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Independent Evaluation Group

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## IFC IN NIGERIA: 1998–2007

### An Independent Country Impact Review

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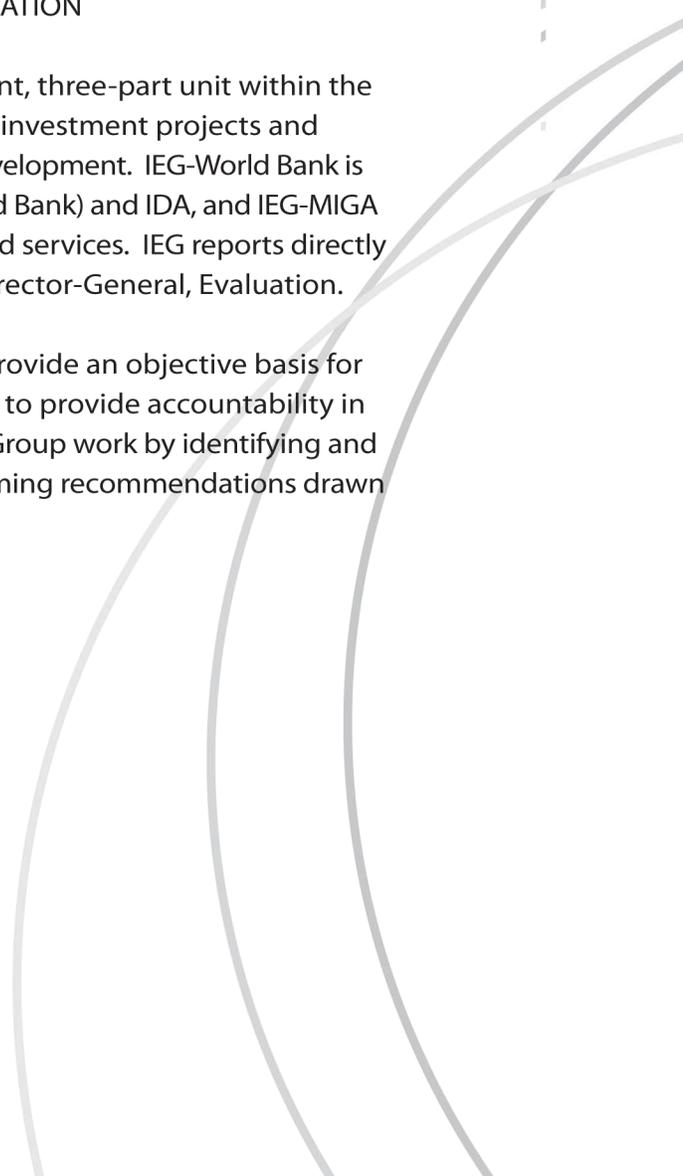
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# **IFC in Nigeria: 1998 - 2007**

## **An Independent Country Impact Review**

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Washington D.C



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# Abbreviations

AEF	Africa Enterprise Fund
AfDB	African Development Bank
AMSCO	African Management Services Company (SME facility)
APDF	Africa Project Development Facility
BAS	Business Advisory Services
BPE	Bureau of Public Enterprises
CDF	Comprehensive Development Framework
CIR	Country Impact Review
CPI score	Corruption Perception Index
CPS	Country Partnership Strategy
CRR	Credit risk rating system
DFID	Department for International Development (UK)
E&S	Environmental and Social
EC	European Commission
EHS	Environmental, health, and safety
EIB	European Investment Bank
EMS	Environmental Monitoring System
ERR	Economic rate of return
ESS	Enterprise Support Services
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service
FRR	Financial rate of return
FSU	Former Soviet Union
GFCF	gross fixed capital formation
GNI	Gross National Income
GTFP	Global Trade Finance Program
ICRG	International Country Risk Guide
IDA	International Development Association
IFC	International Finance Corporation
IICC	Institutional Investor Country Credit
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MSME	micro, small, and medium enterprise
NEEDS	National Economic Empowerment and Development Strategy
PCR	Project Completion Report
PENSA	Program for Eastern Indonesia SME Assistance
PEP Africa	Private Enterprise Partnership for Africa
PEP ECA	Private Enterprise Partnership for Eastern Europe and Central Asia
SEEDS	State Economic Empowerment and Development Strategy
SME	small and medium enterprise
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
WB	World Bank
WBG	World Bank Group
XPSR	Expanded Project Supervision Report



# Definition of Evaluation Terms

## Investment operations

- Company:** The entity implementing the project and, generally, IFC’s investment counterpart; for financial markets operations, the term refers to the financial intermediary (or fund manager) as distinct from its portfolio of IFC-financed subproject companies.
- Operation:** IFC’s objectives, activities, and results in making and administering its investment.
- Project:** The company objectives, capital investments, funding program, and related business activities being partially financed by the IFC investment selected for evaluation.
- Example:** “Through this operation IFC provided \$55 million for the company’s \$100 million cement manufacturing expansion project in the form of a \$20 million A loan, a \$30 million B loan from commercial banks, and a \$5 million equity investment.”

## Financial markets

- projects** All projects where the company is a financial intermediary or financial services company, including agency lines and private equity investment funds.

## Nonfinancial markets

- projects** All other projects; sometimes referred to as “real sector” projects.

## Advisory services

- Outcomes:** Outcomes refer to implementation of recommendations or advice.
- Impacts:** Impacts refer to the changes that occurred following the implementation of a recommendation.
- Example:** An advisory services operation recommended that the country amend the leasing law to incorporate best practice in similar markets in the region. Outcome: The country amended the leasing law in accordance with the recommendation. Impact: The leasing industry became attractive to potential sponsors, as evidenced by new companies that were established following amendment of the leasing law.



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# Foreword

Nigeria has the largest population in Sub-Saharan Africa and its GDP is second only to that of South Africa. It presents a difficult business environment but, starting from a very low base in 1999, successive Nigerian governments have achieved some notable reforms. Growth performance has improved in recent years driven in part by economic reforms and in part by rising oil prices. However, social and economic conditions have not improved for the majority of Nigeria's 144 million people. Given the country's size, and extent of development challenges, Nigeria is an essential part of IFC's strategy in the Africa region. This Country Impact Review (CIR) examines the effectiveness of IFC in carrying out its mandate in Nigeria over the period of July 1998 through December 2007.

During the period, IFC worked with a narrow group of strong local sponsors and within a narrow sector-product mix in Nigeria to deliver US\$ 1 billion in investments. IFC followed this narrow approach instead of the long list of loosely articulated objectives proposed in its Nigeria strategies. Its investments were heavily concentrated in the financial sector, which accounts for two thirds of commitments. IFC also supported a mobile telecom operator, and more recently made investments in other real sectors like petrochemical, cement, and health.

IFC's investment projects achieved positive results. Eighty two percent of the financial sector projects received satisfactory or better ratings in development and investment outcomes, as compared with 44 percent of projects in Sub-Saharan Africa and 61 percent of IFC-wide projects. Of particular concern, however, is the very low rating on Environment and Social impacts of financial sector projects—only 10 percent. IFC's main contribution was long-term financing and improvements in the corporate governance of financial institutions. But due to the high sectoral concentration of its investments, IFC had limited or no impact in other priority areas including infrastructure, agribusiness, and manufacturing.

During the review period, IFC provided US\$ 20 million in advisory services to Nigerian regulators and companies. IFC's advisory services operations in Nigeria achieved significantly lower ratings than in the region or corporate-wide. About 42 percent of the projects achieved satisfactory impact ratings versus 71 percent for the advisory services projects in Sub-Saharan Africa. Among the reasons for the weak performance were poor client uptake and the transition of IFC's delivery platform from the Africa Project Development Facility (APDF) to Private Enterprise Partnership (PEP) Africa in 2005. PEP Africa attempted to address the main weaknesses of the APDF model, which were highlighted in a third party evaluation conducted in 2003.

Going forward, the report makes three recommendations. First, diversify the areas of intervention to help generate trickle-down effects of oil-driven growth, through a more strategic and effective deployment of advisory services and closer cooperation with the World Bank in addressing business environment constraints. Second, improve the internal process of developing IFC country strategies in support of a greater country focus, especially for larger countries like Nigeria, by formulating clear objectives in terms of expected development impacts, and better linking objectives with organizational resources. Third, ensure that proper priority and resources are given to the supervision of environmental and social effects.

Vinod Thomas  
Director-General, Evaluation



# Executive Summary

## IFC has been moderately effective in carrying out its mandate in Nigeria

### *Challenges and Opportunities*

1. Achieving development in Sub-Saharan Africa remains one of the world's most formidable challenges. Within the region, Nigeria looms large. Given the country's size and the extent of its development challenges, development success in Nigeria is important to Sub-Saharan Africa as a whole. It has the largest population in the region, and its GDP is second only to that of South Africa. Its ample natural resources, including oil and gas, are complemented by a favorable geographical location that provides relatively easy access to two of the largest energy importers, Europe and the United States. Nigeria therefore has the potential to become an attractive investment destination. In recent years, moreover, the Nigerian economy has been growing at a fast pace. Real GDP growth averaged 8.1 percent annually over the 2003–06 period, more than double the country's rate in the late 1990s, when GDP grew at about 2.6 percent per year. The quickened pace of growth in recent years can be largely attributed to the structural reforms introduced by the Nigerian government between 2003 and 2006—and to the rise in global oil prices. But the non-oil sectors of the economy also showed signs of improvement, suggesting that the government's reform agenda has had a positive effect on the entire economy. Non-oil GDP grew by 9.3 percent per year during 2003–06, compared with 3.5 percent per year in the late 1990s.

2. In spite of these positive developments, social and economic conditions have not improved for the majority of Nigeria's 144 million people. Foreign direct investment, while relatively high, is concentrated in the oil sector. Gross capital formation has remained flat, and most of the non-oil sectors remain uncompetitive—their contribution to the economy as a percentage of GDP has increased only marginally. Private investment in the non-oil sector has been constrained by a persistently unappealing business climate marked by deficient infrastructure, a lack of access to finance, corruption, economic instability (from poor management of oil revenues), a deficient legal framework, and administrative barriers to doing business. These constraints represent both challenges and opportunities for IFC to contribute to the development of Nigeria.

3. This report examines whether IFC, over the period from July 1998 to December 2007, (i) defined a relevant and appropriate strategy for helping Nigeria tackle its most pressing needs; (ii) provided investment and advisory services that reflected and advanced that strategy; and (iii) achieved positive development results. Additionally, the report identifies key lessons and recommendations for IFC's future strategy in the country. It was prepared concurrently with another report: the Country Assistance Evaluation of the World Bank's Operations in Nigeria (Nigeria CAE), by the Independent Evaluation Group of the World Bank (IEG-WB).

### *Strategy and Portfolio*

4. In 1998, IFC began to reengage with Nigeria as the country began the transition from military rule to its first democratically elected government in 16 years. In that year, IFC's Board of Directors approved a strategy that had a small number of strategic objectives that, despite their clear focus, lacked well-defined targets, a time horizon, and progress indicators. Since 2001, the strategic objectives have grown in number and scope, causing the strategy to lose focus. Most documents pertaining to the country strategy described IFC's previous interventions and went on to list a growing number of strategic objectives, priority products, and priority sectors. The approach ensured

that almost any potential project could be crowded under the umbrella of the Board-approved strategy. Management exercised fairly broad discretion in implementing investment and advisory services operations in the field.

5. IFC's strategies in Nigeria also reflected the outlines of IFC's process for developing country strategies jointly with the Bank. The country strategies that emerged were poorly integrated with IFC's main strategy and budget process, depriving them of close ownership by IFC's management and staff. They also tended to have a sector focus, whereby country objectives and priorities were formulated in terms of sectors and products. Only indirectly did IFC's country objectives in Nigeria relate to projected development impacts. And few country strategies were supported by decisions on resource allocation, so the country program emerged only through the implementation of sector and regional strategies. As a result of these problems, IFC's strategies for Nigeria have not fulfilled their purpose of focusing operations, setting targets, establishing a time horizon, and mobilizing the human, organizational, and other resources required. Yet a focused, programmatic, and well-articulated country strategy is becoming increasingly necessary in light of (i) the size of IFC's operations in the country and their impact on IFC's effectiveness in Africa; (ii) recent improvements in the business environment; and (iii) IFC's growing country experience and knowledge.

6. IFC's investments during the study period were heavily concentrated in the financial sector, which accounted for 66 percent of commitments, half of which took the form of trade finance guarantees. IFC conducted a good deal of repeat business in the financial sector, using a similar product mix to capitalize on its early successes. IFC also supported a mobile telecommunication licensee (5 percent of commitments) through equity and loan financing and advisory services. More recently, IFC has become more active in other real sectors, among them petrochemicals, cement, and health. Real-sector investments now account for about 24 percent of IFC's commitments in the country. IFC's portfolio in Nigeria is its largest in Africa and eleventh largest worldwide.

### *Development Effectiveness*

7. Over the review period, 81 percent of the investment projects evaluated in Nigeria received positive ratings (satisfactory or better) from IEG-IFC for both development and investment outcomes, well above the 58 percent positive ratings achieved by IFC's projects worldwide. Furthermore, the positive ratings for financial sector projects alone were 82 percent in Nigeria, versus 61 percent for all of IFC, 44 percent for Sub-Saharan Africa, and 43 percent for resource-rich countries. IFC's main contributions were to provide long-term financing and to improve corporate governance in Nigerian financial institutions. Of concern, however, is the poor environmental and social rating earned by the evaluated financial sector projects—less than 10 percent of the evaluated projects achieved a satisfactory rating. Outside the financial sector, IFC achieved development impact in telecommunications. But elsewhere it had limited or no presence, and therefore no impact, even in other sectors identified as priorities in the strategies articulated during the period. Those sectors include infrastructure, agribusiness, and manufacturing.

8. Despite IFC's recognition of the critical importance of infrastructure development for doing business in Nigeria, despite repeated emphasis on infrastructure as strategic priority for IFC, and despite some early attempts to assist the government in infrastructure privatization, IFC failed to sustain efforts to develop a program in the sector. The Nigeria CAE reaches similar findings about the World Bank's performance in infrastructure. It finds that the Bank's efforts have not been commensurate with the scale and importance of infrastructure problems in the country and that infrastructure, and power in particular, is an area where the World Bank and IFC could have worked more closely to develop a shared approach to infrastructure development and to achieve a stronger development impact.

9. In the advisory services portfolio, outcome and impact were rated positively for 56 percent and 42 percent of projects, respectively, lower than the ratings of 80 percent and 71 percent in these areas for all of IFC's projects in Sub-Saharan Africa. The low ratings resulted mainly from two factors: (i) poor client uptake, a direct consequence of the projects' supply-driven design; and (ii) a transition in IFC's delivery platform for advisory services. In 2005, IFC changed its platform for the delivery of advisory services from APDF to PEP for Africa. The transition temporarily disrupted the delivery of services. As a result, IFC scored poorly in the area of client satisfaction, particularly with regard to client perception of the quality of IFC's advisory services. On the positive side of the ledger, IFC's advisory services helped to develop the Nigerian bond market and to strengthen institutions that build the capacity of small and medium enterprises.

## Recommendations

10. The evaluation makes the following recommendations to IFC Management:

- Diversify areas of intervention in Nigeria to (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector, (ii) contribute to trickle-down effects of oil-driven growth, and (iii) expand viable IFC private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment.
- Improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC's strategy process including enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources.
- Ensure that proper priority and resources are given to the supervision of environmental and social effects in Nigeria. IFC should fully integrate the environmental and social supervision into the portfolio-management process, and ensure accountability.



# IFC Management Response to IEG-IFC

## IFC in Nigeria: 1998–2007<sup>1</sup> An Independent Country Impact Review

*(August 29, 2008)*

### I. General Response and Comments

1. IFC welcomes the Country Impact Review (CIR) by IEG of Nigeria. The Review covers the period from July 1998 through December 2007, and hence captures the period of IFC's re-engagement in the country and evolution to become IFC's largest country portfolio in Africa. The Review in particular examines IFC's country strategy formulation, evolution and implementation in Nigeria over the period, and provides useful feedback relevant to the formulation of country level strategies in IFC in general.
2. Management is pleased that independent evaluation shows that IFC's development results in Nigeria are far better than IFC's worldwide average. The report finds that 86 percent of projects in Nigeria had high development results: that is overall, they met or exceeded the synthesis of specified market, financial, economic, environmental and social performance, private sector development benchmarks and standards. Investment outcomes are equally impressive with also 86 percent of operations achieving or exceeding investment returns benchmarks. 81 percent of projects achieved high ratings for both development impact and investment outcomes. IFC did so with a high degree of additionality, 87percent of projects showing financial additionality and 61 percent institutional additionality, again in excess of IFC's global averages. Such record performance was achieved with appropriate and timely strategic response amidst difficult country conditions.
3. At the outset of this period, Nigeria emerged from over a decade of traumatic military rule, during which the role of the state in the economy expanded, characterized by poor governance, high levels of corruption, weakened institutions, and dilapidated infrastructure, especially in power, roads, and telecommunications. The private sector was suppressed in many respects, with successful businesses often forced to rely on relations with government officials for their continued existence. In this period, during which IDA and IBRD undertook no new operations, IFC scaled back its operations, focusing solely on small and medium enterprises (SMEs) in sectors less affected by government interventions; in June 1999 the investment portfolio was \$28 million. With the return of a democratically elected government in May 1999, IFC began a conscious strategy of re-engagement in the country.
4. This re-engagement strategy was formulated jointly with the World Bank, with integrated sector teams examining the most effective means of engagement to meet key development priorities of the new government. IFC systematically examined all sectors where IFC could play a significant role, leading to the focus areas noted in the Review. Implementing this strategy, IFC had the greatest initial success in the banking sector, and steadily built a dynamic portfolio of investments. This was the result of a concerted effort and allocation of significant resources across many areas of IFC.
5. The CIR notes the concentration of investments in the financial sector, citing IFC's failure to develop projects in infrastructure and agribusiness in particular, as a shortcoming. IFC did explore

options and did engage in these sectors, but encountered significant obstacles in virtually all of the targeted areas. Infrastructure, for example, was dominated by government parastatals, and our original focus was on advisory mandates to help structure private participation, in which the government chose not to follow IFC recommendations. Other sectors faced distorted and uncertain policy environments, where high levels of protection attempted to shore up uncompetitive domestic industries. Prior to 2005, IFC did not have the advisory services capacity to address constraints to private investment on a sectoral basis.

6. The IEG Review examines these obstacles to private investment in some detail, providing an accurate context of the difficulties of investing productively and sustainably in private sector activity in the country. The Review notes, for example, the concentration of FDI in the oil sector, and the lack of development of the non-oil sector, with few exceptions such as telecommunications. In addition, the legacy of poor governance and state dominance has meant IFC must be particularly scrupulous evaluating potential sponsor groups. Were IFC to have pursued marginal projects, we would have very likely had poor results, and as a result damaged our position in the country. IFC's ability to invest productively and effectively in the financial sector reflects further the fact that this sector has been better managed and regulated by the government, with a much faster and deeper set of reforms being implemented over the period.

7. As the report points out, IFC achieved exceptionally strong results in the investment portfolio over the period, with projects generating overall investment and development results far in excess of IFC's regional average in Africa, and well in excess of the global averages as well (81 percent have achieved high ratings in both development and investment results in Nigeria versus 58 percent for IFC globally; in the financial sector 82 percent in Nigeria versus 61 percent globally and 44 percent in the Africa region). The IEG Review is critical of this performance, viewing it as evidence that IFC was too risk-averse, in particular in choice of low-risk sectors (finance and telecommunications), and strong sponsors. Rather, management would view this as a highly effective risk management strategy, in which lower sector risks were pursued with high additionality precisely because of the higher general level of risk in the country. Indeed, many of the sponsor groups that IFC supported had good practice and potential at the time of the IFC investment, but with IFC assistance became strong sponsors over the period and through the relationship with IFC. IFC's consistent achievement of these exceptional results in an environment as challenging as Nigeria, with a high degree of additionality, can surely be viewed as a success. While governance, economic management, and country risk factors have improved over the period under review, Nigeria remains a high-risk environment, with severe challenges for IFC, requiring extensive efforts in project appraisal and due diligence, and in project supervision.

8. IFC is now pursuing a programmatic approach in key areas, such as housing finance, bond market development, and micro, small and medium enterprises (MSME) finance, which integrates advisory services with investment support to firms leading with innovation in financial products. The shift to the PEP-Africa Advisory Services delivery platform has greatly increased the ability of IFC to achieve impact through advisory services; as the review notes the strategic relevance and results of advisory projects undertaken since 1995 is greater than in the earlier period before PEP-Africa. In response to needs in the country, IFC has developed programs that address the business environment, promote SME access to finance, strengthen local supply linkages in the oil industry, and build strong corporate governance practices. Going forward, the planned reorientation and reorganization of PEP Africa will further strengthen the effectiveness of advisory services in Nigeria.

9. In infrastructure, IFC committed its first investment in the power sector in fiscal year (FY) 2008. This is the first significant private power production project in the country. This IFC investment comes after several years of engagement with the sponsor group and providing inputs on sector reform and regulation issues with the World Bank. It represents the results of a proactive, demand-driven effort following a strategic objective-tailoring our support, including the type of investment (early stage equity), to the needs of advancing the project, with the recognition that it will have important demonstration effects. We are also leveraging the strong partnerships we have built with banking partners over the years, for IFC to finance real sector projects through risk sharing arrangements, etc, where we help build our partners' capacity to assess and originate financing to large portfolios of small-to-medium real sector companies, and share in the risks of this portfolio of real sector projects. We look forward to further expanding the scope of our activities, leveraging our strong market position, particularly in the financial sector, to expand our impact in the future. The IEG Review provides useful guidance as we build on this strong record of successful interventions in an extremely challenging environment.

## II. Response to Specific Recommendations

**10. *Recommendation 1 - Infrastructure and non-oil growth: IFC needs to diversify, areas of intervention in Nigeria to: (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector; (ii) contribute to trickle-down effects of oil-driven growth; and (iii) expand viable private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment.***

### **Management Response:**

11. We agree with the thrust of this recommendation. IFC is actively engaged in seeking effective means of engaging in real sectors to the same degree and with the same results it has been able to achieve in the financial sector. We expect to see greater progress in the future as reforms continue to take hold, for example in key infrastructure sectors such as in power. The current regulatory environment in power, partially reformed with the objective of attracting private investment, still has significant obstacles to widespread private participation. We are examining the potential for a major advisory engagement to help the government address those issues, complementing the existing support from the World Bank and other partners, while pursuing (a very small potential number of) private projects that are able to proceed in the current environment, which it expects to have strong demonstration effects. We expect to focus our efforts in infrastructure on the power sector, given the potential impact as a major cost factor in competitiveness of manufacturing and key services sectors. We have examined potential toll road projects in Lagos with private participation, and have decided not to pursue any involvement with them as currently structured.

12. We have deployed IFC's advisory services in a more strategic manner with the advent of PEP-Africa from 2005, as recognized in the Review. The largest advisory program, state level business environment reform, is being implemented jointly with the World Bank and the UK Department for International Development (DfID), and represents the main thrust of our current efforts. That program has generated significant impact with the recent publication of state level

Doing Business indicators; if it is successful, we envisage expanding to cover other states. The state level focus was developed following the poor results from earlier Bank, IFC, and DfID efforts on business environment reform at the federal level.

**13. *Recommendation 2 - Country Strategy: IFC needs to improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC 's strategy process including enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources.***

**Management Response:**

14. We agree that for key countries such as Nigeria, IFC's strategy process can be better articulated at the country level. With this objective, and using the Review as a guideline, we have initiated a new country strategy process in Nigeria, piloting the structured strategy formulation framework that IFC uses at the corporate and regional/sectoral department level at the country level. We expect to complete this process in the second quarter of FY09, and will then assess whether this provides the best framework for country strategy formulation. The Bank has been involved in the process, and we expect that this effort would inform and feed into the broader World Bank Group (and DfID) joint Country Partnership Strategy (CPS). There is an ongoing dialogue with the Bank at the corporate level on how to make the private sector development focus and IFC role in joint Country Assistance Strategy (CAS)/CPS more effective, which we also expect the Nigeria experience to inform.

15. This strategy process has explicitly focused on identification of potential development impact from various alternative scenarios, and incorporates external perspectives from the country and the government's economic development strategy. This prioritization allowed us, for example, to dedicate virtually all of our efforts in the infrastructure sector to power, where the greatest impact is more readily achievable.

16. IFC currently links allocation of resources to strategy at the regional level, through the annual strategy and budget process. Within the Africa region this extends further to the sub-regional level focused on the eight main country offices, which act as sub- regional hubs. Nigeria is the only office which is responsible for just one country. While we expect to continue moving in the direction of explicitly linking resources to multi- year strategies at the country level, we must also recognize that this is not feasible beyond the large countries where we have significant activities such as Nigeria.

**17. *Recommendation 3 - Environmental and Social Effects: IFC should ensure that proper priority and resources are given to supervision of environmental and social effects in Nigeria. IFC should fully integrate the environmental and social supervision into the portfolio management process and ensure accountability.***

**Management Response:**

18. The poor Environmental and Social (E&S) performance of IFC investments in Nigeria and the sub-Saharan Africa region, including those in the financial sector, has been a source of ongoing concern to IFC, and has been raised by IEG at the regional level. We have strengthened the field presence of E&S specialists, to a total of three full time Africa based staff, one short-term consultant

(STC) and many other consultants. We plan to strengthen further this presence by mid-year with an additional five Africa based (including Cairo) full time staff and by increasing the use of consultants. We also are exploring means of more effectively integrating E&S supervision into other aspects of portfolio management and relationship management, while retaining the need to have specialists involved in that supervision from IFC's Environmental and Social Development department.

19. We also believe that, in Nigeria in particular, we have made substantial progress from a very low starting point. With our financial sector clients, for example, when we originally engaged with them they had no E&S risk management systems, and it has taken them some time to get appropriate systems fully implemented. At this point, however, the compliance has significantly improved, and many of these clients now see the broader benefit of proactively taking on these risks in being able to access external sources of capital. At the same time, with other clients we have also witnessed their early repayment over what they viewed as overly restrictive E&S covenants, which are IFC standard practice. Therefore, it's clear that we still have some ways to go in terms of establishing current best practice in emerging markets in Nigeria, where E&S sustainability is not enforced from the regulatory side, and offers little incentive for differentiation by leading private firms within the domestic market.



# Chairperson's Summary: Committee on Development Effectiveness

## IFC in Nigeria: 1998–2007

### An Independent Country Impact Review

*(Meeting of September 15, 2008)*

1. On September 15, 2008, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) of the World Bank Group Board of Executive Directors, considered the *Nigeria Country Assistance Evaluation: The World Bank in Nigeria 1998-2007*<sup>1</sup> report by the Independent Evaluation Group (IEG), and *IFC in Nigeria: 1998 – 2007 An Independent Country Impact Review (CIR)* by IEG-IFC together with the draft Management Responses.
2. **Summary of the Nigeria Country Impact Review (CIR).** IEG<sup>2</sup> found that IFC has been moderately effective in carrying out its mandate in Nigeria. Despite a broad set of stated objectives across a range of sectors in the country assistance strategies, IFC's investments were concentrated in the financial sector. Although IFC achieved significant results with these investments, the poor environmental and social effects rating for the financial sector projects were of particular concern. IEG noted that a focused, programmatic, and well-articulated country strategy is becoming increasingly necessary in light of the size of IFC's operations in the country and their impact on IFC's effectiveness in Africa. Over the review period, IFC's main contribution was the provision of long-term financing and improvement in the corporate governance practices of Nigerian financial institutions. In addition to the financial sector, IFC achieved development impacts in telecommunications, but had limited or no presence in infrastructure, agribusiness, and manufacturing.
3. IEG recommended that IFC: (i) diversify its areas of intervention to help generate trickle-down effects of oil-driven growth through a more strategic and effective deployment of advisory services and closer cooperation with the World Bank in business climate reforms; (ii) improve its process of developing country assistance strategies with greater country focus, especially for larger countries like Nigeria, by formulating clear objectives in terms of expected development impacts, and better linking objectives with organizational resources; and (iii) ensure that proper priority and resources are given to supervision of environmental and social effects.
4. **IFC Management Response.** IFC management thanked IEG for its findings and recommendations. It noted that IFC is actively seeking effective means of engaging in real sectors, and diversifying the areas of interventions. Failure to develop projects in infrastructure and agribusiness in the past could be explained by the distorted and uncertain policy environments, as well as, by dominance of government parastatals, particularly in the infrastructure sector. In future, IFC expects to focus its efforts in infrastructure in the power sector. IFC has initiated a new country strategy process in Nigeria, piloting the structure strategy formulation framework, which would inform and feed into the broader World Bank Group (WBG) and UK Department for International Development joint Country Partnership Strategy (CPS). Currently, IFC is exploring ways to more effectively integrate environmental and social supervision into portfolio and relationship management.
5. **Comments from the Government of Nigeria.** The representative of the constituency that includes Nigeria overall supported the CIR results. The representative acknowledged IFC's input in

developing the finance and banking sector, but stressed the importance of diversifying areas of its engagement.

6. **Main Conclusions and Next Steps.** The Subcommittee broadly agreed with the findings and recommendations of the CIR. Members commended the significant progress made by the authorities in recent years in maintaining the macroeconomic stability and developing the basis for a more effective and efficient federal government, while noting the remaining challenges. They stressed the need for sequencing of support, where the importance of robust analytical work preceding investment lending was emphasized. Members noted the challenges of the WBG engagement in a country with a complex federal system, where the “lead state” approach was broadly supported, although concerns were raised about its exclusionary effects. The importance of strengthening administration of federal, state, and local institutions through capacity building, greater transparency and sound fiscal management, which would also contribute to reducing corruption, was emphasized. Members agreed with the recommendation to diversify IFC interventions beyond the financial sector, to address other country needs and priorities such as in infrastructure and non-oil sectors including agriculture, housing, health, and education. The need for broadening collaboration with all development partners was underlined.

The following main issues were raised during the meeting:

7. **Overall Assistance.** A speaker expressed concerns about the risk-averse WBG strategies when investments flow in the areas of a less-riskier business. IFC responded that it has begun to formulate a new country strategy to diversify its activities and extend collaboration with the Bank in key areas such as investment climate reform and electricity. In cases when either risks or sector conditions make investments unfavorable, IFC would engage with advisory services.

8. **Involvement in Specific Sectors.** Members emphasized the importance of expanding the World Bank and IFC’s programs in infrastructure, particularly in energy. They also asked about IFC’s plans to invest in other sectors. Speakers noted the importance of developing sustainable health, education, and housing. They called on IFC to expand its activities to non-oil sectors of the economy, especially to social sectors. A member sought additional information about the trade finance program, which accounts for almost 50 percent of IFC’s commitments in the financial sector in Nigeria, particularly its “additionality” and the development impact. IEG said that it plans to conduct an evaluation of the global trade finance program, and that a self-evaluation of this program by management is expected to be considered by CODE.

Jiayi Zou, Chairperson

# 1. The Environment for Private Investment in Nigeria

This chapter describes the Nigerian context, focusing on constraints to development related to the country's private sector. It first investigates patterns of growth in the Nigerian economy and explores the implications of that growth for poverty and private investment. It then moves on to examine impediments to the growth of private investment. The last section of the chapter looks at the effects of recent government reforms on the business climate and their implications for attracting private investment. The methodology of the report, as well as its sources and limitations, are presented in annex 1 at the end of the volume.

## Nigeria's economy: poverty persists, and growth lacks diversification

1.1 **Despite recent growth, social and economic conditions for most of Nigeria's people remain poor.** With substantial wealth in oil and gas resources,<sup>1</sup> Nigeria has always had the potential to improve the economic conditions of its 144 million people.<sup>2</sup> Instead, over the past two decades poverty has worsened, and living conditions have deteriorated. Windfall profits in the oil sector have not trickled down to the poor (IEG-WB 2008). Per capita gross domestic product (GDP), expressed in constant 2000 U.S. dollars, was \$438 in 2006, unchanged since the 1980s. Nigeria's social indicators are comparable to or worse than those of some of the poorest countries in the world. For example, 71 percent of the population lives on less than a dollar a day; life expectancy is 44 years, compared with 47 years for Sub-Saharan Africa as a whole and 59 years in low-income countries; and infant mortality is 100 per 1,000 live births, compared with 97 in Sub-Saharan Africa and 75 in low-income countries. A comparison between Nigeria and Indonesia is revealing: In the 1970s, Indonesia and Nigeria had similar levels of per capita GDP and roughly equal populations (about 100 million), but the two countries have followed widely divergent paths since then (figure 1.1). While Indonesia's per capita GDP has quadrupled, Nigeria's has stagnated.

1.2 **Nigeria's economy has been fueled by spikes in oil prices and, to a lesser extent, by macroeconomic improvements.** Assuming power in 1998 after 15 years of military rule, Nigeria's democratic governments struggled with a legacy of debilitated institutions, poor infrastructure, extreme poverty, and endemic corruption. By 2005–06 the country's economy was growing at an average annual real rate of 5.8 percent—more than double the rate of 2.6 percent of the late 1990s (figure 1.1). Nigeria's non-oil GDP, most of which is driven by agriculture and wholesale and retail trade, grew 9 percent per year during this same period and 8.2 percent per year during 2000–01, compared with just 3.5 percent growth in the late 1990s (figure 1.1). But Nigeria continues to rely heavily on its oil and gas sector, with oil constituting 85 percent of total government revenues, more than half of GDP, and more than 95 percent of exports in 2006 (IEG-WB 2008). Recently, domestic strife has altered the sector's growth.

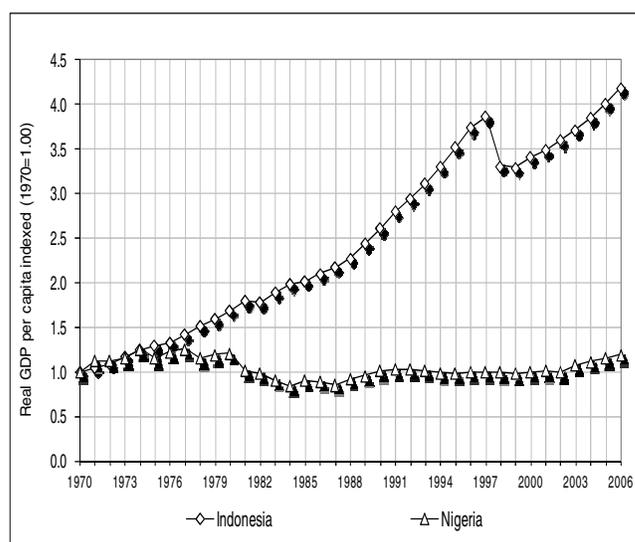
**Figure 1.1: Economic Growth in Nigeria by Sector, 1996–2006, and Compared with Indonesia, 1970–2006**

Real annual growth	1996–99	2000–01	2002–04 <sup>3</sup>	2005–06
Real GDP	2.6	6.8	14.0	5.8
Oil GDP	-1.3	8.2	7.2	-2.0
Non-oil GDP	3.5	8.2	17.6	9.0
Agriculture	4.6	3.4	22.8	7.3
Manufacturing	10.0	8.2	9.2	9.5
Telecommunications	6.1	301.0	35.5	31.7
Wholesale and retail trade	2.2	2.1	16.3	14.4

Note: The atypical growth of the telecommunication sector in the 2000–01 period is the result of a liberalization of communications and the privatization undertaken in 2001.

<sup>3</sup>2002–04 is excluded for comparison purposes (see endnote 3).

Source: International Monetary Fund (IMF) and Nigeria Bureau of Statistics (NBS).

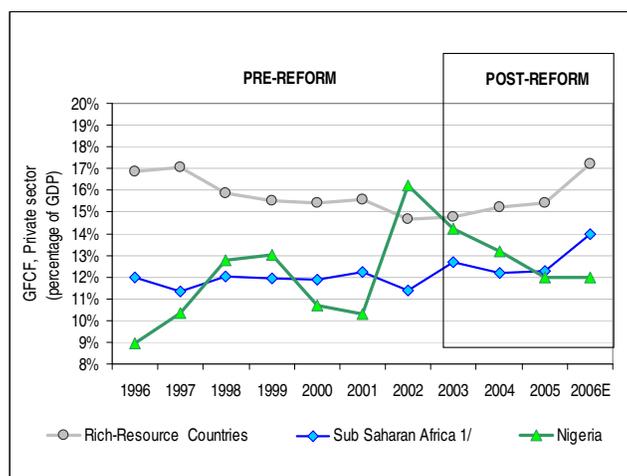


Source: World Bank

**1.3 Despite strong growth, the non-oil sector continues to be uncompetitive, and its contribution to the economy has been modest.** Although Nigeria’s non-oil sectors showed impressive growth in recent years, their share in the country’s GDP increased only marginally, from 48 percent in 1996 to 52 percent in 2006. The agricultural portion of that growth can be traced largely to favorable weather conditions.<sup>4</sup> Although some improvements have been made in recent years, Nigerian agriculture continues to operate well below its potential because of obsolete technology, expensive and inefficient transport of products, and dependence on weather conditions. Similarly, the manufacturing sector is stunted by uncompetitive, archaic technology and largely oriented to food and beverage production by small and medium enterprises (SMEs)<sup>5</sup> that serve only the domestic market. Nigeria’s average value-added (as a percentage of GDP) for the 10-year period ending in 2006 was a dismal 4 percent, versus an average 18 percent for resource-rich countries as a group. According to a recent nationwide survey of manufacturing enterprises, the only businesses that are competitive are foreign owned. These businesses operate exclusively in the high-value spectrum using capital-intensive technologies.

**1.4 Private investment, expressed as gross fixed capital formation (GFCF) as a percentage of GDP, has shown marked volatility.** While the level of overall fixed investment is comparable to that of other resource-rich countries,<sup>6</sup> Nigeria’s private fixed investment, as a share of GDP, has tended to be lower and much more volatile on an annual basis than that of its peers—a consequence of Nigeria’s high dependence on oil sales and thus its vulnerability to changes in international oil prices (figure 1.2). The oil sector’s private fixed investment has sustained Nigeria’s level of private investment, while non-oil private fixed investment has been low and declining (World Bank 2007b). Non-oil sectors remain risky and unattractive to private investors.

**Figure 1.2: Nigeria has not matched its Resource-Rich Peers in Attracting Private Investment**



NIGERIA	Capital formation in Nigeria, as share of GDP		
	Private sector	Public sector	Total
Years			
1993–97	11.4	6.3	17.7
1998–2002	12.6	11.1	23.7
2003–07e	12.7	10.5	23.2

Note: e = estimate

Source: World Bank

Note: 1/ Sub-Saharan Africa excluding Nigeria and South Africa  
Average includes 44 resource-rich countries and 42 Sub-Saharan African countries  
Source: World Bank

**1.5 The level of foreign direct investment (FDI) is relatively high but concentrated in the oil sector.** Nigeria is the third-largest recipient of FDI in Sub-Saharan Africa.<sup>7</sup> While inflows have been steady during the period under review (1998–2007), they have gone almost exclusively into oil-related sectors. Despite Nigeria's very difficult business climate, those sectors have been attractive to investors because of low production costs and the high quality of Nigerian crude. Only in recent years has non-oil FDI shown a modest surge, boosted by macroeconomic improvements, recent banking consolidation (see paragraph 1.12), and the opening of the telecommunications sector.

## Private investment in the non-oil sector has been constrained by a poor business climate

**1.6 Poor infrastructure constrains growth.** Four firm-level surveys<sup>8</sup> since 2002 have pointed to deficiencies in infrastructure—especially unreliable access to adequate supplies of electric power—as the most serious constraint that businesses face in Nigeria. The country ranks far below its peers in key indicators of basic infrastructure (table 1.1). While the problems extend to most types of infrastructure, insufficient energy generation, transmission, and distribution are particularly serious impediments to investment. Private investment is unlikely to rise significantly until the electric grid undergoes major improvement. To a lesser but still significant extent, poor and inadequate road and water infrastructure also deter investment. There have been some improvements, however—among them port privatization, restructuring of the power sector, and concessioning of mobile telecommunication. The World Bank contributed to all of these improvements, and IFC to the third.

**1.7 Lack of access to credit has affected mainly micro, medium, and small enterprises.** Nigeria's business community complains about lack of access to bank credit. Improvements in the financial sector (see paragraph 1.12) have yet to widen access to finance for small and medium enterprises (SMEs) (IMF 2008a). The lack of credit appears to reflect a lack of capacity among SME

owners and managers to develop sound business plans, as well as a lack of understanding of the SME sector among banks.

1.8 **Nigeria has a long history of poor governance and widespread corruption.** Nigerian institutions bear the legacy of decades of autocratic military rule, during which power was concentrated in the executive branch and policy decisions reflected the interests of select groups. Since the country’s return to democracy, efforts have been made to balance power more evenly. However, the decades of concentrated power led to corruption that remains endemic.

**Table 1.1: 2006 Infrastructure Indicators**

Indicators	Nigeria	Sub-Saharan Africa average	Low-income countries
Gross National Income (GNI) per capita, Atlas method (current US\$)	620	828	649
Electric power consumption (kwh per capita)	127	542	390
Improved water source (% of population with access) <sup>a</sup>	48	56	75
Improved sanitation facilities (% of urban population with access) <sup>b</sup>	53	53	60
Telephone mainline (per 100 inhabitants)	1.2	1.0	2.5
Mobile phone (per 100 inhabitants)	22.3	13.5	14.3

Note: a. Data for 2004.

b. Data for 2005.

Source: World Bank

1.9 **Economic volatility and poor management of oil revenue have deterred private investment.** Economic stability is fundamental if investment is to flourish. But in Nigeria, economic volatility and fiscal deficits have resulted from decades of mismanagement of government resources. An analysis of 22 oil-rich countries shows that Nigeria has tended to spend more than others when oil revenue is abundant.<sup>9</sup> With pressure to spend surpluses in times of high oil prices and consequent pressure to continue at those spending levels when oil prices drop, the Nigerian economy has been characterized by high volatility, fiscal deficits and rapid inflation. (IEG-WB 2008)

1.10 **Nigeria’s legal framework has been subject to frequent and unpredictable changes.** The changeability of the legal system has created additional risk for investments and ongoing businesses. Because arbitrary changes in the legal framework may alter the profitability of investment projects considerably, the design of investment projects and investment decisions are affected. The World Bank’s Cluster Development Survey (2003) showed that about 80 percent of respondents felt that Nigeria’s laws and regulations were highly or completely unpredictable and negatively affected the operations and growth of their businesses.

1.11 **Administrative barriers constrain investment and the operation of businesses.** These barriers include burdensome tax administration, delays in obtaining licenses, and unpredictable changes in trade policies and regulations. For example, while Nigeria's effective tax rate of 30 percent is relatively low compared with its resource-rich peers (where the rate averages 56 percent) as well as the rest of Sub-Saharan Africa (which averages 77 percent), the low tax burden is undermined by an extremely costly administrative process. The average time needed to prepare, file, and pay corporate income tax is 1,120 hours a year, compared with an average of 408 hours for other resource-rich countries and 648 hours for the rest of Sub-Saharan Africa (World Bank 2007a). Moreover, it takes 350 days to obtain a business license in Nigeria, compared with 253 days in other resource-rich countries and 262 days in the rest of Sub-Saharan Africa. In addition, Nigeria has often shifted its trade policies back and forth between high protectionism and more liberal policies, creating an environment that is not conducive to investment (see annex 1). Recently the government has taken steps toward greater predictability and transparency in trade policies, but their effectiveness has yet to be seen. According to the World Bank's *Doing Business 2008: Comparing Regulation in 178 Countries* (World Bank 2007a), Nigeria still ranks in the bottom 30 on trade facilitation, where it takes an average of 46 days for imports to clear customs, compared with 35 days in South Africa and 30 days in Indonesia.

### **Nigeria's reforms and business climate improvements have yet to raise its relative position among its peers**

1.12 **Several anticorruption measures have been in place since 2000.** Measures taken by the Nigerian government to combat corruption include the Corruption Practices Act, the Other Related Offences Commission (World Bank and IFC 2002), the Economic and Financial Crimes Commission Establishment Act of 2003, the Money Laundering Act of 2004, and the Nigerian Extractive Industries Initiative of 2007. These measures, while demonstrating the government's intent to effect change, have yet to lift Nigeria from its position at the bottom of various international rankings. In 2007, the country's score on the Corruption Perception Index (CPI)<sup>10</sup> was 2 (out of 10), three notches below the average score of 5 for Sub-Saharan African countries. Other indexes similarly illustrate Nigeria's poor standing in this respect.<sup>11</sup>

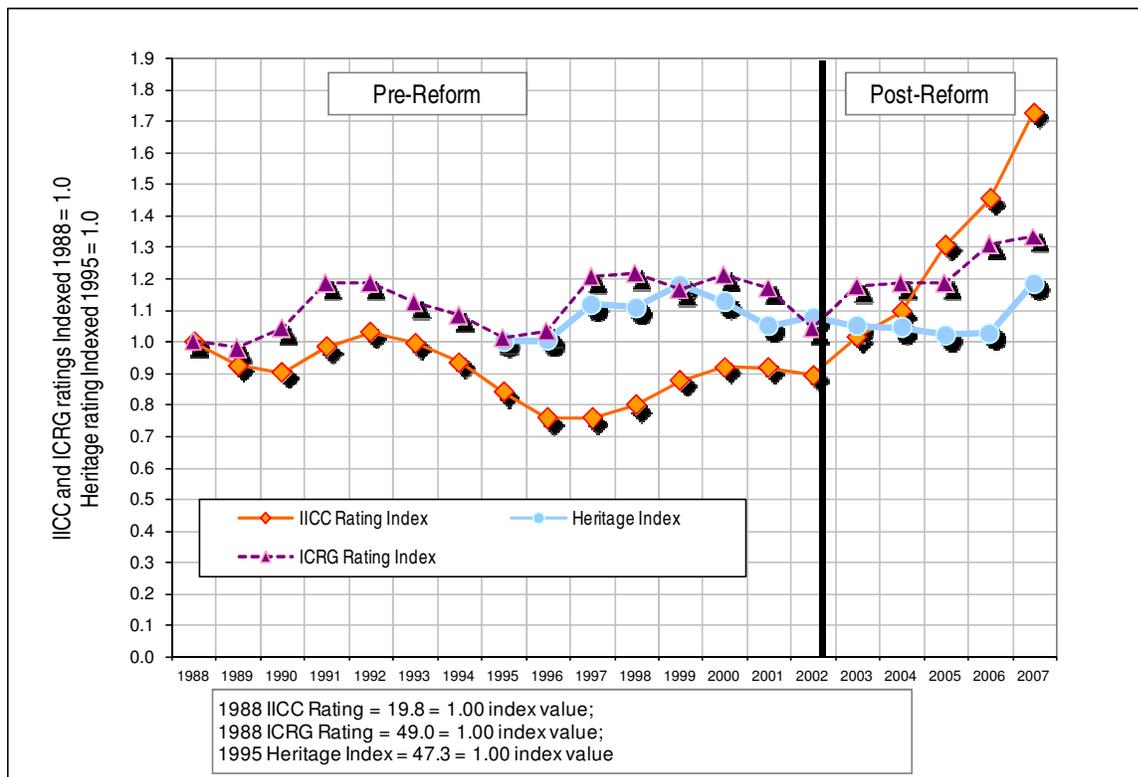
1.13 **A recent bank consolidation has proved successful.** Nigeria's financial sector has become more dynamic since 2003 and is playing a more important role in the private sector. Before its consolidation (2003–06), the banking system was characterized by an extremely low capital base, the dominance of a few banks, illiquidity, poor asset quality, and dependence on public-sector deposits and foreign exchange trading. Banks are now better capitalized and have more liquidity, and their asset quality has improved.<sup>12</sup> The international community appears to have gained confidence in the sector, as evidenced by the entrance of new foreign banks<sup>13</sup> and greater interest in Nigerian assets.<sup>14</sup> At the same time, the stock market has become more vibrant,<sup>15</sup> and private sector lending has swelled.<sup>16</sup> Despite these improvements, Nigeria's banking system still had low intermediation ratios in 2007, indicating ample room for further improvement. These ratios are only slightly above those of Sub-Saharan Africa and for low-income peers, and far below those of Indonesia, South Africa, Brazil (IMF 2008a).

1.14 **A 2007 procurement act aims to improve fiscal sustainability and the quality of spending.** An independent commission will monitor public procurement, install due process in public contracts awards, and monitor investments in public goods. With this initiative, the

government expects to address concerns about delays in large infrastructure projects, traceable to the unclear regulatory and legal framework.

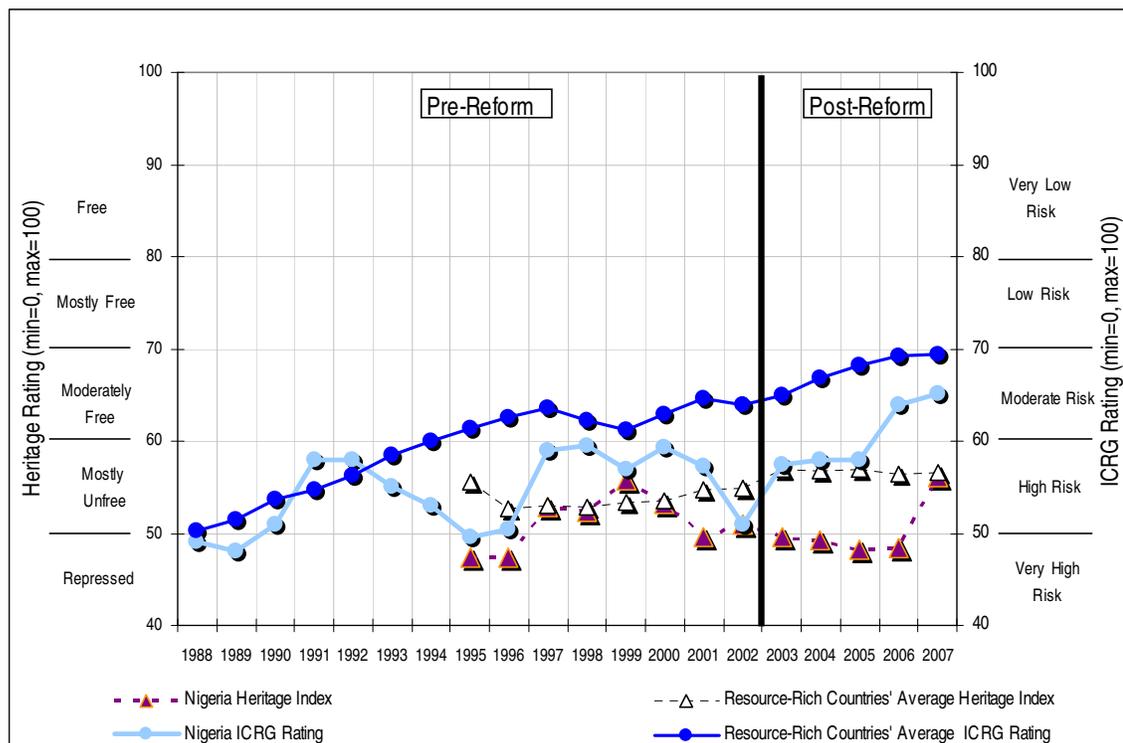
1.15 **The business climate appears to be improving.** Several indicators suggest that Nigeria’s business climate has improved in recent years. However, these improvements are not yet of a magnitude sufficient to change Nigeria’s relatively low status in relation to its resource-rich peers. Nigeria’s business climate, while apparently improving, still rates below the average for other resource-rich countries. The country’s rating in the International Country Risk Guide improved from “high-risk” to “moderate-risk” in 2005, reflecting drops in financial and economic risk. But Nigeria is still rated considerably lower than its resource-rich country peers (figure 1.3). On indices of economic freedom Nigeria has also shown improvement since 2006, although the nation still ranks below other resource-rich countries (figure 1.4). The country’s *Institutional Investor Country Credit Rating (IICCR)* also made a big jump from “high-risk” in 2003 to “non-high risk” status in 2007. However, this last improvement was driven largely by the substantial reduction in Nigeria’s external public debt, and not by broad improvements in the business environment.<sup>17</sup> Thus, the rating that shows the steepest upward trend since 2003 may not be an adequate reflection of Nigeria’s business climate. In sum, despite a substantial upturn since 2003, Nigeria still lags approximately 10 percent behind comparable resource-rich countries on the IICCR index.<sup>18</sup>

**Figure 1.3: Rising Business-Climate Indicators Reflect Improved Macroeconomic Conditions**



Source: International Country Risk Guide (ICRG), Heritage Index and Institutional Investor Country Credit (IICC)

Figure 1.4: Nigeria's Business Climate Continues to lag behind that of its Peers



Source: International Country Risk Guide (ICRG), Heritage Index and Institutional Investor Country Credit (IICC)

## Conclusions

1.16 Nigeria has the largest population in Sub-Saharan Africa, a GDP second only to that of South Africa in the region, and vast natural resource wealth, including oil and gas. It has the potential to become an attractive investment destination. However, social and economic conditions for the majority of the population have remained poor, and private investment in the non-oil sector has been constrained by a poor business climate. Starting from a very low base in 1999, successive administrations have achieved some notable reforms and improvements, but Nigeria remains a difficult business environment. The impediments to investment in the non-oil sector are manifold, but the most important are deficient infrastructure, lack of access to credit, pervasive corruption, economic volatility, and an unstable legal and regulatory framework. These constraints represent challenges as IFC strives to contribute to Nigeria's development. Viewed differently, however, they can be seen as opportunities for IFC to advance the World Bank Group's commitment to improve Africa's social and economic situation because Nigeria is so large and plays such an important role in the continent.



## 2. The Relevance and Appropriateness of IFC's Strategy in Nigeria

This chapter focuses on the *formulation* of IFC's strategy in Nigeria. *Implementation* is discussed in the following chapter. To assess the relevance of IFC's strategy in Nigeria, and its appropriateness for the country's needs, we examine: (i) the participation of key stakeholders in the formulation of IFC's strategy; (ii) how closely the problems identified by the strategy were related to the country's needs; (iii) how closely the objectives articulated in the strategy corresponded to the problems identified in the strategy; (iv) the overall nature of IFC's strategy-formulating process and the presence of an articulated strategy; and (v) how IFC's strategy addressed personnel, organizational, and other resources. Further detail on these issues is provided in annex 2.

**2.1 IFC's strategy was set forth in seven different documents presented to the Board of Directors between 1998 and 2007.** Since 1998, the Board has discussed four country strategy papers for Nigeria and three regional strategy papers that touched on IFC's strategic objectives in the country. In 2004, the Government of Nigeria released a poverty reduction strategy that became known as the National Economic Empowerment and Development Strategy (NEEDS).<sup>1</sup> NEEDS served as the basis for the 2005 Country Partnership Strategy (CPS) jointly produced by the IFC, the International Development Association (IDA), and the Department for International Development of the United Kingdom (DFID). In the CPS, IFC's strategic objectives were derived from the section in NEEDS on promoting the private sector. Annex 2 summarizes the key elements of IFC's strategies, which include: (i) the main development challenges identified in Nigeria; (ii) IFC's specific strategic objectives; (iii) the resources allocated to those objectives; and (iv) the relation of the different strategy papers. In addition, IFC's strategy in Nigeria has been defined by informal country strategy notes reviewed by IFC management.<sup>2</sup>

### Key points of IFC's strategy in Nigeria

**2.2 IFC's strategic objectives multiplied significantly during the study period.** Whereas IFC's 1998 strategy advanced a handful of strategic objectives, subsequent strategies introduced a range of objectives that was so broad that it became nearly all-encompassing. The following paragraphs summarize the main development challenges and related strategic objectives discussed by the different strategy papers, which together constitute IFC's strategy for the country. (Also see table 2.1 and annex 2.)

- An IFC strategy for Africa, from 1998 covered the first two years of the period under evaluation. In it, IFC stated that it was moving from an opportunistic project-by-project approach to a more strategic approach focused on countries and sectors. The paper identified three development challenges in Nigeria: (i) to sustain a viable and stable macroeconomic framework and to streamline the incentive regime; (ii) to downsize the public sector and establish good governance; and (iii) to rearrange priorities in public expenditures to promote efficient growth, increase productivity, and provide an effective safety net for the poor. IFC responded to these challenges by proposing to pursue small-scale projects through the Africa Enterprise Fund (AEF)<sup>3</sup> and to consider selectively larger projects with high-quality sponsors when appropriate governance could be ensured and as country conditions permitted. The priority areas proposed were financial services, manufacturing, and agribusiness. The strategy paper stated that it was unlikely

that a case could be made for a major equity program, but added that this might change if macroeconomic circumstances improved. Over time, it suggested, opportunities for advisory services in privatization and capital market development could materialize.

- IDA-IFC interim strategy papers in 2001 and 2002 added the following issues to the diagnosis of Nigeria’s development challenges: (i) little growth in the non-oil private economy; and (ii) limited self-empowerment among local communities. IFC proposed to respond to these and other challenges by trying to improve the investment climate and supporting privatization and sectoral reform to encourage private participation in infrastructure, oil and gas, financial services, small business, and agribusiness. Additionally, the strategies envisioned coordinated efforts among IFC, MIGA, and the World Bank in support of policy and institutional reforms, provision of catalytic finance, and assistance to the state of Lagos.
- An IDA-IFC joint interim strategy in 2004 identified the following additional development challenges: (i) education; (ii) health; (iii) water and sanitation; and (iv) civil society and gender. IFC’s strategic priorities were to promote private sector development through direct support of economically beneficial projects in all sectors, and to support the World Bank Group’s continuing effort to remove infrastructure bottlenecks. Additionally, IFC would support wider access to finance among private businesses by assisting the development of capital markets, supporting capital market operations and noninvestment capacity building activities, and providing term financing (especially to SMEs and microenterprises) and capacity building to organizations providing business advisory services. IFC’s work on the business environment would also focus on licensing, regulation, and tax simplification and reform. Finally, the main donor partners—the United Nations Development Programme (UNDP), European Commission (EC), UK Department for International Development (DfID), the U.S. Agency for International Development (USAID), and the World Bank Group (WBG)—would develop and propose to the Government of Nigeria a single combined program of assistance.
- An IDA-IFC-DFID country partnership strategy (CPS) of 2005 emphasized the following development challenges: (i) the “oil curse”; (ii) support for NEEDS and its state-level equivalents (SEEDS), as well as for the Millennium Development Goals (MDGs); and (iii) the role of agriculture in achieving shared growth. IFC formulated its strategic priorities as follows: (i) improve access to finance; (ii) assist in removing infrastructure constraints; (iii) assist in improving the competitiveness of Nigerian industry; (iv) assist in developing SMEs by providing them with integrated support; and (v) strive for positive demonstrations, particularly in the areas of structuring, corporate governance, and good social and environmental practices. Additionally, IFC would selectively consider investments in the oil and gas sector, integrate advisory services operations with its investment work, and emphasize the improvement of the business environment. Meanwhile, IFC’s PEP Africa would implement private sector development programs in collaboration with various stakeholders. IDA, IFC, and DFID would work at the federal and national levels developing private-public partnerships to improve the business environment and the energy and transportation environment; they would also coordinate activities in the area of privatization, building the capacity of Nigeria’s federal Bureau of Public Enterprises. The development of the gas industry was recognized as important in boosting the domestic non-oil economy and improving poorer households’ access to cheaper, cleaner energy. In telecommunications, the World Bank and IFC would continue to provide advisory services to the sector’s regulator and

to private operators. Significant advances in private sector participation in ports, rail, and the Abuja airport were foreseen and later supported by IFC.

- A IFC strategy paper for Sub-Saharan Africa in 2003 and a progress report on IFC's strategic initiative for Africa called for "general promotion," proactive promotion in key sectors, comprehensive SME programs, and proactive engagement in improving the investment climate.

**Table 2.1: IFC's Broad Priorities for Nigeria as Identified in Board-Approved Strategy Papers**

Priorities	1998–2000	2001–03	2004	2005	2006–07
• Financial services; manufacturing; agribusiness	■				
• Small-scale and selectively larger projects; opportunities in advisory services (privatization and capital markets)					
• Privatization; infrastructure; oil and gas; financial sector; agribusiness		■			
• SMEs; investment climate; Lagos state					
• Manufacturing; infrastructure; financial services; all sectors (if economically beneficial)			■	■	
• SMEs; business environment; unified program of assistance by key donors					
• General promotion; proactive promotion in key sectors					
• Oil and gas; privatization; Private Public Partnership (PPP) (federal and state level); infrastructure (including power, ports, rails); agriculture; manufacturing; telecommunications; financial services				■	■
• SMEs; demonstration effect (structuring, corporate governance, environmental and social); business environment; build capacity of Bureau of Public Enterprises					
• Integrated advisory services with investments; collaboration between Private Enterprise Partnership for Africa and various stakeholders					

Source: International Finance Corporation

## Participation of internal and external stakeholders in strategy formulation

**2.3 External stakeholders contributed to the formulation of IFC's strategy in Nigeria.** IFC consulted formally and informally with a range of stakeholders in developing its strategy. Those stakeholders included (i) clients; (ii) foreign investors; (iii) financial institutions; (iv) development agencies; (v) civil society; (vi) government officials; and (vii) IFC's shareholders. However, the Nigerian government did not provide input to the strategy paper that covered 1999 and 2000. During those years, the country was transitioning from a military regime to a democratically elected government. The first civilian president in nearly 16 years had been elected in February 1999 and took office on May 29 of the same year.

**2.4 IFC and the World Bank cooperated in the formulation of successive country strategies and together supported the development of the Nigerian government's strategy.** IFC's strategy paper for Africa stated that future country strategy papers would be jointly prepared with the World Bank. In 1999, World Bank Group teams with representatives from both IFC and

the World Bank were formed to develop sector-strategy notes in the areas of water, oil and gas, power, telecommunications, aviation, and finance. Following the World Bank Group's reengagement with Nigeria in 1999 (in preparation for which the 1998 strategy was begun), the World Bank and IFC both supported the government in its development of NEEDS by conducting a series of discussions throughout Nigeria under the Comprehensive Development Framework (CDF) and by developing three IDA-IFC joint interim strategies in 2001, 2002, and 2004. Finally, after it was completed, NEEDS (2004) served as the basis for the 2005 CPS. Annex 2 describes in detail the interrelations among the various strategy papers by IFC and the World Bank.

## **Relevance of the development issues identified in the strategies**

**2.5 The development issues identified by the strategy papers reflected the country's needs.** The development constraints identified in IFC's strategy documents also appeared in various firm-level surveys and were consistent with the social, macroeconomic, and governance indicators described in chapter 1. The main development challenges identified in the strategy papers were as follows:

- The population's diversity and complexity;
- High rates of HIV infection;
- Declining competitiveness of the Nigerian economy owing to: (i) depreciation in the real exchange rate; (ii) a huge infrastructure deficit; (iii) policy instability, coupled with burdensome and inadequately coordinated regulatory and legal frameworks; and (iv) inadequate access to medium- and long-term finance;
- Little growth in the non-oil private economy, with consequent slow growth in overall employment and income;
- Pervasive poverty and widespread unemployment, coupled with the need to provide tangible results to boost confidence in the democratic transition;
- Limited self-employment in local communities;
- A legacy of widespread corruption;
- Sporadic violence among ethnic groups, particularly in the Niger delta.

**2.6 Various firm-level surveys have consistently identified poor infrastructure, lack of access to finance and the high cost of finance, macroeconomic instability, and business and regulatory impediments as the most severe constraints to private economic activity.** As noted in paragraph 1.5, four different surveys conducted to identify constraints to economic activity have yielded consistent results.<sup>4</sup> These surveys covered four perspectives: (i) nationwide manufacturing enterprises; (ii) specific states; (iii) firms disaggregated by size; and (iv) industry. All four found that poor infrastructure, lack of access to finance, and weak government policy and administration were the most severe impediments to greater investment, better firm productivity, higher growth, and more dynamic job creation. The country displays the characteristics of a dual economy. The enclave oil sector, which has few links to the rest of the economy except via government revenue, exists alongside a more typical African economy that is heavily dependent on agriculture, trade, and limited manufacturing (see chapter 1).

## Relevance of IFC's strategic objectives to the country's development constraints

2.7 **The strategy generally lacked focus and so failed to account for Nigeria's development constraints.** In retrospect, it appears that IFC lacked a focused and articulated strategy throughout the review period. In 1999, on the eve of the World Bank Group's reengagement with Nigeria following the transition from military rule, IFC faced challenges posed by a volatile political and business environment and by a flawed strategy-development process. IFC initially adopted a handful of loosely defined objectives; however, by 2001 it had switched to an imprecisely defined approach that introduced a broad range of "strategic" objectives, defined mostly in terms of sectors and products. Those objectives lacked focus, because they consistently spanned nearly the entire private sector and were not clearly articulated. This broadening of the range of strategic objectives seems to have been brought about by three reasons: (i) IFC's initial need to investigate different sectors and products as it was reengaging in Nigeria; (ii) the requirement that all projects show a good "strategic fit" with Board-approved strategy papers; and (iii) the perceived need for IFC to demonstrate cooperation with the World Bank's objectives in the joint strategy papers. Thus, IFC's approach, despite efforts to make it appear strategic, remained opportunistic. IFC's management took advantage of the broad discretion provided by the all-encompassing strategic objectives, which ensured an easy "strategic fit" for any project. Abetting the problem was the lack of clearly defined targets, time horizons, and progress indicators. IFC's main strategic priorities, as described in various strategy documents are listed below. Details can be found in annex 2.

- *Privatization:* Build capacity in the Nigerian government's privatization agency, the Bureau of Public Enterprises; develop public-private partnerships at the federal and state levels;
- *Infrastructure:* Help develop the power and telecommunications sectors; support the privatization of ports, rails, Abuja airport, and the Lagos state water company;
- *Oil and gas:* Develop linkages, reduce gas flaring, and develop unique financing structures;
- *Financial sector:* Help improve access to finance;
- *Manufacturing:* Help improve the competitiveness of Nigerian industry;
- *Agriculture:* Support the vision for the sector articulated in NEEDS and SEEDS;
- *MSMEs:* Support comprehensive programs for micro, small, and medium enterprises;
- *South-South investments:* Promote South-South investments in energy, oil and gas, infrastructure, mining, and telecommunications;
- *Business environment:* Undertake programs through PEP Africa; integrate advisory services with investments; engage to improve investment climate;
- *World Bank Group and other donors:* Maximize synergies through joint World Bank Group programs and a unified donors' program.

## The link between IFC's strategy-making process and the lack of a well-articulated strategy in Nigeria

2.8 **Missing from IFC's strategy for Nigeria, were narrowly focused and clearly articulated development objectives based on IFC's strengths and the country's needs.** A more focused, programmatic and articulated IFC country strategy is called for in response to six factors: (i) the Africa focus of the World Bank Group; (ii) the size of IFC's operations in the country and their impact on IFC in Africa; (iii) the size and steady growth of the Nigerian population and economy;

(iv) IFC's growing country experience and knowledge; (v) the improvement in the political situation; and (vi) a less-volatile business environment. Flexibility could have been achieved by revising the country strategy every one to two years instead of the standard three to four years, so that it could reflect changing country conditions. These measures would have reduced inconsistencies and made IFC's country strategies in Nigeria more realistic.

**2.9 The Nigeria case reflected the shortcomings of IFC's process for developing country strategies.** IFC's strategies in Nigeria have reflected the characteristics of IFC's process for developing country strategies jointly with the World Bank. IFC is organized on a regional and sectoral (industry) basis. At the World Bank, by contrast, the country level is the main level of decision making on resource allocation. As with any established organization, strategy follows structure, and IFC's organizational structure has several implications for the design and efficacy of its country strategies. First, IFC's country strategies approved by the Board are joint strategies with the World Bank, but they are largely driven by the World Bank and are poorly integrated with IFC's main strategy and budget process. As a result, there is little ownership of the country strategy by IFC's management and staff. Second, IFC's country strategies tend to have a sectoral focus—that is, country objectives and priorities are formulated in terms of sectors and products; only indirectly do IFC's country objectives link with anticipated development impacts in a country, and country strategies often lack measurable objectives. Third, IFC's country strategies are typically not supported by decisions on resource allocation; resources are allocated at the regional and industry levels, and country programs emerge as a result of the implementation of sector and regional strategies. As a result, the Nigeria strategy papers have not fulfilled their purpose, namely, to focus operations, define targets and time horizons, and determine the human, organizational, and other resources required.

**2.10 The country strategy papers were consistently silent about personnel, organizational, and other resources needed to implement IFC's strategy.** Indeed, it has been at the regional rather than at the country level that IFC has identified and sought to address personnel and organizational challenges. Three regional strategy addressed the challenges that their objectives presented to IFC's organization in terms of regionalization and attraction of suitable candidates. However, while specific references were made to changes in personnel policies, organization, and resources, the discussion in these papers never reached the country level, despite the importance of Nigeria within the region and to IFC's strategy there. The challenges defined and actions proposed in the regional strategies are listed below. Annex 2 provides more details on how the strategies addressed organizational change.

IFC identified challenges:

- Growing interest in regionalization, as countries try to compensate for the small size of their local markets.
- The need to leverage the considerable field infrastructure already in place so that it processes a larger portion of IFC's investments; the need to increase management depth in offices that were created on an ad hoc basis; the need for cross-fertilization of experiences among a number of very small offices.
- The need for more staff to carry out proactive initiatives, which are labor-intensive and require direct IFC involvement. (Coordination and supervision of advisory staff work, for example, would be extensive even if largely executed with external resources.)
- The difficulty of finding and attracting candidates to relocate from developed countries, especially to West and Central Africa. (Typical candidates work in Europe or the United States and are well compensated. Inducing them to return to Africa has proven difficult for

this reason, and because of concerns about security, dependents' education, and spouses' jobs.)

- Local sponsors; the presence of different languages and cultures; weak infrastructure, including in communications and travel infrastructure; and the scarcity of staff with sufficient local knowledge to implement IFC's frontier strategy.

IFC's proposed actions:

- Build strength in strategically located core offices organized around three hubs (Abidjan, Johannesburg, and Nairobi—later changed to a single regional hub in Johannesburg). The regional hub would be endowed with investment staff and dedicated portfolio specialists, operational support specialists (legal, environmental), and sector specialists (privatization, infrastructure, capital markets) who could effectively process and supervise transactions in the field and represent a broad array of IFC business lines.
- In human resources, emphasize three priorities in the Africa department of IFC: (i) recruitment; (ii) diversity; and (iii) staff development.
- Recruit by tapping into formal and informal networks to find qualified African candidates, whether living in Africa, Europe, or the United States.
- Launch a business development and mentoring program through which to build skills geared to the diverse markets in Africa. Develop local staff through rotation—for example, rotate staff from the Johannesburg hub to country offices to diversify their skills and experience. Have corporate-level staff members of the Africa Region participate in corporate leadership programs.
- Offer recruitment bonuses and skills premiums to recruit staff with the skills IFC needs. IFC believes a more market-sensitive and performance-based compensation framework is needed to meet IFC's business needs in its top-priority region.

2.11 The identified challenges and actions were formulated in general terms at the regional level and applied to all of Sub-Saharan Africa including Nigeria. However, they lacked the specificity to be relevant guides for action in the specific case of Nigeria, since they did not reflect important aspects of the country's labor market—among them size, the significant indigenous private sector, and the sizeable presence of multinationals in the oil and gas and financial sectors.

## Conclusion

2.12 IFC's strategy in Nigeria was defined in seven different strategy papers between 1998 and 2007, and the strategic objectives set forth in those papers multiplied significantly during the period. IFC's strategy papers reflected input from a range of stakeholders, including the World Bank and the Nigerian government, and the development issues identified by the strategy papers reflected the country needs. But they generally lacked focus, and IFC's approach remained opportunistic, rather than strategic in Nigeria. IFC management used the broad discretion provided by the sector and product objectives that were loosely articulated in those papers. Furthermore, shortcomings in the strategy-making process in Nigeria resulted in the preparation of all encompassing strategy papers. In retrospect, IFC's activity in Nigeria lacked a focused and articulated strategy throughout the review period.



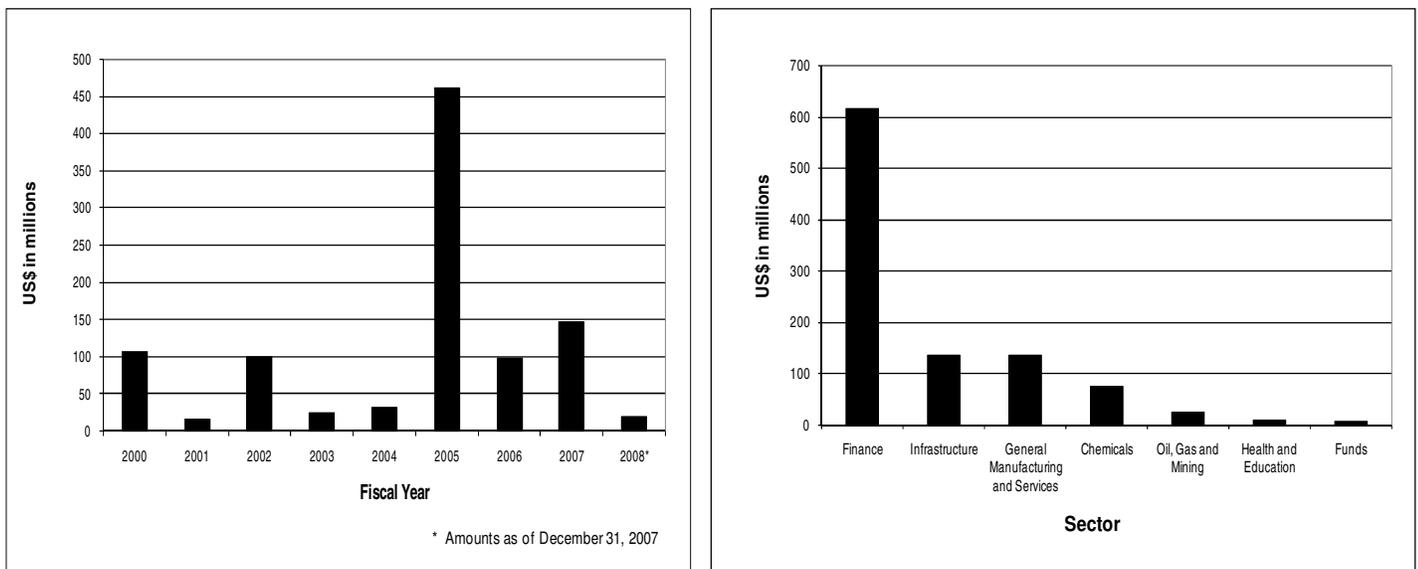
## 3. Implementation of IFC's Country Strategy

The implementation of the strategy is reviewed in this chapter by first describing IFC's portfolio of investment and advisory services projects in Nigeria. Second, IFC's stated strategic objectives are compared with the composition of the portfolio. Third, the strategic objectives are compared with the personnel, organizational, and other resources that IFC allocated for the execution of its strategy. The chapter also presents the views of clients on IFC's operations and processes, based on survey results. Annexes 3, 6, and 9 provide additional detail.<sup>1</sup>

### IFC's portfolio in Nigeria

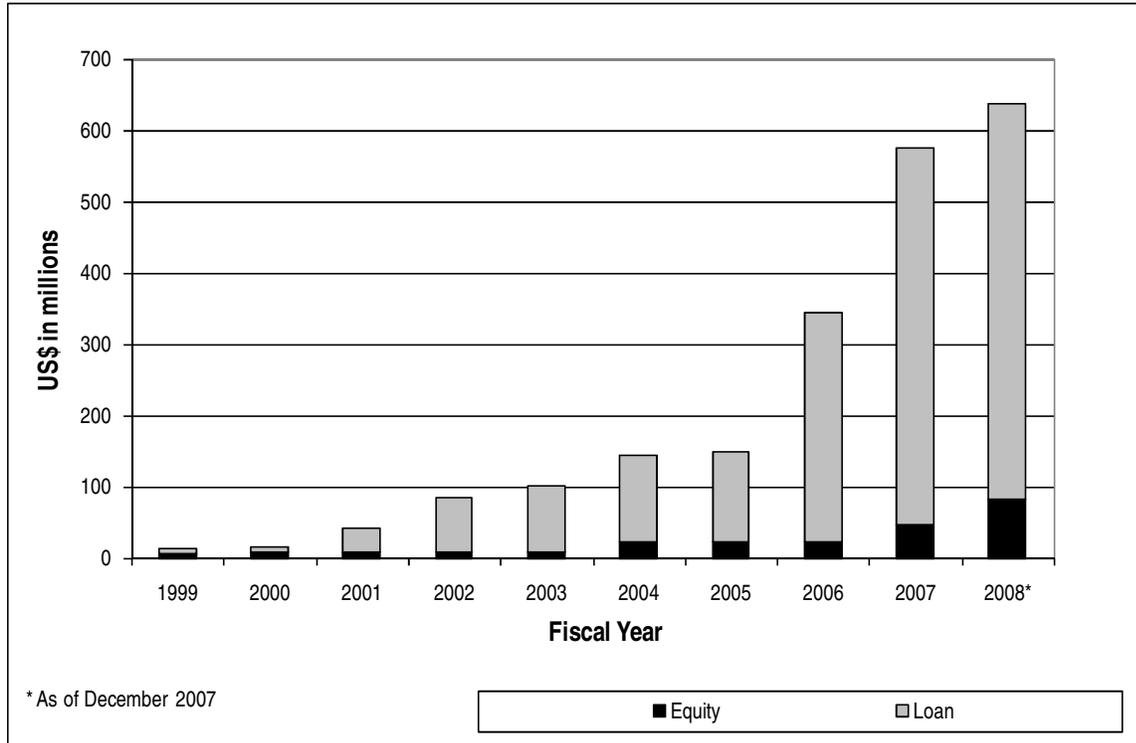
3.1 **The Nigerian investment portfolio is IFC's 11th-largest worldwide and the largest in Africa.** During the period under review, 33 investment projects were approved, totaling \$1 billion.<sup>2</sup> As of December 31, 2007, the projects comprised 31 percent of IFC's commitments in Sub-Saharan Africa, and 3.5 percent of IFC's total commitments. As a reference, Nigeria represents 14 percent of Sub-Saharan Africa's combined gross domestic product and 0.8 percent of developing countries' GDP. Although dominated by projects in financial markets, the investment portfolio also included other non-oil sectors, including mobile communications and general manufacturing. IFC's financial sector projects consisted mainly of corporate loans to commercial banks, trade guarantees (most recently), and credit for SMEs through financial intermediaries. The level of commitments has been volatile over the years, with increases in business volume typically followed by significant declines. Figures 3.1 and 3.2 report IFC's commitments by year and sector and its total exposure by year. The approval of the trade finance facility in 2005, within IFC's Global Trade Finance Program (GTFP), is the underlying reason for the commitment's spike in that year.

**Figure 3.1: IFC Investment in Nigeria: Original IFC Commitments by Year of Approval and by Sector**



Source: International Finance Corporation

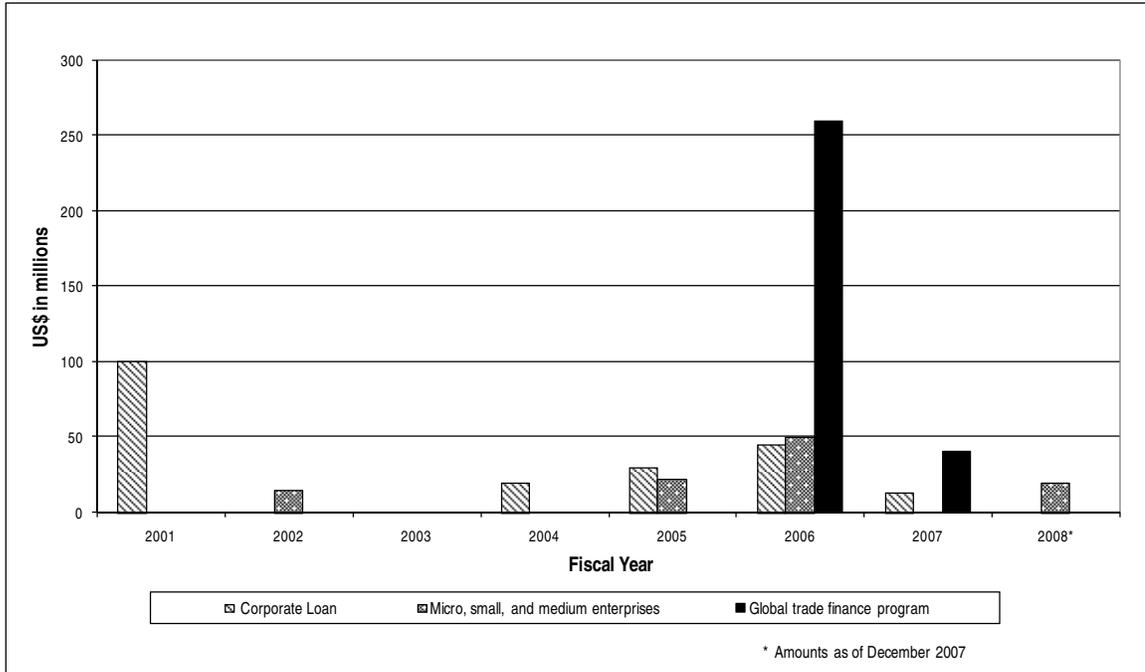
Figure 3.2: IFC Investment in Nigeria: Annual Exposure



Source: International Finance Corporation

3.2 **Loans and trade guarantees dominated the portfolio in the financial sector.** From 2001 through 2008, loan commitments totaled \$315 million, or 51 percent of total commitments in the financial sector. Loans to MSMEs were roughly 17 percent of total commitments. Trade guarantees—\$260 million in 2006 and \$40 million in 2007—represented 49 percent of total commitments in the financial sector over the period. As of December 2007, six issuing banks had received partial or full guarantees up to an approved overall limit of \$300 million under the GTFP. These issuing banks have underwritten a trade volume of \$1,045 million under the GTFP (see figure 3.3 and paragraph 4.6).

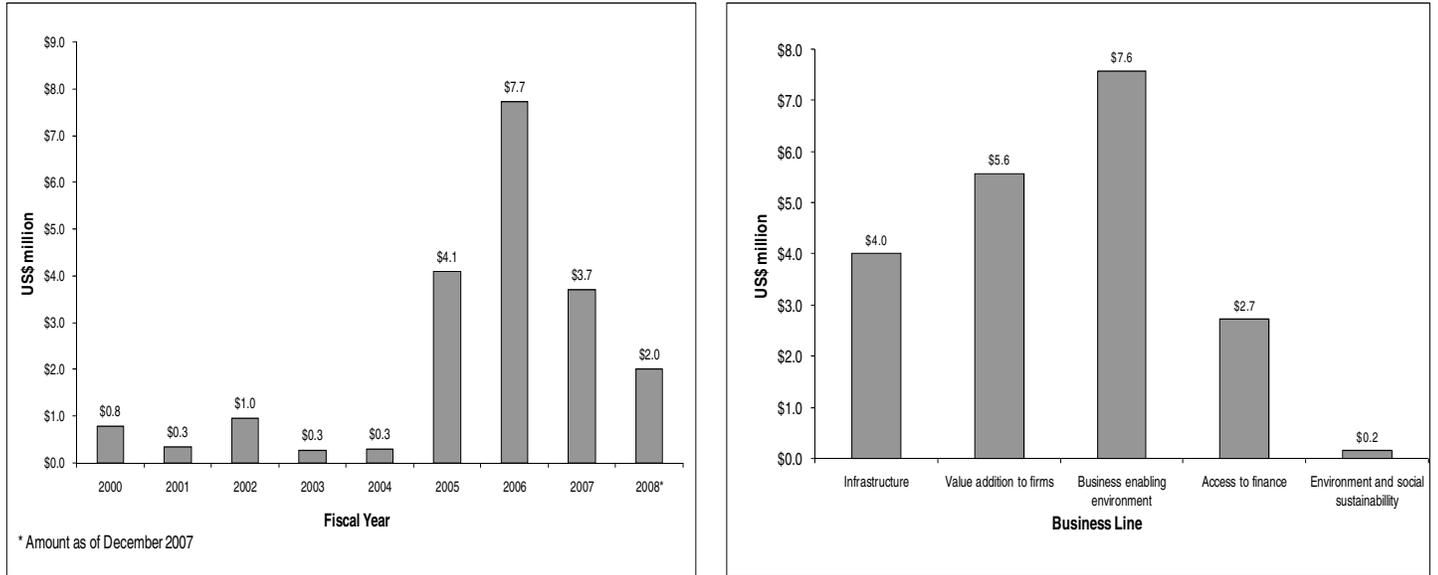
Figure 3.3: IFC Financial Sector Commitments in Nigeria: Loans and Trade Guarantees



Source: International Finance Corporation

3.3 **Advisory services operations spanned a range of projects, from improving the business climate, access to finance, to infrastructure and assisting SMEs.** Between July 1998 and December 2007, 39 advisory services projects were approved, totaling \$20.2 million. IFC's advisory service operations included: (i) market studies for different sectors; (ii) a SME capacity-building program; (iii) a program to support women entrepreneurs through capacity building in a Nigerian bank; and (iv) a program to deepen and broaden the Nigerian financial sector. Figure 3.4 shows a breakdown of approvals by year and by area.<sup>3</sup> The increase in advisory services activities in 2006 and the dominant share of business enabling environment (BEE) services both reflect the effects of IFC's restructuring of its delivery platform for advisory services with the establishment of PEP Africa in 2005.

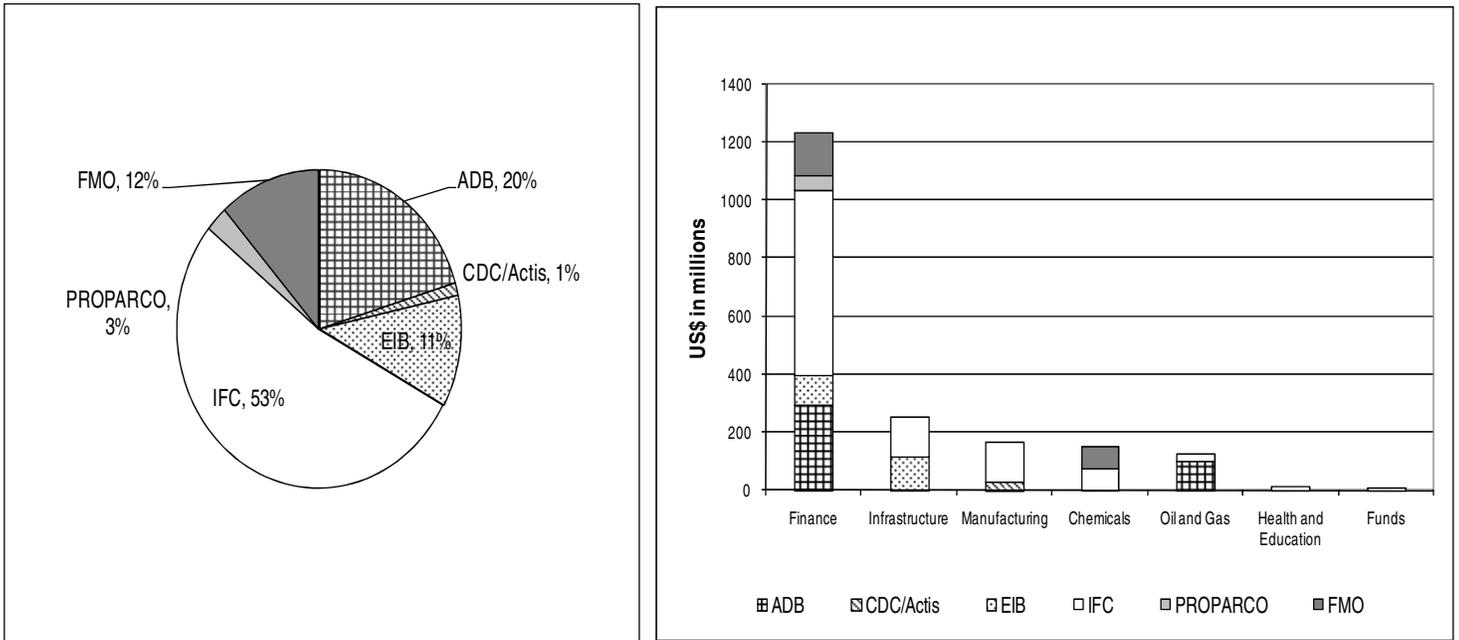
**Figure 3.4: IFC Advisory Services Approvals in Nigeria by Year and by Business Line**



Source: Independent Evaluation Group

3.4 **Of the multilateral and bilateral agencies focused on private sector development, IFC has the largest presence in Nigeria.** IFC accounts for approximately 53 percent of all commitments in Nigeria by private sector–focused development finance institutions (figure 3.5). Other multilateral and bilateral development banks active in the Nigerian private sector invested approximately \$900 million between FY1999 and FY2007 in sectors similar to those targeted by IFC, including financial services, mobile communications, and manufacturing.

**Figure 3.5: Investment in Nigeria: Market Share of Private-Sector-Focused Development Finance Institutions, and Original Commitments by Sector, 1999-2007**



Note: FMO: Netherlands Development Finance Company; PROPARCO: Promotion et Participation pour la Coopération économique, the private sector arm of the Agence Française de Développement; EIB = European Investment Bank; ADB = African Development Bank  
Source: Independent Evaluation Group

### Alignment of operations with strategy

3.5 **IFC's investments addressed only a few of its broad strategic objectives.** IFC used the broad discretion provided by the Board-approved strategy papers reviewed in the previous chapter to scout the markets and test products. Over the period, it chose to conduct mostly repeat investment business in less-risky sectors and products. Through 2004, successes came in finance and mobile communications,<sup>4</sup> where ongoing deregulation and reform were improving the business environment and where IFC could find suitable investment partners. After 2005 some investments were made in the manufacturing sector (24 percent of total commitments), although IFC's portfolio continued to be dominated by the financial sector. IFC chose to concentrate investment operations in a few sectors instead of aligning its investment operations with all the broad strategic objectives. IFC's investment commitments during the period under review are detailed in the first panel of figure 3.6.

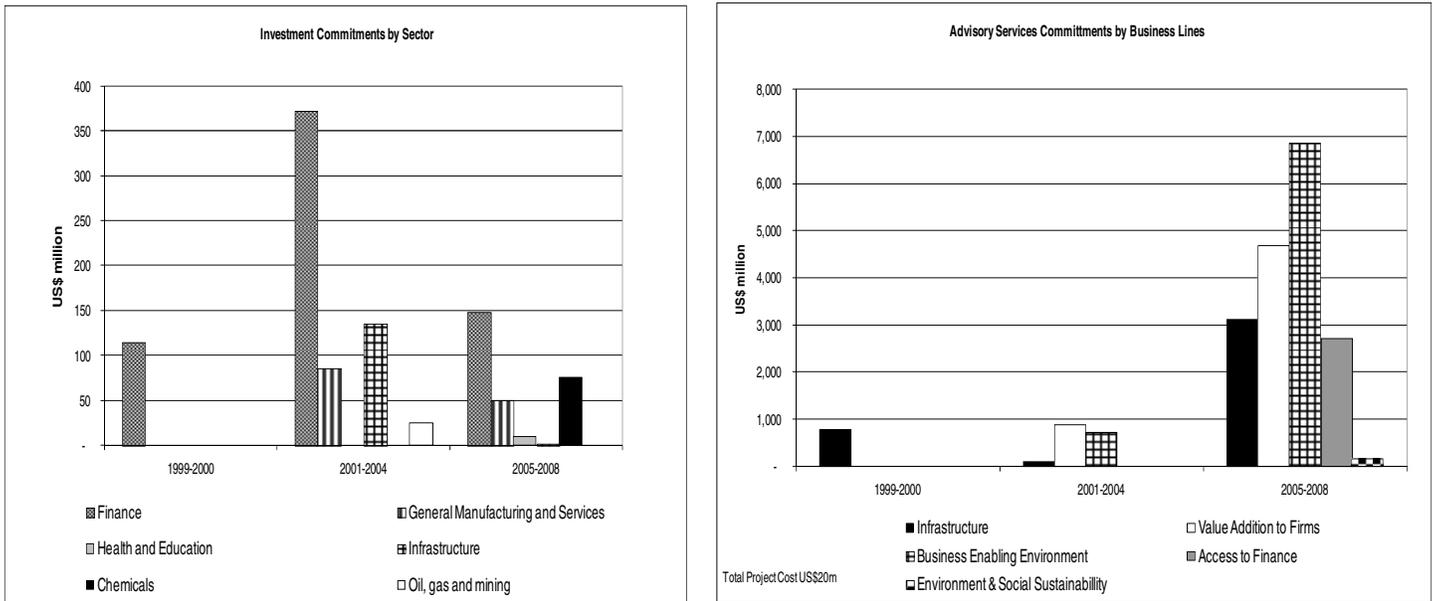
3.6 **High country risk played an important role in the low-risk model of intervention that IFC developed in its reengagement in Nigeria.** In its reengagement in Nigeria, IFC faced a high level of corruption, difficulties in obtaining chattel security, hesitant international sponsors and financiers (except in the oil sector), inadequate privatization legislation, and IFC's own insufficient knowledge of the country. All of these factors heavily influenced the selection of projects and sponsors. Given these constraints, IFC opted not only to produce diagnostic studies, but also to test the market with investment and advisory services projects. Projects in the financial sector thrived, while those in the area of infrastructure (water, airline privatization) failed. Consequently, IFC developed a low-risk model of intervention, narrowing its activities by focusing on a concentrated group of local sponsors and a sector-product mix that appeared to pose lower risk.<sup>5</sup> Early in the

period, IFC worked to a large extent with second-tier Nigerian sponsors. Medium-risk sponsors often evolved into low-risk sponsors through repeat projects and the reputational differentiation provided by IFC (that is, by IFC's "stamp of approval"). Ultimately, these interventions helped the sponsors to access international funding, reducing their need for continued IFC funding. The reputational effect was evident, for example, from a list of Africa's top 100 commercial banks, published in 2007; the list included 17 Nigerian banks, of which seven were IFC's clients. The low-risk model of intervention was appropriate because it facilitated the reengagement of IFC in Nigeria, the graduation of second-tier sponsors, and the building of working relationships with sponsors and the government. However, IFC fell short in missed opportunities to ratcheting up its intervention through equity participations in the financial sector and to further accelerate the development of sponsors in that sector (in terms of corporate governance, transparency, and environmental and social standards, for example). With the current liquidity in the Nigerian markets, the need for IFC advisory support lingers beyond the need for direct funding. IFC also did not expand beyond the initial comfort zone of sectors and clients, even as its familiarity with the country and the domestic private sector improved over time. IFC's efforts seemed primarily devoted to avoiding risk rather than mitigating and managing the risks that are typical of private sector development activities in Nigeria.

**3.7 Two recent IEG studies show that IFC pursued different approaches to advisory services operations in two other countries with difficult business environments.** IFC had been conducting modest advisory services projects in Indonesia in the years before the crisis of 1997–98. A more concerted effort, the Program for Eastern Indonesia SME Assistance (PENSA), was established some six years after the crisis and about three years after the Government of Indonesia began its decentralization program. IFC investment volume picked up before PENSA was established (IEF-IFC 2008a). In Ukraine, by contrast, beginning in 1993 IFC devoted the bulk of its early efforts to advisory services operations rather than to investments in order to address the country's needs and investment climate constraints. Not until 2004 did IFC begin to significantly ramp up investment volume in Ukraine (IEG-IFC 2008b).

**3.8 The focus of the advisory services operations varied greatly during the review period.** Initially, IFC focused on producing market reports for different sectors of the economy, consistent with its opportunistic approach. In 1999 and 2000, IFC's advisory services operations targeted infrastructure, but from 2001 through 2004 the focus switched to access to finance, value addition to firms, and the business environment. Focus on infrastructure was returned to the mix in 2005. Environmental and social sustainability was not a focus of advisory services during any part of the covered period. Advisory services commitments were particularly heavy in 2005–08, as shown in the second panel of figure 3.6. The variability over time was associated with inadequate resource allocation and poor client satisfaction, as discussed in greater detail below.

Figure 3.6: IFC Investment and Advisory Services Commitments in Nigeria, 1999-2008



Source: International Finance Corporation

3.9 **Advisory service operations loosely followed IFC's strategic objectives.** The correspondence between IFC's advisory services projects and the strategy papers released between 1999 and 2005 are plotted in box 3.1. Even allowing for a reasonable time lag between the setting of strategic priorities and the implementation of advisory services projects, it can be seen that advisory services activity only partially addressed targeted strategic sectors. For example, of the 15 advisory services projects initiated during the 1998–2000 and 2001–03 periods, only one project directly addressed any of the three sectors (financial services, manufacturing, and agribusiness) highlighted in IFC's operational strategy paper for Africa in 1998. However, there was progressive improvement, as demonstrated in the period that followed. Of the 15 advisory projects in the 2001–03 and 2004 strategy periods, 10 addressed the priority areas identified in the two IDA-IFC joint interim strategies. It should be noted that seven of the 10 projects were market diagnostic studies. Overall, IFC has not followed a programmatic approach in its advisory services, even though the delivery of such services has been largely under the control of IFC and less subject than investment projects to market demand and constraints.



3.10 **Before PEP Africa was established in 2005, IFC's main advisory platform in Sub-Saharan Africa was the African Project Development Facility.** APDF was established in 1986 by the United Nations Development Programme (UNDP) and cosponsored by IFC and the African Development Bank (AfDB).<sup>6</sup> Other donors, including the Swiss, Norwegian, and German governments, also backed APDF with funding. In 1996, UNDP withdrew its support, leaving IFC to operate the donor-funded program. APDF offered three principal services to SMEs under three separate business lines—business advisory services, enterprise support services, and training seminars. Through the first, APDF helped SMEs to prepare business plans for submission to a financial institution. Under the second, APDF helped SMEs address a variety of business-related issues faced by firms. Finally, APDF offered courses to small entrepreneurs, ranging from business planning to information technology and finance.

3.11 **A third-party evaluation of APDF carried out in 2003 yielded mixed results.** The general conclusion of the report was that in spite of some shortfalls, “the benefit of APDF services appears to outweigh the cost (Nexus Associates 2003).” However, the report made a series of recommendations that struck at the core of the program. Among the recommendations were these: that APDF should establish clear priorities, refine its strategy and reallocate resources; reorganize operations based on regional offices and practices; clarify and implement environmental and social policies; develop an explicit pricing policy; strengthen accounting and management information systems, and take steps to ensure closer coordination with IFC and the World Bank. At the time of the report, IFC was working on the revised “Strategic Initiative for Sub-Saharan Africa,” released in 2003. Echoing the concerns raised in the ADPF evaluation, the strategy document concluded as follows:

- APDF and AMSCO<sup>7</sup> were by design narrowly focused on firm-level project preparation or management assistance. They have not kept pace with new developments and now lack some elements of capacity and expertise.
- It is therefore not surprising that IFC decided to develop a new mechanism for delivering advisory services in Sub-Saharan Africa.

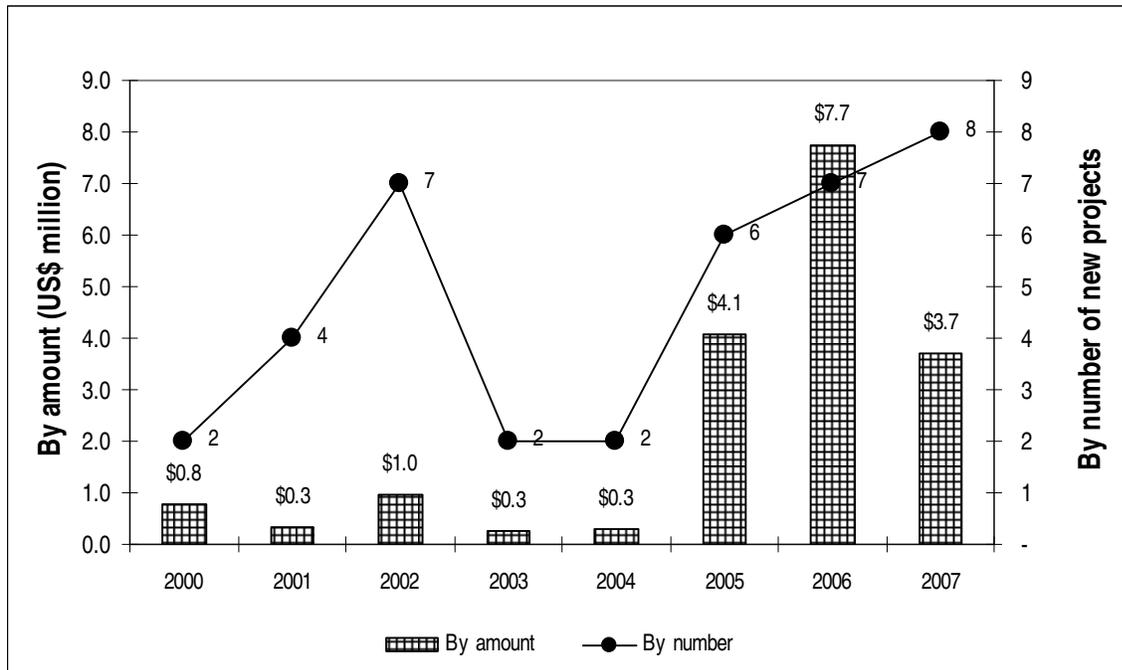
3.12 **In 2005, IFC opted to close the APDF program and replace it with PEP Africa.** PEP Africa attempted to address the main weaknesses of the APDF model that were highlighted in the 2003 evaluation. The PEP Africa model was chosen as the successor framework to APDF for three main reasons:

- APDF was too narrowly focused on small-business development and access to finance, whereas the PEP model was more suited to a macro and sectoral approach.
- APDF's donor-funding mechanism was complex, and the pooling of all donor funds made decision making and governance cumbersome and slow. Within the PEP framework, IFC could provide the funding for all overhead and would have more flexibility to administer and deploy donor funds.
- The PEP structure would give IFC more flexibility in raising donor funding.

3.13 **PEP Africa organized its advisory operation under five main business lines: value addition to firms, access to finance, infrastructure, business-enabling environment, and environment and social sustainability.** The management structure was overhauled, resulting in one manager for each of the business lines, who in turn reported to the general manager. In addition, eight regional coordinators were assigned to develop ideas and concepts based on local conditions and needs and to communicate them to the appropriate business line manager. Donor partnerships

in program funding, design, and implementation are central to the PEP Africa business model. IFC has committed to fund PEP Africa’s core management team and support staff, as well as the operating costs associated with program research, development, monitoring, and reporting. In 2006, IFC committed \$7.5 million per year for a period of five years to cover those costs. Advisory service activity has increased since PEP Africa was established (figure 3.7).

**Figure 3.7: Advisory Services Operations in Nigeria increased significantly with the Establishment of PEP Africa in 2005**



Source: International Finance Corporation

### Cooperation with the World Bank and other multilateral development banks

3.14 IFC partially achieved its goal of cooperating with the World Bank to improve the business environment. (see para. 2.2) IFC operations were carried out to a limited degree in cooperation with the World Bank. Cooperation took place when programs were carried out by a joint department or jointly executed from conception to implementation. Other examples of cooperation could be found in analytical work and in the informal sharing of information, knowledge, and networking. IEG found evidence of different degrees of cooperation in the following activities:

- A joint World Bank-IFC assessment of the private sector entitled “An Assessment of the Private Sector in Nigeria” (2002).
- The Foreign Investment Advisory Service (FIAS) within the joint Financial and Private Sector Development Department. The management of FIAS was integrated with that of PEP Africa.
- The gas-flaring initiative and advisory services in the mining sector to the Nigerian government, both programs of the joint World Bank–IFC department of Oil, Gas, Mining, and Chemicals.

- The World Bank's assistance with the regulation of the mobile-communications sector and IFC's follow-on assistance with investments, under the umbrella of the joint World Bank–IFC department of Global Information and Communication Technologies.
- The “Joint IDA-IFC Micro, Small, and Medium Enterprises Pilot Program for Africa,” whose objectives were: (i) to increase access to finance through IDA-IFC solutions and instruments; (ii) to build capacity; and (iii) to promote business environment reform. The Board approved this joint activity in 2003 and reviewed it in 2006 and 2007.<sup>8</sup>
- In 2007, the Investment Climate Program was created to contribute to increasing growth, competitiveness, and private sector employment at the state level by reducing the cost of doing business across selected states. The program is a result of collaboration between the World Bank Group and the DFID. FIAS is playing a large role in the operations of the Investment Climate Program, which is expected to work more closely with PEP Africa's investment climate activities.

3.15 **The objective of establishing a common donor program in Nigeria was not realistic and was not achieved.** (see para. 2.2) Cooperation among the bilateral and multilateral development banks during the study period was mostly informal. Most of the cooperation was limited to networking and exchanging market information and knowledge. Some examples of cooperation identified by IEG follow.

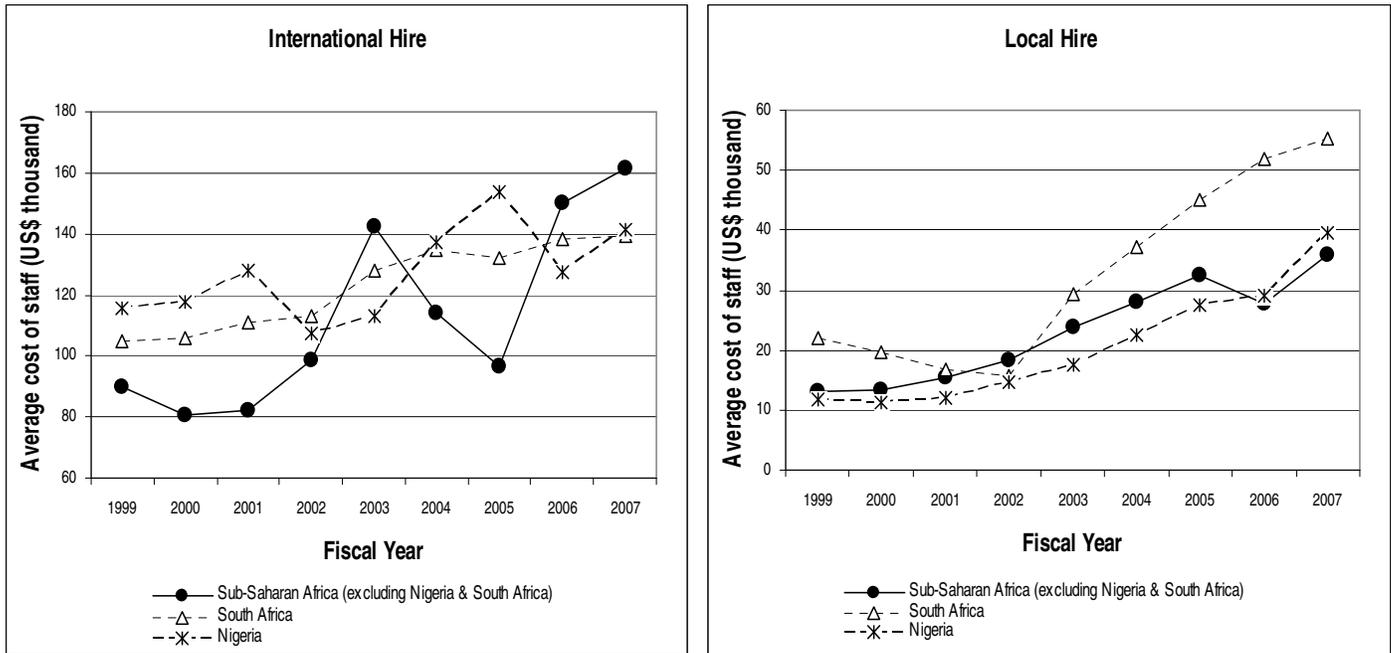
- The 2005 Country Partnership Strategy was jointly developed by DFID, the World Bank, and IFC.
- Donors to the PEP Africa program engaged in formal collaboration. See the reference to advisory services operations in chapter 4 for more details.
- IFC cooperated with the European Investment Bank (EIB) on several investment projects, including joint investments in a cement plant, a private equity fund, and a small power plant.

## Alignment of organization with strategic objectives

### *Organizational/operational changes and the likelihood of achieving results*

3.16 **The results of IFC's personnel policies in Nigeria were mixed.** Although IFC was able to fill junior investment and advisory services positions, recruiting and retaining more qualified senior staff proved difficult. Indeed, IFC lost four senior officers, including the previous country manager, to the private sector and another multilateral development bank. The trend in the annual average cost of staff in Nigeria, whether hired internationally or locally and compared with South Africa and Sub-Saharan Africa, does not support the strategy papers' proposition that IFC's compensation scales should become more market sensitive. A significantly higher cost increase would have been expected in Nigeria, given the difficulty of recruiting and retaining qualified staff in such a highly competitive environment (figure 3.8). Furthermore, from IEG-IFC interviews with staff at different levels, it appears that the most qualified junior staff are attracted to IFC by the possibility of gaining experience and enhancing their resumes in preparation for future employment in the more lucrative Nigerian private sector. The present demand for qualified investment and finance professionals with experience in Nigeria seems to widely exceed the number of qualified people available.

**Figure 3.8: Average Annual Costs of International and Local Hires in Nigeria, South Africa, and the rest of Sub-Saharan Africa, 1999-2007**



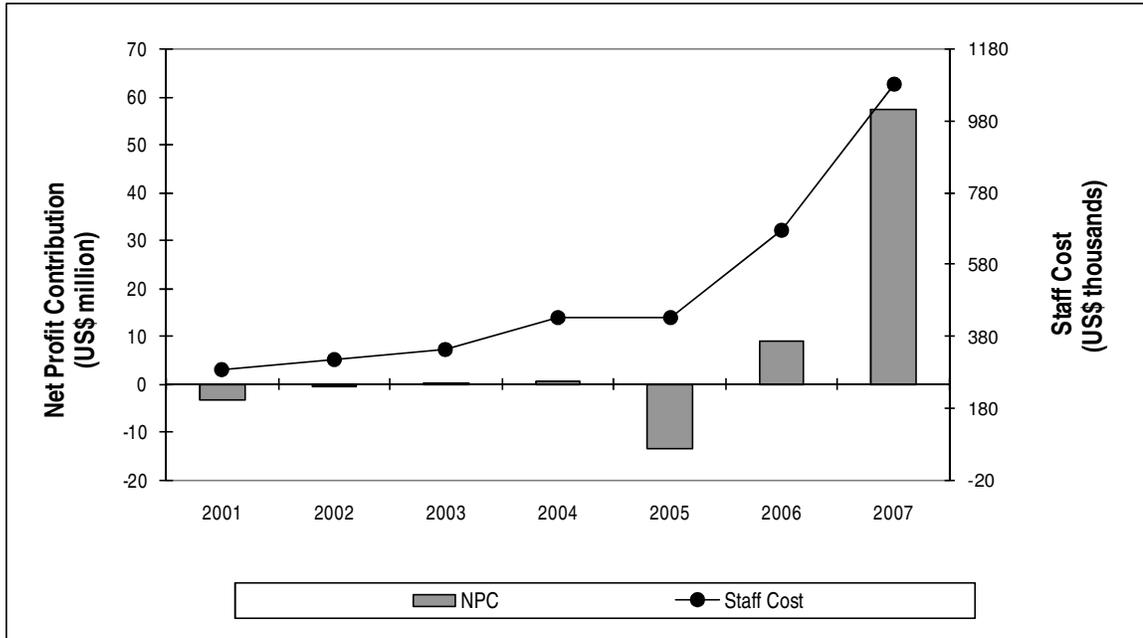
Source: International Finance Corporation

3.17 **A few organizational and operational changes were made in Nigeria to help achieve results.** Among the organizational and operational changes that were introduced in Nigeria are the following:

- The position of country manager, which had been vacant during the period of military rule, was filled in 1999.
- The reporting line for the country office was changed from Washington, D.C., to the regional hub in Johannesburg.
- A portfolio officer was hired to handle a portion of the financial sector portfolio in Nigeria, which previously had been handled from other countries.
- Advisory services programs were consolidated under PEP Africa, and a PEP Africa coordinator was assigned to Lagos.
- The staff in the country office was doubled.

3.18 **But the growth of IFC’s personnel, organizational, and other resources in Nigeria has not matched the growth in IFC’s broad strategic objectives for the country during the review period.** Since 2005, there has been a positive relationship between staff allocation and net profit contribution, which indicates that the organizational and operational changes that were introduced in Nigeria might be helping to achieve positive results (figure 3.9). Prior to 2005, there was no visible relationship between the allocation of resources in Nigeria and net profit contribution.

Figure 3.9: Nigeria Country Office Staff and Net Profit Contribution of Nigeria Operations

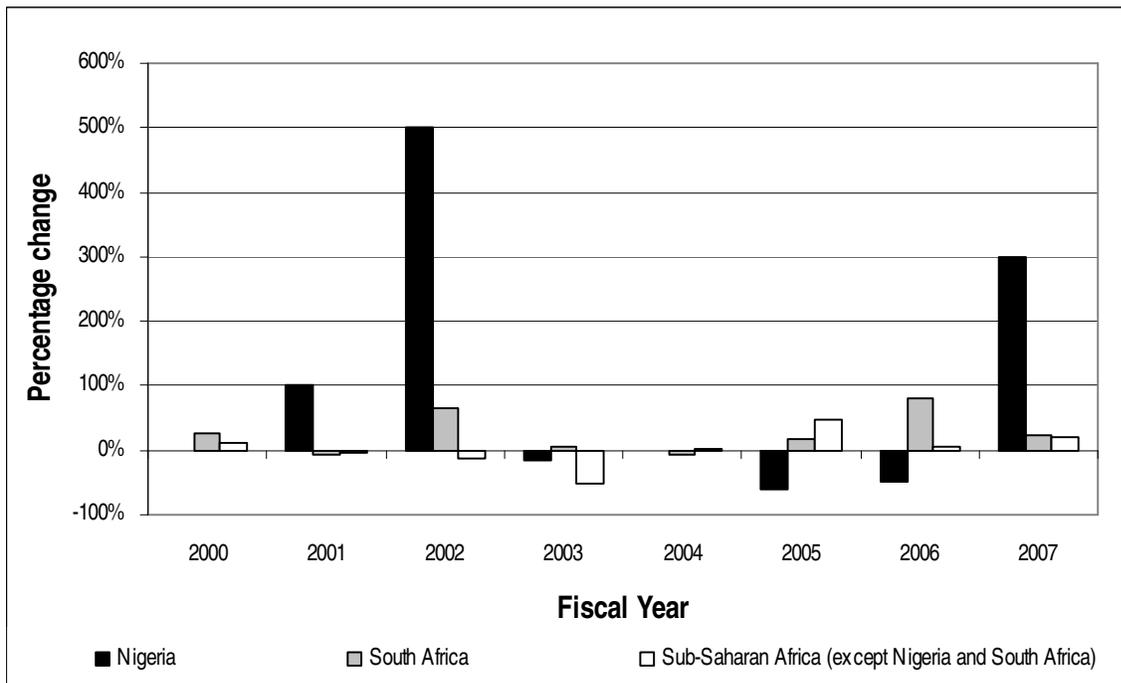


Source: International Finance Corporation

*Adequacy of resources allocated and deployed*

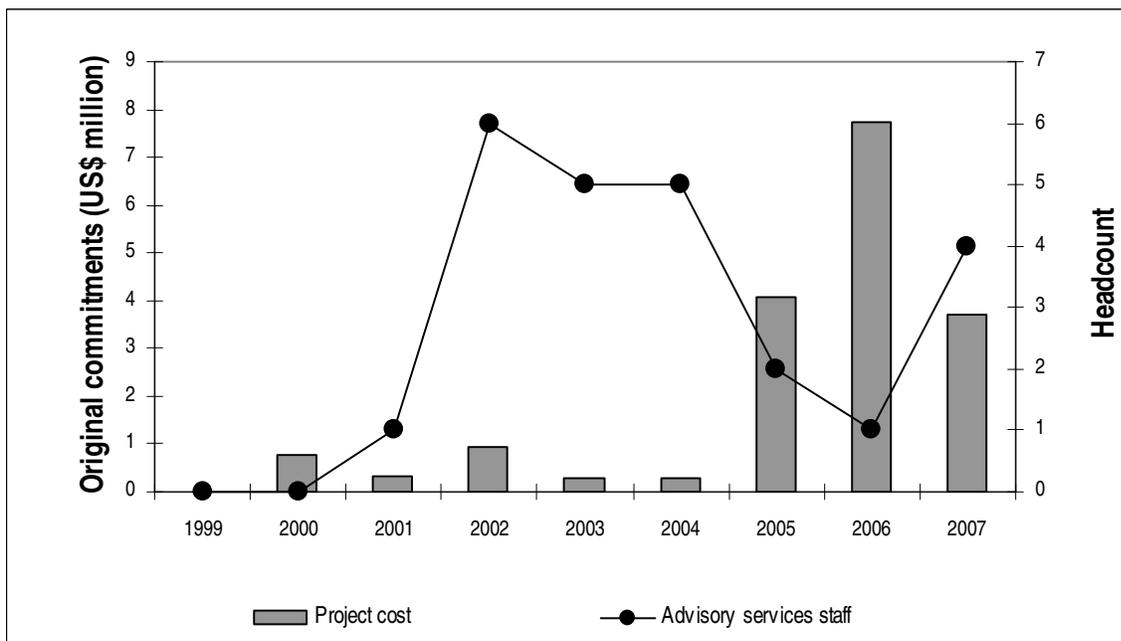
3.19 **Inadequate resources were allocated to advisory services operations in Nigeria.** The number of advisory services personnel decreased from 2002 until 2006. Advisory services commitments increased significantly in 2005–07 (figures 3.10 and 3.11), although only in 2007 did advisory services personnel begin to grow. This situation is partly explained by IFC's decision to dismantle the APDF before PEP Africa was ready to fully replace it.

Figure 3.10: Trends in Advisory Services Staff



Source: International Finance Corporation

Figure 3.11: Advisory Services Staff in Nigeria versus commitments, 1999-2007



Source: International Finance Corporation

*The clients' view of IFC's organization*

3.20 **Nigerian clients were more critical of IFC's organizational issues than were IFC's corporate-wide clients.** The issues raised by IFC's Nigerian clients indicate an inadequate alignment of strategy and organization. Comparing the responses of Nigerian investment and advisory services clients (as reported in a survey commissioned by IEG ) with the responses of the corporate-wide investment clients (reported in the 2006 IFC client survey ), the Nigerians were more critical of IFC's handling of organizational issues including: (i) management responsiveness; (ii) IFC's decision-making process; (iii) IFC's delivery of funds; (iv) the responsiveness and timeliness of IFC's service; (v) IFC's flexibility; (vi) the time it takes from first contact to receive the first disbursement (investment clients only); and (vii) IFC's helpfulness in assisting the company in its investment implementation (investment clients only).

3.21 **According to the IEG-IFC survey of Nigerian clients, 80 percent of investment clients and 56 percent of the advisory services clients were satisfied with the quality of IFC's services.** The percentage of Nigerian investment clients who were satisfied with the quality of IFC's service was quite close to the percentage of satisfied corporate-wide investment clients. The majority of the Nigerian investment clients (60 percent) were from the financial sector. The manufacturing sector accounted for just 10 percent, and no other sector made up more than 5 percent of the investment portfolio. Most of the Nigerian investment clients (60 percent) were repeat clients. The major areas of criticism by investment clients were delay in fund delivery, lateness in approving credit applications, service cost, and overcentralization of decision making and internal bureaucracy. On future financing, the investment clients expected: (i) better pricing; (ii) regular quarterly review meetings; (iii) additional credit support for client's customers; (iv) training and capacity building; and (v) regular contact with IFC's portfolio and investment staff. The distribution of IFC's Nigerian advisory services clients was approximately uniform across sectors. The bulk of advisory services clients (67 percent) were new clients. Their major criticisms were lack of flexibility with processes and procedures, delayed decision making, and inefficient procedures. IFC was perceived as overly bureaucratic.

3.22 **Poor satisfaction ratings for advisory services can largely be attributed to staffing issues that are typical of the PEP model.** Specifically, the attraction and retention of talented staff for advisory services may be even more difficult than for investment operations. The added challenge stems from the fact that advisory staff are retained on an employment contract that terminates with the advisory project, which can run anywhere from six months to two years. These staffing issues have been confirmed in IEG-IFC discussions with advisory services recipients. The same issues have also impacted the performance of other PEP facilities, such as the one operating for Eastern Europe and Central Asia (PEP ECA). A recent IEG evaluation of PEP-ECA found that "it has become a challenge to identify qualified candidates speaking local languages and willing to relocate to a difficult frontier country for only a two-year commitment without assurance of further professional opportunity." Such challenges result in project delays and inconsistency at project closing, as consultants are often focused on identifying their future employment possibilities.

3.23 **The differences between the results of the IEG survey of Nigerian clients and the corporate-wide 2006 IFC client survey reflect different methodologies and purposes.** Annex 5 compares clients' responses to the two surveys.

- The sample for the 2006 IFC client survey was not representative of the corporate-wide population of IFC's clients, despite the title of the survey. Its sampling method picked corporate-wide clients that had had their first disbursements in the most recent calendar year (2005) and three years earlier (2002). This purposeful sampling was applied, according to IFC, to learn from the most recent clients about the current state of IFC's delivery mechanism (that is, about clients' first disbursement and subsequent supervision experiences). The IEG survey, by contrast, contacted the entire population of Nigerian clients.
- The 2006 IFC client survey had a lower response rate than the IEG survey of Nigerian clients. This may be due to the fact that the "IFC Client Survey 2006" questionnaire was sent directly to clients from IFC's headquarters, bypassing IFC's client-relationship organization. The IEG survey of Nigerian clients was delivered to clients through the client-relationship organization.
- The 2006 IFC client survey did not report country-specific results.

## **Conclusion**

3.24 IFC's investments addressed only a few of its broad strategic objectives, while advisory services loosely followed IFC's strategic objectives. High country risk played an important role in the low-risk model of intervention that IFC developed in its reengagement in Nigeria. IFC's stated goal of cooperating with the World Bank to help improve the business environment was partially achieved. The objective of establishing a common donor program in Nigeria, however, was not realistic and was not achieved. The results of IFC's personnel policies in Nigeria were mixed. Although a few organizational and operational changes were made to help achieve results, inadequate resources were allocated to advisory services operations in Nigeria. IFC's Nigerian clients were more critical of IFC's organizational issues than were IFC's corporate-wide clients. Low satisfaction with advisory services may be attributable to staffing issues.

## 4. Results of IFC's Operations

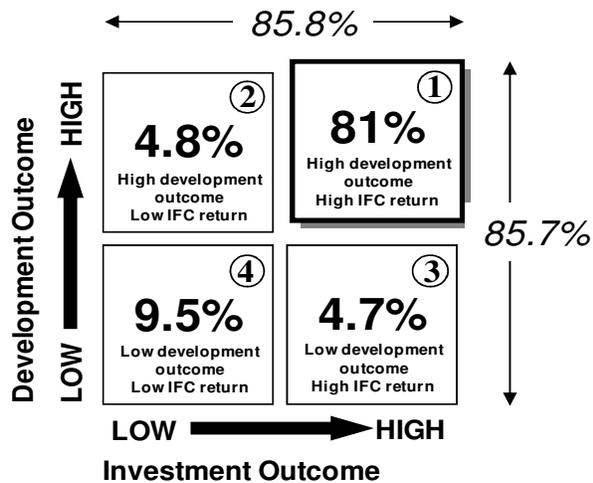
This chapter looks at results. The following criteria were used to evaluate the results of IFC's investment and advisory services operations: (i) how well projects achieved their expected outcomes (intermediate effects of outputs on clients) and what reasons there were for any variance; (ii) whether a self-evaluation system was in place; and (iii) whether the operations achieved development impact (long-term, widespread improvement in society). Annexes 4, 5, 7, and 8 provide further information.<sup>1</sup>

### IFC's investment operations

#### *Achievement of project development outcomes*

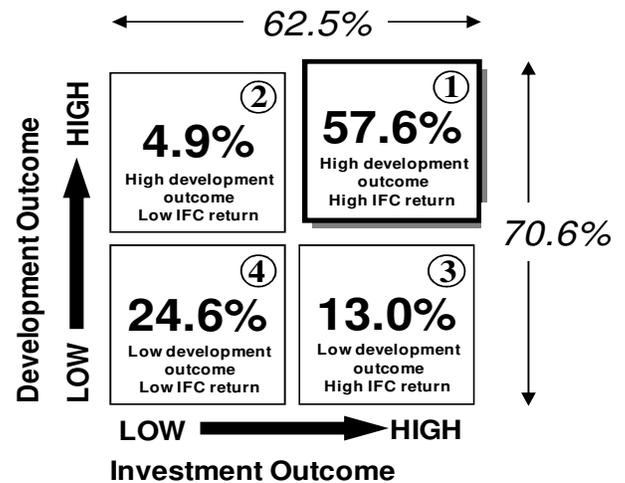
4.1 **The Nigerian portfolio rated high in development outcome and investment outcome.** The high ratings are largely due to IFC's choice to concentrate its activities on a narrow group of strong sponsors and on a sector-product mix that IFC believed to pose lower risk. As a result, 81 percent of IFC's Nigerian projects achieved high development outcome and investment outcome, compared with 58 percent of IFC projects overall (figures 4.1 and 4.2). Because most of the evaluated projects were in the financial sector, a more relevant comparison would be between the Nigerian financial sector projects and projects in comparable financial sectors. Considering IFC's financial sector portfolio alone, 82 percent of Nigerian projects, 61 percent of corporate-wide projects (figures 4.3 and 4.4), 44 percent of African projects (annex 7, figure 5<sup>2</sup>), and 43 percent of projects in resource-rich countries achieved high development outcome and investment outcome (annex 7, figure 6<sup>3</sup>).<sup>4</sup>

Figure 4.1: Outcomes of all IFC Projects in Nigeria



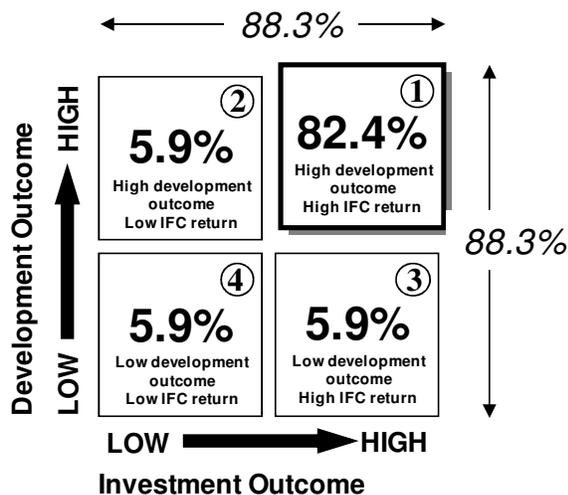
21 projects approved FY 1999-2007  
Source: Independent Evaluation Group

Figure 4.2: Outcomes of all IFC Projects



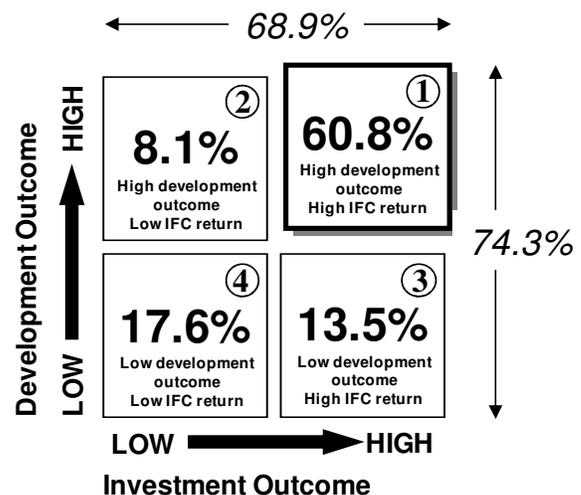
224 projects approved FY 1999-2002  
Source: Independent Evaluation Group

Figure 4.3: Outcomes of IFC's Financial Sector Projects in Nigeria



17 projects approved FY 1999-2007  
Source: Independent Evaluation Group

Figure 4.4: Outcomes of all IFC Financial Sector Projects

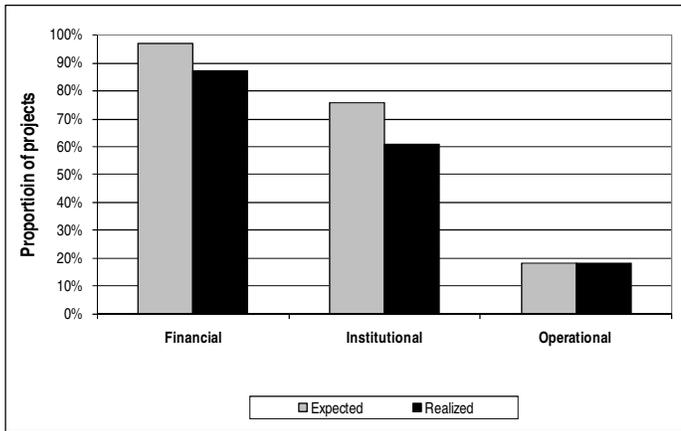


74 projects approved FY 1999-2002  
Source: Independent Evaluation Group

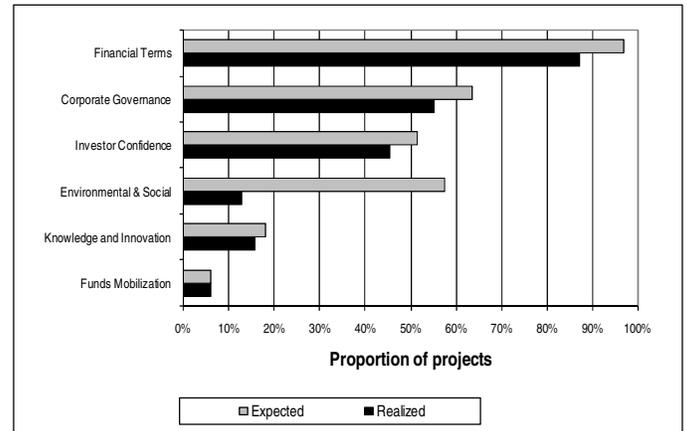
4.2 IFC's additionality—its unique value added—in Nigeria has been primarily financial and institutional. Financial additionality<sup>5</sup> was expected for 97 percent of projects and achieved in 87 percent (figure 4.5). Of the forms of financial additionality, better financial terms (longer-term financing) was the most frequently achieved, followed by enhancing investors' confidence (figure 4.6). Institutional additionality was expected for 76 percent of projects and achieved in 61 percent. Institutional additionality was achieved primarily in the form of improvement of corporate governance (expected for 21 projects and realized in 16), rather than in environmental and social

additionality. Environmental and social additionality was expected for 19 projects (58 percent), but achieved in just 4 (13 percent). IFC achieved greater institutional additionality in Nigeria than in its projects corporate-wide and in Sub-Saharan Africa (figure 4.7). The high incidence of institutional additionality appears to be a consequence of IFC's focus on financial institutions, which has helped clients move toward achieving international standards and becoming acceptable partners for international financial institutions.

**Figure 4.5: The Additionality of IFC's Projects in Nigeria has been mostly Financial and Institutional**

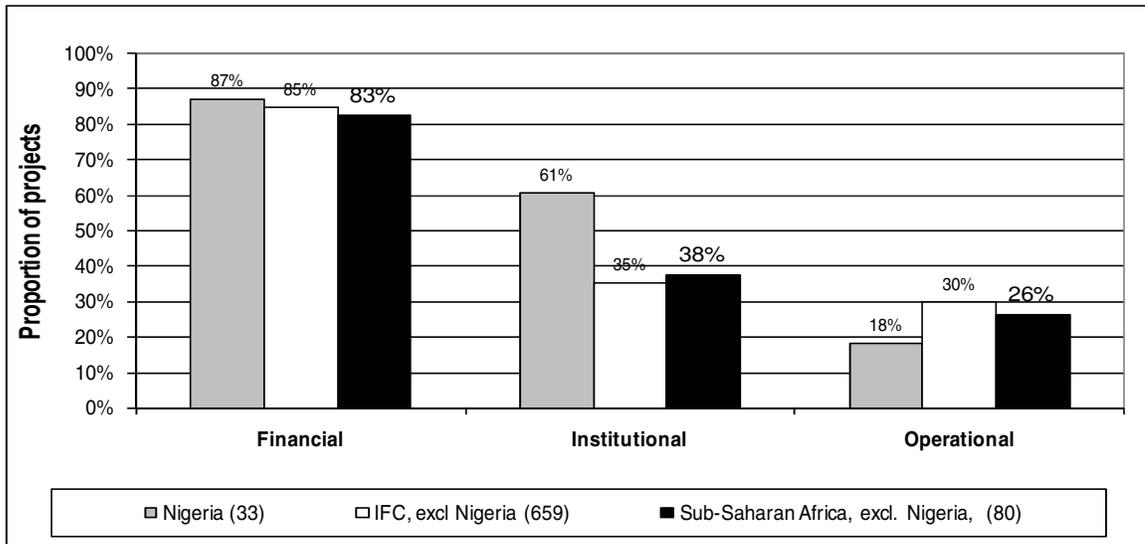


**Figure 4.6: Additionality is most often seen in the terms of Financing, Corporate Governance, and Market Comfort**



Note: Based on 33 projects approved between FY 1999 and 2007  
Source: Independent Evaluation Group

**Figure 4.7: IFC's Projects in Nigeria Score better on Institutional Additionality and worse in Operational Additionality than IFC Projects Worldwide and in the rest of Sub-Saharan Africa**



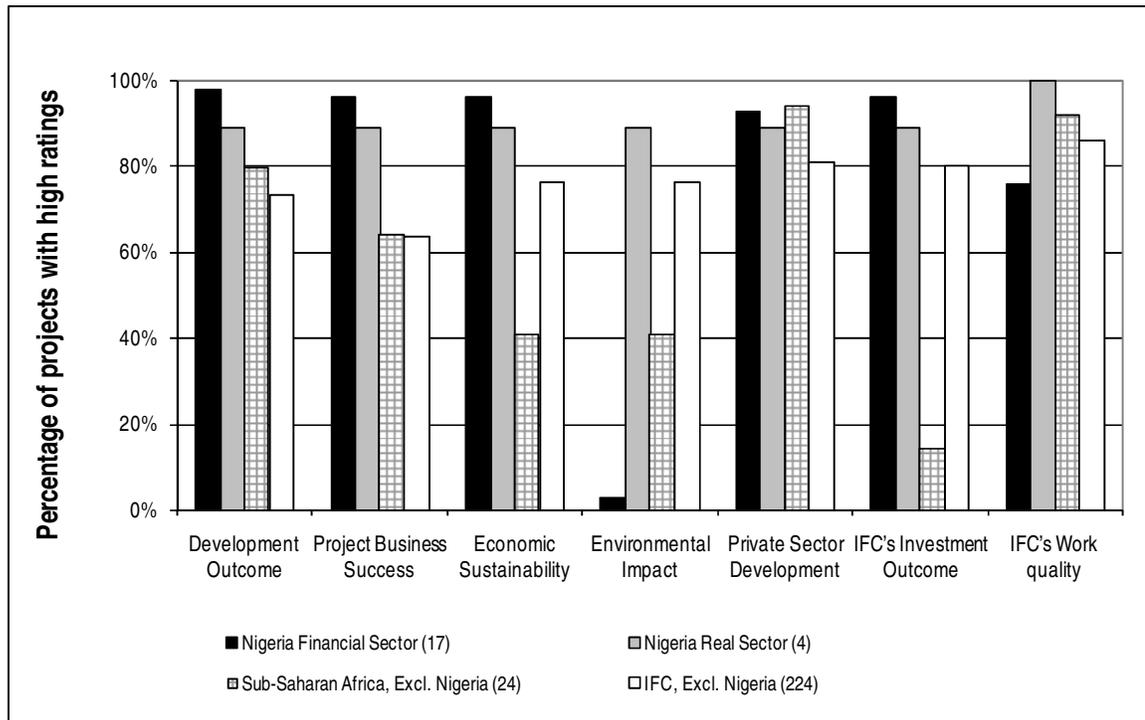
Note: Data for IFC and Sub-Saharan Africa are based on 692 investment operations evaluated between 1996 and 2007, excluding four projects in Nigeria and 29 projects for which it was not possible to render an opinion  
Source: Independent Evaluation Group

### *Variance of project outcomes*

4.3 **The success ratings were driven by strong performance on certain dimensions—** project business success, economic sustainability, private sector development, loan investment outcome, screening, appraisal and structuring, and IFC's role and contribution. Ratings for two other dimensions of performance—environmental and social effects, and supervision and administration—were much lower (figure 4.8). Of particular concern is the extremely poor environmental and social performance of those projects required to establish an environmental management system and monitor environmental performance. For the evaluated financial sector portfolio the success rate on environmental and social effects was lower than 10 percent. All of the banks in which IFC invested initially failed to establish and sustain a satisfactory environmental monitoring system and failed to meet IFC's minimal requirements. Only in the last few years of the study period was progress seen.<sup>6</sup> Overall, this is an exceedingly poor performance in an otherwise well-performing portfolio. It is partly explained by the low environmental awareness and weak capacity of the Nigerian sponsors.

4.4 **The main weakness in IFC's work quality was supervision and administration.** The dimension of supervision and administration was rated below 50 percent, well below the ratings for the other four comparator groups (see annex 7, table 27). To a large extent, this poor result reflects poor supervision of environmental and social effects in financial sector projects, staff turnover, poor handover, and gaps in oversight. Nevertheless, the quality of overall supervision was found to have improved somewhat in recent years. The cause of the problems in supervision of environmental and social effects appears to be organizational blurring—that is, environmental and social specialists did not work with portfolio supervision teams in a fully integrated way. Although some portfolio supervision is done from Lagos, no environmental and social specialist is based there. Environment and social supervision is carried out from another location, even though the Nigeria portfolio is IFC's 11th-largest worldwide and its largest in Sub-Saharan Africa.

**Figure 4.8: Selected Ratings for IFC Investment Projects in Nigeria, Sub-Saharan Africa, and the World by Volume**



Note: IFC and Sub-Saharan Africa data are based on 230 investment operations approved between FY 1999 and 2002, excluding four Nigerian products and two regional projects.

Source: Independent Evaluation Group

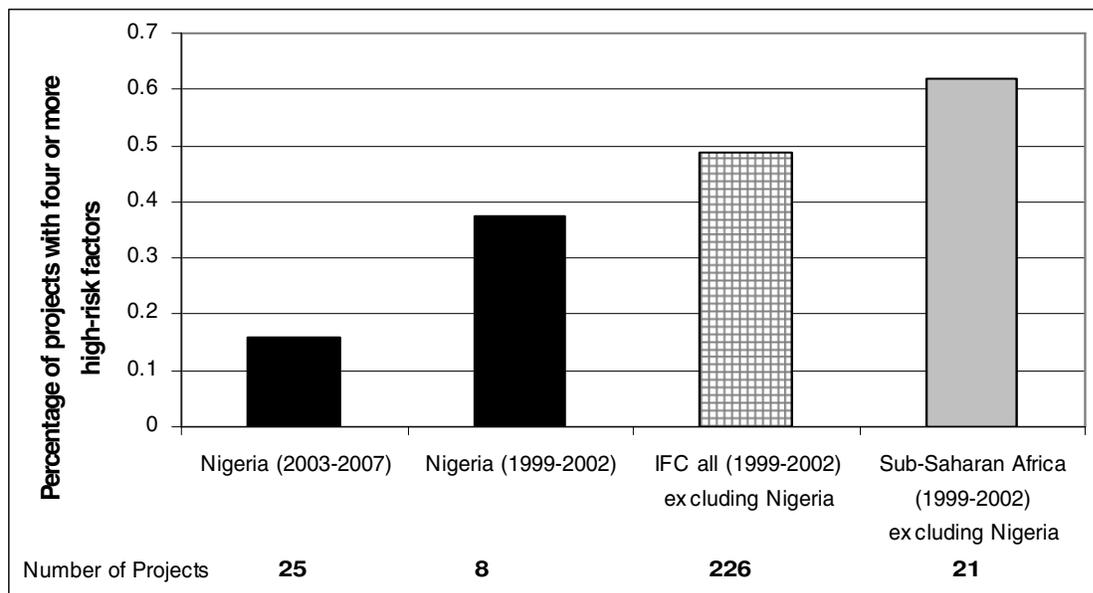
**4.5 Loans to commercial banks displayed strong performance in terms of business success, economic sustainability, and private sector development, but without exception failed to meet IFC's requirements for environmental and social effects.** The participation of IFC improved the Nigerian sponsors' governance—and therefore their international credibility. The more recent financial sector projects seem to be serving more micro, small, and medium enterprises. The trade guarantees, made under the umbrella of the Global Trade Finance Program<sup>8</sup> (GTFP), have facilitated imports of consumables and capital goods in a country where the scarcity of trade finance has hindered imports. Moreover, the GTFP introduced the Nigerian issuing banks to a global network of confirming banks.

**4.6 The projects that achieved high development outcome and investment outcome were low-risk investments.** Ninety-nine percent of the projects were in low-risk sectors<sup>9</sup> (notably financial services and mobile telecommunications). Most sponsors presented medium to low risk, and the financial structure of the investments tended to be conservative. More than 40 percent of the projects were repeat business. Where IFC chose to continue supporting proven performers selected from among the country's stronger banks. The early focus appears to have been building strength at the upper end of the banking sector, predominantly supporting funding for the corporate sector, with a minor but increasing emphasis on small and medium enterprises. Six of the projects were part of the GTFP. For the most part, they proved successful and, for several of the issuing banks, highly successful. Recently, there has been a slight increase in real sector projects, which represented 24 percent of the total commitments over the period. The real sector suffers from a high incidence of

delay in project implementation, reflecting the difficult business environment, lack of the necessary infrastructure and resources, shortages of requisite experience among sponsors, technical skills not adequate for the tasks presented, inefficiencies introduced by continued high levels of corruption, and, in some cases, insurgency.

4.7 **IFC tended to be risk-averse in Nigeria.** A smaller number of projects in Nigeria had four or more risk factors than in IFC’s projects worldwide or elsewhere in Sub-Saharan Africa. Furthermore, the share of Nigerian projects that had four or more risk factors was smaller among recent projects than among more mature projects (figure 4.9). IFC’s efforts seemed to have focused on reducing the number of risk factors rather than on mitigating and managing the risks that are typical of private sector development activities in Nigeria. IFC’s relatively high risk aversion in Nigeria has been confirmed in IEG-IFC discussions with IFC personnel. The Nigerian projects were structured with much lower financial risk, lower appraisal risk (thanks to good appraisal work quality, as shown in annex 4<sup>10</sup>), sponsor quality above IFC’s average, and lower market risk. They also were more likely to be repeat projects (see annex 7, figure 7<sup>11</sup>). Financial sector projects in particular displayed lower risk, achieved through numerous repeat projects and by pursuing the expansion of the better-established entities in the market. The real sector projects displayed higher sector risk and a greater number of greenfield projects but otherwise shared with the financial sector projects lower risk for the other five categories (annex 6<sup>12</sup>). Overall, IFC’s Nigeria work had a lower equity exposure, as measured by number of projects, and a lower level of high-risk projects, yet double the percentage of financial sector projects. IFC was completely absent from infrastructure (other than mobile telephony) and agriculture. It had minimal participation in the oil, gas, and mining sectors, and half the average levels of manufacturing sector investment (see annex 7, table 6<sup>13</sup>).

**Figure 4.9: Risk Intensity of IFC Projects in Nigeria, in Sub-Saharan Africa, and World-wide**



Source: Independent Evaluation Group

4.8 **IFC has invested in a narrow sector-product mix in Nigeria.** The country’s major infrastructure needs lie in the energy and transport sectors, where IFC had no investment projects.

Delays in privatization and inadequate legislation and regulation have inhibited IFC investments in these sectors, while providing the rationale for advisory services. The oil and gas sector was represented by one small financial-service entity that failed to perform. Nevertheless, opportunities for IFC in the oil and gas sector are evident both upstream (marginal fields, oil and gas services) and downstream (fertilizers, petrochemicals).<sup>14</sup> The general manufacturing sector is underrepresented, chiefly because of the difficulty of finding adequately qualified sponsors. In general, the sector is hobbled by poor transport and energy infrastructure. The agriculture and the agribusiness sectors were absent from IFC's portfolio. Hospitality was represented by one hotel project approved in 2004, which, at the time of the evaluation, had barely reached the ramp-up stage and therefore could not be evaluated. In health and education, a follow-on education project proved successful; a health-sector service entity approved in 2007 was too recent to evaluate.

### *Selected projects' development results*

4.9 **The introduction of mobile phones in Nigeria has had a significant impact.** There was almost no communications sector in Nigeria in 2001, except for an unreliable government-owned fixed-line telephone company. The business environment was widely perceived to be high-risk, and cellular phone operators were seen as overpaying for their licenses. Because the several competitors for the licenses were not well known as cell phone operators, IFC's participation helped to comfort lenders. IFC's investee has rapidly expanded the mobile telephone network, and IFC, through its position in the company's board of directors, has positively influenced the company's corporate governance. IFC's follow-on investment in the same company produced more financial effects than developmental impacts.

4.10 **IFC achieved a significant result in the financial sector, first as a source of long-term financing and later by providing trade-finance guarantees.** IFC's corporate loans to Nigerian financial institutions early in the period under study provided long-term financing that was scarce at the time; IFC's participation improved governance at the borrowing institutions and therefore boosted their international credibility. Nevertheless, from now on it would appear advisable to pay greater attention during project design to the correspondence between proposed financial sector projects and IFC's overall mission. Project teams probably should be held to more realistic claims about their projects' likely contributions to SME development and environmental improvements. This is particularly important in view of IFC's limited ability to monitor whether the financial resources it provides are being used in accordance with the loan agreements. Since 2006, IFC has provided exposure and international credibility to the financial institutions through the GTPF. Beneficiary institutions were introduced to the outside world at a moment when Nigeria was not considered a favorable investment destination. As mentioned earlier, six IFC projects fell under the GTPF umbrella; for the most part they proved successful and, for several of the issuing banks, highly successful, reflecting the scarcity of trade finance in Nigeria at the time. Furthermore, the trade-finance guarantees facilitated imports of goods and services important to the growth of the non-oil economy. The successful demonstration impact of these projects has increased the ranks of Nigerian issuing banks prepared to offer trade finance without the help of IFC's trade guarantees.

4.11 **But IFC has not achieved any material progress in strengthening linkages to the oil and gas industry.** A study comparing Nigeria with other big oil producers suggests that Nigeria has not emphasized value creation or addition within the country (or "local content") as many other oil-rich countries have succeeded in doing. This can be seen in terms of the share of local content in upstream oil and gas production—a mere 5 percent in Nigeria compared with, for example, 70

percent in Brazil and Indonesia, 50 percent in Norway, and 25 percent in Malaysia. One oil and gas project that had a low development impact is profiled in box 4.1, along with a mobile telecommunications project that had a high impact.

#### Box 4.1: Examples of high- and low-impact Investment Projects

##### *High impact project in mobile telecommunications*

Following the auction of digital cellular networks, IFC supported one of the license winners, providing long-term funding directly and by syndication at a time when the international financial world shied away from Nigeria. The initial projections anticipated expansion of the network to 2 million subscribers, reaching all of Nigeria's state capitals, covering 80 percent of the population and 60 percent of the country's geographic area. The company's growth rate wildly exceeded forecasts and, by 2007, after a second round of funding supported by IFC, the company operated in 82 cities, plus more than 2000 communities, boasting more than 14 million subscribers. Consequently, the project's was rated highly. Shareholder value multiplied to 15 times the amount invested. The project significantly contributed to setting Nigeria on a fast track toward the establishment of the minimum level of telephony infrastructure required to attract foreign direct investment, provide an enabling environment for local corporate clients and small businesses, and conduct business efficiently. (Nigerian and international firms have consistently mentioned deficient telecommunications as the second-most-important impediment, after power shortages, to doing business in the country.)

A downside of the project emerged when the growth of new subscribers outstripped the ability to install hardware, leading to congestion. Nevertheless, the project clearly demonstrated that infrastructure can be provided effectively by the private sector, with foreign investors in a key role, supporting the privatization and private participation goals of the government and providing a direct contrast to the poor performance of state-owned or -controlled companies. The Nigerian experienced occurred despite a difficult investment climate, but with an open and transparent liberalization process.

##### *Low impact project in oil and gas local content*

In an attempt to reduce opposition to the foreign exploitation of the oil reserves in the Niger Delta by promoting the development and competencies of domestic entities, IFC established a revolving credit loan facility for small and medium suppliers and contractors to provide goods and services to the oil industry. This was undertaken jointly with one of the major commercial banks and a major multinational petroleum group. All potential suppliers were to be subject to preapproval by the industry partner, and the credit lines were to be processed by the bank. IFC disbursed a small amount into an offshore account in anticipation of completion of an initial transaction. For a variety of reasons, however, including organizational structure and internal restructuring, the industry partner had failed to devote enough resources to promote use of the facility among their contractors. After inception, the project received only one applicant, which failed to meet the necessary criteria. In conjunction with the banking partner, IFC pressed the project with little result, and after two years no potential clients had been put forward for approval. The project was closed.

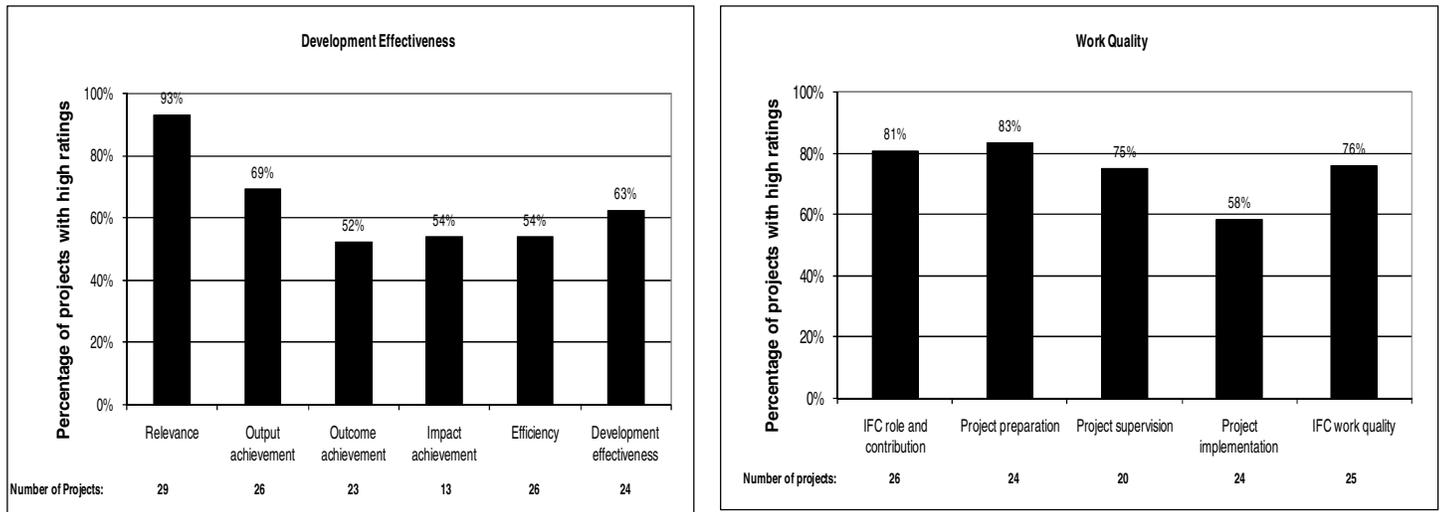
## IFC's advisory operations

### *Achievement of development outcomes*

4.12 IFC's expected outcomes were only partially achieved in Nigeria during the period under review. The main issues arise in the categories of mid- and long-term outcome and impact, where ratings were distinctly low (figure 4.10). Barely half of the advisory services projects in Nigeria achieved a satisfactory rating for outcome, while only 46 percent achieved satisfactory impact.<sup>15</sup> With

regard to work quality, IFC scored reasonably well on its role and contribution (81 percent satisfactory) and on project preparation (83 percent satisfactory), but the ratings declined for project implementation (46 percent satisfactory). Many of the projects experienced significant delays in implementation, which was caused by factors that ranged from security concerns to administrative and bureaucratic issues.

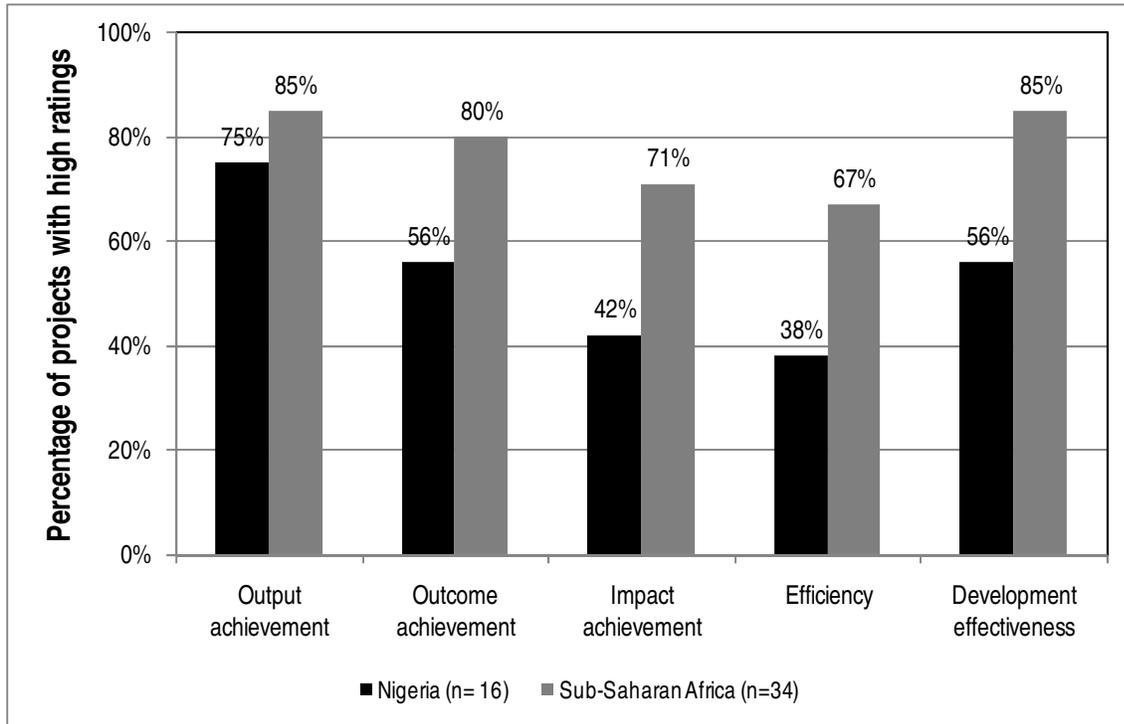
**Figure 4.10: IEG scored Advisory Services Projects in Nigeria low on Outcomes and Impacts, but generally higher on Work Quality (FY 2000- 2008)**



Source: Independent Evaluation Group

4.13 **Advisory services projects in Nigeria had ratings significantly lower than the rest of the Sub-Saharan portfolio in impact, efficiency, and development effectiveness.** IEG-IFC compared the ratings of completed advisory services operations in Nigeria with project completion reports (PCRs) for projects in the rest of the region. Only 42 percent of the advisory services projects in Nigeria achieved a rating of satisfactory on impact achievement, compared with 71 percent for the rest of Sub-Saharan Africa. Nigeria fared the worst in efficiency, where it achieved a satisfactory rating of just 38 percent, as compared with the 67 percent satisfactory rating achieved in the rest of Sub-Saharan Africa. Figure 4.11 compares all five rating categories. The comparison was made using the 16 PCR validations for Nigeria, compared with 34 conducted by IEG throughout the Sub-Saharan region.<sup>16</sup>

**Figure 4.11: Outcome Ratings for Completed Advisory Services Projects in Nigeria were lower than Ratings for the rest of Sub-Saharan Africa**



Source: Based on project completion reports, validated by Independent Evaluation Group

4.14 **Several of the projects reviewed missed their desired outcome by a significant margin.** Reasons for the shortfall varied from delays caused by security concerns to poor client uptake and soured relationships. Among the projects whose outcomes fell short of their goals:

- *Commercial Bank Sustainability Training:* This project to build the client bank’s capacity for environmental due diligence was never implemented, and funds were subsequently returned to the donor.
- *Business Enabling Environment (BEE) Cluster Development:* A regional capacity-building organization and private sector working group was initiated in eastern Nigeria but failed to gain intended momentum.
- *Oil & Gas Linkages Project:* This oil and gas local content development project was delayed for more than a year because of security concerns in the Niger Delta region.
- *AIDS Awareness Program:* The expected buy-in from client staff did not materialize.

4.15 **In spite of the difficulties experienced in Nigeria, some advisory services projects have demonstrated positive medium- and long-term impact.** Box 4.2 offers examples of high- and low-impact advisory services projects. Two other examples of projects with discernable impacts are these:

- *Enterprise Development Services:* This project was created to support the preeminent business school in Lagos. The project was incubated within the school and has now been established as an independent department of the university.

- *Small-Scale Power Generation and Distribution:* Projects to provide technical, commercial, environmental, and investment bank services to two off-grid private power generation and distribution companies succeeded in attracting private financing and have been successful in implementing their main objective of generating and supplying power to industrial and commercial customers.

#### Box 4.2: Examples of High- and Low-Impact Advisory Services Projects

##### *High-impact project in bond market development*

IFC engaged with the Nigerian Securities Exchange Commission and the Nigerian Stock Exchange to provide assistance in developing a local bond market. The project set out to identify impediments to the development of Nigeria's bond market and to make recommendations to overcome those impediments.

Several of the recommendations presented to the Nigerian government were implemented. The relationship between IFC and the client was positive and professional. The advisory services project team was persistent in marshalling internal consensus to pursue reforms that would open the bond market in Nigeria.

The project proved catalytic in helping to blaze a path toward the development of a corporate bond market in Nigeria. Today, not only is the corporate bond market growing, but there is a trend toward bonds with increasingly long tenors. The Government of Nigeria itself has begun to offer longer-term government debt, thereby establishing a benchmark yield curve.

##### *Low-impact project on privatization of the Lagos state water utility*

IFC engaged the Lagos Water Commission to develop a strategy to privatize the Lagos water district and attract foreign operators via a concession arrangement. It was broadly accepted by all parties that the water-supply system in Lagos City was inadequate in condition, efficiency, and service area (reach).

IFC's discussions with the Water Commission began to break down as the parties disagreed on the privatization model. IFC was accused of trying to force a "one size fits all" model on the commission when it proposed a plan similar to that used in Manila (Philippines). Based on conversations with former Water Commission officials, IEG learned that the commission believed that the IFC program had overlooked critical structural issues regarding the municipal water system. Eventually, the relationship fell apart.<sup>a</sup>

One of the more troubling aspects of this advisory services project is that the Project Completion Report stated that the project was implemented with "fully satisfactory outcomes." IEG was unable to obtain any additional supporting documentation for the project.

<sup>a</sup> The World Bank implemented the Second National Water Sector Reform Project in FY 2006. As was the case with IFC's

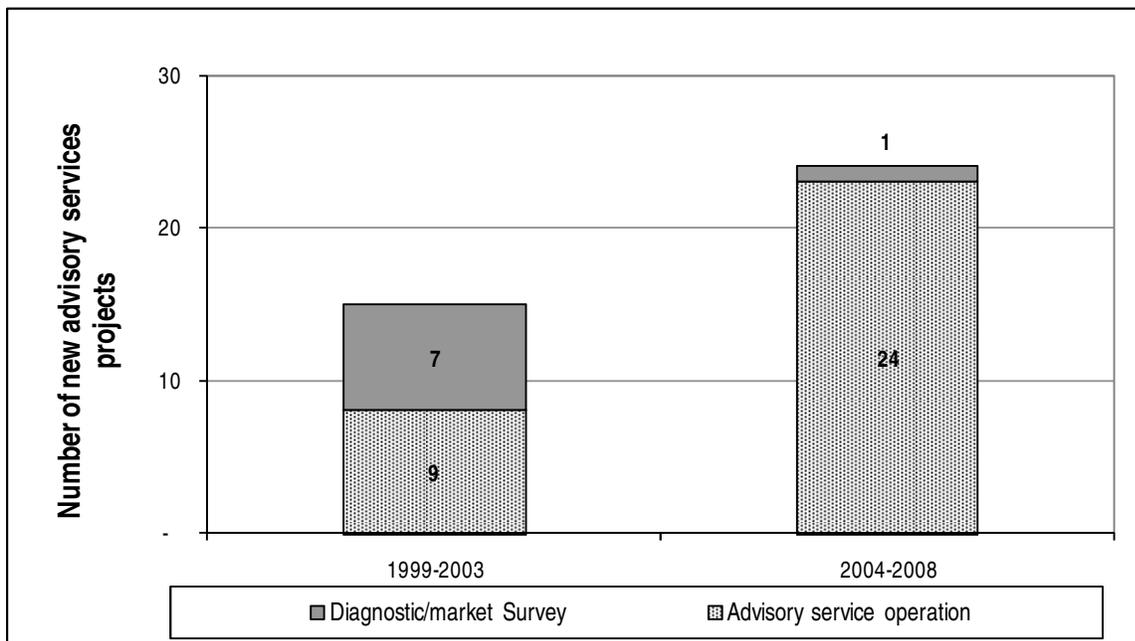
#### *Variance in project outcomes*

4.16 **The low ratings for project outcome and impact are mainly the result of poor client uptake.** Advisory services projects that did not directly support the core operations of the client tended to garner low ratings for outcome and impact. For example, IFC offered an AIDS-awareness program to one of Nigeria's main mobile phone service providers. Although the client was initially interested in the project, it was largely unsuccessful. One reason for the poor uptake is that the client's staff did not have a compelling business-related incentive to dedicate their time to the program. In addition, management was focused on other immediate issues surrounding the rapid growth of the company.

4.17 **The design and delivery of advisory services was influenced by two central issues.** First, Nigeria transitioned from military to democratic civilian rule in 1999. Because of this, the early years of the advisory services program in Nigeria were a time of great uncertainty, not only over national and state priorities, but also over the level of institutional capacity and political will. Second, the regional platform for advisory services design and delivery, the APDF, was closed in 2005 and replaced, after a time, by PEP Africa.

4.18 **There is a distinct trend in the type of advisory services operations conducted by IFC, shifting from diagnostic studies to direct company engagements.** Almost half of the advisory services projects (7 of 16) undertaken during the 1999–2003 period were diagnostic studies (figure 4.12). Most were conducted by the Foreign Investment Advisory Service (FIAS) and concentrated on assessing government institutional capacity and identifying bottlenecks within the government. Other studies reviewed the pharmaceutical industry, identified administrative barriers for private firms, and assessed the insurance, pension, and asset-management markets. The one diagnostic project initiated during the 2004–08 period, conducted by FIAS, addressed company registration issues with a particular focus on SME development. Given the uncertainty of the environment after the end of military rule, it is reasonable to expect that there would be a need to analyze market and sector needs. After this period of analysis, advisory services projects took more traditional forms. Despite early attempts to gain added knowledge and insight into the complexities of a newly democratic Nigeria, however, the early analytical activities did not always translate into follow-on advisory services projects.

**Figure 4.12: More Institutional and Market Diagnostics were conducted in 1999-2003 than in the Subsequent Period**



Source: Independent Evaluation Group

**4.19 When IFC advisory services directly linked to investment projects addressed issues that did not directly increase or enhance a client's business, uptake was poor.** For example, IFC attempted an AIDS awareness program with an existing investment client. Conceptually, the management of this telecommunications company supported the project. However, staff showed only modest interest in it, and the project never achieved the buy-in that IFC had hoped for. Another example involves environmental awareness training offered to a local commercial bank. IFC was to provide training to loan officers to enhance their awareness of the environmental issues that must be considered when conducting due diligence on loans. Once again, management agreed with the project in principle, but the project never took off and was eventually canceled. Both projects had merit, but in a business environment such as Nigeria's, clients have limited resources and tend to focus on actionable activities that enhance their competitive advantage and their bottom line.

**4.20 Advisory services directly linked to investment projects that achieved the highest outcome and impact ratings shared some common characteristics:**

- The project directly supported or enhanced the main business line of the beneficiary.
- The project appeared likely to enhance the beneficiary's commercial performance.
- The project had clear benchmarks.

**4.21 IFC was also successful when it focused on a particular sector and helped either to create or broaden that sector.** For example, IFC's Bond Market Development project focused on opening up the nascent bond market by helping to craft enabling legislation and establish a strong oversight body. The net result of IFC's efforts can be detected in the current momentum, liquidity, and increased competition now observed in the Nigerian bond market. A similar approach was observed in IFC's involvement with a large Nigerian health care provider and HMO. In this case, IFC took a multistep, integrated approach to the client. IFC's advisory services team first conducted a market study and needs assessment for the private HMO industry in Nigeria through its HMO Industry Expansion Program. This preliminary work was undertaken after the Government of Nigeria decided to provide health care to its employees through a public-private partnership. A second advisory services project involving the aforementioned entity was approved in order to assist it in establishing good practices and risk management of its HMO business, and to help it attain international accreditation for its health care facilities. Furthermore, IFC investment operations provided financing to construct modern facilities that would meet international standards. Although the ultimate outcomes of the latter project were not yet measurable at the time of publication, IEG was satisfied during its meeting with the client's management that the project was proceeding according to plan.

**4.22 Despite the emphasis on integration with investments, only a few advisory services projects directly supported the investment projects' core business.** Table 4.1 displays the five advisory projects linked to IFC investment clients. The low level of direct support contrasts unfavorably with the emphasis in IFC's strategy on integrating advisory services with investment projects.

**Table 4.1: Advisory Services Projects Linked to IFC’s Investments**

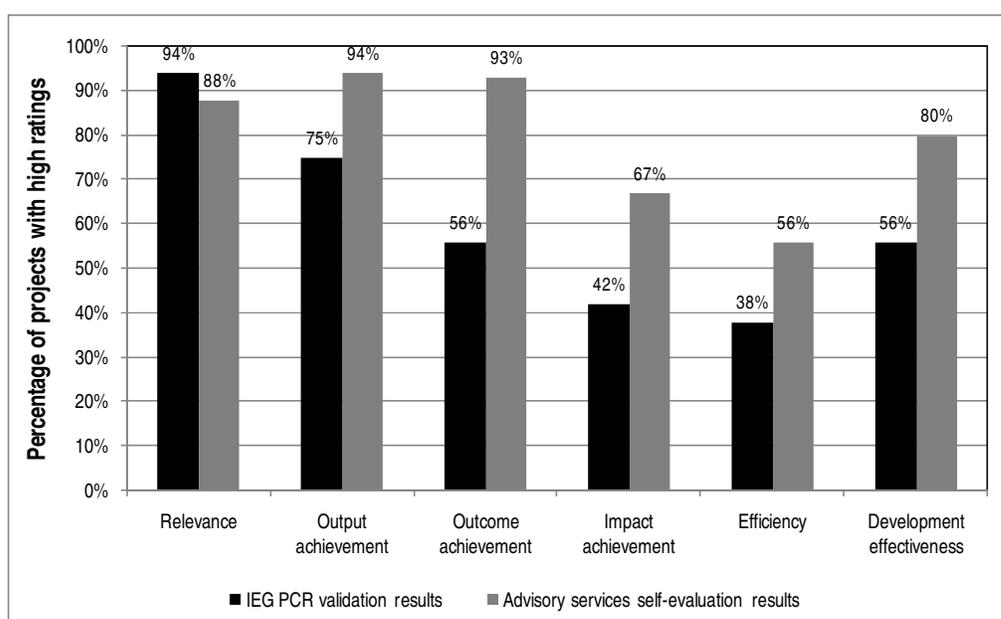
Project type	Project cost, actual (US\$)	Approval FY	Status	IFC business line	Supports client’s core operations?
Mobile telephone operator	63,081	2005	Closed	Value addition to firms	No
Bank	350,000	2006	Active	Value addition to firms, gender	No
Bank	55,000	2006	Active	Access to finance, sustainable finance	No
Health care provider, HMO	145,000	2007	Active	Infrastructure, health, and education	Yes
Software	245,000	2007	Active	Infrastructure, health, and education	Yes

Source: Independent Evaluation Group

*IFC’s advisory services project evaluation system*

4.23 **Self-reported results for advisory services (contained in Project Completion Reports) overstated project results, particularly in the category of outcomes.** Several factors help explain the large disparity between self-reported and IEG-validated ratings (figure 4.13). First, the earlier project completion reports confused project outcomes with outputs. Second, IEG has the benefit of hindsight, which the project teams did not have at the time of project closing. This is a significant consideration, because project outcome and impact often require more time to become measurable; more so than project output. As a result, IEG was able to discern more clearly whether a project was ultimately sustainable and was able to achieve its stated medium- and long-term goals.

**Figure 4.13: IEG’s Rating of Sixteen PCRs showed a significant variance from the Self-Evaluations of Advisory Services Project Teams**



Note: IEG was able to identify the outcome achievement and development effectiveness for one of the advisory services projects; the advisory services team could not do the same for this project at the time of its completion

Source: IEG and PCR pilots 1 and 2

4.24 **More recent PCRs contained self-evaluations of higher quality than their predecessors—in two distinct ways. First, the ratings categories were aligned to reflect the current evaluation methodology and rating framework.** Second, the information supporting the self-ratings was generally more complete. Senior management of PEP Africa openly acknowledged that project and document administration prior to 2005 (pre-PEP Africa) was not at an acceptable standard. Management further explained that it was often difficult to locate project progress and completion reports under the APDF program. They confirmed that monitoring and evaluation and the centralization of project documents, while priorities are a work in progress. IEG reached similar findings in its recent review of the Private Enterprise Partnership for Europe and Central Asia, recommending that management improves the quality of monitoring and evaluation indicators, data collection methods, and cost accounting. The recognition of these weaknesses by the management of PEP ECA was similar to that in PEP Africa—they too confirmed that steps had been taken to address each of these areas (IEF-IFC 2008d).

## Conclusion

### *Investments*

4.25 IEG rated the Nigerian portfolio high in development and investment outcome. Moreover, the additionality that IFC has achieved in Nigeria has been largely financial and institutional rather than operational. These circumstances reflect the concentration of IFC's activities in Nigeria on a narrow group of strong sponsors and on a sector-product mix that IFC felt posed lower risk. The success ratings were driven by strong performance on the dimensions of project business success, economic sustainability, private sector development, loan investment outcome, screening, appraisal and structuring, and IFC role and contribution. Two other dimensions—environmental and social effects, and supervision and administration—achieved the poorest ratings. Loans to commercial banks failed without exception to meet IFC's requirements for environmental and social effects, while displaying strong performance in business success, economic sustainability, and private sector development. The projects that achieved high development outcome and investment outcome were low-risk investments. IFC tended to be risk-averse in Nigeria, generally avoiding high-risk sectors during the period reviewed. IFC achieved significant results in the financial sector, initially as a source of long-term financing, and later as a source of trade-finance guarantees—and in the mobile communications sector. In brief, IFC did not do what it expected to do, but what it did it did well, guided by high risk aversion in the selection of sectors, products, and sponsors.

### *Advisory services*

4.26 IFC's expected outcomes were only partially achieved in Nigeria during the period under review, and projects in Nigeria earned ratings significantly lower than those of the Sub-Saharan portfolio in impact achievement, efficiency, and development effectiveness. IFC's early advisory services projects were generally opportunistic. But in spite of the difficulties encountered in the country, some advisory services projects have achieved positive medium- and long-term impact. IFC was also successful when it focused on a particular sector and helped to either create or broaden that sector. Despite the strategic emphasis on integrating advisory services with investments, few advisory services projects directly supported the core business of investment projects. When IFC advisory services were directly linked to investment projects but attempted to address matters that would not directly enhance a client's profitability, uptake was poor. The PEP Africa model was chosen as the successor framework to APDF because it was thought to better accommodate a macro

and sectoral approach, because it had a simpler funding mechanism, and because it promised more flexibility in raising donor funding. Generally, IEG found that the self-reported results contained in PCRs overstated projects' results, particularly regarding outcome achievement. However, it was also observed that the self-evaluations in more recent PCRs were of higher quality than their predecessors. In sum, advisory services had no clear alignment with strategic objectives, and tended overall to produce poor results.

## 5. Main Findings and Lessons

### Strategy

5.1 **A range of external stakeholders contributed to the formulation of IFC's strategy in Nigeria.** IFC consulted with a range of stakeholders during its strategy development process, through both formal and informal consultations. Stakeholders included (i) clients; (ii) foreign investors; (iii) financial institutions; (iv) development agencies; (v) civil society; (vi) government officials; and (vii) IFC's shareholders.

5.2 **IFC and the World Bank cooperated in the formulation of country strategies for Nigeria and together supported the development of the Nigerian government's strategy.** Country strategy papers were jointly prepared by the World Bank and IFC starting in 2001. Additionally, IFC and World Bank regional strategy papers were fed into the country strategy papers. The Nigerian government's National Economic Empowerment and Development Strategy served as the basis for the 2005 Country Partnership Strategy produced jointly by IFC, IDA, and DfID.

5.3 **The development issues identified in the strategy papers reflected the country's needs.** The development constraints identified in IFC's strategy documents were also identified by various firm-level surveys and were consistent with basic social, macroeconomic, and governance indicators, as described in chapter 1.

5.4 **IFC's strategic objectives multiplied during the study period.** Indeed, the first strategy paper introduced a handful of strategic objectives, but, starting in 2001, the strategy papers introduced a broad range of strategic objectives that became close to all-encompassing.

5.5 **The strategy papers generally lacked focus.** v However, by 2001 IFC had switched to an imprecisely defined "strategic" approach that introduced a broad range of objectives, mostly expressed in terms of sectors and products. These objectives lacked focus because they consistently spanned nearly the entire private sector and were not clearly articulated. Thus, although IFC's approach was described as strategic, it remained opportunistic due to: (i) IFC management's use of the broad discretion provided to it by the all-encompassing strategic objectives, which ensured that any project could be seen as fitting under the strategy; and (ii) the lack of clearly defined targets, time horizons, and progress indicators.

5.6 **IFC did not have a medium-term country strategy that balanced focus with flexibility.** IFC's strategy lacked focused and clearly articulated development objectives, based on IFC's strengths and Nigeria's needs. A more focused, programmatic, and articulated IFC country strategy would have been desirable and appropriate, given the following factors: (i) the Africa focus of the World Bank Group; (ii) the size of IFC's operations in Nigeria and Nigeria's impact on IFC's performance in Africa; (iii) the size and steady growth of the Nigerian population and economy; (iv) IFC's growing country experience and knowledge; (v) the improvement in the political situation; and (vi) the less-volatile business environment found in Nigeria during the study period.

5.7 **The Nigeria case reflected shortcomings in IFC's process for producing country strategies.** IFC's organizational structure affects the design and efficacy of its country strategies in several ways. First, although IFC's Board-approved country strategies are joint strategies with the

World Bank, they are driven largely by the World Bank and are poorly integrated with IFC's main strategy and budget process. As a result, there is little ownership of them by IFC's management and staff. Second, IFC's country strategies tend to have a sectoral focus, whereby country objectives and priorities are formulated in terms of sectors and products. Only indirectly are objectives linked with anticipated development impacts, and country strategies often lack measurable objectives. Third, IFC's country strategies are typically not supported by decisions on resource allocation; instead, resources are allocated at the regional and industry levels, and country programs emerge as a result of the implementation of sector and regional strategies.

**5.8 The country strategy papers were consistently silent about personnel, organizational, and other resources needed to implement IFC's strategy.** Indeed, IFC identified and sought to address personnel and organizational challenges at the regional rather than at the country level.

## **Operations and organization**

**5.9 IFC's investments addressed only a few of its broad objectives.** IFC used the broad discretion provided by the Board-approved strategy papers to scout the markets, test products, and deliver mostly repeat investment business with a less risky mix of sectors, products, and sponsors.

**5.10 High country risk played an important role in the low-risk model of intervention that IFC developed in its reengagement in Nigeria.** IFC developed a low-risk model in which it narrowed its activities by focusing on a small group of local sponsors and on a sector-product mix that IFC believed to pose lower risk. This low-risk model of intervention was appropriate because it facilitated the reengagement of IFC in Nigeria, the graduation of second-tier sponsors, and the building of working relationships with sponsors and the government. However, IFC fell short of its potential in Nigeria by not ratcheting up its intervention with equity participations in the financial sector, and it missed the opportunity to further accelerate the development of sponsors in the sector. As its familiarity with the country and the domestic private sector improved over time, it failed to expand beyond its initial comfort zone of sectors and clients. IFC's efforts seemed to have been mostly devoted to avoiding, rather than mitigating and managing, the risks that are typical of private sector development in Nigeria.

**5.11 The focus of advisory services operations varied greatly during the review period.** IFC's advisory services operations targeted infrastructure in 1999 and 2000, but from 2001 through 2004 the focus switched to widening access to finance, adding value to firms, and fostering a business enabling environment. Infrastructure was restored as a focus area in 2005. No material advisory service operations during any part of the covered period focused on environmental and social sustainability.

**5.12 Advisory service operations loosely followed IFC's strategic objectives.** For example, of the 15 advisory services projects initiated during the 1998–2000 and 2001–03 strategy periods, only one directly addressed any of the three sectors (financial services, manufacturing, and agribusiness) highlighted in IFC's operational strategy paper for Africa (1998).

**5.13 IFC's stated goal of cooperating with the World Bank to improve the business environment was partially achieved.** IFC operations were carried out in cooperation with the World Bank to a limited degree.

5.14 **The objective of establishing a common donor program in Nigeria was not realistic and was not achieved.** Cooperation between IFC and bilateral and multilateral development banks was largely informal. Most of the cooperation was limited to networking and exchanging market information and knowledge.

5.15 **The results of IFC's personnel policies in Nigeria were mixed.** IFC may have to revisit its career framework and compensation package for Nigeria if it is to attract and motivate qualified senior staff and develop, motivate, and retain a talented junior staff, in particular multi-sector business developers with country knowledge.

5.16 **A few organizational and operational changes were made in Nigeria to help achieve results.** But the growth of IFC's personnel, organizational, and other resources in Nigeria did not match the growth of IFC's broad strategic objectives for the country during the review period.

5.17 **Inadequate resources were allocated to advisory services operations in Nigeria.** This situation is partly explained by IFC's decision to dismantle the Africa Project Development Facility before the Private Enterprise Partnership for Africa was ready to fully replace it.

5.18 **Nigerian clients were more critical of IFC than were IFC's corporate-wide clients.** The issues raised by Nigerian clients indicate an inadequate alignment of strategy and organization within IFC. These clients were more critical than corporate-wide clients about: (i) management responsiveness; (ii) IFC's decision-making process; (iii) IFC's delivery of funds; (iv) the responsiveness and timeliness of IFC's service; (v) IFC's flexibility; (vi) the lag between first contact and first disbursement (investment clients only); and (vii) IFC's helpfulness with implementation of investments (investment clients only).

5.19 **Poor satisfaction ratings for advisory services may be attributed to staffing issues typical of the PEP model.** Specifically, the attraction and retention of talented staff may be even more difficult for advisory services than for investment operations.

## Investment results

5.20 **The Nigerian portfolio rated high in development and investment outcome.** Comparing the evaluated portfolio for Nigeria against all IFC projects, 81 percent of the Nigerian projects achieved high development and investment outcome ratings, compared with 58 percent for all the IFC projects. The high ratings are attributable to IFC's choice to concentrate on a narrow group of strong sponsors and on a sector-product mix that IFC believed to pose lower risk.

5.21 **IFC achieved financial and institutional additionality in Nigeria.** Better financial terms (longer-term financing) were the most frequently achieved form of financial additionality. Improved corporate governance was the most frequently achieved form of institutional additionality.

5.22 **The success ratings were driven by strong performance on specific dimensions—**project business success, economic sustainability, private sector development, loan investment outcome, screening, appraisal and structuring, and IFC role and contribution. Ratings for two other dimensions of performance—environmental and social effects and supervision and administration—were much lower. Of particular concern is the extremely poor environmental and social performance

of those projects required to establish an environmental management system and monitor environmental performance.

5.23 **The main weaknesses in IFC's work quality were supervision and administration.** The dimension of supervision and administration was rated below 50 percent, well below the ratings for the other four dimensions of work quality.

5.24 **Loans to commercial banks performed well in terms of business success, economic sustainability, and private sector development, but without exception failed to meet IFC's requirements for environmental and social effects.** Loans and trade guarantees dominated the portfolio in the financial sector. The participation of IFC improved the Nigerian sponsors' governance and therefore their international credibility. In last few years of the study period, the financial sector projects seemed to be serving more micro, small, and medium enterprises. Trade guarantees facilitated imports of consumables and capital goods in a country where the scarcity of trade finance has hindered imports.

5.25 **The projects that achieved high development outcome and investment outcome were low-risk investments.** Ninety-nine percent of IFC's investment projects were in low-risk sectors (the financial sector and mobile telecommunications). Most sponsors presented medium to low-risk, and the financial structure of the investments tended to be conservative. Two out of five projects were repeat business.

5.26 **IFC tended to be risk-averse in Nigeria.** A smaller number of projects in Nigeria had four or more risk factors than in IFC's projects worldwide or elsewhere in Sub-Saharan Africa. Furthermore, the share of Nigerian projects that had four or more risk factors was smaller among recent projects than among more mature projects. IFC's efforts seemed to have focused on reducing the number of risk factors rather than on mitigating and actively managing the risks that are inherent to private sector development in Nigeria.

5.27 **IFC has invested in a narrow sector-product mix in Nigeria.** The country's major infrastructure needs lie in the energy and transport sectors, where IFC had no investment projects. Delays in privatization and inadequate legislation and regulation have inhibited IFC investments in these sectors, while providing the rationale for advisory services.

5.28 **Development results could be identified in the telecommunications and in the financial sectors.** IFC's positive results in the telecommunications sector were achieved through participation in a cellular phone company that competed for licenses auctioned by the government in 2001. IFC's positive results in the financial sector were achieved by providing loans and trade-finance guarantees to Nigerian commercial banks. By contrast, IFC has not achieved any material impact in the oil and gas industry.

## Advisory services results

5.29 **IFC's expected outcomes were only partially achieved in Nigeria during the period under review.** The main issues arise in the categories of mid- and long-term outcome and impact, where ratings were distinctly low. Barely half of advisory services projects in Nigeria achieved a satisfactory rating for outcomes, while only 46 percent demonstrated satisfactory impact.

5.30 **Advisory services projects in Nigeria had significantly lower ratings in impact, efficiency, and development effectiveness than the rest of the Sub-Saharan portfolio.** Only 42 percent of advisory services projects in Nigeria achieved a rating of satisfactory for impact, compared with 71 percent in the rest of Sub-Saharan Africa. Nigeria fared the worst in efficiency, achieving a satisfactory rating of just 38 percent, as compared with the 67 percent satisfactory rating achieved in the rest of Sub-Saharan Africa.

5.31 **When IFC Advisory Services directly linked to investment projects addressed issues that did not directly increase or enhance a client's business, uptake was poor.** For example, when IFC attempted an AIDS-awareness program with an existing investment client, the effort failed. Conceptually, the management supported the project, but staff showed little interest, and the project never reached the buy-in that IFC had hoped for.

5.32 **Advisory services directly linked to investment projects that achieved the highest outcome and impact ratings shared three common characteristics:** (i) the project directly supported or enhanced the main business line of the beneficiary; (ii) the project was likely to enhance the beneficiary's commercial performance; and (iii) the project had clear benchmarks.

5.33 **IFC was also successful when it focused on a particular sector and helped either to create or broaden that sector.** For example, the Bond Market Development project focused on opening up the nascent bond market by helping to establish enabling legislation and to strengthen an oversight body.

5.34 **Despite the emphasis on integration with investments, only a small number of advisory services projects directly supported the investment projects' core business.** The low level of direct support contrasts unfavorably with the emphasis in IFC's strategy on integrating advisory services with investment projects.

5.35 **In 2005, IFC opted to close the APDF program and replace it with PEP Africa.** PEP Africa attempted to address the main weaknesses of the APDF model, as highlighted in a 2003 evaluation. The PEP Africa model was chosen as the successor to APDF for its ability to accommodate a macro and sectoral approach, and because it promised to simplify funding and to offer greater flexibility in raising donor funding.



## 6. Recommendations

### 6.1 *Infrastructure and non-oil growth*

**Background:** IFC's Nigeria strategies have repeatedly identified poor infrastructure and slow growth in non-oil sectors as among the country's main development challenges in Nigeria. These challenges have largely prevented the expansion of the trickle-down effects of oil-led growth. Despite its efforts, IFC has had limited success in developing interventions in these areas. Its country program has remained heavily concentrated in the financial sector and only recently has diversified somewhat into manufacturing. IFC has the capacity and the tools at its disposal as well as some successful experiences in Nigeria, to develop programs that help to address development constraints related to poor infrastructure and slow non-oil sector growth. Examples of successful experiences can be seen in the financial and health sectors, where IFC deployed a range of instruments and sustained engagement over time.

**Recommendation:** *IFC needs to diversify areas of intervention in Nigeria to: (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector; (ii) contribute to trickle-down effects of oil-driven growth; and (iii) expand viable private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment.*

### 6.2 *Country strategy*

**Background:** IFC's strategy in Nigeria reflects the general characteristics of IFC's process for development of its country strategies. IFC is organized on a regional and sector-industry basis. While the country level is the main level of decision-making on resource allocation at the World Bank, strategy follows structure, and IFC's organizational structure has several implications for the efficacy of its country strategies: (i) IFC's board-approved country strategies are joint strategies with the World Bank but are largely driven by the World Bank, and they are poorly integrated with IFC's main strategy and budget process. As a result, there is little ownership of the country strategy by IFC's management and staff; (ii) IFC's country strategies reflect the sectoral focus whereby country objectives and priorities are formulated in terms of sectors, only indirectly do these objectives have any links with anticipated development impacts in a country, and country strategies often lack measurable objectives; (iii) IFC's country strategies are typically not supported by decisions on resource allocation, instead, resources are allocated at the regional and industry levels, and country programs emerge as a result of the implementation of sector and regional strategies.

**Recommendation:** *IFC needs to improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC's strategy process through enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources.*

### **6.3 Environmental and social effects**

**Background:** A particularly worrisome finding is the very poor environmental and social effects performance of projects actually required to establish an environmental management system and to monitor environmental performance. All of the banks initially failed to establish and sustain a satisfactory environmental monitoring system (EMS) and failed to meet IFC's minimal requirements; it was only in the very last years that progress was seen. The environmental and social effects success rate for the evaluated financial sector portfolio was lower than 10 percent.

**Recommendation:** *IFC should ensure that proper priority is accorded and resources are given to supervision of environmental and social effects in Nigeria. IFC should fully integrate the environmental and social supervision into the portfolio-management process and should ensure accountability.*

# Annexes



# Annex 1: Study Methodology, Sources and Limitations

The study uses standard IEG-IFC evaluation guidelines as the basis for rating advisory and investment operations and compares IEG-IFC ratings to those of relevant peer groups. For evaluating investment operations, the study follows IEG-IFC's methodology, as defined in IEG-IFC's guidelines for preparing Expanded Project Supervision Reports (XPSRs) for projects in financial markets and for nonfinancial projects (see annex 4 for a summary of the relevant methodology). For evaluating advisory operations, the review uses IEG-IFC's guidelines for evaluating advisory services (as presented in annex 3). The evaluated results for Nigerian operations are compared with those for relevant peer groups (random samples of investment projects in the Africa region, in resource-rich countries, and in the rest of IFC, evaluated within the XPSR cycle). The evaluations are supplemented by relevant quantitative analysis, such as risk-profiling analysis for investment operations (see annex 6 at [www.ifc.org/ieg/nigeria](http://www.ifc.org/ieg/nigeria) for a description of the relevant methodology), enabling inferences regarding the performance of more recent (operationally immature) operations.

The study uses information from a variety of sources to supplement its analysis. In addition to operations evaluations and related analysis performed specifically for this study, the review uses internal and external sources to establish the context of IFC's operations in Nigeria and to derive findings. These include internal IFC documents such as project documentation and reports, strategy documents, internal policy documents, and discussions with IFC advisory and investment staff, as well as completed and ongoing IEG-World Bank (IEG-WB) and IEG-IFC studies, notably the current draft of the IEG-WB Nigeria Country Assistance Evaluation.

Furthermore, the team has reviewed project and strategy information and evaluation results disclosed by other donors (multilateral and bilateral), in some cases publicly and in others upon request by IEF-IFC, as well as World Bank Group and external databases pertaining to Nigeria's economic development and business climate.

The study team visited Nigeria in November 2007 and conducted interviews with IFC advisory services and investment country office staff in Lagos (both current and past), with World Bank staff and government officials in Abuja, with IFC advisory services and investment clients (both current and past), with representatives of donors (multilateral and bilateral), and with representatives of different stakeholders including the business community and NGOs (see annex 8 [www.ifc.org/ieg/nigeria](http://www.ifc.org/ieg/nigeria) for a list of interviewees). Additionally, IEG-IFC contracted Nielsen Nigeria to conduct (in December 2007) an independent survey of the population of IFC's advisory services and investment clients.

Although every effort was made to collect information, certain limitations on study coverage persist. Prior to 2006, records of advisory services operations were not systematically collected and stored. As a result, information pertaining to some early advisory assignments was assembled for this study on a best-efforts basis, and evaluative judgments were made based on all available data.

The scope of the study does not include the following programs: (i) Africa Enterprise Fund (AEF); Africa Project Development Facility (APDF); and (iii) African Management Service Company

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(AMSCO). AEF was evaluated by IEG in 2004 and reported as “An Evaluation of IFC’s Investments through the Africa Enterprise Fund.” APDF was evaluated by IEG in 2003 and reported as “Evaluation of the Africa Project Development Facility (Nexus Associates, Inc.)” AMSCO was evaluated by IEG in 2003 and reported as “Evaluation of the African Management Services Company”.

## Annex 2: The IFC Strategy

Over the covered period, various strategy papers were developed at the country and regional levels and discussed by IFC Board. The Nigerian government's strategy fed into IFC's subsequent country strategy.

IFC's strategy paper for Africa, covered the first two years of the study period (1999–2000). IFC had made the commitment to develop with the World Bank common country and sector strategies. This paper was developed during the restoration of civilian rule in Nigeria, a process that culminated with elections in February 1999. The first civilian president in nearly 16 years took office on May 29, 1999. It was also a time of re-engagement for IFC in Nigeria.

Starting in 2001, IFC and the World Bank worked jointly to refine the country strategy and to help the government develop its poverty reduction strategy paper (PRSP). The expectation was that a full country assistance strategy (CAS) would be developed on the basis of the PRSP. For that reason, the Board discussed three IDA-IFC joint interim strategy updates between 2001 and 2004.

The government completed the PRSP in 2004 and renamed it the National Economic Empowerment and Development Strategy (NEEDS). In NEEDS, the government set out a vision for wealth creation, employment generation, poverty reduction, and value orientation. The strategy was founded on three pillars: (i) empowering people and building a social contract; (ii) promoting private enterprise; and, (iii) changing the way government works. Pillar (ii) is the most relevant to IFC.

The Board discussed the IFC's strategy paper for Sub-Saharan Africa in 2003. This strategy, which included segmentation of strategic objectives by country, fed into the 2004 IDA-IFC Joint Interim Strategy update, particularly on issues related to small and medium enterprises (SMEs), investments, and advisory services.

As a result of NEEDS, IFC, the International Development Association (IDA), and the U.K. Department for International Development (DFID) developed and concluded with the Nigerian government the Nigeria Country Partnership Strategy (CPS), which was discussed by the Board in 2005. The CPS took as "its starting point the vision of wealth creation, value-orientation and establishment of a social charter for human development and empowerment as outlined in Nigeria's homegrown poverty reduction strategy." The CPS acknowledged that the IFC's engagement was based on the 2003 IFC's strategic initiative for Sub-Saharan Africa and defined specific objectives for IFC.

Finally, IFC developed a strategy for Africa progress report for the period FY 2004 - 2009. This document assessed the IFC's strategy paper for Sub-Saharan Africa in 2003, confirmed its strategic objectives and incorporated additional objectives, and cross-referenced a World Bank's strategy paper discussed by the World Bank Group Board in September, 2005.

## PROBLEMS IDENTIFIED IN THE BOARD-DISCUSSED STRATEGY

The strategy, expressed in the various strategy documents discussed below, focused on problems at the country level and on common problems affecting the countries in Sub-Saharan Africa.

At the country level, the strategy identified the following issues:

### *1998 – IFC Strategy for Africa*

- Nigeria faces three critical development challenges: (i) to sustain a viable and stable macroeconomic framework and to streamline the incentive regime; (ii) to downsize the public sector and establish good governance; (iii) to rearrange priorities in public expenditures to promote efficient growth, increase productivity, and provide an effective safety net for the poor.

### *2001-2002 – Interim Strategies for IFC and IDA*

- Pervasive poverty and widespread unemployment, coupled with a need to provide tangible results to boost confidence in the democratic transition.
- Deterioration of government institutions over the period of military rule, and consequently inadequate capacity at all levels of government to deliver critical services effectively.
- Sporadic violence between ethnic groups, particularly in the oil-producing Niger Delta. In addition, a lack of personal security in some areas related to deep pockets of unemployment.
- A legacy of widespread corruption.
- Some tension between the executive and legislative branches, which has slowed development of popular confidence in the new democracy and sometimes stymied legislative action.
- Debate over federalism and the relationships among the federal government, the state governments, and local government authorities.
- Concern among Nigerians that the military could once more return to power.
- Little growth in the non-oil private economy, with consequent little growth in overall employment and income.
- Limited self-empowerment among local communities, who look to the government to solve development constraints.

### *2004 – An interim strategy for IFC and IDA*

- Despite impressive reforms, significant challenges remain. Institutional capacity remains weak, across all three tiers of government, but especially in state administrations and local governments. Capacity for policy formulation is thus limited, while capacity for service delivery in the lower tiers is clearly inadequate.
- *Poverty and vulnerability:* Recent estimates of income poverty suggest that about two-thirds of Nigerians, more than 80 million people, survive on less than \$1 per day. A particularly worrisome feature of poverty in Nigeria is high and growing youth unemployment. This has already led to serious social instability and violence in several of Nigeria's cities and in the Niger Delta.
- *Education:* Nigeria's education system is characterized by inadequate coverage, poor quality, and limited curriculum relevance.
- *Health:* Life expectancy has decreased by slightly more than two years (to 47), and infant and under-five mortality remains high. With an estimated 4 to 6 million people infected, Nigeria

is one of the three countries (with India and South Africa) having the highest number of people living with HIV/AIDS.

- *Water, sanitation, and infrastructure:* Underdeveloped and run-down infrastructure presents another major bottleneck to private sector development generally, but especially to agriculture.
- *Corruption, governance, and institutional capacity:* Nigeria is perceived as the second most corrupt country in the world, according to Transparency International.
- *Civil society and gender:* After long years of disempowerment during the military regime, civil society needs time to reassert itself and become a full partner in development.
- *Status of progress toward Millennium Development Goals (MDGs):* It is doubtful whether Nigeria can meet the MDGs.

### ***2005 – A country partnership strategy (CPS) for IDA, IFC and DfID***

- The “oil curse” led to many years of political and economic destabilization, including decades of military rule.
- Successive governments have institutionalized mismanagement of public revenue, particularly from oil.
- Years of military rule, institutionalized corruption, and weak formal accountability have weakened the relationship between poor Nigerians and their government.
- A combination of “Dutch disease” and institutionalized rent-seeking has undermined activity in non-oil areas of the economy (particularly agriculture and manufacturing), reducing non-oil sector economic growth, fueling unemployment, and exacerbating poverty and conflict.
- Building voice and demand for change are critical. Support for the Government’s implementation of the NEEDS and related state-level (SEEDS) initiatives is important but is not sufficient to ensure the achievement of the MDGs.
- Nigeria has the third-highest number of poor people in the world, after China and India.
- Poverty in Nigeria has significant geographical disparities. Income poverty is higher in rural areas (64 percent), where the majority of the population lives, than in urban areas (35 percent).
- Nigeria has poor human development indicators, with significant regional variations.
- Poor access to infrastructure affects a large percentage of the population. Less than half of all Nigerian households (42 percent) have access to safe drinking water.
- High HIV prevalence will devastate the social and economic landscapes. Nigeria has the third-largest number of people living with HIV/AIDS after South Africa and India.
- Lasting poverty reduction and achievement of the MDGs requires sustained and rapid growth in the non-oil sectors.
- Competitiveness of Nigeria’s economy has declined steadily and, while Nigeria is the second-largest economy in Sub-Saharan Africa, it is one of the least competitive, ranking 93 out of 104 countries on the Global Competitiveness Index of the World Economic Forum. Four constraints are: (i) real exchange rate appreciation; (ii) a huge infrastructure deficit; (iii) policy instability; and (iv) inadequate access to medium- and long-term finance.
- Unlocking the potential of sectors on which the poor depend, including agriculture, is crucial to achieving shared growth in Nigeria.

The common problems affecting the countries in Sub-Saharan Africa are:

***2003 – IFC’s strategy paper for Sub-Saharan Africa***

- Many African governments, after implementing far-reaching and politically difficult reforms, are disappointed with the lack of private sector response. These governments are also under intense pressure from their electorates to show benefits for the sacrifices called for in the reform process.
- Political instability is still the greatest constraint to new investment in some countries—and a significant cause of capital flight.
- Progress toward better governance has been slow. Property rights remain insecure, judicial systems ineffective, red tape and corruption rife.
- Poor physical infrastructure and transport logistics create high costs and uncertainties, especially for industrial firms and for those trying to enter export markets.
- Low labor productivity is not offset by low labor rates, leading to high effective labor costs. Inadequate skills lead to a pervasive need for expatriates in technical and management positions.
- HIV-AIDS is decimating Africa’s human capital, adding directly to employment costs in the private and public sectors.

***2006 - Strategy Paper for Africa a Progress report (FY04-06) and FY07-09 Priorities***

- Macroeconomic improvements in Africa have been substantial over the previous three to five years. Commodity prices for many of Africa’s agricultural and natural resources exports have risen. There are fewer conflicts, spurred by the African Union’s proactive approach to the resolution of disputes. The average annual rate of inflation has remained below 10 percent and continues to decline.
- Over the last decade, there have been significant and durable changes in the policy and institutional environments. Progress is reflected in the rising ratings for African countries on the World Bank’s Country Policy and Institutional Assessment. The number of countries scoring above the globally accepted “good performance threshold” of 3.5 has increased.
- The result has been steady growth in real GDP to 5.4 percent in 2005. In 15 countries, real growth of more than 5 percent per annum has been sustained for the past 10 years (1995–2005). While a gap remains between this performance and the estimated 7 percent required to reach the Millennium Development Goal of halving income poverty by 2015, this trend represents progress from the previous decade and has helped create the momentum for further reforms.
- Foreign direct investment (FDI) flows to Sub-Saharan Africa have increased substantially, especially to resource-rich countries. From 2000 to 2004, the top five recipients of FDI (Angola, Equatorial Guinea, Nigeria, South Africa, and Sudan) accounted for 63 percent of the regional total. Excluding South Africa, the top beneficiaries (the same group, plus Chad) are oil producers. Together, they accounted for slightly more than half of FDI to Sub-Saharan Africa over the review period.

**OBJECTIVES SET IN THE STRATEGY DISCUSSED BY THE BOARD**

IFC’s strategy defined objectives at the country level and set common objectives for the countries in Sub-Saharan Africa.

At country level the strategy defined the following objectives:

### ***1998 – IFC Strategy for Africa***

The Corporation is moving from an opportunistic project-by-project approach to a more strategic one focused on countries and sectors. This has led to the adoption of annual country strategies. As it is now recognized that private sector development requires a World Bank Group (WBG) approach, the joint CAS has become one of the main vehicles for the formulation and implementation of country strategies. But there is a difficult tradeoff between serving all member countries and concentrating investments in a few countries to have substantial development impact and shape success stories, which are sorely needed in Africa. The countries selected for emphasis were South Africa, Côte d'Ivoire, Mozambique, and Uganda. The objectives for Nigeria were:

- Small-scale projects through the Africa Enterprise Fund.
- Consideration of selected larger projects with high quality sponsors when appropriate governance can be ensured and as country conditions permit.
- Priority attention to financial services, manufacturing, and agribusiness.
- No case for a major equity program at present (subject to change if macroeconomic circumstances improve).
- Over time, possible opportunities for advisory services in privatization and capital market development.

### ***2001-2002 – Interim Strategies for IFC and IDA***

The most immediate priority is assistance with privatization and sectoral reform to encourage private participation in infrastructure and key sectors such as oil and gas. Financial sector development, SMEs, and improving the investment climate are also a priority for IFC. The WBG's role would be carried out through coordinated efforts of IFC, MIGA, and the World Bank to support key policy and institutional reforms, and to provide catalytic finance and support for the private sector.

The strategic objectives of the strategies' private sector pillar are:

- Assisting with reform of incentives, policies, and business regulation to restore competitiveness and create an attractive investment climate, including for FDI
- Expanding private participation and improving the public sector's effectiveness in providing infrastructure services
- Supporting financial sector development, notably for term finance and mechanisms to support SMEs
- Supporting agricultural intensification and diversification
- Helping to reduce policy and institutional constraints on SME growth.
- Supporting the rehabilitation of Lagos as the center of commerce in Nigeria.

*Competitiveness:* The Foreign Investment Advisory Service (FIAS), in its analytical work on the investment climate, is examining more closely the legal and regulatory barriers to investment.

*Infrastructure:* The World Bank will provide analytical and financial support for sector reforms and the privatization program, and IFC will provide transaction advisory services and potential project finance for private operators. WBG is also considering support for private investments in power generation. Other private infrastructure reforms include improving port management.

*Financial sector:* IFC has taken the lead in providing more than \$188 million in term-finance facilities to Nigerian banks, along with institution building for banks that have targeted SMEs.

*Agriculture and rural development:* The IFC is seeking particular opportunities in agribusiness, given the sector's potential.

*SMEs:* WBG is looking to expand programs to support SMEs—especially with regard to capacity building for SME support institutions and business associations.

*Lagos:* The Bank Group intends to provide assistance to Lagos state to improve municipal management, municipal transport, and the living conditions of the poorer segments and help with privatization of the Lagos State Water Corporation.

#### ***2004 –An interim strategy for IFC and IDA***

- Broad-based sustainable growth needs to be accelerated in non-oil sectors if Nigeria is to make progress in reducing poverty. Priorities in this area are recommended by results from the Private Sector Assessment, undertaken by the World Bank and IFC in 2001.
- Support will be given to manufacturing and other areas of the private sector through direct support by IFC of economically beneficial projects in all sectors, as well as a continued Bank Group emphasis on removing infrastructure bottlenecks.
- IFC will continue to focus on direct support to manufacturing and other priority private sector developments central to near-term growth and economic diversification.
- Power supply will be a top priority. Support will assist government in implementing a turnaround program to break the financial crisis that is crippling the public power utility, while seeking public/private solutions to requirements for additional generation, power distribution, and retailing. Work towards full privatization of the power sector (a continuing government commitment) will continue.
- In transport, support will focus on peri-urban and rural bottlenecks to market access. In other infrastructure sectors, the goal will be to encourage private sector participation and job creation.
- Work will continue to improve private businesses' access to finance through development of the capital markets and support for capital market operations and noninvestment capacity-building activities.
- Efforts will be made to facilitate provision of term financing, especially to SMEs and micro enterprises, and to provide capacity building to organizations that provide business advisory services.
- Work on the business environment will focus on licensing and regulation and on support for tax simplification and reform.
- The main donor partners (the United Nations Development Programme, the European Commission, DFID, the U.S. Agency for International Development, and the World Bank Group) have agreed to develop and propose to Nigeria a single combined program of assistance to support the federal government's elaboration and implementation of the NEEDS initiative and the states' corresponding SEEDS initiatives.

#### ***2005 – A country partnership strategy (CPS) for IDA, IFC and DfID***

- The NEEDS objectives are: (i) empowering people; (ii) promoting private enterprise; and (iii) changing the way the government does its work. The CPS applies selectivity and focuses on the following priorities within the NEEDS objective of promoting public enterprise: (i)

improved environment and services for non-oil growth; (ii) legal and regulatory framework; (iii) productive infrastructure and access; (iv) agriculture productivity; (v) developing solid minerals; and (vi) regional integration.

- IFC will seek investments that: (i) improve access to finance; (ii) assist in removing infrastructure constraints; (iii) assist in improving the competitiveness of Nigerian industry; (iv) assist in developing SMEs by providing integrated support to such enterprises; or (v) have a positive demonstration effect, particularly in the areas of structuring, corporate governance, and good social and environmental practices.
- IFC will seek appropriate investments in all sectors of the economy, although it is likely that investments will be concentrated in the financial, manufacturing, and infrastructure sectors. IFC will selectively consider investments in the oil and gas sector, particularly those which: (i) assist in the development of the domestic or regional energy sector or help strengthen domestic participation in the sector; (ii) encourage reduction of gas flaring or increase gas utilization; or (iii) implement unique financing structures. IFC will integrate advisory services activities more closely with its investment work, emphasizing improvement of the business environment. This will be achieved through the delivery of targeted advisory services, investments with a positive demonstration effect, and work with developing partners. The mandate of PEP-Africa is to implement private sector development programs in collaboration with various stakeholders. IFC will continue to deploy its traditional technical assistance activities, including the provision of advice on privatization to the government and the use of trust funds to finance project-level technical assistance.
- WBG (IDA, IFC) and DFID will work at the federal and national levels—and, when appropriate, by developing private-public partnerships—to improve the business environment and the energy and transportation environment. IDA, IFC, and DFID will continue to coordinate activities in the area of privatization, building the capacity of the federal Bureau of Public Enterprises. A significant increase in power generating capacity is expected by the end of the CPS period. Better functioning transmission and distribution systems should significantly reduce power outages. The strategy will assist the government in reforming the power sector, particularly in developing a framework for off-grid projects. The IFC will support developing off-grid electricity projects to supply power to industrial users and areas of concentrated demand. The development of the gas industry is recognized as important in boosting the domestic non-oil economy and improving poorer households' access to cheaper, cleaner energy. In telecommunications, the World Bank and IFC will continue to provide technical assistance to the sector regulators and private operators. Significant advances in private sector participation in ports, railways, and the Abuja airport are foreseen and are supported by IFC.
- WBG and DFID will support the vision of NEEDS and many SEEDS for private sector-led growth in agriculture. Investments in infrastructure will benefit growth in the agricultural sector. This could include investments in rural access and mobility, irrigation, and community-level infrastructure, as well as work on the business environment, particularly in lead states where such work can be concentrated.
- In the area of SME development, IDA and IFC will provide lending (MSME project), enhance policy dialogue at the federal and state levels, and, together with DFID, assist in establishing a baseline to make regular assessments of the cost of doing business. IFC will provide financing and advisory services in manufacturing and services in the corporate sector, strengthening larger companies that are often the customers of SMEs.

### *2003 – IFC's strategy paper for Sub-Saharan Africa*

The three main pillars of this regional strategy are:

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- Enhanced support to SMEs in the region
- Proactive project development to support IFC direct investments
- More active engagement in improving the investment climate.

In addition to these three pillars, several cross-cutting strategic objectives apply to all these areas and are part of the overall strategy: (i) promoting sustainable development; (ii) fighting HIV/AIDS; (iii) supporting post-conflict countries; and (iv) making IFC better known in the region.

Although regional, the strategy tailors implementation to the needs and character of each country. For Nigeria, the IFC's approach is:

- General promotion
- Proactive promotion in key sectors
- Comprehensive SME programs
- Proactive engagement on the investment climate.

### *2006 - Strategy Paper for Africa a Progress report (FY04-06) and FY07-09 Priorities*

IFC will retain the same strategic focus.

- Pillar 1 (improving the investment climate) will develop business based on: (i) maximizing the synergies from joint WBG programs; (ii) concentrating efforts in post-conflict countries; and (iii) expanding into new technical assistance product areas.
- Pillar 2 (enhanced support to SMEs) involves concentrating efforts on two areas: expanding the MSME finance portfolio and leveraging linkages programs for SMEs.
- Pillar 3 (proactive project development to support IFC investments) has three areas: (i) technical assistance-led business development; (ii) leveraging IFC's advisory mandates; and (iii) improving market reach.
- In South-South investment opportunities, early indications suggest that opportunities exist in energy, oil and gas, infrastructure, mining, and telecommunications.
- IFC will strengthen its involvement in cross-border projects in line with the regional integration work of the World Bank.
- IFC will increase its activities in agribusiness. The trade program provides IFC with an opportunity to increase its support for agribusiness and manufacturing in Africa.
- IFC will seek to make early-stage equity investments in parallel with advisory services interventions. IFC is currently preparing a proposal for a project development facility that will enable IFC to capture the value of early-stage advisory services and project development interventions in infrastructure. The proposed project development facility would provide dedicated IFC resources to support development of private infrastructure projects in selected countries, including allocating financial resources for such ventures.

## **ORGANIZATIONAL CHANGE ADDRESSED BY THE BOARD-DISCUSSED STRATEGY**

The strategy considered organizational change only at the regional level (Sub-Saharan Africa).

### *1998 – IFC's strategy in Africa*

#### *Challenges*

- Growing interest in regionalization as countries try to compensate for the small size of their local markets
- Increasing numbers of countries covered by IFC, including the addition of new countries under IFC's Extending IFC's Reach program
- The difficulty of finding staff experienced in IFC's analysis and processes to be posted in the field; the need for cross-fertilization of experiences among a number of very small offices
- The need to leverage the considerable field infrastructure already in place so that it processes a larger portion of IFC's investments; the need to increase management depth for offices that have been created one by one.

*Actions*

- IFC will try to build strength in strategically located core offices organized around three hubs. These offices will ensure proper promotion and follow-up of IFC's main business lines and will independently process and supervise a significant portion of IFC's investments in Africa.
- The hubs will coordinate the activities of smaller offices and of country representatives. They will be located in: Abidjan (West and Central Africa), Johannesburg (Southern Africa), and Nairobi (East Africa).
- Besides investment staff and dedicated portfolio specialists, regional hubs will be endowed with operational support (legal, environmental) and sector specialists (privatization, infrastructure, capital markets) so that they can effectively process and supervise transactions in the field and represent a broad array of IFC business lines.

**2003 – IFC's strategy paper for Sub-Saharan Africa**

*Challenges*

- More staff will be required to implement the proactive aspects of this initiative, which are labor-intensive and require direct IFC involvement.
- Given the scope of what is planned, coordination and supervision of technical assistance and advisory work, for example, will be extensive, even if largely executed with external resources.

*Actions*

- To accommodate the demands of the proactive initiatives, the Africa Department requested and received a budget increase for the operations of industry departments in Africa, including their participation in advisory services projects.
- In the Africa Department, a total of 13 new higher-level positions will be required. Except for one to improve coordination in Washington, the new positions will be field-based. Most of the new staff will be locally recruited.
- The total cost in incremental staff and benefits is \$1.7 million annually. In addition, there will be costs of travel, communications, facilities, and the marketing program, among other things—which amount to \$1.5 million yearly.

**2006 - Strategy Paper for Africa a Progress report (FY04-06) and FY07-09 Priorities**

*Building a high-performance organization:* IFC faces stiff competition for the talent needed to achieve its ambitious business strategy. The Africa team needs to recruit more staff with finance and investment experience to work in the country offices. In many African markets, WBG compensation scales are

not competitive, discouraging new recruits. In FY06, 16 percent of offers to external candidates, following exhaustive recruitment efforts, were rejected. Private firms from Europe and the United States offer much more attractive compensation. To meet its business goals in Africa, IFC will need to find ways to hire experienced staff (local and international candidates) more effectively. IFC is working with the World Bank on a comprehensive review of the WBG compensation system. IFC believes a more market-sensitive and performance-based compensation framework is needed to meet IFC's business needs in its top-priority region.

### *Challenges*

- Local sponsors, different languages and cultures, weak infrastructure (in communications and travel, among other areas), and IFC's frontier strategy all require staff with local knowledge.
- The biggest challenge in human resources has been finding and attracting candidates to relocate from developed countries, especially to West and Central Africa.
- Typically, these candidates are working in Europe or the United States on very good compensation terms. Attracting them back to Africa has proven difficult for this reason and because of personal concerns (security, dependents' education, and spouses' jobs).

### *Actions*

- The Africa Department of IFC has three priority areas for human resources: (i) recruitment; (ii) diversity; and (iii) staff development.
- *Recruitment:* In FY06 approximately 80 percent of staff recruited were of Sub-Saharan origin. This was achieved by tapping into formal and informal networks to find qualified African candidates, whether living in Africa, in Europe, or in the United States.
- *Staff development:* IFC plans to launch programs in business development and mentoring. The objective of the business-development program is to strengthen the business-development skills of investment staff in the region. Through these staff learning initiatives, IFC will be able to develop staff with skills geared to the diverse markets in Africa. Rotation is an additional component of staff development. Staff based in Johannesburg will be rotated to country offices to diversify their skills and experience. At a corporate level, staff members of the Africa Region are participating in corporate leadership programs, such as the Global Business Leadership and Corporate Leadership Programs.
- *Incentives:* To recruit high-caliber staff, IFC relies on tools such as recruitment bonuses and the scarce skills premium, which are becoming increasingly necessary to recruit staff with the skills IFC needs. IFC's existing incentive programs (individual performance awards, scorecard awards, corporate awards, and long-term performance awards) have been instrumental in rewarding staff in the region on the basis of team and individual performance. The Nigeria country team was selected as the Corporation's best country team worldwide during FY06, the first award of its kind at IFC.

## RELATIONS AMONG THE SEVERAL BOARD-DISCUSSED STRATEGIES

- In 1999, WBG teams were formed with representatives from IFC and the World Bank to develop sector strategy notes in water, oil and gas, power, telecommunications, aviation, and finance.
- In 2001, the World Bank and IFC drew up an interim strategy for IFC and IDA with the expectation that the government, assisted by the WBG, would complete the PRSP in 2002 and that a joint CAS would be discussed by the Board in 2002.
- This expectation proved optimistic. The PRSP was not completed until 2004. In the interim, IFC and the World Bank developed two more strategies in 2002 and 2004.

- In 2003, the World Bank and IFC developed a joint strategy to support the MSME sector in Africa. The “Joint IDA/IFC MSME Development Pilot Program for Africa” was discussed by the Board on June 19, 2003.
- In 2005, IFC and the World Bank, developed the 2005 country partnership strategy (CPS) for IFC, IDA and DfID, which was based on NEEDS.
- The 2003 IFC’s strategy paper for Sub-Saharan Africa fed into the 2004 interim strategy for IFC and IDA, the 2005 country partnership strategy (CPS) for IFC, IDA and DfID, and the World Bank’s 2005 “Meeting the Challenge of Africa’s Development: A World Bank Group Action.”
- The World Bank Group’s 2005 plan, “Meeting the Challenge of Africa’s Development,” fed into the 2006 IFC’s strategic strategy for Africa: A Progress Report (FY04–06) and FY07–09 Priorities, which in turn fed into “The World Bank Group’s Africa Action Plan Progress Implementation” of 2007.



## Annex 3: IEG-IFC Methodology for Evaluating IFC Advisory Operations

Advisory projects are rated on seven dimensions: strategic relevance, output achievement, outcome achievement, impact achievement, efficiency, IFC additionality, and IFC work quality. Ratings on the first five dimensions are synthesized into an overall rating of development effectiveness. Evaluations may also contain ratings for consultant and partner work quality if applicable.

### *Development effectiveness: a synthesis of five separate ratings*

Projects' development effectiveness is rated based on a synthesis of ratings of strategic relevance, results (outputs, outcomes, and impacts), and efficiency at project completion. Desired results for IFC advisory projects are specified at the time of approval in the form of objectives with monitorable output, outcome, and impact indicators and specified targets for the indicators. These are monitored during the life of the project through Project Supervision Reports (PSRs), and then are compared at project completion to achieved results in a Project Completion Report (PCR). All advisory projects are eligible for a synthetic rating of their development effectiveness. In some cases projects may not be rated on all five dimensions, but a synthetic judgment should still be made. The development effectiveness rating may change over time, as medium-term outcomes and longer-term impacts may not be apparent at the time the project is completed. Therefore, it is important to indicate the status of ratings of outcome and impact. Ratings should be assigned at project completion, taking into account the reasonableness of expecting outcome and impact to be apparent at completion.

### *Strategic relevance*

Strategic relevance measures, in retrospect, the importance of the advisory project to achieving strategic objectives for the country; its appropriateness at initiation and completion, given conditions at the time; and whether an advisory operations was the appropriate instrument for the work.

The principal indicators of an advisory project's relevance are its focus on the investment climate and/or its centrality to a high-priority issue in a designated country assistance strategy (CAS) or IFC country strategy; its relevance to the direct client, as indicated, for example, by cost recovery through client fees; and its potential for high impact. Fees paid by clients provide an indication that the service has relevance to the intended recipient. Among the questions to be asked:

- Should the work have been undertaken at all?
- Did it make sense given the conditions, needs, or problems that it was intended to address?
- How well aligned was the work to the CAS and to IFC's country strategy or sector strategy? Are the project's objectives consistent with the current development priorities for the region and country, and with IFC's and the World Bank's regional and country strategic objectives for advisory services?
- How great were the client's interest and receptivity (as measured, for example, by willingness to pay a fee)?
- How appropriate was the work given the economic and political situation, or the donor cycle at the time the work was initiated?
- Was the advisory operation the appropriate instrument for the work? Was the use of a subsidy appropriate? What was the extent of planned and actual cost recovery?

- Was the project intended to have broad impact at the regional or national level?

*Evaluation standard*

*Excellent:* Assistance addressed major priority issues; aimed appropriately at national level impact; highly appropriate for conditions; achieved appropriate cost recovery. *Satisfactory:* Assistance addressed major priority issues to a large extent; had potential substantial impact on the direct recipient and/or local community; was appropriate for conditions at initiation and completion; achieved majority of appropriate cost recovery. *Partly unsatisfactory:* Assistance overlooked some priority issues; at initiation was appropriate, but conditions changed in ways that could not have been anticipated; achieved substantially less than appropriate cost recovery. *Unsatisfactory:* Assistance addressed low-priority issues; was not appropriate given conditions at initiation; no cost recovery, although cost recovery was appropriate.

***Output achievement (Were the products, capital goods, and services delivered?)***

Outputs are the products, capital goods, and services that result from a development intervention. They are the immediate deliverables of the advisory services intervention.

*Evaluation standard*

*Excellent:* More than the expected outputs were achieved with at least satisfactory quality, or all major outputs were achieved with excellent quality. *Satisfactory:* All major outputs were achieved with satisfactory quality. *Partly unsatisfactory:* At least one major output was not achieved, or at least one major output was of less than satisfactory quality. *Unsatisfactory:* Few or none of the major outputs were achieved, or several major outputs were of less than satisfactory quality.

***Outcome achievement (Were the intended short- and medium-term effects of the intervention achieved?)***

Outcomes are the positive and negative, intended or unintended, short-term and medium-term effects of the advisory project. Client action taken because of the advisory project is a common type of outcome measure, because it reflects the client's acceptance of the recommendations.

At project completion, most outcomes should be discernible, but it may be too early to expect achievement of others.

*Evaluation standard*

*Excellent:* All or almost all of the major outcomes were achieved; one or more of suggested improvements to environmental, health, and safety (EHS) requirements were made, or project serves as a model for positive environmental and social effects; client attributes changes in behavior and performance to the advisory project. *Satisfactory:* Most of the major outcomes were achieved; EHS areas for improvement have been communicated to client with some improvements ongoing or completed; clients indicate the advisory project contributed to major changes in behavior and performance. *Partly unsatisfactory:* Some, but less than half, of the major outcomes were achieved; client acknowledges advisory project's contribution but attributes relatively minor influence; EHS recommendations made to client, with little or no client response. *Unsatisfactory:* Few or none of the major outcomes were achieved; no screening of EHS issues was done although screening was appropriate; clients attribute little or no behavior or performance change to the advisory project, or advisory project had perverse effects. *Not yet achieved:* No major outcomes have yet been achieved, but at least partial outcome achievement is expected.

***Impact achievement (Were the intended longer-term effects of the intervention achieved?)***

An issue that must be addressed in determining impact achievement, as with outcome achievement, is the counterfactual: What is likely to have happened in the absence of the advisory project?

Assessing impacts requires netting out the extraneous factors that affect results, such as specific events, related actions of others, or long-term trends in industries, regions, or countries. At project completion, while one or more impacts should be evaluable, it may be too soon to expect others to have been achieved. In such cases, this should be indicated, and a rating made based on impacts achieved to date. Follow-up evaluation may be recommended.

*Evaluation standard*

*Excellent:* Exceptional benefits were achieved beyond the direct recipient(s) or clients at the national, regional, or global levels; impact extends nationally or internationally as best practice. *Satisfactory:* All intended effects on the direct recipients or direct clients were achieved; or most direct effects were achieved, and some extended beyond the direct recipient(s). *Partly unsatisfactory:* Intended effects were partially achieved; intended effects were mostly achieved, but with some negative impact.

*Unsatisfactory:* Intended effects were not achieved; or effects were negative. *Not yet achieved:* No impacts were yet achieved, but at least partial outcome achievement was expected.

***Efficiency (Were the costs reasonable in relation to the potential results?)***

A project may reap benefits in relation to its costs, but it may have been highly efficient or inefficient in its use of available funds or other resources. Similarly, there may or may not have been more efficient ways of achieving the same objectives. This dimension takes into account the following issues:

- How reasonable were the costs in relation to the potential results?
- How economically were resources (funds, expertise, time) used?
- Were there alternative ways to achieve the objectives that might have been less costly?

*Evaluation standard*

*Excellent:* Assistance had a high positive cost-benefit ratio; resources used to provide assistance were expended highly economically; assistance was far less costly than the alternatives. *Satisfactory:* Assistance had a positive cost-benefit ratio; resources used to provide assistance were expended economically; resources used were reasonable in relation to alternatives. *Partly unsatisfactory:* Assistance had a negative cost-benefit ratio; resources used to provide assistance could sometimes have been expended more economically; more reasonable alternatives were available that could have been used. *Unsatisfactory:* Assistance had a highly negative cost-benefit ratio; resources used to provide assistance could generally have been expended more economically; much more reasonable alternatives were available that could have been used.

***Interpreting the development effectiveness rating***

The development effectiveness rating is a synthesis. Each of the five foregoing indicators should be considered. The development effectiveness rating is a bottom-line assessment of the project's overall results on-the-ground, given expectations.

*Evaluation standard*

*Excellent:* The project achieved overwhelmingly positive development results and had virtually no flaws, the type of project IFC should use publicly to illustrate the potential of IFC advisory services.

*Satisfactory:* The project had strong positive aspects that more than compensated for any shortfalls. The project generally met expectations. *Partly unsatisfactory:* The project had some strong positive aspects that did not compensate adequately for shortfalls; the project generally failed to meet expectations. *Unsatisfactory:* The project had negative aspects that clearly outweighed positive aspects. It failed to meet expectations.

***IFC additionality***

Principal indicators that should be considered involve the rationale for IFC's support and IFC's involvement in the project (at approval and ongoing).

- Would alternate funding for the advisory project have been likely?
- Would the company have found alternative financing?
- Could other providers have filled the gap, and how likely is it that they would have?
- Did IFC maximize opportunities to add value?
- Did IFC add gender, poverty reduction, environmental, or other considerations that increased the developmental focus?
- Was IFC particularly catalytic or innovative in its advisory project?

*Evaluation standard*

*Excellent:* IFC was essential and made major contributions that rendered the project particularly catalytic, innovative, or developmental. *Satisfactory:* IFC's role and contribution were in line with its operating principles—that is, IFC had additionality. *Partly unsatisfactory:* IFC's role or contribution fell short in a material area. *Unsatisfactory:* IFC's role was not plausibly additional and IFC's expected contribution was not delivered.

***IFC work quality***

This dimension is a synthetic rating of IFC's performance on the advisory project. The advisory project outcomes should not unduly affect the IFC work-quality ratings.

*Project preparation*

This rating should reflect evaluation of the extent to which IFC has professionally executed its front-end work in relation to the advisory project.

- To what extent were project objectives identified and indicators laid out that are specific, measurable, attributable, realistic, and time-bound? Were baseline data collected and were appropriate systems for ongoing monitoring put in place?
- To what extent were project risks identified and mitigated appropriately?
- Was coordination with other partners and stakeholders appropriate and sufficient? This includes coordination with investment officers, World Bank staff, and others in the World Bank Group, as well as external parties. Particularly important here may be the extent to which there was adequate coordination with those involved in similar projects—either internal or external to IFC.
- Were appropriate knowledge sources tapped?

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- How well were the terms of reference specified? Were clearly defined objectives set for the advisory project with specified dates and monitorable success indicators?
- Were EHS, gender, poverty and social development aspects taken into account appropriately?
- Were appropriate cost recovery targets set?
- Was adequate attention paid to sustainability?

*Evaluation standard*

*Excellent:* IFC's front-end work could serve as a best-practice example. *Satisfactory:* IFC's front-end work was generally acceptable. *Partly unsatisfactory:* There was a material shortfall in front-end work. *Unsatisfactory:* There were material shortfalls in front-end work.

*Project supervision*

Principal indicators that should be considered are:

- Candor, timeliness, and quality of performance monitoring.
- Extent to which required reports to donors were on time and of acceptable quality.
- Extent to which IFC staff monitored well, identified problems early, and resolved them quickly and appropriately.
- Maintenance of relations with clients and other stakeholders and adequacy of coordination with stakeholders. (This includes continuing coordination with investment officers, World Bank staff, and others internal to the World Bank Group, as well as those external to it.)
- Timeliness of product delivery and product quality.
- Role in ensuring transition arrangements in staff turnover.
- Supervision of EHS aspects, when applicable.
- Use of peer reviewers, as appropriate.
- Quality of monitoring and evaluation.
- Achievement of cost-recovery targets.
- Adequate attention to sustainability.

*Evaluation standard*

*Excellent:* IFC's supervision could serve as a best-practice example. *Satisfactory:* IFC's supervision was generally acceptable. *Partly unsatisfactory:* There was a material shortfall in IFC's supervision. *Unsatisfactory:* There were material shortfalls in IFC's supervision.

*Project implementation*

If IFC staff had direct responsibility for implementing one or more project components, then this rating should be completed. Otherwise, "nonapplicable" should be checked. Principal indicators that should be considered are:

- Extent to which IFC's implementation of project components was of adequate quality.
- Extent to which IFC staff took advantage of opportunities and surpassed expectations.
- Timely resolution of implementation issues.
- Timeliness of delivery of services and products.
- Extent of client engagement and follow-up.

*Evaluation standard*

*Excellent:* IFC's supervision could serve as a best-practice example. *Satisfactory:* IFC's supervision was generally acceptable. *Partly unsatisfactory:* There was a material shortfall in IFC's supervision.

*Unsatisfactory:* There were material shortfalls in IFC's supervision.

***Interpreting ratings of IFC work quality***

The overall rating of IFC work quality is based on the ratings of the two or three indicators: (i) project preparation; (ii) project supervision; and (iii) project implementation (if applicable).

*Evaluation standard*

*Excellent:* IFC's performance was exemplary. *Satisfactory:* IFC's performance was of a high professional standard. *Partly unsatisfactory:* There was a material shortfall in at least one area. *Unsatisfactory:* There were shortfalls in several areas or an egregious shortfall in one area that led (or could have led) to a less-than-satisfactory outcome or impact for the project.

***Consultants' work quality***

This rating reflects evaluation of the extent to which consultants engaged by IFC to perform the project professionally executed their responsibilities. Principal indicators are:

- Extent to which the consultant(s) had the right skills for the work to be done.
- Extent to which consultant(s) were responsive to the project's terms of reference.
- Relations of the consultant(s) with clients and other stakeholders, and adequacy of coordination with stakeholders.
- Technical quality.
- Appropriateness of the recommendations.
- Readability and clarity of the written report.
- Timeliness of product delivery.
- Transfer of knowledge to local counterparts.

*Evaluation standard*

*Excellent:* Consultants' work quality could serve as a best-practice example for others. *Satisfactory:* Consultants' work quality was generally acceptable. *Partly unsatisfactory:* There was a material shortfall in the consultants' work quality. *Unsatisfactory:* There were material shortfalls in the consultants' work quality.

***Partners' work quality***

Often the work quality of others, in addition to IFC staff and consultants, is critical to the success of an advisory project. These partners may be other donor organizations, nongovernmental organizations, clients (as in a project to build business associations), or officials and staff of government ministries, even though they may not be the direct service beneficiaries. In these instances, measure can be taken of the extent of the partners' interest in and ownership of the project, and the extent to which the partners' expected contribution was forthcoming.

*Evaluation standard*

*Excellent:* Partners demonstrated strong ownership of the project; contribution substantially exceeded expectations or was essential for the project. *Satisfactory:* Partners demonstrated commitment during project implementation; contribution was fully in line with expectations. *Partly unsatisfactory:* Partners demonstrated moderate interest in the project; there was a substantial shortfall in partners' contribution. *Unsatisfactory:* Partners demonstrated low interest in the project throughout its life; expected contribution was not forthcoming.



# Annex 4: IEG-IFC Methodology for Evaluating IFC Investment Operations

## Overview

IFC introduced the current evaluation system in 1996. The system uses Expanded Project Supervision Reports (XPSRs) as its main format for evaluating investment operations. Investments with at least 18 months of project operating results (“mature” investments) are randomly selected each year by IEG-IFC for evaluation in XPSRs from among investments approved by the IFC Board of Directors five years earlier. Projects are rated by investment staff based on guidelines developed by IEG-IFC, and then independently validated by IEG-IFC.

In the XPSR framework, IFC’s investments are evaluated on three performance dimensions based on eight or nine underlying performance indicators: four indicators of development outcome that measure project results for the owners and financiers, the economy and community, the environment, and the private sector; one or two indicators of IFC’s investment outcome (loan and/or equity) that measure the project’s contribution to IFC’s bottom-line profitability; and three indicators of IFC’s work quality and additionality (at project appraisal and during supervision), as well as IFC’s role at project origination and its contribution throughout the project’s life. The outcomes and underlying indicators are rated on the following scales:

- The project’s development outcome is rated on a six-point scale from highly unsuccessful to highly successful. In aggregate comparative charts and related text, the bottom three ratings (mostly unsuccessful or worse) together are described as low outcomes; the top three (mostly successful or better) as high outcomes.
- The other two performance dimensions (IFC’s investment outcome and IFC’s work quality) and all of their underlying indicators are rated on a four-point scale: excellent, satisfactory, partly unsatisfactory, and unsatisfactory. In aggregate comparative charts and related text, unsatisfactory and partly unsatisfactory ratings together are described as low ratings; satisfactory and excellent ratings as high ratings.

IEG-IFC independently reviews each rating in every XPSR, revising some upward and some downward to: (i) reflect new information as of the date of IEG-IFC’s review; (ii) if needed, to align ratings with any subsequent changes to the evaluative standards; and (iii) ensure that the rating standards are applied consistently throughout IFC. IEG-IFC’s ratings are the final ones that are entered into a ratings database and used for reporting and analysis. The combined result of upward and downward revisions has been a net downgrade of about 5 percentage points in recent years. Overall, therefore, the differences between IEG-IFC’s independent ratings and the XPSR teams’ self-evaluation ratings are not large.

## Development outcome

Four indicators measure distinct aspects of each project’s fulfillment of IFC’s Article 1 purpose and contribution to its mission. The development outcome rating is a bottom-line, synthetic assessment of the quality of the project’s results on the ground, relative to what would have occurred without the project. The rating is not a mechanical average of the four indicators. Instead it is determined case by case, considering the relative importance of each indicator in the specific operation, where the

performance falls within each rating band (for example, whether a satisfactory rating is a low one bordering on partly unsatisfactory or a high one bordering on excellent), and what performance would have been necessary for the project to merit the next higher or lower rating. Some of the development outcome indicators are evaluated differently for operations in nonfinancial markets than for those in financial markets.

### *Operations in nonfinancial markets*

**Project business success.** Project business performance ratings are based on comparing the after-tax financial rate of return to an estimate of each company's real weighted average cost of capital. Where the financial rate of return (FRR) falls near a rating benchmark, the XPSR should evaluate the sensitivity of the performance rating to key assumptions. For those investments for which the FRR cannot be calculated (financial restructurings, for example), the guiding principle should remain the project's incremental financial impact on the company's financiers. If the project is a clear failure (for example, if incremental capacity remains unutilized), then there is no need to calculate the FRR. When a company is listed, its stock price performance can give a good indication of the returns to the company's shareholders. However, stock price may be an unreliable indicator for project performance, particularly where the project constituted only a relatively small portion of the company's operations. Where no relevant quantitative information is available, IEG-IFC judges performance relative to the project's business/profit objectives.

**Economic sustainability.** This indicator is based on the project's net quantifiable social benefits and costs, as measured in the real economic rate of return, which, like the FRR, uses earnings before interest, taxes, depreciation, and amortization (EBITDA) as a starting point but is calculated before taxes and adjusted for quantifiable benefits, such as the value of training to employees and quantifiable costs to society, such as price protection by customs duties. The project is rated excellent if the economic rate of return (ERR) > xx percent; satisfactory if ERR > x percent; partly unsatisfactory if ERR > x percent; and unsatisfactory if ERR < x percent. In addition, the indicator identifies who benefits (or loses) from a particular project based on the net present value of benefits to people other than the project's owners and financiers—typically taxpayers and governments, consumers, workers, suppliers, competitors, and the local community. It also takes into account the project's contribution, where applicable, to international development goals. Taxes generated by a project would be counted as an economic benefit, but the evaluation does not address whether additional tax revenue is likely to further the country's development.

**Environmental effects.** "Environment" includes the physical environmental health, and safety (EHS) impacts, which are considered if they were relevant to project performance or public perceptions of the operation. Environmental performance is evaluated relative to: (i) current World Bank Group policies and guidelines and local standards that would apply if the project were appraised today; (ii) the Bank Group policies and guidelines and local standards that prevailed at the time of approval; and (iii) requirements in the investment agreement and its attachments. *Excellent:* The project meets the higher of IFC's current or at-approval requirements and has materially improved the company's overall environmental performance or that of other local companies. *Satisfactory:* The project is in material compliance with IFC's at-approval requirements and has been over the life of the project. *Partly unsatisfactory:* The project is not now, or has not been, in material compliance with IFC's at-approval requirements, but deficiencies are being or have been addressed through ongoing and/or planned actions. *Unsatisfactory:* The project is not in material compliance with IFC's at-approval requirements, and mitigation prospects are uncertain or unlikely. The rating is a cumulative assessment over the lifetime of the project and may therefore differ from IFC's "environmental and social risk ratings," which focus on the project's current status and cover compliance as well as risk factors. A project may have materially improved environmental effects but

still be less than satisfactory because of continued noncompliance. The rating focuses on a project's compliance, which may be different from its sustainability.

***Impact on private sector development.*** Performance is rated as excellent, satisfactory, partly unsatisfactory, or unsatisfactory based on the development of the project company as a sustainable private enterprise and on effects reaching beyond the project company such as: (i) upstream and downstream linkages to local private businesses; (ii) new technology, development of management skills, and employee training; enhanced private ownership; (iii) stronger local entrepreneurship; (iv) greater competition and competitiveness; broad demonstration effects in the local economy; (v) follow-on investments by other investors; (vi) domestic capital market development (examples include a pioneering listing on a stock exchange or a significant broadening of listed value; first-of-a-kind financing instrument; introduction of international accounting standards or enhanced disclosure standards); (vii) development of infrastructure available to other private users; or (viii) the project company's reputation and business practices as a positive corporate role model and quality investment asset. The indicator also assesses whether project-related advisory services or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment. This might include changes in specific laws and regulations or an improvement in their administration and enforcement.

### ***Operations in financial markets***

***Project business success.*** Project business success covers the performance of the project and IFC-financed subprojects (such as loans extended by a bank to its borrowers using an IFC credit line or invested in an investment fund in which IFC has a stake) and their contribution to the company's profitability, financial condition, and development, including the related objectives established at approval, such as establishing a new product line to diversify revenue and markets. Excellent: The project substantially raised the company's profitability. Satisfactory: The project had a neutral to positive impact on the company's profitability. Partly unsatisfactory: The project returns were sufficient to cover the cost of debt but did not provide adequate returns to shareholders. Unsatisfactory: The project returns were insufficient to cover the cost of debt.

***Economic sustainability.*** Operations are rated for economic sustainability based on three factors: (i) whether subprojects financed with IFC funds are economically viable, that is, whether they would be able to successfully operate in a free market in the absence of subsidies or other distortions—for example, as reflected in subproject ERRs or in financial portfolio performance (adjusted for portfolio concentrations in industries protected by taxation or customs barriers); (ii) whether the project has led to the introduction of economic viability criteria in the company's investment or lending decisions; and (iii) benefits to the economy. In most cases quantitative information on the economic viability of subprojects is not available. The judgment therefore relies on assessing financial portfolio performance, combined with an assessment of the extent to which the intermediary invests in or lends to protected industries. In addition, the indicator takes into account the project's impact on the living standards of the project company's and subproject companies' local employees, as well as those of its customers, competitors, and suppliers. It also accounts for direct and indirect taxes, and gender, child labor, and regional development impacts (as relevant and material).

***Impact on private sector development.*** Projects and subprojects are rated on economic and financial profitability and growth prospects, pioneering attributes, transfers of skills and technology, efficiency in resource allocation, impact on competition, demonstration effects, linkages, catalytic effects on other companies, and financial market development. The indicator also assesses whether project-related advisory services or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment. This might include changes in specific laws and regulations or an improvement in their administration and enforcement.

**Environmental effects.** This indicator considers both the environmental and social performance of projects financed by the intermediary and the efficacy of its environmental management system. Excellent: The company engages in practices and sets standards beyond those required for the project type. For example, it requires all projects it finances (not only IFC-financed subprojects) to meet IFC's at-approval requirements and monitors/enforces compliance through visits and reporting. Satisfactory: The company meets requirements for the project type. For example, it requires IFC-financed subprojects to comply with IFC at-approval requirements and monitors/enforces compliance through visits and reporting; or project has no impact potential. Partly unsatisfactory: The company requires subprojects to comply with IFC at-approval requirements but does little or nothing to follow-up on compliance; or it does not require subprojects to comply with IFC at-approval requirements but is taking action to implement appropriate procedures; or IFC did not require subproject reviews, but there is no evidence of material negative environmental impacts. Unsatisfactory: The company does not require its subprojects to comply with IFC at-approval requirements, and action to implement procedures is doubtful; or IFC imposed no at-approval requirements, and a significant portion of the subproject portfolio is likely to be causing materially negative environmental impacts. See also the notes for real sector projects.

## **IFC investment's profitability**

Where IFC had both a loan and an equity investment, the rating is a synthesis of the separate ratings of the two investments. The ratings address the gross contribution of the investments, without taking into account transaction costs, IFC's cost of capital, or investment size. Also, the gross-contribution equity ratings use IFC's loan pricing as an underlying benchmark and therefore implicitly rely on the assumption that overall weighted-average pricing adequately compensates for project risk relative to IFC's corporate profitability objectives at approval.

**Loans.** Excellent: Loan is fully performing and, through sweeteners (for example, income participation), is expected to earn significantly more than the paid-as-scheduled case without sweeteners. Satisfactory: (i) Loan is expected to be paid as scheduled; or (ii) loan is prepaid in full; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income. In the case of an IFC guarantee, all fees are expected to be received, and the guarantee is not called, or, if called, it is expected to be fully repaid in accordance with the terms of the guarantee agreement. In the case of an IFC swap or other risk-management facility, IFC has not suffered any loss and expects no loss due to nonperformance of the swap counterparty. There is no indication that debt-service payments to IFC will not remain current in future. Partly unsatisfactory: Loan has been rescheduled or the guarantee called, and, in either case, IFC expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to IFC are current, but there is doubt whether payments can remain current in future, then a partly unsatisfactory rating may be preferable. For example, IFC may establish "flag" loss reserves of modest size (no more than 10 percent) for reasons such as country conditions, which are not related specifically to IFC's project. In these cases, a partly unsatisfactory rating may be used rather than unsatisfactory. Unsatisfactory: (i) Loan is in nonaccrual status; (ii) IFC has established specific loss reserves; (iii) loan has been rescheduled, but IFC does not expect to recover at least 100 percent of its loan funding cost; (iv) loan has been or is expected to be wholly or partially converted to equity in restructuring of a problem project; or (v) IFC experiences a loss on its guarantee or risk-management facility.

**Equity, active.** Excellent: The nominal U.S.-dollar internal rate of return on equity (equity IRR) is greater than or equal to the fixed loan interest rate (FR) plus 8 percent. Satisfactory: The equity IRR is greater than or equal to FR plus 5 percent. Partly unsatisfactory: The equity IRR is greater than or

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equal to FR plus 2 percent. Unsatisfactory: The equity IRR is less than FR plus 2 percent, where FR is the actual or notional fixed rate loan interest rate that was or would have been approved by IFC for the project financing.

**Equity, closed.** Excellent: The nominal U.S.-dollar equity IRR is greater than or equal to FR plus 6 percent. Satisfactory: The equity IRR is greater than or equal to FR plus 3 percent. Partly unsatisfactory: The equity IRR is greater than or equal to FR. Unsatisfactory: The equity IRR is less than FR, where FR is the actual or notional fixed rate loan interest rate that was or would have been approved by IFC for the project financing.

## IFC's work quality

IFC's overall work quality, based on three indicators, is rated on a four-point scale: excellent, satisfactory, partly unsatisfactory, and unsatisfactory. This synthesis rating reflects a judgment of the overall quality of IFC's due diligence and value added at each stage of the operation to a country's development and to IFC's profitability. The overall work-quality rating can be no lower than that of the worst of the three indicators and no higher than that of the best indicator. It is related to them according to the relative importance of each (recognizing that IFC's ability to influence an operation is greatest between screening and disbursement) and the considerations that would favor assigning the next-higher or the next-lower rating. IFC's work quality is judged against established good-practice standards, such as those embodied in IFC Credit Notes, other guidance, and policy. As far as possible, work quality is evaluated independently from the project's outcome to avoid bias in the ratings, although in practice actual project results can influence work quality ratings. For example, projects performing poorly can expose or exaggerate weaknesses in IFC's structuring or supervision, which in the absence of material negative variances might have gone undetected or been given less weight. Conversely, a project that is performing very well may be doing so despite initial IFC weaknesses that might, under different circumstances, have been readily exposed. Considering the inherently high risk faced by IFC's operations over their first five years, and IFC's status as an offshore minority financier with limited leverage after disbursement, the frequency with which successful outcomes overcome IFC work quality shortfalls is believed to be very low.

**Screening, appraisal, structuring.** With hindsight, how well did IFC perform in appraising and structuring the operation? Were there material variances from the appraisal assumptions about the market, the sponsors, the enabling environment, and company performance prospects (including environmental) that, with good due diligence should have been anticipated at screening and appraisal? Were material risks identified, and did IFC mitigate them appropriately within good-practice project finance disciplines and prescribed IFC policies and procedures?

**Supervision and administration.** How well and how promptly did IFC address company reporting, supervise the project, detect emerging problems, and respond with effective interventions?

**Role and contribution.** In investing in the company and supervising the project, to what extent did IFC adhere to its corporate, country, and sector strategies? To what extent did it adhere to its business principle of participating on the same terms as private-sector commercial investors? Did it play a catalytic role and make a special contribution that could not have been provided by other financiers? Was IFC timely and efficient, and was the client satisfied with IFC's service quality?

## Mini-XPSRs in IEG-IFC special studies

Whenever IEG-IFC undertakes a special study covering IFC's investment operations in a sector, a country, or a group of countries, it normally supplements the XPSR system data on projects in the

study population with IEG-IFC's own evaluation of most, if not all, of the other projects in the study population that were not evaluated under the XPSR system. These IEG-IFC evaluations are called mini-XPSRs, because they often use a simplified version of the ratings framework of the XPSR system described above. Mini-XPSRs are done by IEG-IFC staff or consultants to IEG-IFC, and not by portfolio staff in the investment departments.

## Annex 5: Results of IFC Clients Surveys

Percentage of client respondents who answered "agree" or "strongly agree" to each proposition				
	IFC Client Survey 2006	2007 IEG-IFC Survey in Nigeria		
		Nigeria Overall	Nigeria Investments	Advisory Services
I know with whom to speak at IFC	91	90	90	89
IFC staff are responsive	88	86	80	100
IFC Management is responsive	82	66	65	67
IFC's decision making process is timely	47	24	25	22
IFC's delivery of funds is timely	72	31	40	11
"Taking everything into consideration, I was satisfied with the responsiveness and timeliness of IFC's service	67	52	60	33
IFC is becoming more flexible	47	41	45	33
IFC is risk taking	44	45	55	22
IFC is outward looking	60	76	75	78
IFC is efficient	54	59	65	44
I will come back to IFC for another project	79	72	90	33
I would recommend IFC to another company	76	83	90	67
Overall, I was satisfied with IFC's environmental, social and insurance input	63	59	65	44
IFC's project procedures are efficient	48	55	70	22
IFC is client oriented	59	59	65	44
Taking everything into consideration, I was satisfied with the quality of IFC's service	77	72	80	56
Approximately how long did it take to receive disbursements since initiating the conversation with IFC (weeks)	43	—	81	—
How would you characterize IFC's role in post-disbursement	=	=	=	—
A burden	12	3	—	11
Helpful in	=	=	=	=
Assisting the company in its investment implementation	54	48	45	56
Assisting the company in implementing environmental, social and corporate governance programs	35	31	40	11
Either of the above	74			—
Other	20	17	15	22
In dealing with IFC, how would you characterize IFC's relationship with the World Bank?	=	=	=	—
In conflict	3	3		11
Not interacting	11	3	5	
Working together well	28	53	65	22
Other	1			
Don't know	50	41	30	67

Note: IFC Client Survey 2006 was conducted by IFC management  
The table shows the percentage of clients who indicated 4 or 5 on the following scale: 1+ Strongly Disagree, 2=Disagree, 3=Neither Agree or Disagree, 4=Agree, 5=Strongly Agree, — = data not available, n.a.=not applicable, or = negligible



## Annex 6: IEG-IFC Risk-Profiling Methodology for IFC Investment Operations

For the purpose of comparing the risk profile of recent investment commitments with a sample of more mature projects for which outcome ratings were already known, IEG-IFC worked with staff from other IFC departments to devise a simple risk-assessment framework. The framework is deliberately simple, recognizing that the objective is for IEG-IFC to make an objective and independent assessment of the likely outcome quality of recent approvals compared with the profiles of projects evaluated through annual Expanded Project Supervision Reports (XPSRs). To appraise emerging risk prospects of new IFC investments, IFC has been using a credit risk rating system (CRR) since 1999. The CRR system is based on continuous (as opposed to binary) scales of risk. Weightings are applied according to the experience and judgment of credit review (CRV) staff and portfolio managers.

### Risk factors used in profiling the samples

With the study samples established, IEG-IFC profiled each investment project using information available at the time of approval and pertaining to the eight risk factors included in the assessment framework. The significance of some of these factors in differentiating outcome quality (development and investment, aggregate equity returns) has been established from existing IEG-IFC studies.

The risk factors and high-risk criteria applied in the sample profiling are described below. The first four factors required no analysis or judgment, whereas the last four required these to varying degrees.

#### *IFC review intensity*

*Proxy:* IFC investment amount using current IFC project review Tier I benchmark of \$5 million for loan, \$2 million for equity.

*High risk criterion:* IFC investment below \$5 million for loan, \$2 million for equity (per current Tier I limit) that were not reviewed by CRV.

- Total IFC exposure for its own account of no more than \$5 million on the transaction
- IFC equity exposure of no more than \$2 million
- Total IFC exposure on the transaction, combined with existing IFC exposure to the client, would not raise the project to the next Tier (from Tier I to II or Tier II to III)
- Not environmental Category A
- No special issues
- Rigor of the appraisal no matter what the size (if cursory and lacks depth, it is rated in mini-XPSRs as high risk).

#### *Project type*

High risk criterion:

- Greenfield projects (as opposed to expansion projects)

### ***Country business climate***

*Proxy:* Wall Street Journal/Heritage Foundation Index of Economic Freedom, overall synthesis ratings. See <http://www.heritage.org/research/features/index/> for the composition of this index and related country ratings.

High risk criterion:

- Heritage Foundation overall rating greater than 3.0.

### ***Sector***

High risk criterion: Projects in the following sectors:

- Plastics and rubber (end-products)
- Accommodation and tourism (hotels)
- Textile, apparel, and leather
- Health care
- Agriculture and forestry
- Lease/rental services.

### ***Sponsor quality***

Four subindicators (listed in table 1 below) are used to determine the risk category:

- *High risk criteria:* Either (i) the sponsor is rated high-risk by at least one subindicator and medium- or high-risk by at least one other subindicator; or (ii) the sponsor's prior performance in an IFC project, or general business reputation, suggests unreliability of performance.
- *Low risk:* The sponsor is not rated high-risk by any subindicator and is rated medium-risk by no more than one subindicator.
- *Medium risk:* all other cases.

## IEG-IFC RISK-PROFILING METHODOLOGY FOR IFC INVESTMENT OPERATIONS

Table 1: Sponsor quality subindicators and associated risk levels

Sponsor Risk Indicator <sup>a/</sup>	High-risk	Medium-Risk	Low-Risk
1. Specific experience in project's business line (production and market)	Less than 5 years	All other cases (not high or low risk)	10 or more years
2. Commitment to the project and strategic importance of project to sponsor	Less than 25% equity stake; or project of low strategic value to sponsor	All other cases (not high or low risk)	At least 51% equity stake; or project of high strategic value to sponsor
3. Financial capacity relative to obligations or commitments to support the project	Source of equity or internal cash generation (existing operations) or net worth less than 2 times financial obligations to support the project	All other cases (not high or low risk)	Source of equity or internal cash generation (existing operations) or net worth more than four times financial obligations to support the project
4. Business reputation and commitment to good governance and EHS sustainability; prior performance in IFC projects <sup>c/</sup>	Opposite of low risk, or predominant absence of the listed low risk factors	All other cases (not high or low risk)	Good performance in prior IFC projects (if any). Long and/or several business ties with multinationals; long membership and responsible roles in business associations; directorships in other. Especially listed, companies; absence of material legal problems. For sponsors of existing companies; good record of compliance with government regulations; good accounting and management information systems; reputable external auditors etc.

Note: <sup>a/</sup> The main sources of data for these ratings are the appraisal documents only in the case of mature projects (i.e., projects with XPSR). Sponsor ratings in the case of new approved projects may use additional data as indicated in the next footnote.

<sup>b/</sup> Some important data sources for rating sponsors, particularly business reputation, not available in the appraisal documents but reasonably obtainable during any project appraisal are: at least three good references, preferably from IFC clients, local banks, international creditors, or WBG staff; and ratings from local credit agencies (if available). Sponsors who may be involved with illegal activities are extremely high risk and are rated over-all as high risk automatically under this rating system. IFC does not knowingly deal with such sponsors because of reputation risks to IFC, although IFC could have unwittingly supported such sponsors in the past.

### *Project's/company's market*

*High-risk criteria:* If any one of the following conditions holds:

- Competing state-owned enterprises have significant presence/role in the project's market (more than 20 percent SOE market share)
- No clear evidence of project having an inherent competitive advantage, as measured by:
  - Optimistic price assumptions, determined by comparing price or margin assumption used in base case scenario vs. historical price or margin, without sufficient justification of changes, or
  - Excessive reliance on cash generation, measured by (i) cash generation as a percentage of project cost and (ii) cash in project as a percentage of discretionary cash flow
- High export component, particularly in the commodity market and into protected or technically demanding markets

- Projects involving financial intermediaries (FIs): FI's total assets or returns on total assets (both previous three-year average) rank the FI below the country's top three in the project's sector.

### ***Debt-service burden***

Proxy for financial risk of default for projects with an IFC loan is IFC loan terms and conditions.

#### *High risk criteria:*

For real sector projects, if either one of the following two conditions hold, plus any other factor relevant to the evaluator:

- The aggregate IFC loan principal amount due for repayment during the first 24 months of the repayment period is one-third or more of the disbursed IFC loan principal; or
- The project (vs. loan) grace period (defined as the time between the start of project production as estimated in the project appraisal and the date when the first principal repayment is due under the loan agreement) is 18 months or less for greenfield projects, and 12 months or less for expansion/rehabilitation projects.

For FI projects:

- For banks, capital adequacy ratio (CAR, defined as Basel I total risk-adjusted capital) at appraisal is less than 10 percent, based on most recent year's audited accounts.
- For leasing, insurance, and other financial subsectors, the same concept: If the FI's CAR is less than 125 percent of the international norm for the industry.
- In all other financial markets subsectors, if there is an IFC loan, the preceding two criteria.

### ***Repeat projects/investments***

#### *High risk criterion:*

- There is no previous IFC investment with the same project company that has reached at least early operating maturity and is performing as scheduled.

## **Process and execution**

IEG-IFC profiled risk factors for each project by reviewing appraisal documents. These included, among others, Board reports, decision memos, appraisal/investment reports, engineering/technical experts' reports, draft term sheets, minutes of decision meetings and project data sheets. Also, documents loaded in the iDesk were used, along with CPM's intranet database of Board documents. Static information (such as the project's approval tier, project type, sector, and repeat investment) was obtained from the corporate portfolio database.

## Annex 7: Analysis of IFC's Investment Portfolio in Nigeria

This annex analyzes the development and investment outcomes of IFC investment projects in Nigeria from July 1, 1998, to December 31, 2007. It explores how Nigeria compares with other countries in which IFC has a substantial portfolio of investments.

### The Nigeria portfolio for the period July 1, 1998–December 31, 2007

IFC's portfolio in Nigeria for the period under study originally contained 45 investments that reached the commitment stage. Their original commitment amount was \$1.142 billion. From that number, 12 were excluded from this analysis for one of the following reasons: six investments made through the discontinued Africa Enterprise Funds program, totaling \$3.98 million, have already been evaluated; four more, totaling \$110 million were cancelled after commitment and prior to disbursement, with no operational action having been taken by IFC; two more were merged with other ("parent") investments. Reductions in commitments following initial disbursements reduced the commitment amount by a further \$113.1 million. Details are provided in the following table.

These exclusions and reductions left 33 projects with a total commitment amount of \$914.5 million. Of these, 12 (totaling \$298.2 million) were too recent to be susceptible to a full evaluation of their development outcome (DO) or IFC investment outcome (IO). That left 21 investment projects that had been fully evaluated for DO, IO, work quality, and objective achievements. Their commitment amount was \$616.3 million.

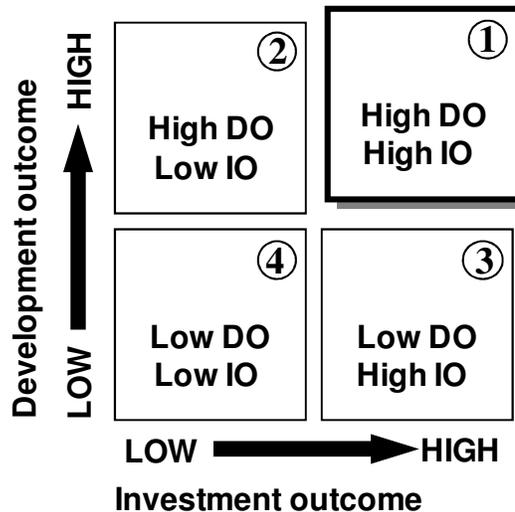
**Table 1: Breakdown of investment projects in IFC's Nigeria portfolio during study period**

Year of Commitment	Number committed	Cancelled pre-disbursement	Collapsed into parent investment	Identifiable Projects		NOPs		Number of Evaluated Projects	
				Real sector	FI sector	Real sector	FI sector	Real sector	FI sector
2000	1				1			0	1
2001	5				5			0	5
2002	2	1			1			0	1
2003	1			1				1	0
2004	5	2		2	1	1	0	1	1
2005	5		1	2	2	1	1	1	1
2006	10			1	9		2	1	7
2007	9	1	1	5	3	5	2	0	1
<i>Subtotals</i>				<i>11</i>	<i>22</i>	<i>7</i>	<i>5</i>	<i>4</i>	<i>17</i>
Total	38	4	2	33		12		21	
<b>Total \$000</b>	<b>\$1,137,675</b>	<b>\$110,000</b>	<b>transferred</b>	<b>\$318,847</b>	<b>\$595,685</b>	<b>\$218,033</b>	<b>\$80,190</b>	<b>\$100,814</b>	<b>\$515,495</b>

## The benchmark: IFC’s corporate-wide evaluated portfolio

Typically for country, sector, and thematic studies IEG-IFG evaluates IFC portfolio performance using two measures of success: DO and IO. The two outcomes are ranked for comparative purposes on a binary scale (satisfactory or unsatisfactory) and presented in the form of a four-cell matrix (figure 1).

Figure 1: A basic matrix of development and investment outcome



The results are determined from a representative sample of the portfolio chosen each year for Expanded Project Supervision Reports (XPSRs) and reported annually in IEG-IFC’s Annual Review, which is presented to the IFC Board of Directors (see annex 4 for details). This format provides a useful method for comparing the performance of different sectors, different countries, and other groupings of projects against one another and against the overall IFC norm.

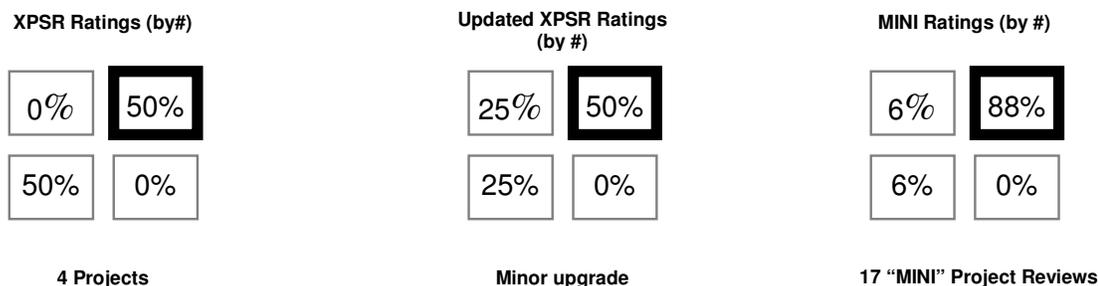
Since the start of the XPSR program in 1996 through the end of 2006, 627 XPSRs have been completed for projects approved between FY 1990 and FY 2003. Since 1999, the XPSR program has reviewed 224 projects approved between 1999 and 2003. Results are typically presented by project, with large and small projects having equal weight. Similarly, statistics are recorded and most comparative evaluation done on a project-by-project basis. Yet as shown in figure 3, when measured by commitment amount, the results for All IFC are better than the results that emerge when projects are equally weighted, indicating that larger projects receive slightly better results.

## Evaluation methodology for the Nigeria portfolio

Project evaluations have been completed for each of the 33 identified projects committed during the period July 1999 to December 2007, of which 12 were insufficiently mature to complete the DO and IO assessments (but were nevertheless evaluated for risk). Of the 21 projects for which the DO and IO were assessed, four had been reviewed under the regular XPSR program. Each of these was reviewed, and some ratings were adjusted based on subsequent events. For the other 17 evaluated projects, mini-XPSRs were completed (figure 2). The results displayed interesting anomalies vis-à-vis

the overall IFC portfolio, indicating that the Nigeria portfolio is atypical and perhaps distorted by the large portion of projects that have yet to advance sufficiently to be fully rated.

**Figure 2: XPSR vs. Updated XPSR vs. Mini XPSR Ratings**



**Comparing the evaluated portfolio in Nigeria against IFC's corporate-wide portfolio**

A comparison of the evaluated Nigeria portfolio with the "All IFC" benchmark (the total XPSR database minus approvals during 1999–2003) appears to indicate that the Nigeria portfolio strongly outperformed the rest of IFC (figure 3). It must be borne in mind, however, that the sector mix of the two portfolios is very different, with the Nigeria portfolio containing a high proportion of financial sector projects. Thus a more relevant comparison is the Nigerian financial sector portfolio against all IFC financial sector projects for the period FY 1999–2002 (figure 4).

**Figure 3: IFC's Nigeria Portfolio vs. the Corporate-Wide Portfolio**

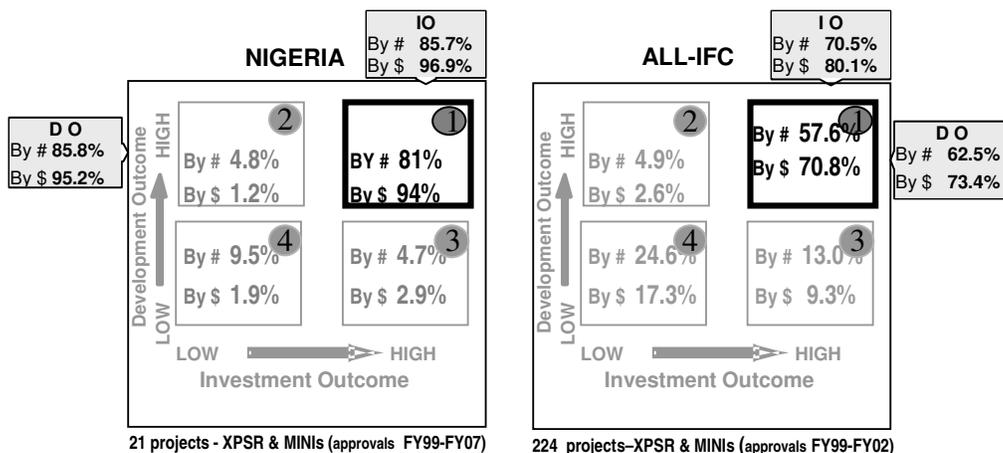
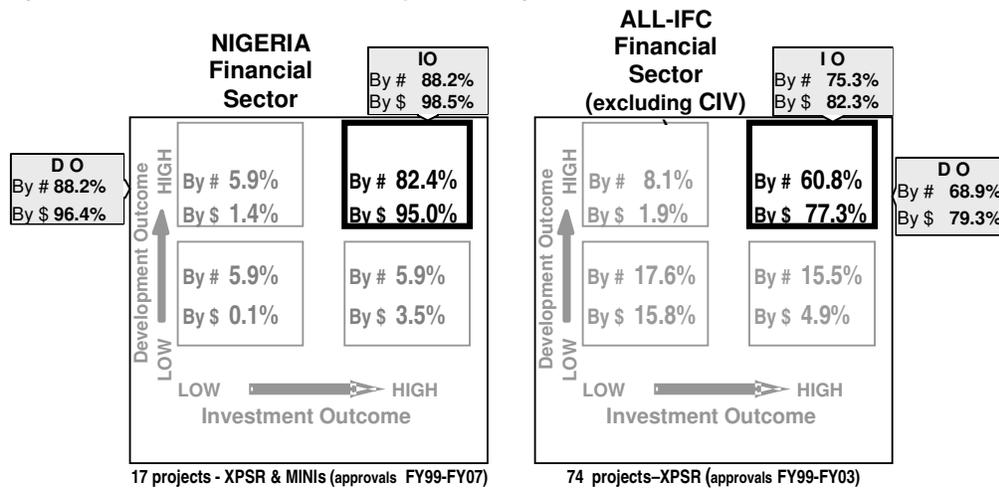


Figure 4: IFC’s Financial Sector Projects in Nigeria and Corporate-Wide

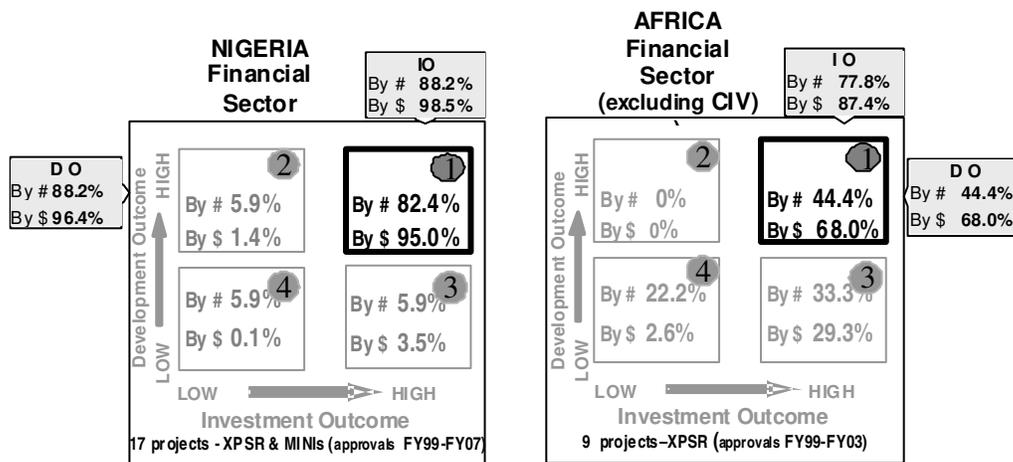


Clearly, the IFC’s financial sector portfolio for Nigeria outperformed the financial sector portfolio overall. The superior performance holds when IFC’s Nigeria financial sector portfolio is compared with its financial sector portfolio in Africa as a whole and in resource-rich countries.

*Nigeria vs. Africa*

IFC’s financial sector portfolio for Nigeria also appears to outperform that for Africa as a whole for the period FY 1999–2002 (figure 5). But with only nine financial sector projects in Africa reviewed by the XPSR program, the statistical significance of the comparison is weak.

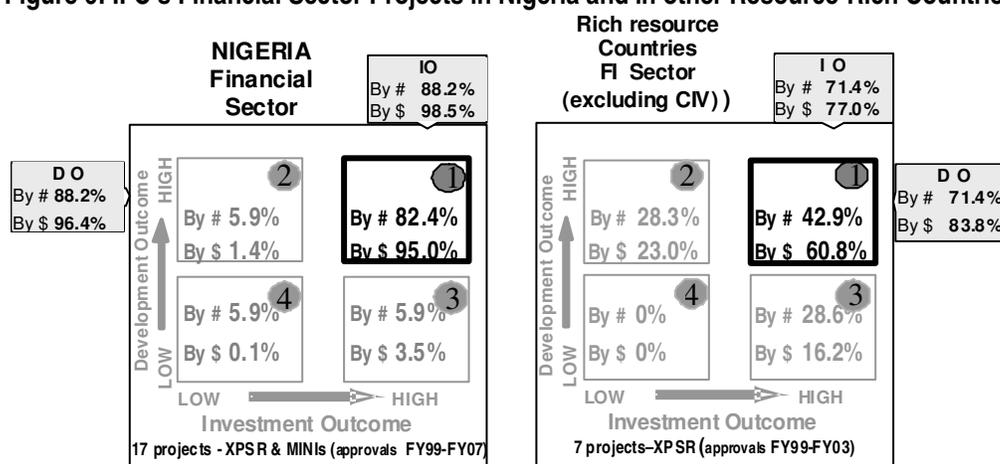
Figure 5: IFC’s Financial Sector Projects in Nigeria and in Africa as a Whole



**Nigeria vs. other resource-rich countries**

Compared with financial sector projects in other resource-rich countries, the Nigeria portfolio again scores highly, though here, too, the small sample of financial projects outside Nigeria puts into question the statistical significance of the comparison.

Figure 6: IFC's Financial Sector Projects in Nigeria and in other Resource-Rich Countries



The performance of Nigeria's financial sector projects is commendable. The 17 evaluated projects represent \$490,000 of the \$895,000 in total net commitments over the period.

### Components of the DO ratings

Looking at the components of the DO ratings, the evaluated projects within the Nigerian portfolio surpassed the success rates of evaluated projects in IFC's corporate-wide and financial sector portfolios, with one notable exception—environmental and social effects.

The success rate on environmental and social effects of the evaluated portfolio in Nigeria was less than 10 percent (table 2). Of the 17 financial sector projects, 7 fell into Category C, for which environmental and social ratings are not applicable. Of the remaining 10 projects, only one was rated satisfactory. Of the 4 evaluated projects in the real sector, one was Category C, two earned a satisfactory rating, and one was rated unsatisfactory. Overall, this is an exceedingly poor performance in an otherwise well-performing portfolio.

Compared with African financial sector projects and financial sector projects in resource-rich countries, the Nigeria portfolio yields superior results for Project Business Success and Economic Sustainability, roughly equivalent results for private sector development, and underperformance for environmental and social effects.

On overall IO, Nigerian financial sector projects surpass the IFC-wide portfolio and the Africa financial sector portfolio (excluding Nigeria). Their IO ratings are roughly equivalent to those earned by the IFC portfolio in other resource-rich countries. Loan performances for each of the groups are similar. The equity performance of financial sector projects in Nigeria is superior to that of the IFC-wide portfolio but short of that of the resource-rich financial sector portfolio. The caveat to the comparative equity ratings is low incidence: equity was involved in just 4 of the 21 evaluated projects.

IFC's overall work quality is rated equally for each of the comparator groups. Screening, appraisal, and structuring rated higher for the Nigerian financial portfolio than for the IFC-wide group. Its ratings matched those of the African and resource-rich financial sector portfolios. The rating of IFC's role and contribution rating is high for the Nigerian financial portfolio, matching the rating earned by IFC-wide projects and African financial sector projects, of which were significantly higher than the rating earned by financial sector projects in resource-rich countries.

IFC IN NIGERIA: 1998 - 2007. AN INDEPENDENT COUNTRY IMPACT REVIEW

Table 2: Project Ratings

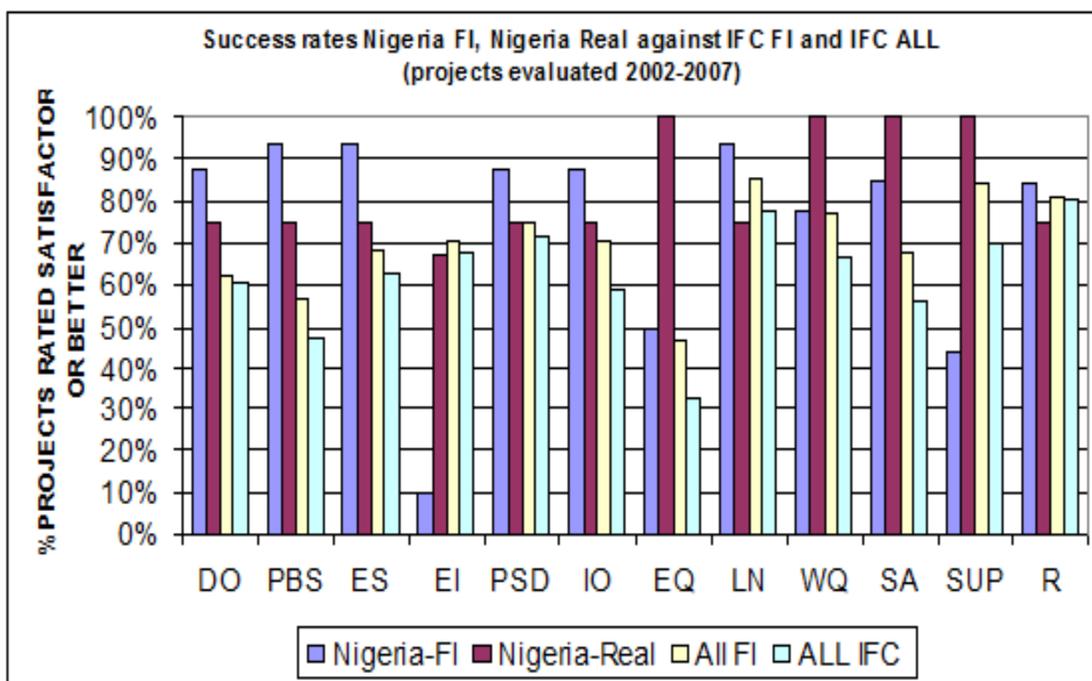
	Nigerian FI projects (17) (approvals FY1999 - Dec 07) a/			Nigeria real sector projects (4) (approvals FY 1999 - Dec 07) a/			Total IFC FI (excluding CIV) (74) (approvals FY1999 - 2002) b/			Total IFC (224) (approvals FY1999 - 2002) b/			Total Africa (excluding Nigeria) (24) (approvals FY1999 - 2002) c/			Resource Rich Countries (excluding Nigeria) (24) (approvals FY1999 - 2002) c/		
		Success rates (%)			Success rates (%)			Success rates (%)			Success rates (%)			Success rates (%)			Success rates (%)	
	Number of projects	By number	By \$	Number of projects	By number	By \$	Number of projects	By number	By \$	Number of projects	By number	By \$	Number of projects	By number	By \$	Number of projects	By number	By \$
<b>Development Outcome</b>	17	88	98	4	75	89	74	68.9	79	224	63	73	24	46	79	24	79	92
Project Business Success	17	94	96	4	75	89	73	57	70	217	57	64	22	50	64	24	71	79
Growth of economy	17	94	96	4	75	89	73	71	78	217	68	76	22	50	41	24	79	92
Environmental impact	10	10	3	3	67	89	55	62	78	179	70	76	17	47	86	20	60	92
Private sector development	17	88	93	4	75	89	73	75	79	217	75	81	22	73	94	24	79	91
<b>IFC's Investment Outcome</b>	17	88	96	4	75	89	74	74	82	224	71	80	24	63	86	24	83	94
Equity	2	50	68	2	100	100	36	56	53	85	47	48	13	69	93	6	67	95
Loan	16	94	92	4	75	86	50	90	89	166	86	91	15	73	92	21	90	94
<b>IFC's Work Quality</b>	17	78	76	4	100	100	73	77	84	211	77	86	21	67	92	22	82	91
Screening and Appraisal	17	85	79	4	100	100	73	71	79	211	68	77	21	62	91	22	77	86
Supervision	17	44	49	4	100	100	73	84	90	211	84	89	21	62	90	22	91	89
Role	17	84	91	4	75	89	73	78	85	211	81	88	21	81	98	22	68	71

Note: a. See table 1 for details of 21 evaluated projects. Table includes projects from 2005, 2006, and 2007 approvals with adequate data to rate. Only 4 of 11 real sector projects were sufficiently mature for evaluation—too few to gauge statistical significance. Projects are included here solely to complete list of evaluated projects.  
b. Projects approved from FY 1999 through FY 2002 and completed by FY 2007.  
c. Projects evaluated between FY 2004 and FY 2007.  
Source: IEG-IFC (XPSR database).

The main weakness of IFC work quality in the Nigerian financial portfolio comes in supervision. The low rating, less than 50 percent, is well below the ratings for the comparator groups. To a large extent this reflects the poor economic and social follow-up of the financial sector projects, but it is also partly the result of staff turnover, poor handover, and gaps in oversight. The quality of overall supervision was noted to have improved in the later years of the study period. The problem with economic and social supervision appears to lie in organizational blurring. The finding of the team is that, in Lagos, IFC does general supervision but not economic and social supervision, which is left to the Economic and Social Department (CES). There is no economic and social specialist in Lagos. Yet typically across IFC there is general coordination between CES and the industry and regional departments, with the IO and portfolio officers liaising with CES. This is logical, since the standard protocol requires that most if not all communication with the client, including communication on economic and social matters, should pass through or be supervised by the IO/portfolio officers.

**Figure 7: Ratings of Projects by Portfolio and by Dimension**

Projects evaluated 2002–07



Note: DO = Development outcome; PBS = Project business success; ES = Economic sustainability; EI = Environment effects; PSD = Private sector development; IO = Investment outcome; EQ = Equity; LN = Loan; WQ = Work Quality; SA = Screening, appraisal, structuring; SUP = Supervision and administration; R = Role and contribution

Source: Independent Evaluation Group

### Mini-XPSRs and ratings from the Development Outcome Tracking System (DOTS)

The DOTS report issued June 30, 2007, concluded that “despite Nigeria’s prominent role in the Sub-Saharan Africa portfolio, its development results are unanimously worse than those of IFC overall. Nigeria also underperforms vis-à-vis the regional portfolio with the only exceptions being moderately better results for financial and economic performance.”

Table 3 summarizes the results the issued DOTS report. At first glance, it would appear that the DOTS ratings conflict with IEG’s mini-XPSR results, but in fact the latter compare favorably with and confirm DOTS ratings.

The DOTS results are based on a portfolio of 16 projects with approvals dating back to the 1980s and including the unsuccessful Africa Enterprise Fund program (AEF). This report, by contrast, covers the portfolio approved from FY 1999 forward. The AEF program, which was discontinued in 2000, has been independently evaluated and is explicitly excluded from this evaluation. Removing the AEF projects and the pre-1999 projects leaves six DOTS-evaluated projects, rated as shown in table 4. The ratings reconcile closely, except for the environmental and social ratings. The remaining 15 projects fully evaluated for this study are recorded in the DOTS study as “too early to tell.”

**Table 3: Relative performance of IFC’s active portfolio in Nigeria (as issued by DOTS, June 2007)**

Percent				
Rating dimension	As reported by Development Outcome Tracking System, June 2007			IEG’s financial sector portfolio, from table 2, column 1
	IFC-wide	Africa	Nigeria	
Development outcome	58	45	44	88
Financial performance	49	37	44	94
Economic performance	55	42	44	94
Environmental and social performance	71	62	44	10
Impact on private sector development	65	52	44	88

**Table 4: Comparison between DOTS and IEG’s mini-XPSR ratings of development outcome of six projects**

Development outcome	DOTS rating	Mini-XPSR rating
Financial performance	83	83
Economic performance	83	83
Environmental and social performance	67	33
Impact on private sector development	83	83

## Portfolio risk intensity

### *Background*

In response to a Board request to develop a predictive tool to provide a measure of probable success of projects, IEG-IFC has developed a methodology for measuring project risk. The methodology is a composite of eight separate risk elements attributed to the project at the time of appraisal (see annex 6). The elements are:

- IFC review intensity (reflecting tier size designation and thus CRV review)

- Project type (greenfield or expansion)
- Country business climate (based upon Heritage Foundation Index, using IICRR as proxy before 1996)
- Sector (a number of sectors are identified as high risk)
- Sponsor quality
- Project/company market
- Debt-service burden
- Repeat projects (repeat projects found to be less risky).

IEG-IFC's evaluation of the impact of a project's risk intensity at approval on its final outcome has revealed a marked difference between the success rate of projects with three or fewer high-risk elements and that of projects that present four or more high risks. As reported in the IEG-IFC annual reviews for 2003 and 2004, changes in procedures within IFC since 1998 have reduced the risk intensity of recent approvals to well below the level that prevailed in the 1995–98 period (table 5).

**Table 5: Trends in the risk intensity of IFC's corporate-wide and Nigeria portfolio**

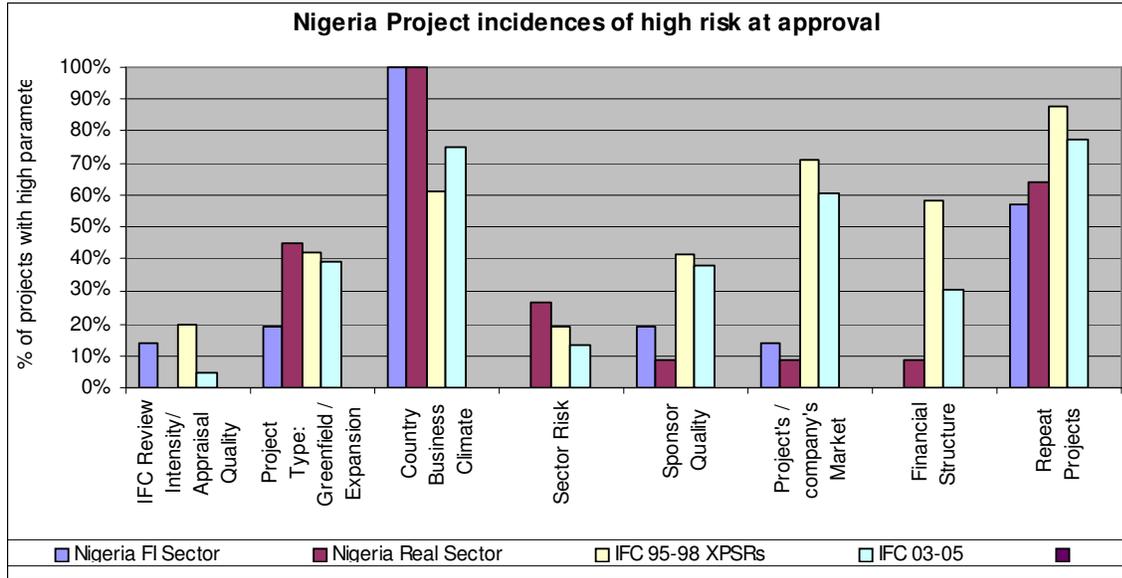
	Nigeria		IFC	
	1999 – 2007 FI sector approvals	1999 – 2007 Real sector approvals	1995 – 1998 approvals	2003-2005 approvals
Projects with three or fewer high-risk ratings	82%	73%	42%	53%
Projects with four or more high-risk ratings	18%	27%	58%	47%
Total	100%	100%	100%	100%

*Note:* The 33 projects evaluated for the risk profile included 22 in the financial sector and 11 in real sectors. The risk intensity for the 33 projects evaluated was determined at the time of preparation of the corresponding mini-XPSRs.

*Source:* IEG-IFC 2004 Annual Review, Chapter 2 and supporting database

While not strictly comparable on the basis of time period and risk-assessment methodology, the overall risk intensity of the Nigerian projects over the FY 1999–2007 period has been significantly lower than that of all IFC projects—with the notable exception of country business climate. Vis-à-vis all IFC projects, the Nigerian projects were structured with much lower financial risk, lower appraisal risk, higher sponsor quality, and lower market risk (figure 8). The Nigeria portfolio also included more repeat projects.

Figure 8: High risk at approval of IFC projects in Nigeria and corporate-wide, by sector



The financial sector projects in the Nigeria portfolio displayed lower risk through numerous repeat projects and through expansion of established entities, selected for their solidity and low risk. The seven commercial banks in which IFC invested all appeared on a 2007 list of Africa’s top 100 commercial banks.

Real sector projects in Nigeria displayed higher sector risk and a larger number of greenfield projects. Otherwise they shared with the financial sector projects lower risk for most risk categories.

In comparison with IFC’s corporate-wide portfolio, the Nigeria portfolio has substantially lower equity levels (by number of projects), a much lower level of high-risk projects, and double the normal percentage of financial sector projects (table 6). It is completely absent from infrastructure and agriculture and has minimal participation in the oil, gas, and mining sectors. The portfolio has half the average manufacturing levels of the overall IFC portfolio. IFC appears to have taken a risk-adverse posture in expanding the portfolio.

**Table 6: Project parameters in IFC's Nigeria and corporate-wide portfolio**

Percent (except as otherwise noted)

Parameters	Nigeria	Corporate-wide	
	Approvals FY1999– Dec. 2007	Approvals FY1999– 2002	Approvals FY 1999– Dec. 2007
Country risk at approval	High		
Share of projects with IFC equity investment, of 32 projects reviewed	28		
Share of projects with IFC equity investment, of 21 projects fully evaluated	19	42	36
Sector distribution of projects, by project count			
Agriculture	0	7	8
Education and health	9	5	4
Financial markets	66	33	36
Information technology	1	3	2
Infrastructure and transport and communications	5	16	14
Manufacturing	12	27	21
Oil, gas, and mining	3	4	5
Collective investment vehicles	3	4	6
Chemicals	0	2	4
Projects in "high-risk sectors," those in which IFC has consistently achieved poor investment results <i>a/</i>	10	31	33

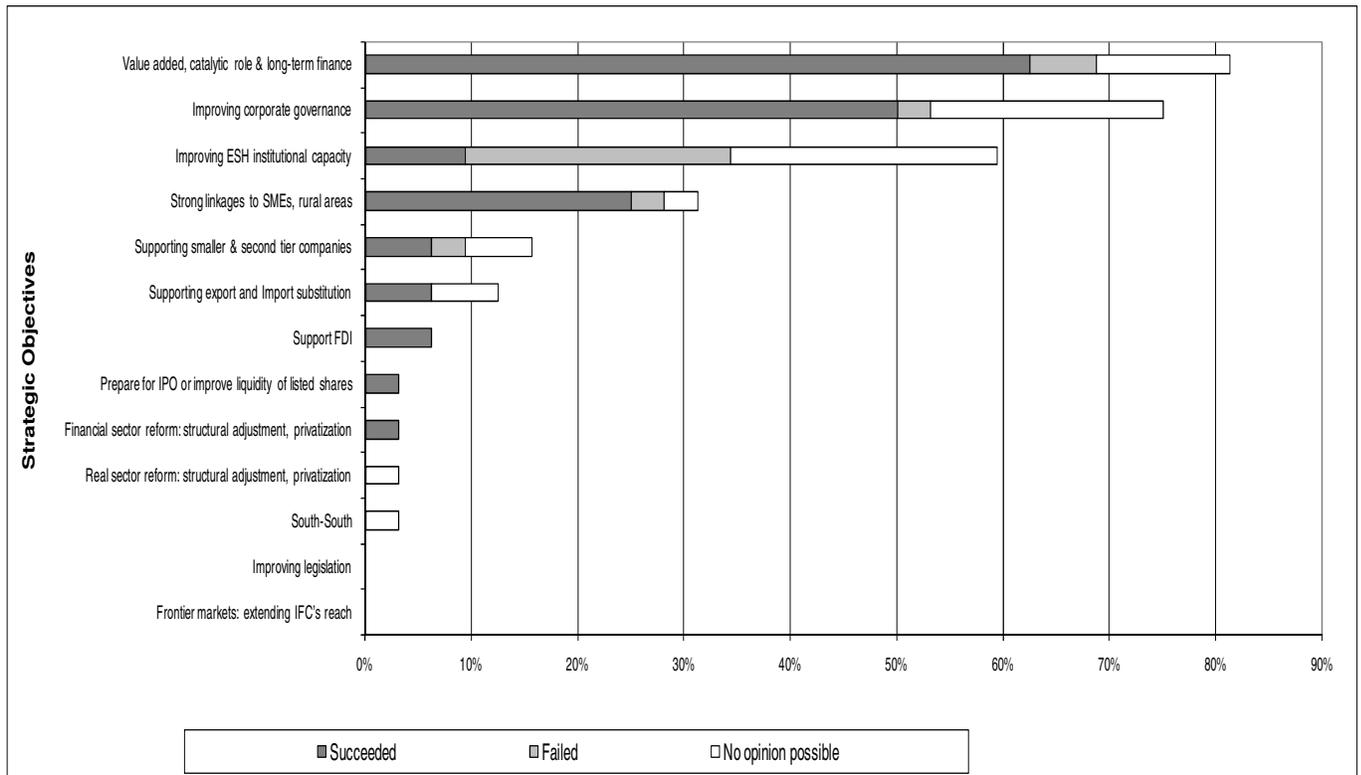
*Note:* a. Agriculture and forestry; hospitality, education, plastic and rubber, lease and rental services.

## Project objectives

The objectives of each project, as presented in Board papers, were reviewed for each project. Adding value and playing a catalytic role in attracting long-term financing is the major objective across most countries (cited for 81 percent of projects) and is mainly successful (figure 9). Improving corporate governance is cited as an objective in 75 percent of projects; for the mature projects evaluated here, the success rate of this objective appears high. Introducing and improving environmental and social capacity ranked third (59 percent of projects) but achieved success in less than 10 percent of cases.

Other common objectives were creating linkages to small and medium enterprises (SMEs) and with rural areas (31 percent of projects, mainly successful), and supporting smaller and second-tier companies (15 percent of projects, 50 percent successful). Less commonly cited objectives included improving legislation, developing the finance sector, real sector structural adjustment (privatization), and extending IFC's reach to frontier markets. The low priority given to reaching into the frontier markets is notable, particularly given the IFC-wide strategic priorities over the period under review. The lion's share of the portfolio centered on Lagos.

**Figure 9: Proportion of projects (by number) expected to support specific strategic objectives and their relative success/failure in doing so**



The preliminary CAS adopted in 1999 stated that the IFC would work closely with the World Bank in pursuit of its part of the Bank Group’s strategic objectives in Nigeria, which included the following:

- Work with other development partners to restore governance and build a sound policy basis for encouraging private sector development.
- Support the efforts of the government to privatize and rehabilitate basic infrastructure through advisory services and post-privatization investments.
- Support the revitalization of key sectors in the economy, including investments in the oil and gas sector, in projects with locally owned and second-tier international exploration and production companies, in service companies (both international and local), and in large-scale projects with large international firms (especially in gas flaring reduction).
- Support the revitalization of industry by extending term finance to help meet pent-up demand for capital investments postponed under prior regimes.
- Support the financial sector with investment and capacity building to enable it to meet business financing needs. IFC expects to play a strong role in the financial sector in several areas.
- Continue the existing program of financing, advisory services, and other support to SMEs.

To these points, the 2002 CAS added that the most immediate priority was assistance with privatization and sectoral reform to encourage private participation in infrastructure and key sectors such as oil and gas. Financial sector development, SMEs, and improving the investment climate were also noted as priorities for IFC. The CAS observed that IFC had participated with the Bank in joint missions and advice to the government on the Emergency Power Program and the Rehabilitate-Operate-Transfer (ROT) scheme.

The 2004 CAS made the following points:

- Broad-based sustainable growth needs to be accelerated in non-oil sectors. Support will be given to manufacturing and other areas of the private sector. This will be done through direct support by IFC and MIGA of economically beneficial projects in all sectors, and through continued Bank Group emphasis on removing infrastructure bottlenecks.
- IFC and MIGA will continue to focus on direct support to manufacturing and other priority private sector developments central to near-term growth and economic diversification.
- Power supply will be a top priority. Work toward full privatization of the power sector (a continuing government commitment) will continue. In the transport support, that work will focus on peri-urban and rural bottlenecks to market access. In other infrastructure sectors, it will encourage private sector participation and job creation.
- A third area of emphasis will be to continue to improve private sector businesses' access to finance through work to develop the capital markets and to support capital market operations and noninvestment capacity-building activities.

The investment portfolio met the CAS strategy only partially, focusing as it did on developing and strengthening the finance sector, with lesser emphasis on SMEs. Only in later years did the investment program increase the commitments to the real sector. Missing are investment projects for infrastructure and the oil and gas sector, omissions that are largely the result of poor business climate, delays in the privatization process, and uncertainty about the political direction of the country. Some of these gaps require prior advisory intervention, toward which IFC is working, as discussed in the section on advisory services.

## Drivers of outcome results

To deconstruct the outcome results obtained for the Nigeria portfolio, the characteristics of the projects falling into each of the DO/IO quadrants have been reviewed. These are summarized in figure 10 and detailed in figure 11.

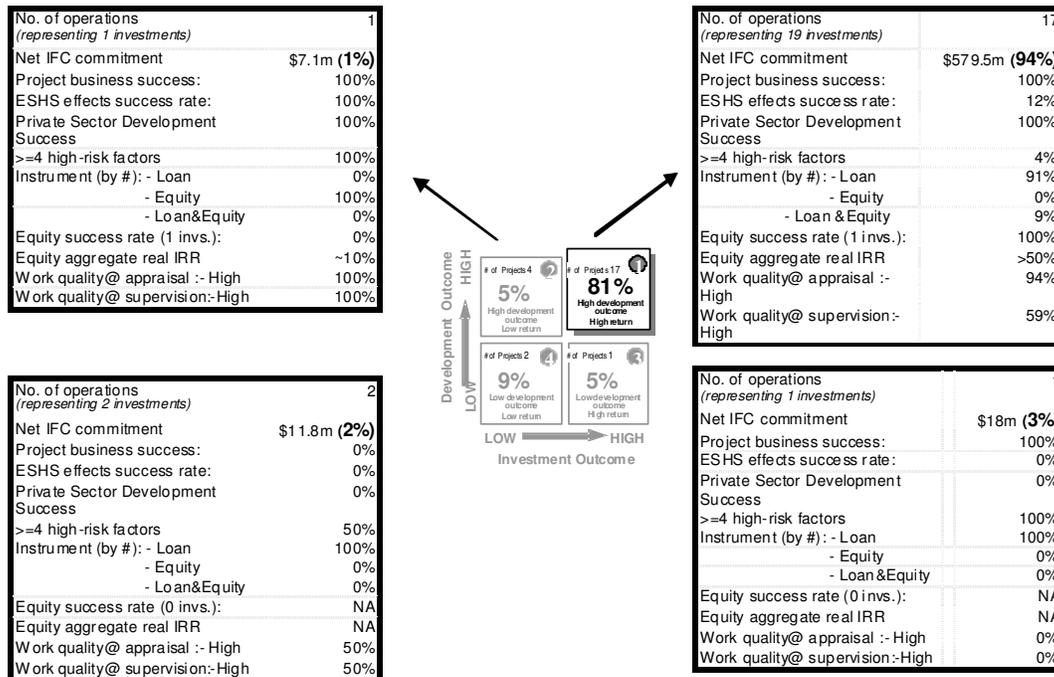
### *Characteristics of quadrant 1, wherein both DO and IO are high (17 projects)*

Ninety-nine percent of the investments falling into quadrant 1 are in low-risk sectors (finance and mobile telecommunications). Most of the sponsors displayed medium to low risk, and financial structuring of the investments tended to be conservative. Only one of the 17 projects had an equity component, and from that IFC's reward was excellent. Experience has shown that equity investments in mobile telephony entities for the most part provide excellent returns.

More than 50 percent of the projects were repeat projects, where IFC choose to continue to support proven performers. In the financial sector, those proven performers were selected from among the country's strongest banks. The early focus appears to have been building strength in the upper end of the banking sector to support funding of the corporate sector, with a minor but increasing emphasis on the SME sector.

In summary, the IFC investments that earned high ratings for both development outcome and investment outcome were low-risk investments. Using the IEG risk-profiling methodology, 16 of the projects had 3 or fewer high-risk elements; in all cases, one of those high-risk factors was the high country risk.

Figure 11: Project characteristics



The most significant issue is the poor performance of 10 of the 17 projects on establishing an environmental management system and monitoring environmental, social, (E&S) performance. The two satisfactory performance ratings were attributed to the two mobile telephony projects. All of the banks initially failed to establish and sustain a satisfactory environmental management system to meet IFC’s minimal requirements; only in the very last years was any progress seen on this front.

Six of the projects were part of the Global Trade Finance Program. For the most part they proved successful (and, for several of the issuing banks, highly successful), reflecting the scarcity of trade finance available to Nigeria. The projects supported the importation of capital equipment and consumer goods. A much smaller amount funded exports. The successful demonstration impact of these projects has multiplied the number of confirming banks prepared to offer Nigerian credit without ongoing IFC guarantees.

Infrastructure and transport and oil, gas, and mining, were significantly underrepresented in the projects, especially given their importance to Nigeria’s development.

**Characteristics of projects in other quadrants**

Four of the 21 evaluated projects were spread among three quadrants, as shown in figure 10, so no statistical significance can be attributed to the characteristics of these projects. The single CIV

evaluated in an XPSR scored a quadrant 4 rating that was revised in the course of this analysis to quadrant 2. After a slow start, the investments in the project's fund performed well, achieving a DO of mostly satisfactory, raising the estimated IRR on IFC's equity investment to close to 10 percent, still short of the benchmark for a satisfactory rating.

Two of the projects were financial intermediaries that failed to perform. The fourth, involving a working capital credit line to an oil and gas industry service company, failed to perform in the early stages and was mutually cancelled and prepaid.

## Immature projects

As noted, 12 projects were too recent to support a full evaluation and were rated "no opinion possible." They do, however, provide a glimpse of the direction of the portfolio. Five of the projects were in the financial sector and totaled \$59 million. The other seven were in the real sector and amounted to \$217 million. Three immature projects had four or more risk elements, and eight had three or fewer.

These projects suggest an increase in real sector activity, with a continued preference for a conservative risk profile. Within the financial sector, a move toward the SME market could be detected. Among the real sector projects, one sees a high incidence of delay in project implementation, reflecting the inherent difficulty of the projects, the difficult business environment, a lack of necessary infrastructure and resources, a lack of specific experience among sponsors who have overreached their technical skills, and inefficiencies introduced by continued high levels of corruption and, in some cases, civil strife.

## Summary observations from the evaluation

### *The impact of the business climate factors*

The poor business climate and country risk played a greater role in the selection of projects and sectors than in the outcome of the selected projects. The high level of corruption, the difficulties in obtaining chattel security, and the incompleteness of privatization legislation all strongly influenced the selection of projects and sponsors. IFC appears to have chosen to confine its activities to those sectors that it believed to pose lower risk, focusing within those sectors on a narrow group of strong sponsors.

### *Sponsor quality*

To a large extent IFC worked with the top tier of Nigerian sponsors early in the period. The poor experience of the Africa Enterprise Fund in working with lower-tier sponsors was a major driver of this approach. Except in the natural resource sector, international sponsors and financiers were hesitant to enter Nigeria.

Often, higher-risk sponsors evolved into low-risk sponsors through a sequence of repeat projects, providing the sponsors with access to international funding and thus reducing, if not eliminating, the need for continued IFC funding and advisory services. In a number of cases the need or desire for IFC advisory or governance support has lingered beyond the need for direct funding.

When comparing the client feedback survey with IFC due diligence on investments both approved and declined, there is clearly a significant difference between the perceptions of risk, of sponsors'

professionalism and technical competency, and of legal compliance. Those perceptions all point to a need for close supervision in the early stages of IFC client relationships.

### *Sector performance*

High-risk sectors were avoided over the review period. Small health and education projects considered to carry higher risk were implemented, as was a hotel project in the middle of the period. In late 2007, funding was provided to a civil contracting and property developer.

The infrastructure sector, represented by a sole mobile telecommunications project, proved eminently successful across the board and the only project to implement a satisfactory environmental and social program. On the other hand, the country's major infrastructure needs lie in energy and transport, where IFC has no investment projects. Delays in privatization and incomplete legislation and regulation inhibit IFC investments in these subsectors but create demand for advisory services.

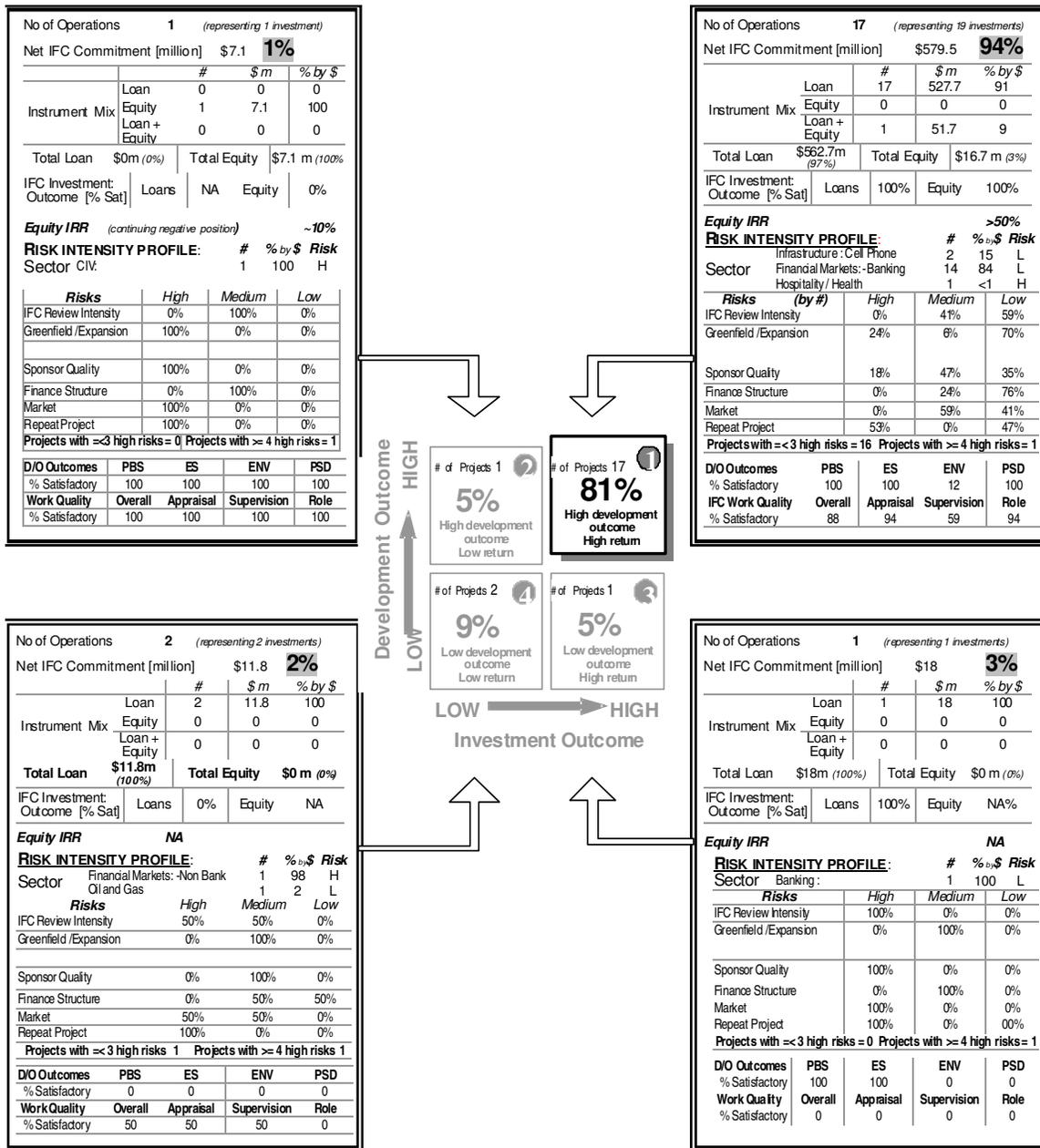
Nigeria's large oil and gas sector is represented in IFC's portfolio by one small financial service entity that failed to perform. On the other hand, the sector has continued to attract needed foreign direct investment. IFC's opportunities appear to be upstream (in marginal oil fields and oil and gas services) and downstream (in fertilizers and petrochemical, where IFC has one project that is still too recent to evaluate).

The hospitality, health, and education sectors are represented by three projects: a hotel project approved in 2004, which at the time of evaluation had barely reached the ramp-up stage and thus could not be evaluated; a follow-on education project that proved successful; and a health service entity, approved in 2007.

Loans to commercial banks dominated the portfolio, displaying strong performance in terms of business success, economic sustainability, and private sector development. Without exception, however, these projects failed to meet IFC's environmental and social requirements. The participation of IFC did have the effect of improving governance and therefore the sponsors' international credibility. The trade finance projects facilitated imports in a country where it has been very difficult to arrange imports. Moreover the projects introduced the participating banks to the outside world, very important support given that Nigeria was not an investment destination.

It is reported that 90 percent of Nigeria's businesses are SMEs, yet less than a third of IFC's projects in the country targeted SMEs as a prime objective, although SMEs have received more attention in later investments. Since most SMEs and many second-tier companies cannot handle foreign currency risk, IFC is faced with the challenge of providing local-currency funding. If the challenge can be met, it would support IFC's early posture of developing a strong commercial banking sector, but it also highlights the gaps in IFC's program of strengthening the financial sector through the pension and insurance subsectors, the logical sources of local currency for investment.

Figure 12: Detailed project characteristics





## Annex 8: List of Interviewees

### Government

1. Rotini Oyekan, Commissioner of Finance, Lagos State
2. Ben Akabueze, Commissioner for Economic Planning and Budget, Lagos State
3. Reg A. Ihebuzor, Director Strategy and Planning, Bureau of Public Enterprises
4. Abdullahi B. Shehu, International Economic Relations Department, S. I. Yakasai, Assistant Director, Federal Ministry of Finance
5. Abdulrahman Ado, Vice Chairman – Nigerian Electricity Regulatory Commission (NERC)
6. M. U. Zauro, Member/Secretary of the National Energy Council’s Reform Committee (former Executive Director National Electric Power Authority, NEPA)
7. Shu’aibu Maigida, Coordinator, Power Holding Company of Nigeria (PCHN)
8. Isiaka Abdul Razaq, Group General Manager Finance, Nigerian National Petroleum Corporation (NNPC)
9. Stanley I. Lawson, Group Executive Director Finance & Accounts Directorate, Nigerian National Petroleum Corporation (NNPC)
10. Alfred Oghenovo Umaka, Deputy Manager Finance, Nigerian National Petroleum Corporation (NNPC)
11. Dr. (Mrs.) Safiya I. Muhammad, Permanent Secretary, Federal Ministry of Women’s Affairs and Social Development
12. Odusina Olatunde Emmanuel, Minister of State (Gas)
13. Taofie Tijani, Special Technical Advisor, Ministry of State (Gas)
14. Dan D. Kurle, Special Advisor, Ministry of State (Gas)

### Private sector

15. Olusegun A. Odubogun, CEO, Deloitte
16. Rasheed Adegbenro, Assistant Director Corporate Affairs, Manufacturers Association of Nigeria (MAN)
17. Ambrose Oruche, Senior Manger Sectoral Dept., Manufacturers Association of Nigeria (MAN)

## IFC IN NIGERIA: 1998 - 2007. AN INDEPENDENT COUNTRY IMPACT REVIEW

18. Endurance Uhumuavbi, Research Economist, Manufacturers Association of Nigeria (MAN)
19. Okorie Ego, Training Officer, Manufacturers Association of Nigeria (MAN)
20. S. O. Gbadegun, Research Economist, Manufacturers Association of Nigeria (MAN)
21. Moses Kragha, Oil & Gas Advisor, INTSOK
22. Sonnie Ayere, Managing Director/CEO, UBA Global Markets
23. Paul Nickson, Engineer, Geometrics
24. Folashade Laoye, Advisor, Hygeia
25. Uloma Ike, Program Manager, Gender Empowerment Program, Access Bank PLC
26. Dipo Adebo, Partner, DAA
27. Manish Mundra, CEO, Elene Petrochemicals, Indorama
28. V. S. Baldwa, CFO, Eleme Petrochemicals, Indorama
29. Emeka Emuwa, Citibank Country Officer, Citibank
30. Abdul Bello, Managing Director, UACN Property
31. Sade Ogunde, Finance Director, UACN Property
32. Phil Caiafas, Director, UACN Property
33. Samaila Zubairo, Executive Director/CFO, Obajana Cement
34. Ernest Obeng, Chief Financial Officer, AfriCap Investment
35. Emeka Uzomba, Head, Treasury & Correspondent Banking Group, Diamond Bank
36. Uju Okafor, Treasury & Correspondent Banking Group, Diamond Bank
37. Tunde Hassan-Odukale, Executive Director, Leadway Assurance Company
38. Adetola Adegbayi, Leadway Assurance Company
39. Chukuka Chukuma, Head, Project & Structured Finance, IBTC Chartered Bank PLC
40. Nnenna Aga, Corporate Banking, IBTC Chartered Bank PLC
41. Andrew Alli (former IFC Country Manager), Deputy CEO, Travant Capital Partners
42. Olumuyiwa, Coker, Partner, Akintola Williams Deloitte, Lagos Water Privatization
43. Jonathan Wood, Director Project Finance, Standard Bank (Corporate and Investment Banking)

44. Leslie Silverstone, Rand Merchant Bank (Corporate and Investment Banking)
45. Werner Van Oudenhove, Infrastructure Finance, Rand Merchant Bank (Investment Banking)
46. Isaac Sam, African Finance Corporation AFC
47. Yetunde Olasope, Attorney, TEMPLARS
48. Olayemi Anyanechi, Attorney, TEMPLARS
49. Chike Obianwu, Attorney, TEMPLARS
50. Anthony Ossai, Attorney, TEMPLARS
51. Olamide Oladosu, Attorney, TEMPLARS
52. Adebukola Eleso, Attorney, TEMPLARS
53. Toyosi Kolawole, IBS
54. Emeka Emuwa, Nigeria International Bank Limited
55. Mansur Ahmed, CEO, Nigerian Economic Summit Group
56. Charles Chikezie, Business Development Manager, GroFin
57. Otunba Bisi Okabanjo, Executive Secretary, Nigerian-British Chamber of Commerce
58. Hannah Kamenetsky, Commercial Attaché, Embassy of the USA

### **Academics**

59. Prof. Juan Elegido, Dean, Lagos Business School
60. Peter Bamkole, Enterprise Development Services (EDS), Pan-African University
61. Prof. Albert J. Alos, Vice Chancellor, Pan-African University
62. Dr. Adedoyin Salami, Professor, Lagos Business School, Pan-African University

### **Nongovernmental organizations and civil society**

63. Yemisi Ransome-Kuti, Executive Director, Nigeria Network of NGOs
64. John-Bede Anthonio, Integrated Capital Consulting
65. Bolarinwa Ige, FATE Foundation
66. Ify Akpojiovwi, FATE Foundation

67. Jumoke Alagbe, FATE Foundation
68. Elizabeth Olofin, FATE Foundation
69. Onyebuchi Adewale, FATE Foundation
70. Soren Ambrose, Manager Africa Program, Bank Information Center (BIC)
71. Stefan Cramer, Country Director, Heinrich Boll Foundation Nigeria
72. Anthony Akpan, President, Pan-African Vision for the Environment (PAVE)
73. Andrew Aulisi, Director Markets & Enterprise Program, World Resources Institute

## **Donors**

74. Simon Hartford, Chief Executive West Africa, ACTIS
75. Fabio Baiardi, Deputy Head of Mission, Embassy of Switzerland
76. Adesoji Ademola, Economic & Commercial Affairs Officer, Embassy of Switzerland
77. Herve Assah, Resident Representative, African Development Bank (AfDB)
78. Kuniaki Amatsu, Assistant Resident Representative, Japan International Cooperation Office (JICA)
79. Geir A. Schei, Second Secretary, Halvor Musaeus, Counsellor, Royal Norwegian Embassy
80. Denis Thieulin, Head of Development Cooperation, European Union
81. Ibi Ikpoki, Trade and Economic Officer, European Union
82. Per Lindgarde, Minister and Deputy Head of Mission, Embassy of Sweden
83. E. J. Ogbile, Director, Program Development & Implementation, NEPAD
84. Abdullahi G. Abubakar, Program Officer, Agriculture, NEPAD
85. Marjo Cromptvoets, Deputy Head of Mission / Counselor, Embassy of The Netherlands
86. Mavis Owusu-Gyamfi, Team Leader, Economic Growth, DFID, Abuja
87. Jan Wimaladharm, Private Sector Development Adviser, Economic Growth Team, DFID Abuja
88. Abboud Zaoui, Commercial Counselor Economic Development, Embassy of France
89. Charles-Andre Le Pape, Country Manager, PROPARCO Regional Office
90. Christophe Lucet, West African Sahel Division, ACP/IF Department, European Investment Bank (EIB)

91. Tom Gronnegaard Knudsen, Consul General, Denmark
92. Henk Nijland, Senior Investment Officer Africa Department, FMO Netherlands Development Finance Company

### **World Bank Group**

93. Peter Sheerin, Principal Investment Officer (Credit Bureau & Risk Management Advisor), IFC Washington
94. Sam Nganga, Operations Officer, Global Business Network, PEP Africa, IFC Johannesburg
95. Olusola (Sola) Olubi, Portfolio Manager Financial Sector, IFC Lagos
96. Galina Sotirova, Acting Country Director Nigeria, World Bank Abuja
97. Steven Dimitriyev, Senior Private Sector Development Specialist, World Bank Abuja
98. Paulo De Sa, Manager Policy Division, Oil, Gas & Mining, World Bank Washington
99. Peter Mousley, Lead Private Sector Development Specialist, World Bank Washington
100. Waqar Haider, Senior Energy Specialist, World Bank Abuja
101. Larai Hajara Shuaibu, Senior Advisor to Executive Director (Nigeria), World Bank Group
102. Duke Essiam, Sr. Investment Officer, IFC Lagos
103. Mike Omaliko, Investment Officer, IFC Lagos
104. Dawda Barry, Investment Analyst, IFC Accra
105. Aimilios Chatzinikolau, Strategy Officer, E&S Department
106. Solomon Quaynor, Country Manager Nigeria, IFC
107. Basil Kavalsky, Task Manager (Nigeria CAE), IEG-WB
108. Inder Sud, Consultant (Nigeria CAE), IEG-WB
109. Rafael Dominguez, Corporate Strategy, IFC Washington
110. Frank Douamba, Africa Region Strategist, IFC Washington
111. Kutlay Ebiri, Consultant, Peer Reviewer
112. Roland Michelitsch, Manager DOTS, IFC
113. James Emery, Principal Operations Officer (former Sub-Saharan Strategist), IFC Washington
114. Davide Bonzano, Sub-Saharan Human Resources, IFC Johannesburg

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- 115. Elam Muchira, Senior Investment Officer, IFC Lagos
- 116. Femi Lawal, PEP Coordinator, IFC Lagos
- 117. Doris Enobakare, WB Consultant
- 118. Sabrina M. Borlini, Investment Officer GTFP, IFC Johannesburg

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# Endnotes

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## IFC Management Response to IEG-IFC

<sup>1</sup> Distributed to the IFC's Board of Directors on August 29, 2008, and discussed by the Board's Subcommittee on Development Effectiveness on September 15, 2008. Released by IFC in accordance with IFC's Policy on Disclosure of Information.

### Chairperson's Summary

<sup>1</sup> The World Bank in Nigeria, 1998-2007: Country Assistance Evaluation (CAE) note was prepared by IEG-WB and will be available at [www.ieg.worldbank.org](http://www.ieg.worldbank.org) after it is disclosed.

<sup>2</sup> Unless specifically noted, IEG refers to IEG-IFC in this document.

### Chapter 1

<sup>1</sup> In January 2006 Nigeria had the tenth-largest oil reserves and the seventh-largest gas reserves in the world (Oil & Gas Journal 2005).

<sup>2</sup> Nigeria is the most populous country in Sub-Saharan Africa and the ninth most populous country in the world.

<sup>3</sup> The methodology used to compute GDP from Nigerian national statistics was changed in October 2007 following an initiative by the International Monetary Fund (IMF) and UK's Department for International Development (DfID) that aimed to introduce institutional reforms in the statistical system. The IMF expressed concern about the high non-oil growth rates recorded for 2002–04, which were inconsistent with available data. The estimates are still under review (IMF 2008b).

<sup>4</sup> See IEG-WB (2008, page 64) for a list of the various obstacles to realization of Nigeria's agricultural production potential.

<sup>5</sup> An estimated 87 percent of manufacturing firms are SMEs (World Bank 2007b).

<sup>6</sup> Excluding the peak in 2002, on average, from 1993 to 2006, Nigeria's total gross fixed capital formation, as a percentage of GDP was 21 percent. This is comparable to the average of 20 percent for 44 other resource-rich countries in the same period.

<sup>7</sup> On average, for the period 1996–2006, Nigeria accounted for 17 percent of FDI inflows in the region. FDI inflows represent 2.9 percent of Nigeria's GDP—a smaller share than in Tanzania, Sudan, and Angola.

<sup>8</sup> The surveys are: the Regional Program on Enterprise Development (RPED) Survey (2002); the World Bank Cluster Development Survey for Abia and Anambra States (2003); the 2005 Value Chain Analysis; the Lagos survey (2006); and the World Economic Forum's Global Competitiveness Report for 2007–08. All show that the three most salient barriers to doing business are inadequate supply of infrastructure, access to financing, and corruption. The surveys are discussed in World Bank 2007b.

<sup>9</sup> On the enhancement of local content in the upstream oil and gas industry in Nigeria, see Heum and others (2003).

<sup>10</sup> Transparency International's Corruption Perception Index ranks countries by the degree to which corruption is perceived to exist among public officials and politicians.  
[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)

<sup>11</sup> For example, Nigeria's score on the Rule of Law index shows a positive trend since 2004. Nevertheless, Nigeria still ranks in the bottom 5 percent of the list, at 197 out of 211 countries. Another example is the Government Effectiveness Index (a dimension of the World Bank Institute's Worldwide Governance Indicators) in which Nigeria also ranked near the bottom, at 177 out of 212 countries.  
<http://info.worldbank.org/governance/wgi/>

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<sup>12</sup> Capital adequacy increased from 14.7 percent in 2004 to 18.6 percent in 2007; the ratio of nonperforming loans to gross loans decreased from 21.6 percent in 2004 to 7.7 percent in 2007; and the ratio of liquid assets to total assets increased from 51.1 percent in 2001 to 62.2 percent in 2006.

<sup>13</sup> Following consolidation, new foreign banks have entered the market. Two examples are Deutsche Bank and Renaissance Cap.

<sup>14</sup> The value of trade in Nigerian debt grew more than six fold from the third quarter of 2003 to the third quarter of 2007.

<sup>15</sup> Market capitalization as a percentage of GDP grew from 10.2 percent in 2000 to more than 65 percent in 2007.

<sup>16</sup> The ratio of private credit to GDP grew from 10 percent in 2000 to more than 19 percent in 2007.

<sup>17</sup> Higher oil revenue and a recent agreement with the Paris Club of creditor nations have led to a sharp reduction in Nigeria's external debt as a percentage of GDP. That debt fell from 89 percent in 1996 to 5 percent in 2006.

<sup>18</sup> The *Institutional Investor Country Credit Rating* derives from a survey-based measure of international investors' perception of the risk of default on sovereign debt obligations. While this measure is usually a good proxy for the quality of the investment climate, the risk of default on sovereign debt in resource-rich countries is more a function of oil revenues than of economic wealth and productive economic activity in the private sector. As a result, Nigeria's rating may not be a true reflection of its business climate.

### Chapter 2

<sup>1</sup> It is expected that NEEDS will be superseded by a similar government strategy in 2008.

<sup>2</sup> This study did not review these IFC-approved informal country strategy notes.

<sup>3</sup> The Africa Enterprise Fund was established in 1988 to make direct investments in small and medium enterprises (SMEs) in Sub-Saharan Africa. The program, which was evaluated by IEG in 2000, was later discontinued by IFC.

<sup>4</sup> The surveys are listed in footnote 11.

### Chapter 3

<sup>1</sup> These annexes are available online at: <http://www.ifc.org/ieg/nigeria>

<sup>2</sup> That total excludes four projects cancelled after commitment, two operations collapsed into their parent investment, and six projects of the Africa Enterprise Fund program, which IEG has already evaluated. In addition, IFC made two indirect investments in Nigeria during this period, both subinvestments of regional private equity funds in which IFC invested. One is an \$80 million equity investment in a commercial bank (IFC's share of the investment is equivalent to \$3.25 million); the other is an equity investment in a voice and data communications project, with the IFC share being \$1.6 million. These subinvestments were identified, screened, and supervised by the respective fund managers without IFC direction or intervention and therefore cannot be considered a component of IFC's Nigeria strategy; they were therefore not added to the 33 investment projects evaluated in this report.

<sup>3</sup> The advisory services include regional advisory services (also PEP-Africa), the Technical Assistance Trust Funds (TATF), Foreign Investment Advisory Services (FIAS), Capacity Building Facility (CBF), Private Sector Advisory Privatization Policy and Transactions (PSAPT), Financial Markets Technical Assistance Advisory Services (FMTAAS) and Project Completion Reports (PCR) pilots 1 and 2.

<sup>4</sup> The telecommunications sector falls within infrastructure according to the IFC sector classification.

<sup>5</sup> The poor experience of the Africa Enterprise Fund (AEF) in working with third-tier sponsors seemed to be a major driver for IFC's cautious approach. The AEF was established in 1988 to make direct investments in SMEs in Sub-Saharan Africa. It was evaluated by IEG in 2000. The program has since been discontinued and is beyond the scope of this study.

<sup>6</sup> From its establishment in 1986, IFC served as the executing agency with responsibility for the management of the facility, which was independently evaluated by Nexus Associates, Inc. in November 2003.

<sup>7</sup> The African Management Services Company (AMSCO) is a special project of the United Nations Development Programme (UNDP) and IFC. It provides management and capacity building services to African businesses, particularly SMEs.

<sup>8</sup> According to an IFC briefing prepared for the World Bank Group's Committee on Development Effectiveness 41 percent of Business Development Services is covered by client's fees. Additionally, an experimental design evaluation showed that sales increased by 84 percent and employment increased by 26 percent for assisted firms.

#### Chapter 4

<sup>1</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>2</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>3</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>4</sup> Resource-rich countries are divided into two groups: Group 1 includes countries in which extractive industries account for 50 percent or more of government revenues; Group 2 includes countries with substantial resources in which extractive industries account for 30–50 percent of fiscal revenues. Project evaluations were completed for each of the 33 identified investment projects committed in the covered period, representing 38 investments. Twelve of those projects were insufficiently mature to complete the development outcome and investment outcome assessments of the Expanded Project Supervision Report (XPSR) and mini-XPSR framework. These projects were evaluated using the risk-intensity framework only. Of the 21 mature investment projects, 4 had been reviewed under the regular XPSR framework; those ratings were adjusted based on the latest information available. For the remaining 17 projects mini-XPSR evaluations were completed. The evaluated financial sector projects, also 17 in number, represent 56 percent of the total commitments over the period.

<sup>5</sup> “Additionality” refers to the unique inputs, both financial and nonfinancial, that a development institution such as IFC provides to developing countries. See IEG-IFC 2008c.

<sup>6</sup> The environmental and social ratings are based on the population of 32 projects. Nine projects were rated NOP (no opinion possible), and 9 projects were rated N/A (not applicable), leaving a remainder of 14 projects (3 projects were rated satisfactory, and 11 projects were rated unsatisfactory). The 3 satisfactory projects involved 2 companies, and the 11 unsatisfactory projects involved 7 companies. See annex 7.

<sup>7</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>8</sup> The program offers confirming banks partial or full guarantees covering payment risk on banks in emerging markets. These guarantees are transaction-specific and apply to trade-related deals. They may be evidenced by such instruments as letters of credit, trade-related promissory notes, accepted drafts, bills of exchange, bid and performance bonds, and guarantees and advance payment guarantees.

<sup>9</sup> See annex 6, IEG-IFC Risk Profiling Methodology for IFC Investment Operations available on the web at <http://www.ifc.org/ieg/nigeria>.

<sup>10</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>11</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>12</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>13</sup> These Annexes are available online at <http://www.ifc.org/ieg/nigeria>

<sup>14</sup> IFC funded one petrochemical project that is too recent to evaluate.

<sup>15</sup> See annex 3 available on the web at <http://www.ifc.org/ieg/nigeria> for a summary of IEG evaluation framework for advisory services. The results represented are a percentage of those projects that were ratable at the time of evaluation. For example, fewer advisory services projects have yet to demonstrate long-term impact

because of their stage in the project cycle and the short time they have had to produce measurable impacts. In such a case, IEG will mark this category as “too soon to tell” and exclude the project from the sample for that particular category. For example, of the 29 projects evaluated, 23 had measurable outcome achievement. Of these 23, only 52 percent had a rating of satisfactory or greater.

<sup>16</sup> These 34 PCR validations were completed by IEG under two pilot validation exercises conducted in coordination with IFC’s Advisory Services M&E Department.

# IEG

Independent Evaluation Group



# IFC

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