

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

March 3, 2015

Report No.: 95296

Operation Name	Third Lagos State Development Policy Operation
Region	AFRICA
Country	Nigeria
Sector	Sub-national government administration (100%)
Operation ID	P151947
Lending Instrument	Development Policy Financing
Borrower(s)	FEDERAL REPUBLIC OF NIGERIA
Implementing Agency	
	Ministry of Finance, Lagos State Government The Secretariat, Alausa, Ikeja, Block 12 Lagos, Nigeria Tel: (234) 709-881 agbeleyi@lagosstate.gov.ng
Date PID Prepared	March 6, 2015
Estimated Date of Appraisal	March 24, 2015
Estimated Date of Board Approval	May/June, 2015
Corporate Review Decision	March 17, 2015
Other Decision <i>{Optional}</i>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

I. Key development issues and rationale for Bank involvement

1. **As a major growth agglomeration, Lagos state can catalyze a takeoff of Nigeria into more inclusive growth and job creation.** The state has been experiencing fast economic growth over the last decade and increased employment opportunities that attract job seekers from other parts of Nigeria. As Lagos becomes increasingly congested, the growth cluster naturally spreads to surrounding areas and nearby second-tier cities. Large cities¹ such as Lagos become urban growth poles when investments are integrated and well-coordinated city-wide. Also, large-size cities such as Lagos connect the economy to the rest of the world because of the agglomeration economies they provide and their potential to become nodes for high value services. Second-tier cities, in turn, serve as effective logistic hubs for transportation of goods and can house larger local markets. Smaller cities function as a market aggregation that connects farmers to input and output markets. Consequently, these growth poles with a well-functioning urban system are expected to contribute to Nigeria's objective of more inclusive growth and job creation. Indeed, Nigeria will not be able to solve its youth employment crisis without the spread of Lagos-type urban growth to other parts of the country. East Asia's experience indicates that

¹ Kano, Port Harcourt, Ibadan, Benin City, Abuja, Kaduna, Maiduguri, Ogbomosho, Warri, and Zaria.

there is a direct link between urbanization and income growth as economic output per capita increased throughout the region as the percentage of people living in urban areas went up.²

2. **To unleash the cities’ growth potential, the federal and state governments will need to focus on key development priorities.**³ First, regulatory and institutional frameworks for land, expanding service delivery, and managing financial resources should all be strengthened to support long-term development and growth. Secondly, significant infrastructure investment is necessary to improve urban mobility within cities and to connect markets more strongly together to encourage firms’ growth by reducing economic distance between regions and cities. Finally, targeted interventions should be considered in parallel to ensure that vulnerable populations and lagging areas will not be left behind. The Lagos State Government has already embarked its development journey in this direction to ensure that the “Lagos miracle” of the past decade can be sustained.

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

4. **The World Bank has supported Lagos state with a number of different instruments and this cooperation has deepened to include budget support.** The First Lagos State Development Policy Operation (FLSDPO) was approved in March 2011. This was followed by a new programmatic series consisting of two operations designed to support the LSG in its quest to further increase value-for-money in budgetary spending, improve the business climate, maintain fiscal sustainability, and properly monitor and manage financial risks. The first operation, Second Lagos State Development Policy Operation (SLSDPO), was approved in March 2014. The proposed Third Lagos State Development Policy Operation (TSLSDPO) in the estimated amount of US\$200 million will continue the reforms agenda through implementation of indicative triggers for TLSDP highlighted in the SLSDPO program document presented to the Board in March 2014.

² According to the World Bank (2015), “East Asia’s Changing Urban Landscape: Measuring a Decade of Spatial Growth,” overall, urban areas in East Asia expanded at an average of 2.4 percent per year during the decade studied, with urban land reaching 134,800 square kilometers in 2010.

³ World Bank (2015), Nigeria Urbanization Review – Reaping the Dividends of Diversity (draft).

5. **The government has deepened the reforms supported by the SLSDPO and put in motion the implementation of TLSDDPO prior actions.** Most of the triggers under the SLSDPO have been maintained and become the TLSDDPO prior actions. The government has forged ahead with most of the TLSDDPO prior actions to deepen the reform already implemented under the previous operation. Implementation progress has been satisfactory as 5 out of a total of 8 prior actions have been met and the remaining three actions are on track towards completion by end March 2015. Recent macroeconomic and fiscal performance has been satisfactory given that the government has adopted adequate policy responses to the declining oil prices. Poverty reduction efforts have been ongoing and brought some visible results that benefit Lagosians.

II. Proposed Objective(s)

6. This Third Lagos State Development Policy Operation (TLSDDPO) supports the Lagos State Government in its endeavor to improve public finances and the investment climate to contribute to sustained rapid economic growth and thus poverty reduction in a fiscal sustainable manner. The four pillars of the TLSDDPO are (a) Fiscal Sustainability, (b) Budget Planning and Preparation, (c) Budget Execution, and (d) Investment Climate.

7. In the area of fiscal sustainability, the objective is to anchor the budget in a medium-term sustainable framework supported by a full accounting of expected contingent and other liabilities. Under the budget planning and preparation pillar, the DPO supports the government in the adoption of more strategic and medium-term budgeting. The budget execution pillar provides support to the implementation of new Procurement and Audit laws, and the rollout of the Oracle financial modules. Lastly, the investment climate pillar focuses on simplifying procedures for and reduce the cost of land-related transactions and development permits.

III. Expected results:

- Anchor the budget in a medium-term fiscal sustainability framework that accounts for key fiscal risks and improves internal revenue collection
- Adoption of a new approach to budget planning and preparation
- Enhance transparency in the use of budget resources
- Improve the investment climate through simplifying administrative procedures for and reducing the cost of property registration and obtaining development permits

8. **Lagos state adopted a comprehensive Lagos State Development Plan (LSDP) 2012-2025 that continues the previous development agenda and is underpinned by the government's long-term vision.** The LSDP complements the government's vision of "making Lagos state Africa's model megacity and global, economic and financial hub that is safe, secure, functional, and productive" as it aims at poverty eradication and sustainable economic growth through infrastructural renewal and development. It has four key developmental pillars and cross-cutting themes. The pillars include: (a) Economic Development Pillar prioritizes, streamlining the regulatory environment and improving incentives for private investment and business, providing key public inputs to increase opportunities for investors, and the expansion of private public partnerships; (b) Infrastructure Pillar focuses on key priority sectors including power, transport, water, and waste water management; (c) Social Development and Security

Pillar puts foremost priority on education – ensuring free, high quality, and relevant education for all Lagosians, along with health care, social protection, and security; and (d) Sustainable Environment Pillar highlights the development of a master plan for a drainage system and erosion prevention and a state framework on climate change. Main cross-cutting themes of the LSDP include Gender, Social Inclusion, and HIV/AIDS; Finance, Governance and Capacity Development; and Monitoring, Evaluation and Review. Under the cross-cutting themes of Finance, Governance and Capacity Development, the LSDP places priority on public financial management (PFM) reforms to strengthen accountability, transparency, and responsiveness, thus enabling the states to better meet the Lagosians’ demand for public services. These reforms include an expansion of public consultations, the further development of medium-term fiscal and sector strategies for consistency with a costed LSDP, the effective implementation of the new Procurement and Audit laws, and the development of e-government.

9. **The proposed TLSDPO is congruent with the LSDP.** The program supports the first LSDP pillar that prioritizes streamlining the regulatory environment and improving incentives for private investment and business by reducing time and cost of registering land and mortgages and obtaining development permits (TLSDPO Pillar IV). It builds on actions in the SLSDPO and supports the improvement of governance and public financial management (LSDP’s cross-cutting theme) through reforms of budgetary planning and preparation and budget execution (Pillars II and III). Finally, the TLSDPO supports LSG efforts in maintaining medium- and long-term fiscal and debt sustainability through monitoring the associated risk related to Lagos state parastatals’ fiscal activities (Pillar I). These reforms will contribute to the achievement of the LSDP objective, sustained economic growth and poverty reduction through increased public investment.

IV. Preliminary Description

10. **The proposed TLSDPO has four Pillars.** *Pillar 1:* Fiscal Sustainability aims to anchor the budget in a medium-term fiscal sustainability framework that accounts for key fiscal risks and improves internal revenue collection. A specific action supported by the operation is: Publish by Lagos State Parastatal Monitoring Office the 2012 and 2013 consolidated state of affairs (balance sheet) of 15 key Lagos State parastatals.⁴ *Pillar 2:* Budget Planning and Preparation aims at the adoption of new approaches to budget planning and preparation. The TLSDPO will support the government in preparing the 2015 budget that employs 25 MTSSs for MDAs and consolidating relevant MDAs’ MTSSs into at least 3 sectoral MTSSs based on defined functions of government (education, health, and one other) in accordance with the Medium-Term Expenditure Framework. *Pillar 3:* Budget Execution aims to enhance transparency and accountability in the use of budget resources through strengthening procurement and increasing the operationalization of the Oracle financial modules. To strengthen procurement, the TLSDPO includes two prior actions: (a) Standard Bidding documents in use in

⁴ The 15 selected parastatals include Lagos State Printing Corporation, Radio Lagos Service, Lagos Television, Lagos State Pension Commission, Lagos Metropolitan Area Transport Authority, Lagos State Electricity Board, Lagos Building Investment Company Limited, Ibile Holding Limited, Lagos State Public Works Corporation, LAGBUS Assets Management Limited, Lekki Worldwide Investment Limited, New Town Development Authority, Lagos State Development and Property Corporation, Lagos State Waste Management Authority, and Lagos State Water Corporation.

all MDAs in Lagos State; and (b) Continuous strengthening the capacity of Public Procurement Agency⁵ by filling 8 vacant managerial and technical specialist positions. To increase the use of Oracle financial modules, the TLSDPPO prior actions include: (a) Roll-out of the ‘procure to pay’ module of Oracle Financials to at least 8 MDAs accounting for at least 85 percent of the state capital expenditure;⁶ and (b) Integrate cleansed and validated payroll with Oracle Financials for direct posting of payroll expenditures in General Ledger. *Pillar 4: Investment climate* aims to simplify administrative procedures for and reduce the cost of property registration and obtaining development permits through: (a) Reduce the cost of land transactions by at least 50% (from their current rate of 13% of assessed value) together with implementing a new methodology for assessing the value of land and property that determines payable fees and charges on land transactions; and (b) Pilot an e-development permits processing system (DPPS) in at least one district office completed.

11. The policy and institutional reforms to be supported under the four pillars will support the State’s key reforms in budgetary planning and execution and also support reforms to further improve debt reporting and accounting, as well as the fiscal and debt sustainability analysis. Finally, the Lagos State Development Strategy prioritizes the business climate to improve incentives and opportunities for the private sector to simplify procedures and reduce the cost of property registration.

V. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

12. **The prior actions for the proposed operation are not likely to have any significant direct impact on poor or vulnerable people in Lagos state within the time horizon of the current operation; however, they are expected to have indirect impact on the poor over the medium- and longer-term by improving state services and landholder rights.** Lagos state has a solid track record of improving welfare through budgetary programs, and getting better value for money through budgetary reforms (as supported by the operation), thus improving public services to the population. Increased IGR effort may have an adverse impact on the poor in the short-run.

13. **The land reforms supported by the operation are expected to have positive impacts on poor Lagosians.** Simplified procedures for and reducing the cost of property registration are expected to encourage more people to register their titles and thereby enhance secured property rights, increase the supply of land in the formal market, and increase access to credit by using land as collateral. These reforms are accompanied by the LSG’s policy measures to increase official registration of land titles and enlarge the formal land market through: (a) land

⁵ The capacity of the agency to carry out its assigned responsibilities efficiently and effectively include: (a) capacity building of procurement professionals, and (b) conduct of procurement audit, etc.

⁶ The 8 MDAs include Science and Technology, Education, Health, Agriculture, Rural Development, Works and Infrastructure, Environment and Waterfront and Infrastructure Development. Under the TLSDPPO, the procure to pay module will be rolled out to the three remaining key MDAs.

regularization,⁷ and (b) the deemed grant program through implementation of the Land Use Act (Title Documentation) Regulation 2012.⁸ However, the simplified procedures have not reduced the time to register a property as expected due to the required submission of an income tax clearance certificate and the elevated land registration costs, both formal fees charged by the government (roughly 13 percent of land value) and other payments. The number of CofOs registered, therefore, is lower than anticipated. The government has now embarked on a new reform direction that focuses on lowering the cost of land registration fees.⁹ The reduced charges could encourage more households to obtain CofOs to secure property titles and should have the added benefit of allowing for the transfer or selling of land and for collateral to secure borrowing. A Poverty and Social Impact Analysis (PSIA) is being conducted to identify the impact of the land reforms supported by the previous two operations.

Environment Aspects

14. The proposed TLSDPO is not expected to result in any potentially significant environmental risks and adverse impacts as its main focus is essentially to enhance the budget preparation and budget execution capacity of the Lagos government. Lagos state is very familiar with World Bank Safeguards Policies as the state is currently implementing Bank-financed projects in a range of sectors including: (i) The Second National Urban Water Reform Project, (ii) Lagos Urban Transport Project 2, (iii) Third National Fadama Development Project (iv) Commercial Agriculture Development Project; (v) HIV/AIDS and (vi) The Lagos Eko Secondary Education Project. The existing environmental laws and regulations both at the federal level and at the Lagos state level are comprehensive and include features that aspire to be on par with good international practice, such as stakeholder consultation and compliance monitoring. In particular, even though environmental issues are on the concurrent list of the Nigerian constitution, the existing environmental laws in Lagos state (such as ambient air quality and acceptable noise levels) tend to be more stringent than what obtains at the national level. On the enforcement side, there is evidence that the different agencies under the Ministry of Environment have a credible track record. In particular, the Lagos State Environmental

⁷ The regularization of lands brings residents – those who currently occupy lands informally – into the formal system. During 2009-2013, only 4,048 CofOs were issued compared to a large number of applications; however, the regularization process is expected to be accelerated through the introduction of an electronic CofOs and the operationalized GIS. Currently, the Department of Land Regularization serves as a one-stop shop for regularization of titles.

⁸ Pursuant to the provisions of the Land Use Act 1978, the Lagos State Government adopted the Land Use Act (Title Documentation) Regulation 2012 that makes it easier for landowners to register title documents on privately acquired lands and obtain governor's consent under eight regulations that came into effect in August 2012. They provide opportunity for pre-Land Use Act landowners, those with no formal land title documents beyond the unwritten customary title, an opportunity to document, register and possibly alienate their holdings and obtain governor's consent under the new Act, and thus enlarge the formal land market and encourage formal property documentation.

⁹ The high fees currently charged by Lagos state for land transactions are roughly 13 percent of land value. The fees paid for first time registration (regularization) depend on location and range from ₦396 (US\$2.50, Badagry Axis) to ₦5,805 (US\$36.50, Lekki Axis) per square meter. Additional payments may be needed for assessed back income taxes owed (evidence of tax payment is required), or informal charges. For cases other than regularization, such as the conversion of an older form of title into a CofO, surveyor fees will also need to be paid by the applicant. In Lagos, land cannot be registered at the level of local government, and the process can therefore require the additional time and cost of traveling to the city center.

Protection Agency has strong enforcement capacity as demonstrated in several cases of industrial facilities closures for breach of environmental regulations. As part of the implementation of the proposed development policy support operation, the introduction of standard bidding documents in several sectors (including the environment) will help strengthen the environmental integrity and sustainability of projects financed by the state budget. The development of the GIS will also assist the authorities in conducting land use land cover mapping and accurately delineating areas within Lagos state with potential environmental risks, including those posed by climate change such as flooding, sea level rise and associated coastal inundation as well as salt water intrusion.

15. It is expected that the land reforms supported by the TLSDPO will ultimately create space for greater social equity as access to and security of land improve overtime. However, the need to strengthen public trust in the land administration system is an imperative for attaining the project social environmental impact. The shortcomings of the present land administration system result in a high cost of land transactions both official and unofficial as well as cumbersome and lengthy procedures that frustrate all of those having to deal with government in registering land transactions. Thus, registering a parcel of land can take several years. In line with the reform objectives, not only the government must strengthen the integrity of public officials involved in land administration, but also provides land administration services in a timely and affordable manner. The Poverty and Social Impact Analysis is expected to help in better understanding the social impact of the land reforms

VI. Tentative financing

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

VII. Contact point

World Bank;

Contact: Jariya Hoffman
 Title: Senior Economist
 Tel: 5359+442 / 234-703-5830-6414
 Fax:
 Email: jhoffman@worldbank.org
 Location: Abuja, Nigeria (IBRD)

Borrower:

Contact: Ayo Gbeleyi
 Title: Lagos State Finance Commissioner
 Tel: +234-7098810566
 Email: agbeleyi@lagosstateppp.gov.ng

VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>