

The welfare of inmates will be improved by providing better medical care, meals, and access to athletic activities. Prisoners will be given greater access to training and skill acquisition opportunities and encouraged to engage in productive activities, such as agriculture, arts and crafts, and small-scale industries to enable them to run small businesses on discharge. Such activities should also assist in providing food and clothing to inmates. Prisoners with appropriate skills acquired under the skill acquisition scheme will be considered for access to cheap credit (microcredit schemes) for starting their own businesses upon release from prison.

Prison wardens will be trained, equipped, and oriented to handle prisoners everhandedly. The private sector will be encouraged to build prison infrastructure for lease to the government.

Voluntary organizations and religious institutions will also be given the opportunity to provide assistance to prisoners and improve their living environment.

Improving the Judicial System

Justice is the ligament that holds civilized society together. Any threat to the administration of justice is a threat to the corporate existence of the society. The essence of democracy is justice. Every democracy ought therefore to strive to provide access to justice for all and protect the rights of the citizenry. The destiny of the country lies in making the system of justice work smoothly and efficiently.

The congestion in Nigeria's prisons is due partly to the judicial system, which is characterized by an enormous load of pending cases, frequent adjournments, ineffective dispensation of justice, and in some instances pure perversion of justice. An unjust judicial system cannot instil confidence, and it often promotes self-defence, aggressiveness, and abandonment of the rule of law. NEEDS provides for the strengthening of the judicial process.

Partnering with the private sector.

The government will initiate a sustained dialogue with the private sector on designing and implementing reform measures. A Law and Economy Group will be set up to articulate necessary reforms in the commercial laws, with a view to promoting economic development. A key component will be creating a legal environment that is conducive to the inflow of capital, that encourages competition, and that improves the level of trust and confidence.

Justice is the ligament that holds civilized society together





Increasing access to justice. As a democratic country, Nigeria has a duty to ensure that all people, rich or poor, can easily use the institutions and processes of law to resolve their disputes. This requires that people be able to use the law and the courts with or without the intervention of lawyers for simple matters. Efforts will be made to simplify proceedings and the law itself and to encourage the use of alternative dispute resolution mechanisms that are closer to the African method of resolving disputes. To widen access to justice, NEEDS will encourage the provision of greater state and privately funded legal assistance to the poor.

- The rules and procedures of Nigeria's civil courts will be reviewed to:
- Lower the cost of litigation and broaden access to justice.
 - Reduce delays so that cases can be decided speedily.
 - Ensure that litigants have an equal opportunity, regardless of their resources, to defend their legal rights.
 - Make the legal system understandable to those who use it.

Creating a more effective criminal justice system. During the NEEDS period, vigorous efforts will be made to improve the efficiency of criminal justice administration. Part of this process will be the elimination of excessive delays in disposing of criminal cases. The government will explore the possibility of stipulating a reasonable duration as well as processes and procedures for hearing and determining criminal cases. The review will also consider options for empowering judicial officers to curtail irrelevant or unduly protracted cross-examination and testimony and amending the rights to interlocutory appeal in criminal matters.

The judiciary is already getting rid of corrupt or ineffective officers. Also important is the commitment to train and upgrade judicial support staff, equip judicial libraries, and introduce computers for storing and retrieving data and writing judgments. Attention will be given to upgrading the infrastructure of the court system.

Promoting and Protecting Human Rights

One of the dividends of democracy in the past four years has been the prevailing atmosphere of freedom. Human rights, especially civil and political rights guaranteed by the Nigerian Constitution, have been accorded due respect.

The broad pursuit of human rights has become one of the hallmarks of modern democracies. The National Action Plan on Human Rights is the government's response to the violations of human rights that characterized the military regimes of the past. The Ministry of Justice will soon formally present to the President the National Action Plan on Human Rights, so that agencies can begin implementing it. The ministry is also seeking amendments to the constitutive instrument of the National Human Rights Commission. Those amendments will enhance the work of the commission while strengthening its capacity to play its envisaged role in implementing the National Action Plan on Human Rights.

Ensuring fairness in dealing with citizens and other residents will boost the confidence of investors and contractual partners. The principle of the sanctity of contracts will continue to be upheld and enforced. A juvenile justice system in line with the provision of the Child Rights Act of 2003 will be instituted. The judiciary will constantly be reviewed to eliminate corrupt personnel and reward uprightiness, efficiency, fairness, and the impartial delivery of justice. The courts will be

better equipped with needed personnel and equipment to enable them to function effectively. The use of arbitration and other alternative dispute resolution mechanisms will be encouraged and strengthened to provide speedy resolution of disputes. A strategy for computerizing court processes and proceedings will be adopted.

Pending cases will be reviewed regularly, so that prisoners do not serve time in excess of that to which they would have been sentenced had their cases been heard expeditiously. Abuse of the court process, including the unwarranted adjournment of cases, will not be condoned. The rule on offences for which bail can be posted will be rigorously applied. Innovative processes and mechanisms for dispute resolution will be developed or strengthened by establishing small claims courts and mobile courts for traffic offences and by expanding the multibor court system. The number of commercial courts will be increased, and civil society will be encouraged to set up mechanisms for counseling and the peaceful resolution of disputes, in an effort to create a more harmonious society. State and local governments will be encouraged to facilitate the process and establish such mechanisms. Access to justice will be widened by increasing

state-funded legal assistance to the poor and involving nonstate legal aid providers.

Increasing Women's Rights

The Women Affairs Ministry will identify and review substantive and procedural laws that affect women, with input from the Ministry of Labour and Productivity and other ministries that work in areas in which women have traditionally been neglected. Relevant committees of the National Assembly and civil society groups and organizations will also participate in the discussions.

Ensuring the Rights of People Living with HIV/AIDS

In line with the recently launched national policy on HIV/AIDS, the Ministry of Justice will produce a clear statement on the rights of people with HIV/AIDS. The ministry will work with the relevant agencies to create awareness among lawyers and judges about the appropriate legal responses to HIV/AIDS-related issues. Ministries charged with enforcing and protecting the rights of Nigeria's citizens (such as the Ministry of Labour and Productivity, which has responsibility for protecting the rights of people in the workplace) will be strengthened.

One of the dividends of democracy in the past four years has been the prevailing atmosphere of freedom

Access to justice will be widened by increasing state-funded legal assistance to the poor and involving nonstate legal aid providers



Chapter 10 Tackling Corruption and Promoting Transparency and Accountability

Our goal is to fight corruption to a standstill.

—Olusegun Obasanjo

Corruption and the abuse of positions and privileges have long been features of Nigeria's economic and political landscape. Systemic corruption and low levels of transparency and accountability have been major sources of development failure. Illegal activities such as the advance-fee fraud (known as 419) and money laundering have torn the fabric of Nigerian society.

Forms of corruption include, but are not limited to, unconventional and fraudulent trade practices, misappropriation or diversion of funds, kickbacks, under and overinvoicing, bribery, false declarations, abuse of office, and collection of illegal tolls. Indeed, Nigeria is rated as one of the most corrupt countries in the world. Given the adverse implications of the negative values of a small number of people on the nation's image, growth, and development, the government cannot ignore them, particularly as experience has shown that the successful pursuit of a national vision has often been nurtured and advanced by the inculcation of good moral and ethical values in the citizenry.

A strong and effective anti-corruption policy is a priority of the government

- Commitment to the welfare of vulnerable groups
- Pride in the spirit of Nigeria

Strategies and Interventions

The President of Nigeria is personally committed to tackling corruption and increasing transparency. But it will be the responsibility of all stakeholders—the family, the media, the educational system, the government and its agencies, and private institutions alike—to ensure that these values are consciously and constantly inculcated throughout society.

The government has signaled its commitment to tackling corruption and increasing transparency and accountability through a number of initiatives. Some of its achievements include the following:

- It established the Budget Monitoring and Price Intelligence Unit, a new institution with mandates to promote transparency in government financial transactions; and to establish open and competitive tender arrangements for government contracts through the due process mechanism. Through a process of contract award review, oversight, and certification, the government has repaid huge savings, estimated at hundreds of millions of dollars. Several contracts that were awarded by spending units that failed to comply with open, competitive bid parameters have been canceled.
- It established the Independent Corrupt Practices and Other Related Crimes Commission, which has had some success deterring corruption and prosecuting corrupt senior public officers.

- It sold government licences at transport auctions and established due process.
- It pushed forward a Public Procurement Commission Bill, which will soon be submitted to the National Assembly.
- It established the Economic and Financial Crimes Commission, which has begun a vigorous campaign to arrest people suspected of fraud. The leadership of the commission has shown strong commitment to tackling financial crimes, money laundering, and other economic crimes that had created difficulties for Nigeria with the Financial Action Task Force of the Organisation for Economic Co-operation and Development.
- It established the Extractive Industries Transparency Initiative, aimed at encouraging the Nigerian National Petroleum Corporation and other oil companies to fully disclose revenue and cost of operations. To curb corruption, reduce waste and inefficiency, establish the right set of values, and discourage rent-seeking and other unproductive values, NEEDS supports the following measures:
 - Reform, strengthen, and modernize institutions whose duty it is to foster and enforce compliance. These institutions include the Independent Corrupt Practices Commission, the Economic and Financial Crimes Commission, the National Orientation Agency, the National Agency for Food and Drug Administration and Control, the police, customs, the judiciary, prisons, and immigration. Laws aimed at combating corruption and promoting law and order will be strengthened.
 - Step up measures to check economic and financial crimes, including the legal

The President is personally committed to tackling corruption and increasing transparency





- provisions for the exposure and punishment of unethical behaviour.
- Adopt a formal code of ethics for all organizations and sectors, publish a code of ethics to engender transparency in the conduct of government affairs, and require the disclosure of information by companies.
 - Institutionalize the process of training staff in ethical behavior, and launch a programme to foster leadership by example.
 - Fast-track the process of reform in governance codes at the corporate level and at all tiers of government, and subscribe to international standards in civil society.

To improve transparency and accountability in government fiscal operations and check unproductive public expenditures by all tiers of government, fiscal responsibility and right to information bills will be enacted in 2004. The Fiscal Responsibility Act will require publication of annual audited accounts by all government agencies and public enterprises within six months of the end of their financial year. It will also establish a Revenue Stabilization Fund, into which windfall revenues will be transferred. The Right to Information Act will foster openness and feedback by streamlining and rationalizing the system for information collection, collation, storage, and dissemination on a timely basis.

NEEDS supports measures to curb corruption, reduce waste, and establish the right set of values

Chapter 11 Implementation and Financing

Effective implementation of policies and programmes is key to the success of NEEDS. Implementation defines the process, institutional framework, and instruments for translating aspirations, goals, and programmes into action and concrete results.

Nigeria's experience has been one of formulating good plans, policies, programmes, and projects and then failing to achieve objectives because of ineffective implementation—or no implementation. Because Nigerians have now reached consensus on the problems facing the country and the urgent need to turn things around, prospects are much more positive for NEEDS than they were for earlier initiatives.

Implementing NEEDS calls for commitment, discipline, and a strong will to stay the course of reforms—at all levels, from the President and federal executive branch down to the grassroots. Implementation will be holistic, consistent, and persistent, as half measures yield not half results but often failure.

Critical to the success of NEEDS is an effective institutional framework, particularly a public service dedicated to excellence and efficiency and supportive of reforms. Equally important is adequate infrastructure and an enabling environment in which private investment

can thrive. Other critical success factors are education, health care, and abiding faith and commitment to change.

The government is aware of the skepticism of the Nigerian people, following years of failed promises. It also recognizes that it has limited time to show results in many areas. Consequently, implementation of the NEEDS agenda has begun in earnest. Almost every aspect of the strategy is either already being implemented or awaiting enabling legislation. Hear results are already being achieved. To sustain momentum, a clear framework for monitoring and evaluation has been put in place.

As a necessary complement to NEEDS, state governments are developing State Economic Empowerment and Development Strategies (SEEDS). Within the states, local governments will be encouraged to develop medium-term development programmes, specifying programmes, benchmarks and targets, deliverables, timelines, and implementation guides. These plans, called Local Economic Empowerment and Development Strategies (LEEDS), will complement SEEDS and NEEDS. NEEDS recognizes that effective planning at the local level is critical to reduce or eliminate waste and inefficient resource allocation and to ensure integrated rural development and poverty reduction. Local

The government is aware of the skepticism of the Nigerian people, following years of failed promises

governments and state governments are much closer to the people and are better positioned to deliver many social services.

Institutional Framework

The institutional framework for implementing NEEDS recognizes the importance of coordination among the federal government (NEEDS), the states (SEEDS), and local government levels for achieving the national development goals (figure 11.1). For this reason, state governments (through the National Economic Council and the National Council on Development Planning) constitute an integral part of the implementation, monitoring, and evaluation framework. The system is cohesive and provides for interaction with all stakeholders. At the apex are the President, the Vice-President, and the National Assembly. The federal Executive Council and National Economic Council consider all matters pertaining to implementing NEEDS and SEEDS, presenting periodic reports to the President and the National Assembly.

A key institution is the Independent Monitoring Committee. The committee—chaired by the Secretary to the Government of the Federation and composed of government officials, representatives of the private sector, the press, and civil society—periodically monitors and evaluates implementation of NEEDS and SEEDS programmes and projects. It informs the National Assembly of its findings and reports to the President and the National Economic Council for appropriate action. The committee is expected to present quarterly reports on performance, which will be posted on the Nigerian economy Web site (www.Nigerianeconomy.com). A summary of the findings will also be disseminated to the Nigerian

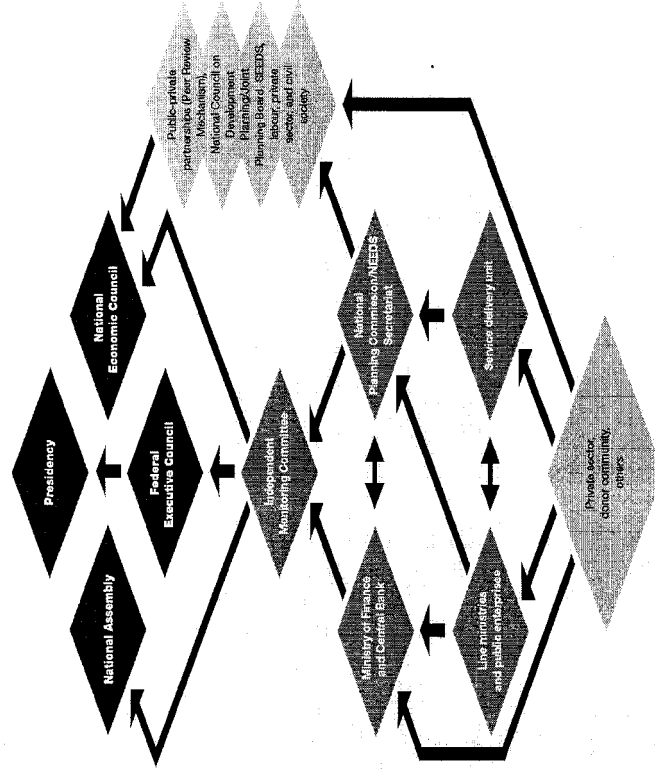
people, through print and electronic media. Members of the National Economic Council will use the results of the monitoring and evaluation to fine-tune implementation in their states. The reports of the National Economic Council review will also be forwarded to the National Assembly and the President.

The Secretariat of NEEDS is located at the National Planning Commission, which will coordinate the implementation framework. Other agencies critical to the effective coordination and implementation of NEEDS and SEEDS are the Joint Planning Board, the National Council on Development Planning, and the National Economic Council. As the Secretariat for these statutory bodies, the National Planning Commission is being restructured and strengthened to perform its statutory mandate of coordinating plan development and implementation across the tiers of government. Membership of the National Council on Development Planning will be enlarged to include other stakeholders, and the Service Delivery Unit will play an important role in setting performance targets on service delivery.

Each state government is expected to set up an independent committee to monitor its SEEDS. The ministry responsible for the planning functioning will serve as the Secretariat, and the Secretary to Government will serve as chair. States are also encouraged to undertake quarterly reviews of progress based on clearly articulated benchmarks and targets, timelines, activities, and officials responsible for implementation. The results of such exercises could be posted on the state Web site and disseminated to state residents.

The National Council on Development Planning and Joint Planning Board (composed of all Commissioners of Planning and Permanent

Figure 11.1 Institutional Framework for Implementing NEEDS





Secretaries of Planning in the states, together with their federal counterparts and other officers) agreed to set up a National Joint Monitoring Committee for the SEEDS. The national joint committee will also include representatives of the private sector, civil society, international organizations, and labour. The results of these monitoring exercises will increasingly be used by international donor organizations to align their development assistance to states, with demonstrated commitment to reforms and performance. The matching grants scheme and location of certain projects by the federal government will also be directed increasingly to support states that are frontrunners in reform and performance. A set of performance indicators will be developed before August 2004 to guide the joint monitoring exercises.

NEEDS specifies areas of responsibility across the three tiers of government

With the guides in place, each ministry and implementing agency is expected to send a quarterly report on its implementation to the NEEDS Secretariat within seven days of the end of the quarter. The NEEDS Secretariat will collate and summarize the reports for evaluation by the Independent Monitoring Committee. The Monitoring Committee could ask individual ministries and agencies to provide further explanations, or it could independently visit and monitor projects or programmes. Conclusions of the coordination meetings of the Economic Management Team will also form part of the quarterly evaluation reports. The strengthened national statistical system will be actively involved in performance monitoring, especially monitoring of the impact assessments of specific projects and programmes. The Federal Office of Statistics will provide timely and reliable surveys of the basic social and economic conditions of Nigerians to provide policymakers with an accurate impact assessment of interventions. Quarterly reports of the Monitoring Committee will be presented to the federal Executive Council, the President and Vice President, and the National Assembly.

The reforms hinge on changes occurring at the administrative and legal levels. Legislative action will be needed to reform some laws and enact new ones to support the strategy. Some of these actions are reflected in the relevant sections of the strategy document and listed later in this section. Others will be identified as implementation progresses.

Under NEEDS, areas of responsibility are specified, with appropriate devolution of responsibility across the three tiers of government, consistent with the Constitution, the revenue allocation formula, and the principles of a federal system of government. The target areas



the federal government would provide matching grants to states and local governments for projects and programmes that are national priorities but whose implementation is best handled at the state or local level. In 2004 a committee will work out the modalities and incentive structure for implementing the scheme as well as the projects and programmes for which the scheme will be applicable. The scheme will be based partly on need and partly on performance by state and local governments.

To enhance synergy, harmonization, and complementarity, NEEDS enhances coordination, based on a recognition that a developing country such as Nigeria requires more active coordination than industrial economies do. The goal is to design strategies, policy guidelines, and programmes that avoid duplication of effort and waste of scarce resources.

The Fiscal Responsibility Act will be enacted into law early in the life of NEEDS as an essential component of the reform. The act will provide the legal basis for coordinated fiscal behavior of all three tiers of government, promote greater transparency and accountability, ensure predictability and sustainability of public finance, and ensure that national fiscal behavior is consistent with Nigeria's macroeconomic objectives.

Peer Review Mechanism and Private Partnerships

A peer review mechanism is a key element of the implementation process. The mechanism will be used at all levels of implementation—within ministries and agencies; among ministries and agencies at the federal and state levels; at the federal, state, and local government levels; between the public sector on the one hand and the private sector and civil society organizations

are agriculture, primary and secondary education, potable water supply, primary health care, intrastate roads, and housing.

New Forms of Coordination and Partnerships to Eliminate Waste and Duplication

NEEDS envisions several new forms of coordination and partnership, from matching grants to a peer review mechanism and public-private partnerships.

Matching Grants Scheme

An ad hoc committee will be set up to take a census of federal government projects in the states and determine which can be passed on to communities, local governments, or states or sold outright. This committee will also identify the areas for direct intervention by the federal government and areas for facilitation or coordination and application of matching grants. Coordination among the tiers of government is important to avoid duplication and waste in the delivery of services. Given that most social services are included in the concurrent list of the Constitution, it is important for the federal government to coordinate with state and local governments to determine the scope and limitations of federal interventions.

The system of execution of programmes at the federal, state, and local governments in areas of concurrent jurisdiction is duplicative, inefficient, and wasteful. Programmes on potable water supply, primary health, primary education, and agriculture are replete with duplication and seeks to drastically reduce duplication and waste. One possible way to do so is through a matching grants scheme. Under such a scheme,



on the other, and within the framework of ad coordination. The Independent Monitoring Committee (together with the NEEDS Secretariat, the Economic Management Team, and the Service Delivery Unit) will work out details and modalities for periodic peer review meetings at the federal level.

Ministers and implementing agencies will report on progress, innovations, and challenges at regular internal reviews. These reviews will provide opportunities for sharing experiences on implementation, learning, and group brainstorming on solutions to implementation problems. Public reviews will involve ministries and implementing agencies appearing in front of the private sector and civil society, the press, and other stakeholders to account for their sources and uses of funds; innovations introduced, results achieved, and challenges ahead. The mechanism allows the people to hold individual implementing officers and agencies accountable, thereby promoting effective service delivery.

It is proposed that a peer review meeting/public-private partnership summit be held at least once a year, to bring together federal, state, and local governments to account to the Nigerian people. The meeting would be organized in partnership with the private sector, academia, nongovernmental organizations (NGOs) and civil society organizations, the international community, and other stakeholders in the Nigerian economy. In addition to the federal government, state governors would be offered the opportunity to address all Nigerians on prime time television and radio about the most innovative approaches they are adopting to reduce poverty, create wealth, and generate employment. The private sector and civil society groups would also be offered the opportunity to discuss their contributions to the economy and

the challenges they face. The international community, including donor agencies, would have the opportunity to address the public on their activities in Nigeria. The goal is to provide at least one national forum for evaluating performance, sharing experiences, and learning, and providing feedback from stakeholders.

States are also encouraged to undertake periodic peer reviews of their SEEDS, in collaboration with relevant stakeholders. The National Council on Development Planning and the Joint Planning Board agreed to set up a joint monitoring committee to evaluate implementation of SEEDS. In addition to representatives of government agencies, the joint monitoring team would include representatives of the private sector, NGOs and civil society, and the international community. Guides and benchmarks for the joint monitoring exercise will be developed. Part of the donor coordination effort in Nigeria would entail the alignment of donor assistance with SEEDS. Selection of a state for donor assistance would depend on the coherence of its SEEDS, its implementation record, and the basic needs of the state. States that are in need and have demonstrated capacity to provide value-for-money would be given priority.

At the local government level, planning and public accountability mechanisms should be institutionalized. State governments are expected to work with local government councils to develop medium-term plans. Such plans should be prepared with the participation of all relevant stakeholders. Periodically (say, every quarter) the local council should convene town hall meetings of all relevant stakeholders—traditional rulers, community heads, ward councilors, and representatives of the private sector, labour, NGOs, and civil society—to discuss the sources and uses of funds, results achieved, challenges,

and a road map for the future. Town meetings should help promote good governance, transparency, and accountability at the local government level and greatly improve service delivery and poverty reduction.

NEEDS intends to mainstream public private partnership at all levels of government. Sectoral ministries are encouraged to continuously interact with private sector associations, NGOs, and civil society organizations. Partnership between the public and private sectors is critical for effective implementation of NEEDS. Government agencies are encouraged to maintain an open door policy with regard to ideas and suggestions from the private sector. The formal organs for coordinating plan implementation, especially the National Council on Development Planning and the Joint Planning Board, will have private sector representation.

Donor coordination is an important element of implementing NEEDS. Without effective donor coordination, resources are wasted through duplication of effort. An ongoing effort at the National Planning Commission to articulate a strategic framework for borrowing policy and donor coordination will be completed in 2004, in collaboration with the Ministry of Finance. The goal is to move away from the current system of uncoordinated (largely project based) assistance towards a coordinated system aligned to national priorities, sector-wide approaches, and budget support.

Restructuring the National Statistical System

NEEDS recognizes that Nigeria's national statistical system is weak. The current system, managed by the Federal Office of Statistics, is governed by the 1957 Statistics Act, which is obsolete. Of about 4,700 staff of the Federal Office

of Statistics, only 5 percent belong to the professional cadre. In the 57 years of its existence, the office has never had a building of its own, and it has been grossly underfunded. The consequence has been a largely ineffective institution.

Timely and reliable statistics are critical to effective planning, monitoring, and evaluation of performance. Consequently, the government considers the restructuring and strengthening of the statistical system a very important priority. With the help of international and national consultants, a new master plan with a new draft statistics bill was produced. Stakeholders were consulted and the final master plan was approved for implementation. The government has already sent a strong signal regarding its seriousness about reform by purchasing a new building for the Federal Office of Statistics. Development partners are providing assistance to ensure state-of-the-art furnishing and equipment of the building, as well as institutional capacity building. The government has also significantly increased the budgetary allocation to the Federal Office of Statistics to enable it to collect timely statistics. Effective implementation of the master plan will ensure timely, robust, and reliable statistics.

Monitoring Service Delivery

The quality of services delivered by ministries and government agencies will be monitored. Heads of ministries, agencies, and public enterprises will monitor that all correspondence is dealt with within 72 hours. All ministries and state enterprises will subscribe to ISO standards. The Service Delivery Unit will monitor and report on progress in this area.

A complaints point will be established in each ministry and state enterprise as well as the Planning Commission, where citizens who receive poor service or are rudely treated in government

The quality of services delivered by ministries and government agencies will be monitored

offices will be able to register their complaints. Services covered include investment-promotion activities, data and information dissemination (other than personal or security information), and services delivered by health, telecommunications, police, prisons, ports, customs, immigration, and other institutions that deal with the public. The monitoring by the Service Delivery Unit will be done in collaboration with the relevant supervisory authorities and the Public Complaints Commission. Over time governance will be depersonalized as much as possible, so that the bulk of communication will be through the Internet rather than by mail or by queuing up at government offices. E-governance is the ultimate goal.

NEEDS targets minimum annual GDP growth rates of 5 percent in 2004, 6 percent in 2005 and 2006, and 7 percent in 2007.

2006, and 7 percent in 2007. Relative to recent history, the investment called for is ambitious, yet it is the minimum needed to increase adequate per capita income and improve welfare (table 11.2 and box 11.1). To finance the programme, the government will increase the efficiency of resource use by curbing wasteful expenditures by plugging all leakages in public expenditure and sources of revenue and reforming institutions), selling assets, reforming the tax system, increasing the efficiency of resource use, mobilizing domestic savings, and trying to attract foreign direct investment and overseas development assistance. It will also seek debt relief from creditors.

Reducing or Eliminating Wasteful Spending

Several reforms will be implemented to reduce or eliminate wasteful spending.

Expenditure-reduction imperatives. The federal government's share of the federation account has decreased from about 60 percent to 46 percent, but the change does not yet reflect the devolution of responsibilities to state and local governments. The rationalization envisaged in this strategy will involve clearer delineation of roles among the federal, state, and local governments in line with the changes in the revenue allocation formula. The federal government will withdraw from programmes and projects best left to state and local governments, not only to avoid duplication but also to enhance efficiency in implementing and monitoring programmes and projects. A federal matching grant scheme will be established to promote national programmes and projects.

Fiscal regime. Payroll and overhead expenditures currently consume about two-thirds of government revenues, excluding the cost of running

Table 11.1 New Legislation Needed to Implement NEEDS

Bill	Target institution or leader	Reforms component
Bills about to be initiated		
Fiscal Responsibility Bill	All government agencies	Fiscal discipline
Competition and Antitrust Bill	Ministry of Commerce	Domestic trade and production
Energy/Electricity Reform Bill	National Electricity Power Authority	Power provision and consumption
Finance Bill	Ministry of Finance	Budget
Person Reform Bill	Head of Service	Person and long term funds
Tax reform bills	Individual and corporate taxpayers	Tax policy
<ul style="list-style-type: none"> Revision of corporate tax Personal income and Value-Added Tax Bill 		
Local government reform	All local governments	Effective grassroots administration
Public Procurement Bill	All government agencies	Due process and accountability
Bills being reviewed by the House		
HB 4 Corrupt Practices and Other Related Offences Bill (amendment), 2003	All government agencies	Presidential initiative on fighting corruption
HB 7 National Institute of Tourism and Hospitality Bill, 2003	Tourism subsector	Presidential initiative on tourism development
HB 6 Right to Information Bill, 2003	Information subsector	Transparency in government business
HB 16 Niger Delta Commission Bill (amendment), 2003	Women and youth	Infrastructure development
HB 10 Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, Supplementing the UN Convention against Transnational Organized Crimes, Bill (ratification and enforcement), 2003	Judicial system	Women and youth development
HB 11 Convention against Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment Bill (ratification and enforcement), 2003	Ministry of Communications	Social charter
HB 15 Convention of the African Telecommunications Union Bill (ratification and enforcement), 2003	Ministry of Communications	Infrastructure development
HB 21 Agriculture Input Bill (provision of subsidy), 2003	Ministry of Agriculture	Agricultural development and food security
HB 22 Shelter Bill (provision of subsidy), 2003	Housing and Urban Development	Housing development
HB 24 Guaranteed Minimum Price for Farmers Authority Bill, 2003	Ministry of Agriculture	Agricultural development and food security
HB 30 Palm Oil Development Fund Bill, 2003	Ministry of Agriculture	Agricultural development and food security
HB 37 Allocation of Revenue Bill (federation account), 2003	Ministry of Agriculture	Budgetary and fiscal reform
HB 25 Agriculture Bill (provision of budget allocation), 2003	Ministry of Agriculture	Agricultural development and food security
HB 40 Pension Reform Bill, 2003	Pension Board	Presidential initiative on pension reforms

Source: Board of need, 2004.



Table 11.1 Allocation of the Federal Government Capital Budget to Priority Sectors

NEEDS will require a heavy investment programme to expenditures. For example, since almost all state governments spend at least 20 percent of their total budget on education, total government spending on a particular sector requires consolidating spending by all three tiers of government.

NEEDS will require a heavy investment programme to expenditures. For example, since almost all state governments spend at least 20 percent of their total budget on education, total government spending on a particular sector requires consolidating spending by all three tiers of government.

Table with 5 columns: Sector, 2003, 2005, 2007, 2007 (2003=100). Rows include Agriculture and rural development, Roads (maintenance, rehabilitation, and construction), Education, Health, Water resources, Power, Security, and Share of allocation for priority sectors in total allocation.

Management of Treasury accounts. The government will maintain a single account, with the Central Bank of Nigeria, in order to avoid cash management problems, especially situations in which the government maintains balances in ministries' accounts but borrows from the central bank.

Procurement. A bill proposing the establishment of a Public Procurement Commission has been sent to the National Assembly. This bill and the

Table 11.1 New Legislation Needed to Implement NEEDS (continued)

Table with 4 columns: Bill, Target institution or sector, Reform description, and Status. Rows include HB 35 Agricultural Credit Guarantee Amendment Bill, HR 31 Healed-up Prisons Social Facilities (Public Buildings) Bill, HB 52 National Social Security Board Bill, HB 49 Economic and Financial Crimes Commission Bill, HB 50 Money Laundering (Prohibition) Bill, National Forestry Bill, National Drought Bill, National Oil Spill Contingency Bill, Revision of Environmental Impact Assessment Decree, and National Environmental Management Bill.

Table 11.2 Aggregate Investment Projections, 2003-07 (billions of naira)

Table with 5 columns: Investment, 2003, 2004, 2005, 2006, 2007. Rows include Gross investment, Private fixed investment, Government fixed investment, and Federal State.

government morden in the capital budget. This high level of spending makes it difficult for the government to service its debts and pay for the capital programme required for growth. The reform strategy addresses the problem by drastically reducing payroll and overhead expenditures and proscribing extrabudgetary expenditures. To eliminate ghost workers, the



reform of the Accountant General's office will generate savings.

University autonomy. Universities will be granted autonomy. The government will continue to provide subsidies to the universities, but it will leave it to them to find additional funds. Universities will be free to charge fees and generate income from research and semi-commercial ventures, reducing the funding needed from the government.

Implementing Institutional Reforms

A variety of institutional reforms will increase government revenues.

Fiscal Responsibility Pact. A Fiscal Responsibility Pact or similar initiative is expected to be passed into law in 2004. The reform will lead to increased transparency and accountability and better management and efficiency in the use of public resources.

Banking and financial sector reforms. The machinery for tracking and monitoring the collection of government revenues will be strengthened. The Presidential Committee on Revenue Monitoring and Reconciliation will monitor payment of taxes and duties collected through the banks. The financial services regulatory framework will be reformed to improve supervision of the activities of banks and financial institutions that abuse the system for revenue collection and remittance. The number of banks approved to receive government deposits will be rationalized, and banks that default will be delisted.

Solid minerals. With growing investment in solid minerals, the government expects increased revenue from rents and royalties. Substantial

revenues are already being earned from gem stones and bitumen.

Long-term funds. The government will promote deepening of the capital market by encouraging investment in insurance and pension schemes. Increased listing of companies on the public exchange will also be encouraged. A public education programme will broaden awareness of the opportunities offered by the capital market. To increase the pool of investible funds, the banking sector will be expected to encourage small savers by making the process of opening accounts more customer friendly and interest rates more appealing. A national savings certificate scheme has been launched as an attractive alternative to small savings in commercial banks. The scheme will be structured and incentivized to encourage small savers to participate.

Selling Assets

Substantial revenue is expected to be generated by privatization of refineries and steel mills; the sale of shares in the automotive industries; the unbundling of the National Electric Power Authority, and the expected initial public offering of shares of Nigerian Telecommunications, Ltd. Proceeds of these sales can be used to finance infrastructure development under NEEDS. The law setting up the National Council on Privatization stipulates that all proceeds from privatization be placed in the privatization proceeds account, which is automatically transferable into the consolidated revenue fund. The privatization programme is expected to attract private capital to increase working capital, replace equipment, and rehabilitate plants.

With the monetization of fringe benefits, the government will dispose of some of its assets, especially buildings and cars. Proceeds from these sales will augment the budget.

Implementing Tax Reforms
There is scope to increase revenue yield by aggressively pursuing tax collection in all sectors of the economy. Target areas include the oil and gas sector, personal and property taxes, and indirect taxes. The practice whereby most revenue-generating state enterprises spend revenues collected on behalf of the central government, in breach of financial regulation, will be checked. NEEDS will generally move in the direction of a low, stable, simplified tax and tariff regime. But a few new taxes may be imposed and some existing ones increased slightly to raise revenue.

To increase revenues, the government will also:

- Return to the use of market-based development stocks, with appropriate tenures; to meet medium- to long-term financing needs. The change will check the current trend of crowding out of the real sector by borrowing from the banking system;
- Review and strengthen the enabling laws to ensure that institutions such as the Nigerian Social Insurance Trust Fund, pension funds, and life insurance companies adhere to guidelines that require them to use most of their funds to finance real sector activities;
- Support programmes, such as the comprehensive review of public sector pension schemes, that mobilize and effectively manage long-term funds;
- Adopt appropriate regulatory and enforcement machinery to ensure that development finance institutions are well funded and that their funds reach intended beneficiaries, especially those operating in the priority sectors.

- Mainstream micro-, small, and medium-size enterprises, especially those operating

in the priority sectors, to broaden the real sector and enhance their access to funds available in the banking industry.

Reducing Costs and Increasing Tax Collection in the Oil and Gas Sector

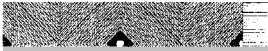
Substantial savings are likely to accrue from reducing the cost of operations in the upstream oil and gas sector. Several taxes are probably not being collected due to the special nature of the industry and the lack of capacity to capture all potential sources of revenues. The government has subscribed to the Extractive Industries Transparency Initiative and will explore ways of reducing its contribution to joint venture cash calls in order to free resources to finance the programme. It will also engage the services of world class oil and gas industry tax consultants, giving them a mandate to design a framework for capturing and monitoring costs of joint venture operations and collecting taxes due from the oil sector generally. Revenue targets will be set using benchmarks being developed for the purpose.

Improving External Financing
The macro framework for NEEDS points to the need for a financing facility that bridges the financing gap and supports the balance of payments position. External financing for the programme is derived from the balance of payments accounts. Under NEEDS, Nigeria's main nonoil exports would rise an average of 10 percent a year over the next four years, while nonoil imports would rise by 4.5 percent. Oil exports would decline in 2004 and 2005 and remain at that level in 2006 and 2007. The trade account would decline from a positive balance of \$1511.75 million in 2004 to \$305.1 million in 2007. Services would record a deficit of \$2,185.6 million in 2004 and \$2,341.6 million in 2007. The

With better management of the economy and the restoration of investor confidence, a higher level of investment inflow is expected.



NEEDS will generally move in the direction of a low, stable, simplified tax and tariff regime



current account deficit would be \$2,173.7 million, or 2.89 percent of GDP, by the end of the programme. The average financing requirement during the period is estimated at \$4.5 billion.

Foreign direct investment. With better management of the economy and the restoration of investor confidence, a higher level of investment inflow is expected, especially in view of the high returns that investment in Nigeria offers. About \$1.5 billion a year is expected to be attracted into manufacturing, steel, construction, solid minerals, and large-scale farming over the period. Efforts will be made to attract investment from wealthy Nigerians at home and abroad, and strategies will be developed for inducing other Africans in the diaspora to invest in Nigeria.

NEEDS is Nigeria's poverty reduction strategy

Beyond the direct cash flow impact, debt relief would facilitate the restoration of insurance cover on exports to Nigeria (including foreign direct investment) by helping clear arrears and making current the country's debt status. Debt relief could thus create substantial resource inflows, which would form part of the financing required over the programme period.

Debt service payments have come at great opportunity cost in terms of social services. External debt service payments made between 2001 and 2003 were five times as high as the recurrent federal government budgetary allocation to education and about six times as high as the recurrent budgetary allocation to health. Only substantial debt relief will allow Nigeria to pursue a meaningful development programme. This conclusion is corroborated by a 2002 study by the International Monetary Fund that revealed that even with a good policy environment, resolving Nigeria's debt problem would require a 67 percent net present value flow rescheduling followed by a concessional stock-of-debt reduction of up to 67 percent of the net present value of the debt.

With the recent change in posture by the G-8, which has expressed a willingness to be more flexible and pragmatic about granting debt relief to countries other than those eligible for the Highly Indebted Poor Countries Debt Initiative, it is hoped that donors will grant Nigeria debt relief once they see convincing progress in implementing the reform programme. Resources generated from such relief would be used to fund poverty alleviation and employment generation programmes, especially in education, health care (HIV/AIDS), and other social infrastructure. Nigeria would also assess the opportunities provided under the global Debt for Nature Swap Initiative.

Obtaining Debt Relief

Nigeria's debt service is high and unsustainable. Annual debt service due averages more than \$2.5 billion a year, including arrears of about \$3.47 billion incurred as of the end of 2003. Annual debt service is about \$3 billion a year.



investment, even in areas traditionally reserved for government.

Private sector investment in infrastructure. In the spirit of partnership, the private sector will be granted incentives to invest in infrastructure, especially in power generation and supply, telecommunications, and roads, railways, and ports. Accordingly, new strategies for increasing private sector participation, such as build-operate-and-transfer (BOT), and rehabilitate-operate-and-transfer (ROT) schemes, will be pursued.

Small and Medium-Size Enterprise Investment Equity Scheme. The funds accrued under the Small and Medium Enterprise Investment Equity Scheme will be expeditiously but efficiently disbursed during the NEEDS period. Disbursement of the funds, which are expected to increase by June 2004, will be tied to the identification of bankable projects. The Central Bank of Nigeria will facilitate the process by creating a Web site providing information on potentially profitable investments. Worker remittances. Remittances have increased in recent years, and they are expected to continue to do so during the period of NEEDS. They have become an increasingly important source of capital.

Generating Revenue from Other Sources

Other sources of revenues include: Payment of interest on delayed payments. The government will consider imposing penalty interest on payments that are not promptly made to the governments and its agencies. The issue of delayed payments by the government to its contractors and suppliers will be studied after settling existing arrears and "cleaning the budget." Recovery of looted and misappropriated funds. Funds already recovered (about \$600 million) will be used to augment revenue for fiscal 2004. As a one-off revenue item, however, these funds cannot be relied on to cushion the budget beyond fiscal 2005. Efforts will continue to be made to track all misappropriated funds, including payments made to contractors who failed to perform.

Partnership with the private sector. NEEDS is about partnering for accelerated growth and development. Its success—or failure—depends critically on private investment. Under the programme, the private sector is expected to invest three times as much as all the governments of the federation put together. This is a great challenge. The government is committed to providing an enabling environment to promote private

DEBT SERVICE PAYMENTS HAVE COME AT GREAT OPPORTUNITY COST IN TERMS OF SOCIAL SERVICES

Abbreviations

ECOWAS	Economic Community of West African States	NERC	Nigerian Electricity Regulatory Commission
EFCC	Economic and Financial Crimes Commission	NEXIM	Nigerian Export Import Bank
G-8	Group of Eight Countries	NGO	nongovernmental organization
GDP	gross domestic product	NNPC	Nigerian National Petroleum Corporation
GSM	Global System for Mobile Communication	OECD	Organisation for Economic Co-operation and Development
HIPC	Heavily Indebted Poor Countries	OPEC	Organization of Petroleum Exporting Countries
ICPC	Independent Corrupt Practices and Other Related Crimes Commission	PRSP	Poverty Reduction Strategy Paper
IDA	International Development Association	RMIS	Raw Materials Information System
ISO	International Standards Organization	SEEDS	State Economic Empowerment and Development Strategy
LEEDS	Local Economic Empowerment and Development Strategies	SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
NACA	National Action Committee on AIDS	SMEES	Small and Medium Enterprise Investment Equity Scheme
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank	UEMOA	Union Economique et Monétaire de l'Ouest Africain
NEEDS	National Economic Empowerment and Development Strategy	UNAIDS	Joint United Nations Programme on HIV/AIDS
NEPA	National Electric Power Authority	UNICEF	United Nations Children's Fund
NEPAD	New Partnership for African Development		