PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT
IN THE AMOUNT OF SDR 93.4 MILLION
(US$140 MILLION EQUIVALENT)
TO THE
FEDERAL REPUBLIC OF NIGERIA
FOR AN
ECONOMIC REFORM AND GOVERNANCE PROJECT

November 15, 2004

Poverty Reduction and Economic Management 3
Nigeria Country Unit
Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective October 31, 2004)

Currency Unit = Nigerian Naira (N)
N133 = US$1
US$1.4996 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

- BPSR: Bureau of Public Service Reform
- CAS: Country Assistance Strategy
- CFAA: Country Financial Accountability Assessment
- CPAR: Country Procurement Assessment Report
- EFCC: Economic and Financial Crimes Commission
- FCC: Federal Character Commission
- FCSC: Federal Civil Service Commission
- FGN: Federal Government of Nigeria
- FIRS: Federal Inland Revenue Service
- FMF: Federal Ministry of Finance
- FMI: Federal Ministry of Information
- FMR: Financial Monitoring Report
- FOS: Federal Office of Statistics
- GIFMIS: Government Integrated Financial Management Information System
- IDA: International Development Association
- IRFS: International Financial Reporting Standards
- IPSAS: International Public Sector Accounting Standard
- JISU: Joint Bank Group Interim Strategy Update
- LAN: Local Area Network
- MDA: Ministries, Departments and Agencies
- MDG: Millennium Development Goals
- MFCT: Ministry of the Federal Capital Territory
- MTEF: Medium Term Expenditure Framework
- NASB: Nigerian Accounting Standards Board
- NEEDS: National Economic Empowerment and Development Strategy
- NPC: National Planning Commission
- OAGF: Office of the Accountant General of the Federation
- OAuGF: Office of the Auditor General for the Federation
- OHCSF: Office of the Head of Civil Service of the Federation
- PCT: Project Coordinating Team
- PENCOM: National Pensions Commission
- PCU: Project Coordinating Unit
- PET: Project Executing Team
- PIM: Project Implementation Manual
- PIF: Performance Improvement Facility
- PITT: Project Implementation Task Team
- PPB: Public Procurement Bureau
- PPF: Project Preparation Facility
- PSRP: Public Sector Reform Program
- ROSC-A&A: Report on Observance of Standards and Codes – Accounting & Auditing
- SBD: Standard Bidding Documents
- SOE: Statement of Expenses
- WAN: Wide Area Network

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Map:  # NIR-33691 IBRD
A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

a. Recent Progress in Economic Management and Public Sector Governance

1.1 Since the appointment of a strongly reform minded economic team in July 2003, the Federal Government has taken bold steps to begin to tackle the deep-seated risks to macroeconomic and fiscal stability and to address key sources of economic inefficiency. It is implementing policies to strengthen economic management and to deal with weak governance and corruption. Initial progress is impressive. In a major departure from the past, the strongly pro-cyclical nature of fiscal policy is being reversed: the Federal Government has convinced state governments of the need to sterilize part of the recent oil windfall and has avoided massive increase in public expenditures and rising fiscal deficit. The budget function has been consolidated in a strengthened budget office and greater transparency has been introduced to public expenditure management through regular publication of allocations of federation revenues to all tiers of governments, and through widespread dissemination of information on budget allocations and execution. The budget is becoming better aligned with Nigeria's poverty reduction priorities. Subsidies, which benefited better off Nigerians, are being eliminated and ploughed back into other expenditures that could benefit poorer Nigerians. Greater financial controls have been put in place through the creation of a Cash Management Committee chaired by the Minister of Finance, thus limiting the extent of deviation between budget and actual expenditure and the accumulation of new expenditure arrears. Through stricter enforcement of "due process" in the award of government contracts, over N100 billion of public funds have been saved. Public service in-kind benefits are being monetized thus bringing greater transparency into public remuneration, ending excessive abuse of these benefits and waste of public resources.

1.2 This recent progress is critical for Nigeria's macroeconomic stability and fiscal sustainability, and for the government's ability to deliver key services to Nigerians. The Government recognizes nevertheless that additional challenges remain. Public expenditure management needs to be further strengthened to (i) build an integrated budget based on programs that are clearly linked to key development objectives; (ii) ensure greater accountability from budget holders; (iii) allow greater emphasis on budget outcomes and impact; and (iv) identify and address remaining sources of leakage in budget execution in order to strengthen efficiency of public expenditures. This will require in addition to changes in policies and regulations, considerable modernization and automation of current budget, financial management and procurement practices. The public service needs to be completely overhauled to focus and streamline the mandate of government, to re-professionalize staff, introduce accountability and incentives for good performance; and enhance its capacity to deliver services.

b. Key Sources of Weakness in Economic Management and Public Sector Governance

1.3 Political Economy is Complex. Weaknesses in economic management and governance reflect in part the complex political economy challenges in Nigeria's oil rich economy, and the historical concentration of decision-making power in the hands of only a few actors who also benefited immensely from the flawed policy framework. With the return to democracy there is increasing participation of more stakeholders in decision-making and greater demand for improved economic management is being created.

1.4 Government is spread too thin. Public service agencies in Nigeria have historically perceived their role as directly producing services, instead of enabling other private and civil society
providers. There is also considerable overlap in functions of different federal government entities and of “concurrent” responsibilities between the Federal Government and the states. Thus over the years, government has become spread over too many functions, resulting in Ministries, departments and Agencies (MDA) mandates that have spawned a multiplicity of organizations. This makes it hard for the Federal Government to deliver desired results even in areas that are at the core of its mandate. The ongoing privatization program is beginning to address some of these issues. However greater coordination of roles and activities between different federal agencies and between agencies at different levels of government is needed.

1.5 **There is insufficient accountability in Government.** In the FY04 budget, for the first time, the Federal Government agreed clear output targets with key spending agencies to be delivered against their budget allocations. This reform will need to be fully implemented and appropriate actions taken where targets are not achieved for no justifiable reason. This will be important for breaking from the tradition of weak accountability from budget holders for the stewardship of the funds allocated to them. Follow up of the auditor general’s reports on government financial management also needs to be strengthened. Efforts to achieve representativeness of Nigeria’s federal and ethnic structure have been implemented in a manner that has promoted patronage and a quota system in appointments and promotions. Bad behavior and poor performance are therefore often not sanctioned and in some instances may even appear to be rewarded. In addition the current staff pooling system means MDAs have little input in the selection of their professional staff. Staff are centrally recruited by the Federal Civil Service Commission and are deployed as part of “professional” pools to various MDAs chiefly by the Office of the Head of Civil Service of the Federation. Until the federal government’s recent monetization reforms, the more important share of staff remuneration was paid through in-kind benefits (housing, transportation, etc), which was implemented as an entitlement and de-linked from performance and merit. It may be difficult to fire staff even where performance is poor or even where there are clear cases of indiscipline.

1.6 **Public Service is de-skilled and lacks professionalism.** Over the years, government has not invested adequately in building and upgrading skills of its staff. Training funds are seldom available and as a consequence little training has been conducted. Furthermore, the training institutions within Nigeria have themselves been run down, and course content has become less relevant. External training programs have yielded limited impact since only as small percentage have been able to participate and also because often the content of the training is not relevant. The result is a public service with limited professional skills and competence and with the majority of staff lacking the requisite professional training for the positions they hold. The current staffing structure of the federal civil service can be accurately described as an inverted pyramid with large numbers of non-professional staff at the lower grades while staffing is thin at higher professional levels.

c. Government Response to Weaknesses in Economic Management and Public Sector Governance

1.7 There is strong recognition within the leadership of the current federal administration that fundamental changes are needed in the way government manages the economy and broadly in the way it does its work. Reform of economic policy and of government institutions is at the center of the Federal Government’s medium term reform and development agenda, the National Economic Empowerment and Development Strategy (NEEDS) which is also the Federal Government’s PRSP. The policy thrust of the reform agenda in this area includes budget reforms based on adoption of a medium term expenditure framework and greater accountability from budget holders, adoption of fiscal rules on spending and borrowing to begin to instill discipline at all tiers of government; tax
and customs policy and administration reforms; introduction of open and competitive procurement processes; pension reform; and re-professionalization, and restructuring of the public service. It has begun implementation of the Extractive Industries Transparency Initiative in its critical oil and gas sector with the first set of audits of financial flows in the sector expected to be completed by June 2005. The Government is also strengthening its targeted anti-corruption efforts including through the creation in April 2003, of the Economic and Financial Crimes Commission, which has been given broad powers to fight economic and financial crimes.

1.8 But Government also recognizes that these are major and complex areas of reform, extremely contentious and likely to be quite expensive in financial terms to implement. It has decided to pursue a reform approach that is selective, strategic and incremental. FGN is ensuring that the most basic measures are put in place first and tackling “first things first”. On budget and financial management reforms for example, Government is carefully mapping out steps that will move towards an eventual MTEF and given the weak IT capacity Government intends to move toward IT-based government financial management system incrementally, as capacity is being strengthened, drawing on the lessons of experience from other countries. As regards administrative reforms, government is focusing initially on the civil service and within the civil service, starting with reforms that could yield early wins and form the basis for the successful implementation of subsequent phases. Reforms are beginning in four pilot ministries, which will help test some reform approaches and provide lessons for mainstreaming to the entire civil service. Ongoing privatization effort will in parallel address some of the weaknesses in the parastatal sector. In addition, the government has begun instituting hard budget constraints for parastatals, which should force them to begin to tackle some of the sources of structural imbalance and inefficiency in their operations.

2. Rationale for Bank involvement

2.1 The President and reform team have asked for the Bank’s involvement to support a strong reform process, which needs to achieve some tangible successes in the two-year window of opportunity leading to the next elections. There are four key reasons why the Bank should respond positively to the Government’s request for support.

2.2 First, the Government has demonstrated clearly and convincingly over the last 18 months, its deep commitment to fundamental reform. It has put together a solid reform program and has already implemented bold measures in the face of opposition from powerful interest groups who benefited from the old way of doing things. Second, the involvement of a leading multi-lateral development agency such as the World Bank, will signal the support of the international community for reform in Nigeria. This will give the reformers the confidence and backing needed to continue and sustain the difficult reforms to fight corruption, change the way that government works and make a break with Nigeria’s difficult past. Third, the Bank’s involvement will make available to the reform team support from the Bank’s considerable experience of governance reform. This is a core area of work for the Bank and one where lessons from the Bank’s wide-ranging experience is being drawn on to correct shortcomings of existing approaches, and to innovate to achieve greater success. Bank support will help bring in the needed technical assistance to complement the government’s own efforts in implementing these difficult reforms in the first phase and in defining future phases of the reform. Finally, the Bank’s involvement will bring in needed financial assistance to help fund the costs of reform. The Government is putting considerable resources into funding these reforms—an allocation of N10 billion or $75 million equivalent—has been provided in the FY05 budget for this. In addition funds were released in October 2004, to pay off about 8,000 drivers whose jobs have been eliminated because of the monetization reforms. Nevertheless given the scope of the reform program, considerable additional resources are needed to complement the Government’s own effort.
2.3 The Bank is collaborating with the donor community in its involvement. The project has been prepared in close collaboration, and is being jointly financed with UK-DFID.

3. **Higher level objectives to which the project contributes**

3.1 In the last year and a half, Nigeria has made progress in consolidating its ongoing political transition, moving successfully from one democratically elected administration to another. The new administration has embarked on an ambitious medium term reform and development agenda the National Empowerment and Economic Development Strategy (NEEDS). A full Country Assistance Strategy (CAS) is being prepared for delivery in FY05 based on the NEEDS. In the interim, on June 15 2004, the Board discussed and endorsed a second progress report of the Joint Bank Group Interim Strategy Update (JISU). With a few adjustments to the strategy based on lessons of JISU implementation to date, and recent economic and political developments in Nigeria, the JISU will continue to guide Bank Group assistance to Nigeria till the full CAS is discussed and endorsed by the Board. In line with this, the assistance program to Nigeria for FY05-06 focuses on the three main pillars of the JISU: (ii) improving governance; (ii) promoting private sector led growth; and (iii) expanded access to basic services through community driven activities which empower Nigerians to be part of their development.

3.2 The Federal Government Economic Reform and Governance Project contributes primarily and most directly to the governance pillar of the JISU. It will help strengthen accountability, transparency and efficiency in key economic management processes for budget, financial management and procurement. It will help modernize selected Federal Government institutions, through reforms in the area of organizational structure, human resources, personnel and payroll controls, work processes, and training. It will lay the ground for deeper reforms, and for the rollout of administrative reforms to other parts of the federal civil service. The project will also contribute to the private sector led growth pillar by promoting sound, predictable and consistent fiscal policy and financial management, and by creating a platform for a systematic attack on corruption. A more efficient and focused public sector will create opportunities for growth of the private sector.

**B. PROJECT DESCRIPTION**

1. **Lending instrument**

1.1 The lending instrument is an investment (technical assistance) loan. The strong need for technical assistance to build capacity and define the subsequent stages of the reforms make a technical assistance credit a more suitable instrument. Capacity building does take time and therefore may not be easily addressed through a quick disbursing instrument. In addition, an adjustment instrument could usurp the strong Nigerian ownership of the reform program since it could be interpreted by the wider Nigerian public as an effort by donors to take control of the management of the government’s reforms.

2. **Project development objectives and key indicators**

2.1 In line with the federal government’s goal to significantly strengthen governance and accountability, reduce corruption and deliver services more effectively, the objectives of this project are two fold: (i) to improve the federal government’s economic and financial management systems and processes; and (ii) to firmly establish a reform process of the federal civil service to improve professionalism and the government’s ability to deliver services. Progress towards the achievement of these objectives will be measured by: (a) adoption of more transparent and modern economic and
financial management systems and processes that are less prone to corruption; and (b) implementation of restructuring plans in pilot MDAs and initiation of reforms in other MDAs.

3. Project components

3.1 The project has four broad areas of support: (i) public resource management and targeted anti-corruption initiatives; (ii) pilot civil service administrative reforms; (iii) pensions reforms; and (iv) statistics and statistical capacity. Activities in these four areas should help build a broad framework to help achieve some immediate gains in the quest for good governance and the fight against corruption, and significant reduction in corruption over time through system-wide structural changes. It will help put the Federal Government’s finances on a path of fiscal sustainability and enhance efficiency in use of government resources. An unallocated amount is also provided primarily to provide flexibility to government in reform implementation and to help it meet unforeseen reform urgencies that arise.

a. Public Resource Management and Targeted Anti-Corruption Initiatives

3.2 This component will support reforms of financial management and procurement policies and processes in parallel with institutional strengthening of the key public expenditure management and procurement agencies. On the revenue side it will support tax administration reforms in the Federal Inland Revenue Service (FIRS). The component will help: (i) modernize financial management and accountability arrangements; (ii) streamline and modernize public sector procurement procedures; and (iii) modernize elements of tax administration. Support will be provided to strengthen budget preparation in pilot reform ministries, promote greater consultation around the budget and pilot expenditure tracking in a few areas. The Federal Government is already strengthening fiscal policy including through implementation of an oil price based fiscal rule. It has also initiated development of a Medium Term Expenditure Framework (MTEF). Separately, activities are underway, funded by USAID and by the Government’s own resources, to strengthen the capacity of the budget office. Both sets of activities will complement each other in strengthening overall public resource management. The component will also include support for targeted anti-corruption efforts of the Economic and Financial Crimes Commission (EFCC).

3.2.1 Activities to improve the Government’s Financial Management System include:

   i) Progressively introducing a Government Integrated Financial Management Information System (GIFMIS). This will include strengthening the OAGF’s IT capacity, acquisition and deployment of integrated PFM software, and development and implementation of additional ICT infrastructure (WAN, to link OAGF HQ and line ministries/agencies/federal pay offices);
   ii) Strengthening the institutional framework and capacity for cash management through utilization of the GIFMIS cash planning system;
   iii) Improving financial reporting through: (a) adoption of the cash model of International Public Sector Accounting Standards (IPSASs); and (b) design and implementation of departmental financial performance reporting systems;
   iv) Reviewing and modernizing of internal audit arrangements; and
   v) Capacity building in financial management for relevant staff including through support for the Federal Treasury Academy.

In parallel, the EU is funding, through the EMCAP project, development of ICT infrastructure for a core of Federal Ministry of Finance Departments and Agencies and a small number of pilot Line Ministries, and operating systems, database, application package and information sharing software
necessary to meet the needs of the core Economic and Statistical Departments/Agencies. This ICT configuration will support implementation of the GIFMIS.

3.2.2 Activities to Strengthen External audit will include:
   i) Restructuring of the Office of the Auditor General of the Federation (OAuGF) in line with a new audit law;
   ii) Reviewing and modernizing audit approaches;
   iii) Capacity building for staff of the OAuGF and strengthening of its IT capacity.

3.3.3 Activities to strengthen Financial Reporting will include:
   i) Full adoption and dissemination of international standards relating to financial reporting, including IFRS/IAS, IPSAS and ISA;
   ii) Review of the 2003 NASB Act to create a Financial Reporting Council and to address current institutional weaknesses in regulation, compliance and enforcement of standards;
   iii) Strengthening of the technical and professional capabilities of the NASB and SEC; and
   iv) Improving business ethics, and international accounting and auditing standards contents of higher institutions’ accounting curriculum.

3.3.4 Procurement Reforms will focus on:
   i) Preparation of implementing regulations for the new Procurement Law and widespread dissemination of the Law and regulations, including in local languages;
   ii) Support for setting up and effective take-off of the Public Procurement Bureau as the procurement regulatory body;
   iii) Establishment of a reliable and regularly updated procurement databank;
   iv) Procurement training and capacity building in the public sector including strengthened oversight capacity, and public enlightenment; and
   v) Preparation of National Standard Bidding Documents.

3.3.5 Support for tax administration reforms will include:
   i) Preparation and implementation of change management action plan for FIRS’s organizational reform and realignment;
   ii) Development of new tax administration procedures to improve transparency and effectiveness including in collection, audit, dispute resolution, and investigative intelligence, and preparation of new operations manuals;
   iii) Development of institutional capacity of the FRIS including preparation of training needs analysis, a comprehensive training plan, and provision of general and specialized staff training;
   iv) modernization of the basic FIRS information systems including provision of network facility support, intensive IT training for both senior management and end-users, and preparation of preliminary study for integrated tax information management system; and
   v) Conduct of annual perception survey to monitor the progress and impact of tax reforms.

These activities form part of a broader tax administration reform plan for which FIRS expects to mobilize additional resources from other donors through the UNDP.

3.3.6 Support to the targeted anti-corruption activities of the EFCC will include:
   (i) Support for take off of the Financial Intelligence Unit, particularly staff training in the use of key IT applications for financial intelligence gathering;
(ii) Strengthening staff capacity in investigative techniques through development and implementation of a training curriculum and recruitment of experienced investigators to work with and mentor EFCC personnel;

(iii) Upgrading of IT capacity through implementation of a state of the art case management system, incorporating finger printing and other technologies; and development of capacity and skills in installed case management applications; and

(iv) Development of a communications strategy.

This assistance will complement much larger EU support to EFCC planned to commence in June 2005. The Bank, the EU and the EFCC have worked together to define and agree the specific activities in this component.

b. Civil Service Administrative Reforms.

3.3 This component will support progressive transformation of the federal civil service through a combination of initial systemic reforms and the restructuring, including downsizing of key agencies as pilots for a later broadening of reforms. The pilot agencies are the Federal Ministry of Finance (FMF), the National Planning Commission (NPC), the Ministry of the Federal Capital Territory (MFCT) and the Ministry of Information.

3.4 Specific activities to be funded include:

(i) Strengthening the newly established Bureau of Public Service Reforms (BPSR) to lead and coordinate the system wide reforms;

(ii) Designing and implementing an integrated personnel and payroll system to improve the management of human resources and reduce fraud;

(iii) Reforming the pilot MDAs through restructuring, enhancement of work processes, and capacity building, including for budget and financial management;

(iv) Strengthening the newly established Bureau of Public Service Reforms (BPSR) to lead and coordinate the system wide reforms;

(v) Carrying out diagnostic studies and dialogue on key service wide reforms to build broader support for the reforms service-wide and inform preparation of detailed plans to extend the reform process to other MDAs; and

(vi) Designing and implementing a Performance Improvement Facility to support innovative capacity building and business process pilots in reforming MDAs.

c. Strengthening Pension Management and Accountability

3.5. The Government is reforming pensions and undertaking measures to improve management and accountability. In July 2004, a new Pensions Act was passed establishing a contributory scheme for both public and private sectors. Many of the institution-building measures required to implement the recently adopted Pension Act are generic requirements applicable to any effort to strengthen the pension system. This component will therefore support measures to improve the management and accountability of the pension system. Support will include:

i) Establishment of a regulatory and supervisory framework for the pension system;

ii) Capacity building for the recently established National Pensions Commission;

iii) Development of an IT strategy and the procurement of software applications and hardware;
iv) Conducting a full scale audit, reconciliation and actuarial valuation of pension entitlements for Federal Government employees and retirees, and development of a benefit arrears reduction strategy; and

v) Public education on pension reform measures to improve management and accountability.

d. **Strengthening of Statistics and Statistical Capacity**

3.6. The Federal Government has recently completed a Masterplan for the National Statistical System with the key objective of strengthening the capacity of the national statistical system to generate reliable, timely and relevant statistical data to support policy making and monitoring achievement of Nigeria’s development objectives. The following elements of the masterplan will be funded under this component:

i) Organizational and institutional development of the National Statistical System including review and modernization of legislation and regulations;

ii) Training and re-professionalization of staff;

iii) Data Development including adaptation of internationally accepted standards and methodologies in data production and conduct of target surveys and topical statistics including sectoral statistics; and

iv) Provision of necessary infrastructure including computer processing equipment (hardware) and software for strengthening data collection, processing and analysis.

e. **Project Management**

3.7. A PCU in FMF will provide overall coordination for the project, and arrange the monitoring and evaluation of project activities. The following will be funded as part of project management:

i) The incremental operating costs of the PCU and PITTs, and the fees of project external auditors to be appointed by the Auditor-General; and

ii) Monitoring and Evaluation of project activities, and the review and monitoring of projects in the World Bank portfolio by the Project Monitoring Team of the Department of Multilateral Institutions, FMF.

| Table 1: Federal Government Economic Reform Support Project Components |
|-------------------|-------------------|-------------------|
| **Component**     | **US$ 000**       | **Percent of Total (rounded)** |
| 1 Public Resource Management and Anti-Corruption Initiatives | 73.30 | 40.9 |
| 2 Civil Service Admin Reforms | 66.86 | 37.3 |
| 3 Strengthening Pension Management and Accountability | 6.69 | 3.7 |
| 4 Strengthening of Statistics and Statistical Capacity | 20.00 | 11.2 |
| 5 Project Execution | 3.31 | 1.8 |
| 6 Contingency/Unallocated | 8.56 | 4.8 |
| 7 Repay PPF | 0.50 | 0.3 |
| **Total** | **179.22** | **100.0** |
2. Lessons learned and reflected in the project design

4.1 Projects to support improved governance including public resource management and civil service reforms have been supported by the World Bank in several countries including in most countries in Africa. There is therefore a wealth of experience in this area of assistance. In addition, during preparation of the progress report on the JISU, the Nigeria CT reviewed lessons from the Bank’s experience since full re-engagement in Nigeria in 1999. Finally earlier attempts at civil service reform though quite different from this effort, still provide useful lessons for the design and implementation of the Economic Reform and Governance Project.

4.2 Two key lessons appear to be the most relevant for this project:

(a) **Strong Government Ownership**: All components have been drafted jointly by government agencies and Bank staff. But project preparation and design also seeks to strengthen ownership for the reforms more broadly within government and beyond the core economic team that is driving the government’s reform program. During preparation, dialogue has been established with central management agencies such as the Federal Civil Service Commission, the Federal Character Commission, and the Office of the Head of Civil Service of the Federation, which play critical roles in personnel management. The process has facilitated interaction and dialogue between the reforming ministries and the central management agencies. The concept of pilot civil service reforms driven by core reform minded ministers will also facilitate strong government oversight and if successful will build stronger and broader support for further reforms in this area.

(b) **Linking Civil Service Administrative Reform with other Government Institutional Reforms**: To achieve the desired efficiency objectives, civil service reforms must proceed in parallel and be linked with other government institutional changes to provide a more integrated reform approach. Of particular importance for this operation is the needed connection between civil service management and the framework of controls and incentives embodied in the government’s budget and financial management systems. The Federal Government as part of its NEEDS is also carrying out budget and financial management reforms aimed in part at setting hard budget constraints for government entities and providing the right incentives for proper management of budgets and finances.

5. Alternatives considered and reasons for rejection

5.1 The proposed project design was selected because it is: (i) consistent with the Federal Government’s reform strategy and approach; (ii) provides financing for critical upfront costs of these reforms whose implementation would not be possible otherwise; and (iii) allows decentralized implementation by individual implementing agencies so that execution of activities is not slowed down.

5.2 Alternative project designs considered and rejected include: (a) a supplemental Credit to the ongoing EMCAP. This would confine the Bank to funding activities already started under EMCAP, and prevent the funding of severance; and (b) a small stand alone new investment operation, which would fund severance but would include only the core economic management agencies particularly the FMF and the NPC as part of the civil service administrative reform pilot. Omitting MFCT would prevent serious testing of fresh management approaches in a large service delivery agency.
C. IMPLEMENTATION

1. Institutional and implementation arrangements

1.1 Implementation Arrangements. A separate Project Implementation Task Team (PITT) will be established for each distinct component (or sub-component) in the relevant implementing agency to ensure smooth implementation. The PITT is a team of staff in a department of the implementing agency empowered to implement project activities on a day-to-day basis in collaboration with other units in the agency and in line with the Project Implementation Manual (PIM) and Bank guidelines. Each PITT will be fully staffed by the agency's regular staff, headed by a project officer who will be the main person accountable for the execution of the project in the particular agency, and including an experienced Procurement Officer (except for the Project Coordinating Unit where three experienced Procurement Officers will be required to oversee procurement for the four pilot civil service reform agencies), and relevant technical and support staff. Dedicated staff assigned from the existing Finance and Accounts Department (FAD) of each implementing agency will be responsible for managing the financial operations of the component while dedicated internal auditors from the pool of auditors will perform internal audit functions for the project. The FADs are generally staffed by qualified accountants. The dedicated staff from FAD will be responsible for ensuring compliance with the financial management requirements of the Bank and the government, including forwarding the quarterly Financial Monitoring Reports and audited annual financial statements to IDA. The staff will maintain adequate FM arrangements to ensure the use of Project resources in an efficient and effective manner to achieve the stated development objectives.

1.2 A team headed by the Director of the Multilateral Institutions Department in the Federal Ministry of Finance and comprising Directors with supervisory responsibility for the project in each implementing agency will have responsibility for coordinating implementation of all components of the project. The team will be supported by a small Project Coordinating Unit in the Department and headed by an overall project manager. Finally, at the political level, oversight for implementation of the project and its outcome and the overall governance reform agenda will be carried out by the technical arm of the Federal Government's Steering Committee on Reforms (SCR), which is chaired by the Minister of Finance. The SCR will: (i) review half-yearly the implementation of the project as defined in this PAD and address any emerging issues; (ii) ensure that set targets and timelines are met; and (iii) make recommendations to the Federal Executive Council on further reforms. Additional details are provided in Annex 6.

1.3 Rationale for Institutional Arrangements. The proposed implementation arrangements for the project seek to move away from the traditional approach of creating isolated project implementation units, towards integration of implementation in the regular operations of the respective agencies. Similarly the oversight of the SCR for the project will ensure that attention is paid to the project activities at the highest level and that emerging issues would feed into refinement and definition of needed reforms. Both of these steps are intended to build even stronger ownership of project activities and enhance their sustainability after completion of project implementation. In addition the arrangements provide platform for dialogue between the “reformers” who are currently driving these reforms (especially the civil service administrative reforms) and the central management agencies who would eventually take an important leadership role. Decentralization of day-to-day project management and implementation to specific agency level should also reduce bureaucratic delays in implementation.

1.4 Capacity Constraints to be Addressed. Financial Management and Procurement Assessments have been carried out for all the implementing agencies. Based on these assessments, appropriate
measures are being put in place to ensure that there is sufficient capacity for procurement and financial management before project implementation begins. Further details are provided in Annexes 7 and 8.

1.5 Flow of Funds and Financial Reporting. The Project will follow disbursement procedures described in the World Bank Disbursement Handbook. IDA will disburse the credit through 10 Special Accounts (SAs), i.e. one for the PCU and each implementing agency that has established a PITT – see Annex 6. The SA limit for the PCU or Agency will be set relative to the size of the components/subcomponents it is implementing. The project will prepare and submit quarterly FMR and annual project financial statements to the Bank and relevant oversight government agencies. Experienced and well-qualified external auditors will be appointed by the Auditor-General for the Federation (on a TOR acceptable to IDA) to audit the Project accounts, financial statements and transactions irrespective of the source of financing.

2. Monitoring and evaluation of outcomes/results

2.1 Performance monitoring of the proposed Project would include the performance indicators as included in Annex 3, as well as progress on execution of the specific activities under the project. In view of the prominence given to the pilot ministries, close attention will be paid to monitoring their reform experience, to extract lessons for later phases of the PSRP.

2.2 The Project will also be subject to a Mid-Term Review (MTR) and Implementation Completion Report (ICR), which will both be jointly prepared by IDA, UK-DFID, the project coordinating team and the individual project implementing teams. Results of these reviews will be discussed with the project coordinating team, the executing agencies, directors and relevant officials in the participating ministries and agencies and with the Federal Government’s Steering Committee on Reform.

3. Sustainability

3.1 Sustainability is based upon the Federal Government’s commitment to the Project which is evidenced in the following: (i) the reforms supported in each of the four components feature prominently in the government’s NEEDS; (ii) much of the preparatory diagnostic work has been carried out jointly by the different government agencies and the Bank; (iii) key elements of the reform agendas—e.g., preparation of fiscal strategy as part of budget preparation; adoption of an oil price based fiscal rule; preparation of a new procurement law; staff audits to weed out ghost workers; efforts to put in place effective personnel and payroll management and control processes—are already being implemented. The reform stance of government that comes into office after elections in 2007 will determine whether these initial reforms will be sustained and deepened. However, project design seeks to ensure sustainability of the activities supported through: (i) putting in place strong and effective systems for personnel and payroll controls to prevent easy reversal of the gains from staffing improvements supported under this project; (ii) building economic management capacity of the FMF and the NPC to ensure that these key central financial and economic management agencies are strengthened even if reforms are not implemented in other parts of the civil service. The objective is to start a reform momentum, which becomes irreversible.
4. Critical risks and possible controversial aspects

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating with Mitigation</th>
<th>Risk Mitigation Measure(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Project Development Objectives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A new president and future governments may not be so committed to public sector reform</td>
<td>Medium</td>
<td>Ensure that program is seen to deliver worthwhile results within the two-year window before 2007 electioneering begins, by strengthening key policy-making ministries, and by building stakeholder engagement through sound change management strategy. Government is also providing legal backing to key elements of the reforms.</td>
</tr>
<tr>
<td>Bureaucratic stakeholders in <em>status quo</em>, while declaring support for modernization, undermine from within public sector reforms by lukewarm implementation</td>
<td>Substantial</td>
<td>FGNI at highest level ensures that key ministries and agencies are headed by reform minded leadership, both politically appointed, career and contract officials.</td>
</tr>
<tr>
<td><strong>To Components Results</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1. Public Resource Management Reforms</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modernization of GIFMIS system stalls through over-design and high costs, and weak coordination of its component parts.</td>
<td>Substantial</td>
<td>FGNI is pursuing an incremental approach to financial management modernization, beginning with the capacity building, mobilization of dedicated resources, and deployment of core budget, treasury and expenditure control systems.</td>
</tr>
<tr>
<td>New PPB not effective in regulating procurement practices than other FGNI watchdogs in their respective areas.</td>
<td>Medium</td>
<td>Ensure PPB works closely with FMF, and that funds are not released to departments, and agencies that fail to follow open, transparent, and competitive public procurement procedures. PPB work plan targets high value procurements.</td>
</tr>
<tr>
<td><strong>2. Civil Service Administrative Reform</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Separation programs run into strong resistance from unions and political will to carry out staffing reforms weakens.</td>
<td>Medium</td>
<td>Government is bringing public service trade unions into dialogue on PSRP. Rightsizing process will be transparent, separation payments fair, legal, and prompt. A communications strategy to convey to staff and general public the process to be followed, the benefits to both separated and retained staff and other social measures to help separated staff will be implemented.</td>
</tr>
<tr>
<td><strong>4. Strengthening Statistics</strong></td>
<td></td>
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<tr>
<td>Activities and responsibilities of different statistical agencies are not coordinated</td>
<td>Medium</td>
<td>Ensure early creation of National Statistical Coordination Council, appropriate membership, and strong backing of political leadership to allow it play effective coordinating role.</td>
</tr>
<tr>
<td><strong>5. Project Management</strong></td>
<td></td>
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<tr>
<td>The multifaceted reform agenda supported by the project is poorly coordinated, leading to slow implementation and poor results.</td>
<td>Medium</td>
<td>Project will be closely monitored by Steering Committee For Reform. Strong Project Officer will be selected to lead the PCU, areas of difficulty will be quickly brought to the attention of the Coordinating Committee and the Minister.</td>
</tr>
<tr>
<td>Insufficient knowledge and experience with IDA’s procurement procedures causes substantial delays in project implementation and increase risk of mis-procurement</td>
<td>Substantial</td>
<td>Experienced Procurement Consultant will be hired for a period of 1-2 years to assist PITT manage procurement functions and train PITT designated Procurement Officer. Intensive supervision of agencies’ staff by Bank field office Procurement Specialists.</td>
</tr>
<tr>
<td><strong>Overall Risk Rating</strong></td>
<td>Medium</td>
<td></td>
</tr>
</tbody>
</table>
5. Credit conditions and covenants

5.1 There are no Credit conditions.

E. APPRAISAL SUMMARY

1. Economic and financial analyses

1.1 Economic analysis of separation programs is concerned with relating the upfront "investment" cost of separation with the productivity gains arising from shifting workers from a less productive occupation in the public sector to a more productive one outside it. Economic analysis of the separation program supported by this project is a payback period on the initial cost of separation of three years. The financial analysis of separation on the other hand compares the upfront cost of separation not with the gain in economic activity through shifting labor from the government to the private sector, but with the net impact on the public sector wage bill. The analysis indicates a payback period of two years for junior level staff and three years for senior level staff. Details of these calculations are provided in Annex 9.

2. Technical

2.1 The project utilizes lessons learned from other countries' civil service reform programs, many of which have been financed by the Bank. One lesson is the need to accompany a rightsizing program with strong actions to strengthen personnel and payroll controls, to prevent re-entry. Another is the need in countries with collapsed pay structures, to develop a medium pay reform policy to guide policy-makers, shape expectations, and allow a more nuanced response to labour market pressures to pay technical and professional staff more. A further one is the importance of linking civil service reform to budget reform, ensuring that organizational change is backed by budget reallocation, and that establishment decisions are made in relation not just to needs, but also resources, and payroll controls are reinforced by a hard budget constraint. Although budget reforms lie outside the scope of the present project, Bank staff have been in close dialogue with the budget office on budget reform and, in particular, the introduction of an oil price fiscal rule and the development of a Medium term Expenditure Framework (MTEF). The FGN is moving forward vigorously to implement budget reform and tightening budget discipline.

3 Fiduciary

3.1 Procurement. The procurement system in Nigeria is in the process of being reformed at all levels. The government procurement reform program was fashioned in line with the recommendations of the year 2000 Nigeria Country Procurement Assessment Report (CPAR). All the three tiers of governments are operating under the Financial Regulations (FR), which are essentially an internal set of rules for financial controls. The CPAR identified major weaknesses in the procurement policies and practices in Nigeria and made appropriate short, medium and long-term recommendations. Based on its short-term recommendations, the procurement procedures section of the Federal Government's Financial Regulations was revised in June 2001, to ensure clarity and transparency by incorporating details of the various procurement methods and their applications for goods, works and services among others. The ineffective Federal and Departmental Tender Boards have been abolished while the Ministerial Tender Boards have been strengthened with powers to approve contract awards. The responsibility for oversight and implementation of procurement reforms has been consolidated in the Budget Monitoring and Price Intelligence Unit (BMPIU) for effective coordination.
3.2 The Project Implementation Task Team (PITT) in each implementing Agency will have overall responsibility for coordination of procurement activities. The procurement capacity assessment of the implementing agencies revealed that several do not have adequate experience in implementing World Bank financed projects including on procurement under World Bank financed projects.

3.3 To build the needed procurement capacity in each agency, a variety of measures are envisaged and planned under the project as enumerated in Annex 8. Since it will take some time to build this capacity, each PITT which does not have an experienced Procurement Officer in its team, will engage Procurement Consultants to assist and mentor the PITT designated Procurement Officer for a period of between 1 and 2 years from project effectiveness. The consultants’ contracts will make adequate provision for capacity building and transfer of knowledge to relevant agency staff. There are no existing procurement manuals at any of the implementing agencies therefore the Borrower will adopt the Generic Procurement Manual already developed for Bank assisted projects in Nigeria. Some of the agencies require computerization of store records and capacity building for stores personnel.

3.4 Financial Management Arrangements. Dedicated staff from the Finance and Accounts Department (FAD) of the Ministry/Agency where each PITT is located will be responsible for managing the financial operations of the relevant project components/activities. FAD is typically staffed by relevant qualified accountants. These dedicated staff from FAD will be responsible for ensuring compliance with the financial management requirements of the Bank and the government, including forwarding quarterly Financial Monitoring Reports and audited annual financial statements to IDA. They will maintain adequate FM arrangements to support the deployment of Project resources in an economic, efficient and effective manner to achieve the stated development objectives. The FM arrangements will provide relevant information to the PCT and SCR to facilitate the performance of their oversight functions.

3.5 The funds flow for the project has been considerably simplified to ensure that the implementing agencies have direct access to funds. However, the funds for the Civil Service Reform Pilots will be concentrated in the Project Coordinating Unit. This could lead to some delays in the transfer of funds to the Civil Service Reform pilot ministries. However, this risk will be mitigated by giving the implementing teams in the pilot agencies authority to implement their activities, reverting to the PCU for payment only.

3.6 Some of the implementing agencies have participated in the implementation of many Bank-financed projects in the past. However, there are noticeable defects in the existing FM arrangements in the implementing agencies, including manual accounting system and weak Internal Audit. The internal audit in the relevant agencies will be strengthened by the Accountant-General for the Federation throughout deployment of qualified staff from the accounting pool.

3.7 The risk arising from the outside environment, based on a dated CFAA, is regarded as high. Given such an environment, strong internal control is required and this will be achieved by strengthening internal audit and sensitizing PITT and other officials of the implementing agencies on the importance of effective internal control. Also, the oversight functions to be provided by SCR and PCT will mitigate weaknesses in the control environment, prevent delays in releasing funds, and enhance the overall accountability arrangements for the Project.
4 Social

4.1 There is broad acceptance including within the federal civil service that things need to change, and there is also clear evidence that staff are concerned that some of the changes envisaged could have adverse social impacts on them. Anecdotal evidence suggests that staff might indeed be ready to leave if they are given separation packages in line with Civil Service provisions. Staff are concerned that government might not even pay them what they are entitled. Evidence from other countries suggests that full payment of staff entitlements and on time is the surest way to stem adverse social impacts including social unrest from staff separation. The ready availability of funding for separation under the project will help address social concerns. In addition, the project also includes activities to help separated staff acquire some basic skills that will help those who can, join the private sector and provide training for setting up micro enterprises in a few key areas.

4.2 As part of the reform change management strategy, the BPSR is developing a strong development communication element to be implemented in collaboration with the pilot ministries. The objective is to help civil servants understand the nature of the reforms, the expected benefits and specific steps being taken to ensure transparency and fairness in implementation.

4.3 The social impacts of the project will be monitored through tracer studies of staff who have been separated.

5 Environment

5.1 This project will not fund any activities that would cause an adverse effect on the environment. None of the activities involve construction and there will be no associated environmental impact. Therefore, the project is classified as a Category C. Should any environmental issues evolve, this section would be revised accordingly.

6. Safeguard policies

6.1 No safeguard policies are triggered by this project. As stated above, no activities that would cause an adverse effect on the environment are being funded. The availability of funding for separation under the project will help address the social safeguard issues. As described above the project includes activities to help separated staff acquire some basic skills. The social impacts of the project will be monitored through tracer studies of staff that have been separated.

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP/GP 4.01)</td>
<td>☑️</td>
<td></td>
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<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td>☑️</td>
<td></td>
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<tr>
<td>Pest Management (OP 4.09)</td>
<td>☑️</td>
<td></td>
</tr>
<tr>
<td>Cultural Property (OPN 11.03, being revised as OP 4.11)</td>
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<td></td>
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<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>☑️</td>
<td></td>
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<tr>
<td>Indigenous Peoples (OPD 4.20, being revised as OP 4.10)</td>
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<td></td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td>☑️</td>
<td></td>
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<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td>☑️</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP/GP 7.60)</td>
<td>☑️</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP/GP 7.50)</td>
<td>☑️</td>
<td></td>
</tr>
</tbody>
</table>

7. Policy Exceptions and Readiness

7.1 The project complies with all World Bank policies and no exceptions are necessary. The procurement plan for the first 18 months of project implementation has been prepared and agreed between IDA and the Federal Government.
Annex 1: Country and Sector or Program Background

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

Geography and Population
Nigeria has a land area of 924,000 sq. km, one of the largest in Africa. It is the most populous country in Sub Saharan Africa with an estimated population of about 132 million, growing at about 2.6 percent annually. Nigeria’s population comprises many different ethnic and language groups, the major ones being the Yoruba in the South West, Igbo in the South East, and Hausa/Fulani in the North. The practice of Islam is predominant in the North while Christianity is predominant in the South. The geography varies greatly, from tropical rain forest in the South to dry savannah in the North, which is flat and sparsely vegetated. Nigeria is hilly and mountainous in the South East, along the border with Cameroon, and also in the centre where the Jos Plateau rises to 5,000 feet above sea level. The Niger River, one of Africa’s largest, bisects the country North to South and converges with the other main river, the Benue, in the central region, and thereafter flows south as the Niger to discharge into the Atlantic Ocean through an extensive delta area. The average rainfall ranges from about 500 mm/year in the north to over 2,000 mm/year in the south.

Economic and Political Conditions
Nigeria is the largest country in West Africa and the second largest economy in Sub-Saharan Africa with a GDP of about US$43.5 billion (2002). The country is highly dependent on oil which provides over 70 percent of government revenues, 95 percent of export earnings and represents about 30 percent of GDP. It has considerable agricultural potential but this and other non-oil sectors have suffered the effects of “dutch disease” stemming from poor macroeconomic management of oil sector and loss of competitiveness over time. Manufacturing contributes only about 4.4 percent to GDP and while the service sector is large it reflects to some extent the large size of government. Growth has been highly volatile and averaged just over 3 percent annually over the last three decades—barely enough to keep up with population growth. Per capita income is currently about US$300. In the last few years, real growth has picked up, averaging 6.4 percent in 2002 and 2003. While strong growth in the oil factor has been key, agriculture has also experienced decent growth averaging about 5.4 percent over the same period. Nigeria’s total external debt is estimated at about $32.8 billion, 83.5 percent of this owed to the Paris Club. Poverty in Nigeria is widespread with latest (1996) poverty data suggest that about 67 percent of Nigerians live below the income poverty line. Poverty is predominantly rural but urban poverty is on the rise. A new poverty survey and poverty profile are expected to be completed by early 2005.

Nigeria has a federal political structure. At independence in 1960, it had three regions, which after civil war in the late 1960s became 12 states, in turn further divided into the present 36 states and the federal capital territory of Abuja. There 1999 constitution provides for 774 local governments although several more new local governments have been created by states in the last few years.

After decades of often brutal military dictatorships, Nigeria returned to democracy in 1999 with Olusegun Obasanjo as President. He was re-elected to a second and final term of office in May 2003 with a stronger mandate for the ruling PDP at all three tiers of government.

Federal Government Economic Management and Governance
Several years of military misrule and mismanagement severely weakened economic management processes and institutions in Nigeria. There was no accountability or transparency in government
and the economic policy framework reflected development paradigms long abandoned in other countries. Nigeria became notorious for endemic corruption. The federal public service was unable to deliver effectively even on the most basic mandate of government. Since the return to democracy in 1999, the Federal Government has begun a process of improving governance, fighting corruption, and rebuilding key government institutions and processes for economic management. While progress in the first four years was not as strong as initially expected, since 2003, the Government has redoubled its efforts. A strong reform program has been put in place which seeks to fundamentally change the way that government works, promote growth of the private sector and empower Nigerians. Impressive progress is being made in its implementation. However given the strong legacy of decay it will take diligent and sustained reform effort over a period of time to fully achieve the government’s desired objectives.

The Federal Public Service

In 1999, the military handed over a bloated, ill-equipped and demoralized civil service to the incoming civil administration. Nigeria’s federal public service is defined widely. It includes civil servants (about 160,000), the police and other uniform branches (except the military), university employees, teachers in Federal Government secondary schools and tertiary training institutions, health workers in Federal Government hospitals and clinics, and employees of a vast array of public enterprises, subvented agencies, commissions, boards and other public bodies, some created by statute or constitution, others by executive order. There are no authenticated figures, but the total number of federal public servants is believed to be around 1.2 million. There is also an unknown number of ghost workers in the system, notwithstanding some efforts to flush them out. In addition to outright payroll fraud, there are other forms of fraud in the service including falsification of date of birth. There are also large numbers of staff, particularly in the lower grades, who have been improperly hired, most likely as a result of patronage during the period of military.

In 1975, Nigeria introduced a single set of “harmonized” pay scales across most of the public service. In recent years, however, there have been important exceptions from this structure notably, university, health and central bank workers, each of which has been granted a separate pay package. In addition to basic pay, there are cash allowances—utilities, meal, transport etc, which approximately match base pay. There are also allowances in kind, though these are now being monetized. Since the early 1980s, the real value of salaries has been seriously eroded.

One of the first visible acts of the civilian government was to raise salaries by 250 percent in May 2000. Pay is still nevertheless inadequate and most civil servants cannot subsist on their official basic pay. What has continued to compensate for inadequate government pay is an array of allowances, coupled with informal salary augmentation mechanisms.

The power of appointment for most grades is vested in a constitutional body, the Federal Civil Service Commission (FCSC). It has long delegated the appointment of officers in Grade levels 1-6 to individual ministries and agencies, and the power to appoint senior officials like Permanent Secretaries, rests with the President. The FCSC is also the ultimate decision maker on disciplinary charges and dismissal. On paper the FCSC is more closely engaged in the running of the civil service than in similar countries. In practice, the FCSC is weak, and plays second role to the Office of the Head of Service of the Federation (OHCSF). In addition there is a constitutionally mandated Federal Character Commission (FCC), an oversight body with prosecutorial powers, and a mandate to seek geographic and ethnic balance in appointments and promotions. In practice this means ensuring that, as far as is possible, all states are represented more or less equally in senior positions in the Federal Civil Service.
The Office of the Head of Service of the Federation lays down civil service rules, approves establishments and requests for new positions. It also operates the “pool” system, a controversial system of periodic rotation of staff.

Line ministries and agencies are responsible for managing their own staff within OHCSF determined rules. They may recruit directly lower level staff, but must make application to the FCSC for the recruitment of middle and senior grades. Managers operate an annual performance evaluation report (APER) for their staff. This is an open system — staff get the opportunity to see their supervisor’s assessment. Unfortunately, many APERs are done in arrears, a paper exercise undertaken to support a promotion initiative.

The civil service has become progressively de-skilled over the years, notwithstanding a training policy, which requires all departments to apply a percentage of the total wage bill to training. Departments produce annual training plans, but in most years insufficient funds are released to implement them. In addition, many departments have chosen to use their training funds on other purposes, and few staff have been on training programs on a regular basis. In addition, the main training institutions in Nigeria have themselves become run down, with outdated course material.

Management of Federal Government pensions is also an area of weakness. The Federal Government has been operating a Pay-As-You-Go defined benefit scheme—funded fully out of current Government resources—which has become increasingly become unsustainable. Recent increases in salaries and pension entitlements have further compounded the situation. Pension costs now constitute a significant proportion of the Federal Government’s personnel costs. Estimates of outstanding Federal Government pensions obligations as at 2002 were around N85billion. The Government recognizes this major risk to fiscal sustainability and has recently passed a Pensions Act that seeks to establish for the public as well as the private sectors a scheme that is contributory, fully funded, based on individual accounts that are privately managed by Pension Fund Administrators with the pension funds assets held by Pension Assets Custodians.

Public Resource Management

A CFAA on Nigeria prepared in 2000, concluded that “while the Federal Government of Nigeria retains the vestiges of good systems for planning, budgeting, managing and controlling public resources. But their performance has deteriorated to such an extent that they provide negligible assurance that moneys are used entirely for their intended purpose. The same is true at the state level. To return to an acceptable level of financial accountability will require sustained action over several years. In the interim, risks of waste, diversion and misuse of funds are assessed as high.”

Improvements have been made in public expenditure management since the CFAA, and especially since July 2003 when the present economic team joined the government. Budget formulation is gradually moving away from the annual, incremental and conflictual approach where priorities are not resolved at the departmental level, but referred up to the Budget Department and the Federal Executive Council. The Government has introduced the preparation of a Fiscal Strategy Paper as a first step in the budget process to identify and get agreement from the President and Cabinet and the legislature on key fiscal targets and priorities for the budget period. In addition Government is beginning to use a medium term approach and has adopted a fiscal rule to instill fiscal discipline and reduce excessive volatility in the budget. Budget allocations reflect better poverty reduction priorities. The capital budget is being cleaned up and the dual budgeting approach, which introduced a disconnection between the capital and current budget, is beginning to be deemphasized. There is greater linkage between the two. Stakeholder consultation is beginning to be institutionalized as part of the budget process.
Some improvements have been made to financial management through the ongoing EMCAP and under the government’s ongoing reforms. However, there are still some critical weaknesses in the existing public financial management systems, notably (i) accounting and financial reporting systems are essentially manual, thereby causing delays in financial reporting and denying government timely and accurate information for budgetary control; (ii) delays in the preparation and submission of transcripts and monthly returns for revenue and expenditures by line ministries/agencies and pay offices, and in consolidation of returns; (iii) weaknesses in the treasury system; (iii) absence of departmental performance reporting systems; (iv) weak internal control in ministries/agencies essentially due to inadequate attention by accounting officers and managers to controls, which is reinforced and accentuated/perpetuated by serious weaknesses in the institutional arrangements for internal audit and the use of outdated internal audit approaches and techniques.

Similarly in the last few years Federal Government procurement practices have improved and over N100 billion of public resources have been saved through more diligent oversight of public procurement by the Budget Monitoring and Price Intelligence Unit (BMPIU) in the Presidency. Efforts are underway to institute new procurement rules and regulations. However much more remains to be done to fully turn around from the current waste of public resources through poor procurement practices to using procurement as an effective tool for efficient use of public resources.

The Federal Government’s new economic team is anxious to bring efficiency, transparency and accountability to management of public finances. It has adopted an oil price based fiscal rule which is bringing greater predictability and discipline to the budget and is beginning to move towards a medium term expenditure framework for managing budget resources. It is strengthening financial management information and reporting systems and enhancing internal controls including through setting up a cash management committee to bring together the Budget Office of the Federation, the Office of the Accountant General and the Central Bank to ensure that budget execution closely follows allocations. It is initiating reforms to streamline tax policy and strengthen its administration.

**Challenges to Effective Economic Management and Strong Public Sector Performance:**

The public sector in Nigeria exhibits many dysfunctions. In aggregate, government and its agencies absorb more resources than in any other country in Sub Saharan Africa, yet the output from those resources is in no way commensurate. Nigeria has an extensive but poorly maintained network of highways and secondary roads, its ports are congested, urban infrastructure overloaded, its utilities inefficient, hospitals and clinics lack essential supplies, and its schools basic teaching materials. The number of Nigerians in absolute poverty has been growing, and Nigeria is not likely to meet the Millennium Development Goals by 2015 without significant improvements in public resource efficiency and considerable external aid flows.

A key issue is the difficult political economy challenges to economic management and governance in Nigeria’s oil rich economy and the concentration of decision-making power in the hands of only a few actors who also benefited immensely from the flawed policy framework. Fiscal policy, which has historically been a key source of macroeconomic instability in Nigeria, typifies these challenges. Fashioning appropriate fiscal policy is also complicated by the current fiscal federalism arrangement, considerable autonomy of states and local governments over their fiscal decisions and the absence of institutions for coordination between the three tiers. The return to democracy in 1999 is bringing more actors and perspectives on economic policy and management and greater openness to new development and economic management ideas. The appointment of a strongly technocratic and reform-minded economic team is providing political leadership and expertise to drive fundamental changes to the economic policy and management paradigm.
Another difficulty is poor availability and quality of basic statistics. Nigeria’s Statistical System was particularly badly affected during years of general neglect of government institutions. Over a period of more than 15 years, the quality of statistics has declined significantly and many important indicators are either incomplete or not available at all. Several important data series are not collected regularly and have not been for a long time: the last population census was produced in 1990, the last agricultural census was carried out in 1992/93, on a partial basis and the most recent poverty data is based on a household survey conducted in 1996. Processes and methodologies for data collection and analysis are outdated and do not reflect recent developments and progress. This weakens the ability of government to formulate policy on the basis of strong evidence.

Government is also spread too thin. Consistent with the development state paradigm that has been dominant over most of Nigeria’s post-independence history, public service agencies in Nigeria have tended to perceive their role as one of directly producing services, instead of enabling other private and civil society providers. There is also considerable overlap of functions between federal government agencies and of “concurrent” responsibilities between the Federal Government and the states. Thus over the years, government has become spread over too many functions, resulting in Ministries, Departments and Agencies (MDA) mandates that have spawned a multiplicity of organizations, some justified, some duplicative, some redundant, and some the proper responsibility of subordinate tiers of government. The capacity of the state organs to deliver in an increasing and almost limitless arena of operation has as a result been compromised.

Another issue is inadequate transparency and accountability in government. Nigeria’s transition to democracy is beginning to introduce some measure of accountability into government and the reform program is beginning to address this. However much more needs to be done. An important issue is inadequate information and understanding of government policy choices and actions amongst Nigerians. There is thus limited ability to engage Government on the policy issues and weak demand for accountability. Another factor is that public servants are not held accountable for their performance. Efforts to achieve representativeness of Nigeria’s federal and ethnic structure has been implemented in a manner that has promoted patronage through a crude quota system in appointments and promotions. Bad behaviour and performance is therefore often not sanctioned and in some instances may even be rewarded. In addition the current staff pooling system means MDAs have little input in the selection of their professional staff. Staff are centrally recruited by the Federal Civil Service Commission and are deployed as part of “professional” pools to various MDAs chiefly by the Office of the Head of Civil Service of the Federation. Until the initiation of the government’s monetization reform, a considerable part of staff remuneration was paid through in-kind benefits (housing, transportation, etc), which are implemented as an entitlement delinked from performance and merit. It may be difficult to fire staff even where performance is poor or even where there are clear cases of indiscipline.

There is overstaffing especially in lower grades. However, there are several constraints to downsizing. In the first place, there are social costs made worse by the fact that Abuja, the location with the most federal civil servants, is a government town with little other employment. Second, there are significant financial costs attached to separating staff. Generally, government must pay a month’s salary for every year of service. For long serving staff this means that the departmental wage bill rises before it falls. Thirdly, the arbitrary way in which the military, when in power, went about downsizing without due process and often failing to pay compensation, has given civil service reform a bad name.

An associated problem is weak establishment and payroll controls. Ministries and Departments have for a long time been recruiting staff, particularly in lower grades, regardless of whether a position
has been approved against which recruitment can take place. In turn there has been manipulation of the payroll system, by getting salaries paid to fictitious workers, and manipulating allowances in the recipient’s favour.

Finally, over the years, the Government has not invested adequately in building and upgrading skills of its staff. The current training policy of the Federal Government of Nigeria on paper is quite enlightened, duly recognizing the importance of training in career development, stating that, in addition to pre-service training, in-service training, both short and long, is available to officers on application to departmental heads. However, training funds are seldom available; as a consequence little training has been conducted. Furthermore, the training institutions within Nigeria have themselves been run down, and course content has become less relevant. External training programs have yielded limited impact since only as small percentage can participate and also because often the content of the training is not relevant, and provided to staff on the basis of seniority rather than need. In addition, after receiving training staff are often posted to new ministries where their newly acquired skills are not relevant. This means capacity below ministerial level (which was significantly strengthened with the Cabinet change in 2003), to carry out economic management and other functions of government is weak. This is a major challenge to the success of the Government’s economic reform program.

**Government Response to Weak Economic Governance and Poor Public Sector Performance:**

The FGN’s responses to the constraints described above are, in effect, what the project seeks to support. During the first Obasanjo administration, the emphasis was on consolidating democracy, and while the goals of better governance were often stated, little progress was made in tackling these structural constraints. However, with the coming into office of a new and reform minded economic team, the reform effort has been re-invigorated and deepened. Economic and governance reforms including reform of the public service is a central pillar of the NEEDS program. Core elements of the reforms include budget reforms centered around adoption of a medium term expenditure framework and greater accountability from budget holders, improved information on public finances and budgets—including regular publication of revenues allocations to all three tiers of government—and adoption of fiscal responsibility rule to begin to instill discipline at all tiers of government; tax and customs policy and administration reforms, introduction of open and competitive procurement processes; reforms to the pension system; restructuring, right sizing and re-professionalization of the public service. Implementation has begun in several of these areas but in others the agenda needs to be more clearly defined and articulated.
Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project</th>
<th>Ratings (Bank-financed projects only)</th>
<th>OED Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Outcome</td>
<td>Sustainability</td>
</tr>
<tr>
<td>Completed Projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>Economic Management (evaluated: 5/12/2000)</td>
<td>Unsatisfactory</td>
<td>Likely</td>
</tr>
<tr>
<td>World Bank</td>
<td>Public Sector Management Adjustment (evaluated: 6/30/1995)</td>
<td>Unsatisfactory</td>
<td>Likely</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Latest Supervision (PSR) Ratings</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation Progress (IP)</td>
<td>Development Objective (DO)</td>
</tr>
<tr>
<td>Ongoing projects</td>
<td></td>
<td>S</td>
<td>S</td>
</tr>
<tr>
<td>World Bank</td>
<td>Economic Management Capacity Building</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other development agencies

EU
- Economic Management and Technical Assistance Project

DFID
- Economic Reform, Debt Management, Poverty Monitoring
# Annex 3: Results Framework and Monitoring

**FEDERAL REPUBLIC OF NIGERIA**  
**ECONOMIC REFORM AND GOVERNANCE PROJECT**

<table>
<thead>
<tr>
<th>Project Development Objectives</th>
<th>Outcome Indicators</th>
<th>Use of Outcome Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of the federal government’s economic and financial management systems</td>
<td>Basic financial, procurement and human resources management systems of government are modernized</td>
<td>YR1-YR3: these results can be used as baseline data to flag that the DO is on track</td>
</tr>
<tr>
<td>Establishment of a reform process of the federal civil service that will improve its professionalism and its ability to deliver services.</td>
<td>Pilot MDA restructuring plans have been implemented, other MDAs have joined reform process, and a strategy for reform of central management agencies and for mainstreaming reforms to the rest of the service has been approved by government.</td>
<td>YR3: Poor progress in achieving this indicator will suggest that the project components and the implementation strategy may need to be re-examined.</td>
</tr>
</tbody>
</table>

## Intermediate Results

### One per Component

#### Component One:
A public financial management system has been implemented to facilitate budget preparation and execution and will provide timely and accurate information for parliament and citizens to hold government accountable.

**Component One:**
1. Budget and financial reports prepared from GIFMIS within 7 days of month’s end  
2. Consolidated audited annual accounts and financial statements produced within statutory period as provided in the Constitution.  
3. Reduction in number of unanswered audit queries  
4. Effective procurement regulatory body established  
5. Procurement data bank established and public information on process of award of large government contracts increased.  

#### Component Two:
Restructuring process piloted in four MDAs has been implemented resulting in greater efficiency in delivering public policy and services

**Component Two:**
1. Staffing levels and skills have been adjusted in accordance with restructuring plans in pilots  
2. Separated staff in pilot ministries have been provided adequate counseling, training to enable them transition to other activities  
3. Staff in pilot ministries have requisite professional background and have received training in their areas of responsibility  
4. Business processes have been streamlined in pilot MDAs using PIF and enhanced IT  
5. An integrated personnel and payroll system has been piloted and rolled out

#### Component Three:
Improvements in the accountability of the pension system.

**Component Three:**
1. Establishment of initial structure, rules and regulations, for the pension system by 2nd year of the project.  
2. Audit and reconciliation results in the provision of benefits to those genuinely entitled, according to soundly reconstructed employment records.  
3. A reliable and efficiently functioning institutional structure for the holding and investment of pension assets as well as sufficient oversight is created  
4. Supervisory skills of the staff of the Commission enhanced through adequate training

#### Component Four:
Improvement in the availability, quality, and timeliness of economic, and social data.

**Component Four:**
1. Institutional and Regulatory framework is in place to support development of a modern statistical system  
2. Percentage of staff in statistical agency with requisite professional background doubles by end of project  
3. Percentage of data sources and statistical products validated increases.  
4. Percentage of Statistical outputs released within the time limits and with frequency meeting GDDS requirements increases

**Component 1:**  
YR1-YR6: low levels or absence of these results may flag that the component is not operating efficiently.

**Component 2:**  
YR1-YR6 failure to adjust staff levels and skills will signal that the restructuring process is in jeopardy and needs to be reviewed. Failure to establish the integrated payroll system would signal that wage bill fraud is not being addressed.

**Component 3:**  
YR1-YR6. Failure to achieve these results will signal that accountability of the pension system is not being addressed.

**Component 4:**  
YR1-YR6 Failure to improve statistics will signal that the mechanism for monitoring the success of the process is missing.
### Arrangements for results monitoring

<table>
<thead>
<tr>
<th>Outcome Indicators</th>
<th>Baseline</th>
<th>YR1</th>
<th>YR2</th>
<th>YR3</th>
<th>YR6</th>
<th>Frequency and Reports</th>
<th>Data Collection Instruments</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Basic financial, procurement and human resources management systems of government are modernized</td>
<td>None</td>
<td>None</td>
<td>1</td>
<td>10</td>
<td>120</td>
<td>Annually</td>
<td>Quarterly implementation reports</td>
<td>Office of Accountant General For the Federation, Pilot Ministries, Accountant General’s Office, Budget Office</td>
</tr>
<tr>
<td>Number of government entities where GFMIS is operating.</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td></td>
<td>Annually</td>
<td></td>
<td>Pilot Ministries, BPSR PCU</td>
</tr>
<tr>
<td>Number of government entities where integrated HR/payroll system is working.</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td></td>
<td></td>
<td>Annually</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Pilot MDA restructuring plans have been implemented and other MDAs have joined reform process.</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>Annually</td>
<td>Quarterly implementation reports, BPSR monitoring reports of the Civil Service Reforms</td>
<td></td>
</tr>
<tr>
<td>Number of pilot restructuring plans fully implemented.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of new MDAs which have produced and are implementing restructuring plans.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

### Results Indicators for Each Component

**Component One**

1. Number of Agencies with budget and financial reports prepared within 7 days of month’s end: 0 (0, 1, 10, 120, Annualy)
2. Delay in preparation of consolidated audited annual public accounts and financial statements: 6 mths (6 mths, 4 mths, 2 mths, 0, Annually)
3. Percentage of audit queries unanswered: 100 (100, 95, 80, 30, Annually)
4. Percentage of Government contract awards published: 0 (20, 50, 100, 100, Annually)
5. Percentage of Government ministries using National Standard Bidding Document: 0 (0 (PPB established), 50, 100, 100, Annually)

**Component Two**

1. Percentage of professional staff in pilot ministries: 30% (40%, 50%, 65%, 80%, Once in two years: Year 1, Year 3, and Year 5 of project)
2. Percentage of professional staff who have received training in their areas of responsibility: 10% (30%, 50%, 60%, 90%, Staff audits and surveys;)

**Component Four**

1. Percentage of FOS staff with requisite professional background and skills: 25% (30%, 50%, 70%, 80%, Once in two years: Year 1, Year 3, Year 5 of project)
2. Percentage of data sources and statistical products that are validated: 40% (55%, 70%, 80%, 90%, Staff audits and surveys)
3. Percentage of Statistical outputs released within the time limits and with frequency meeting GDDS requirements: 10% (10%, 20%, 40%, 50%, Survey of statistical products and performance)
Annex 4: Detailed Project Description

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

Component 1: Public Resource Management Reforms and Targeted Anti-Corruption Efforts (US$73.3 million)

The Federal Government recognizes that improvements in the management of public resources are central to its ability to restructure the economy and deliver public services to Nigerians. Improved governance and fundamental changes in the way government manages its resources are key themes in the National Economic Empowerment and Development Strategy (NEEDS). Key objectives desired include improved budget discipline and cost effectiveness in public spending. This component will support the government’s ongoing efforts to bring improved efficiency, transparency and accountability to management of public finances in order to ensure that resources available to the Federal Government are used with greater effectiveness to achieve key development objectives. It will support reform and capacity building in financial management; and procurement and tax administration. Support will be provided to strengthen budget preparation in pilot reform ministries, promote greater consultation around the budget and pilot expenditure tracking in a few areas. The Federal Government is already strengthening fiscal policy including through an oil price based fiscal rule and is improving budget preparation including through the development of an MTEF. Separately, activities are underway, funded by USAID and by the Government’s own resources, to strengthen the capacity of the budget office. These activities will complement the activities to be supported under this component in strengthening overall public expenditure management. This component has been designed to ensure that adequate strengthening of budget execution proceeds in parallel with and draws synergies from ongoing improvements in budget preparation. It will also provide support to the Government’s targeted anti-corruption initiative, the Economic and Financial Crimes Commission (EFCC).

(a) Financial Management and Accountability Reforms (US$51.2 million)

Federal Government’s financial management and accountability systems are deficient in several respects: (i) expenditure control and accounting systems are essentially manual, thereby making the budget difficult to manage, and causing delays and inaccuracies in the production of annual accounts and financial statements; (ii) delays in the preparation and submission of transcripts and monthly returns for revenue and expenditures by line ministries/agencies and pay offices deny Government timely and accurate information for budgetary control and management; (iii) treasury systems are weak, and contribute to unpredictable funding of agreed budgets; (iv) departmental supervision of subvented agencies is weak, and there is substantial wastage of funds; (v) internal control in ministries/agencies is weak due to inadequate attention by accounting officers and managers to controls, in turn reflected in a neglect of the internal audit function, the erosion of skills and the use of outdated internal audit approaches and techniques; (vi) annual financial reports do not comply with international standards; (vii) budget holders are not held accountable for their use of funds; and (viii) external audit approaches and procedures are not in line with modern practices.

Some improvements have been made under ongoing EMCAP and recent government reforms. Provide support for implementation and deepening of ongoing financial management and
accountability improvements. Three key areas of support are planned: (i) financial management and information systems; (ii) external audit, and (iii) financial reporting.

**Improving Financial Management and Information Systems ($38.5 million).** The Government wants to build its financial management capacity and improve its financial management information system. Therefore, this sub-component will support the following activities:

i) Progressive introduction of a Government Integrated Financial Management Information System (GIFMIS). This will include strengthening the OAGF’s IT capacity, acquisition and deployment of integrated PFM software, and development and implementation of additional ICT infrastructure (WAN to link OAGF HQ and line ministries/agencies/federal pay offices);

ii) Improved cash management by strengthening the institutional framework and capacity for cash management and through utilization of the GIFMIS cash planning system;

iii) Improved financial reporting through: (a) adoption of the cash model of International Public Sector Accounting Standards (IPSASs); and (b) design and implementation of departmental financial performance reporting systems;

iv) Modernization of internal audit arrangements through review of the internal audit, restructuring of internal audit in line with the outcome of the review, and development of new internal audit procedures and manuals; and

v) Capacity building in financial management for relevant staff, including through support for the Federal Treasury Academy. Support for the Treasury Academy will include development of curriculum for the Federal Treasury Academy, provision of equipment to facilitate the School’s take-off, and twinning arrangement with another Treasury Training School.

With respect to GIFMIS, the government has been laying relevant foundation over the last few years by way of enhanced IT training for treasury staff. Also, a core group of IT specialists was recruited by the OAGF to reinforce its IT capacity and support implementation of simple software applications at the HQ. A number of simple software applications to manage the current processes are already being prepared. These include a Transaction Recording and Reporting System, Warrant Reconciliation System and an Electronic Vote and Cash Books. These small-scale systems are useful in that they address some aspects of the immediate need for improved Public Financial Management (PFM) and reporting while also providing some exposure to ICT and management of ICT based applications. The Accountant General however regards the transaction processing and related system as transitional measures pending the implementation of a full-scale GIFMIS solution.

The Budget Office currently relies on generic software to support budget and acknowledges the need to acquire application software that will enable MTEF/budget formulation as well as facilitating integration with the budget execution and financial management application.

In parallel to these developments the EU is funding, through the EMCAP project, development of:

- An ICT infrastructure (Data Centre, WAN/LAN and User Workstations) for a core of Federal Ministry of Finance Departments and Agencies and a small number of pilot Line Ministries/Agencies.
- Operating system, database, application package and information sharing software necessary to meet the needs of the core Economic and Statistical Departments/Agencies.
This ICT configuration will support implementation of the GIFMIS. The GIFMIS will provide systems necessary for:

- Progressive adoption of modern MTEF, budget formulation, budget execution and financial accountability principles and standards
- Improvements to the classification, integrity, efficiency, security, storage and accountability of transaction processing.
- Integration of different financial management processes allowing single entry of transactions to flow through the budget and accounting system and on the basis of a multi-dimensional chart of accounts.
- A strengthened commitment, expenditure, revenue and resource management control framework.
- Improved supply, classification and analysis of financial information for policy analysis, resource allocation, budget formulation, execution and financial monitoring.

Implementation has significant legislative, business process, organizational, and human resource implications, this means that the technical changes have to be supported by a strong change and transitional management approach.

Typically, a GIFMIS is modular and therefore permits phased implementation, this serves to help reduce the complexity of implementation and the difficulty of transition. Core GIFMIS modules include:

- Budget Preparation and Appropriation Management,
- Requisition, Procurement & Order Management,
- Commitment and Cash Management, Accounts Payable & Accounts Receivable,
- Receipting
- General Ledger and Reporting,
- Bank Reconciliation
- Liability and Asset Management
- Financial Reporting
- Secure interfaces for third party Debt, Payroll & Tax Systems,

Additional modules are also usually available for further future development including revenue envelope forecasting, project management, inventory, tender management, vehicle management, etc.

There are concerns about the limited results of previous ICT based interventions, the lack of strong incentives for change and the current limited capacity and the level of exposure and experience of the Central Ministries and Agencies to this type of large scale ICT based system implementation.

Therefore, an incremental strategy will be adopted for the GIFMIS implementation process in FGN. This will provide for:

- **Stage 1 - Preparatory Stage** – Client side resource mobilization, conceptual framework development, capacity building, planning, sequencing, business process review (including a review of Federal Pay Offices), change management and awareness creation.
Stage 2 – Specification and Acquisition Stage – Specification and procurement of Core Modules, related ICT infrastructure, implementation and change management services.


Stage 4 – Pilot introduction of Central & Subsidiary Modules with decentralized processing at Ministry and Agency levels.

Stage 5 – Rollout to all Ministries and Agencies.

Stage 6 – Rollout to all Pay Offices

This approach will allow time for development of the necessary buy-in for legislative, organizational and HRM change. The proposed Payroll System will follow a broadly similar implementation approach. This will permit, where necessary, the adoption of common ICT standards and skills sets, the use of a common ICT architecture and improved levels of integration. The major GIFMIS implementation processes would be undertaken in parallel, with the ongoing management of the transition system. These would be progressively retired as the new GIFMIS source systems go live.

Stage 1, will facilitate:

- Development of the overall conceptual framework required for defining the scope and functionality of the GIFMIS & Payroll Systems.
- Stakeholder engagement, participation and development of management understanding, commitment and demand for the GIFMIS outputs.
- Mobilization of strong PFM project leadership and effective senior executive support. Typically key executives benefit from exposure to successful implementations in other contextually similar countries.
- Mobilization and capacity building of dedicated client side implementation and management teams for Business Process Review, Application Design, Setup and Management and ICT aspects of the GIFMIS of the Application, ICT, Training, Securities/Audit, etc as necessary to work with contractors implement and management a GIFMIS implementation.
- Change Management (Sensitivity and Awareness Creation, Willingness to Change, Communication, Management of User Expectations etc)
- Transitional Management Capacity development (Planning, Procurement, Contract Management, Project Management, etc).
- Training Needs Analysis and training methodology development for meeting the identified needs.
- Exposure and understanding of the implementation process.
- Mobilization of appropriate consultant support arrangements PFM, ICT and Training.

Once the objectives of this preparatory stage are achieved it will be possible to proceed to the procurement stage.

Stage 2 will involve specification and procurement of the Software Package, additional ICT requirement and implementation/training/change management services necessary to pursue further implementation.
The procurement phase will involve preparation of a detailed specification, tendering and evaluation resulting in the choice of a particular Software and implementation contractor, ICT infrastructure, implementation services and post implementation services. A specific deliverable for the contractor will be to transfer knowledge to the implementation teams, emphasis should be placed on the contractors responsibility for supporting change management and long-term sustainable operation of the system. The contract should provide for a turnkey approach with staged delivery. Each new stage will be dependent on successful completion of the previous stage.

Expert consultant support needs to be mobilized to support the change process, the internal groups and procurement team. Effective quality assurance arrangements need also to be put into place.

Once the procurement is complete, **Stage 3** will involve implementation of the core modules (PSB, Cash Management, GL, Central Payroll) with contractor and implementation teams working closely together to support implementation. This will entail a cycle of business process review, design, review, testing, parallel running, production testing, go live and post go live sign off. One acceptance is complete a warranty period will commence. Each stage of the cycle represents a learning opportunity for the client side implementation teams. Complementary legislative, organizational and HRM change will commence during this stage.

Following satisfactory completion of central rollout and the development of both capacity and experience **Stage 4** will commence involving Line Ministries and Agencies in piloting the decentralized subsidiary systems (Requisition, Procurement, Payment, Receivables, etc). On completion, this would be followed by **Phases 5 and 6**, involving a rollout to all Ministries/Agencies and Federal Pay Offices respectively.

This staged approach provides for a phased GIFMIS implementation, secures capacity building and knowledge transfer and matches capacity and resources to implementation requirements.

The initial focus will be on setting up, during mid to late 2005, the core budgeting and general ledger modules. This will provide for both formal and action based learning or the implementation teams and will narrow the initial focus to the FMF. Setting up these two modules will also allow major conceptual issues to be addressed (CoA, Banking, MTEF etc) without disrupting ongoing ministry based operations. It will also allow use of the budget module for the 2006 budget preparation (in parallel) and use of the GL for consolidation and reporting during 2006 (in parallel).

Once the central module setup has been tested, pilot testing of the subsidiary systems can begin during 2007. By this time capacity will have been developed in the implementation groups to support federal ministry/sub treasury operation and full systems rollout can begin in 2007 and be completed during 2009.

**Strengthening External Audit ($8.0 million).** The Office of the Auditor-General of the Federation lacks skilled staff, budgetary resources, and clout to function effectively. The Office is unable to attract highly qualified staff and to perform critical audit functions, e.g. audit of economy, efficiency and effectiveness on a regular basis and significant scale. Substantial resources and supportive actions will be needed to ensure its relevance to the new Nigeria. It was also noted that if reforms of government audit are to be successful, they will have to extend beyond auditors to include both strong legislative support for government auditing, including
effective public accounts committees, and decisive follow-up action by the FMF acting in its
stewardship function. This subcomponent will enhance the capacity of the Auditor General of
the Federation to contribute effectively to the efficiency, transparency and accountability of
government operations. It will finance the following activities:

i) Restructuring of the Office of the Auditor General of the Federation (OAUuGF) in line
with a new audit law currently under preparation to create a more independent federal
audit office in terms of staffing and budget, and a modern audit office in terms of
organizational structure and work methods;

ii) Reviewing and modernizing audit approaches, building capacity for GIFMIS audit,
developing guidelines for carrying out audit checks of government parastatals/agencies/corporations, and implementing a mechanism for monitoring
implementation of its recommendations;

iii) Capacity building for staff of the OAUuGF so the Office can carry out its mandate in
accordance with internationally recognized standards and modern audit practices, and
capacity building for Committees of Public Accounts in the National Assembly; and

iv) Computerizing operations at HQ and zonal offices.

Improving Financial Reporting Practices ($3 million). The ROSC – A&A carried out in early
2004 identified key weaknesses in financial reporting practices. This subcomponent is designed
to support efforts to address these weaknesses and to assure the quality of financial information
to support private sector investment activities – this is fundamental to the government’s vision of
a private sector-led growth. It is also designed to provide a mechanism for ensuring that
government financial reporting complies with international standards. It will support the Nigeria
Accounting Standards Board (NASB), a government agency that has responsibility for setting
accounting standards, to carry out certain activities that are necessary to strengthen financial
reporting regime in Nigeria. Specific activities include:

i) Progressive adoption and dissemination of international standards relating to financial
reporting, including IFRS/IAS, IPSAS and ISA;

ii) Review of the NASB 2003 Act to create a Financial Reporting Council and to address
current institutional weaknesses in regulation, compliance and enforcement of standards,
and the development of robust arrangements for monitoring and enforcing compliance
with financial reporting standards;

iii) Strengthening of technical and professional capabilities of NASB, and the Securities and
Exchange Commission (SEC); and

iv) Development of robust curriculum on business ethics and international accounting and
auditing standards, and training of relevant trainers to teach the curriculum.

(b) Procurement Reforms (US$10.5 million)
A CPAR carried out in 2000 identified major weaknesses in the procurement policy and
practices in Nigeria and made appropriate short-, medium- and long-term recommendations to
address the shortcomings. The Government is currently implementing a Public Procurement
Reform Program based on the CPAR recommendations and some progress has been made with
support from the ongoing EMCAP and a parallel IDF grant in addressing some of these
weaknesses. Procurement sections of the Financial Regulations have been modernized and
made coherent, Departmental and Federal Tender Boards which were largely ineffective have
been abolished and the Ministerial Tender Boards strengthened and given greater authority in
contract awards. The Budget Monitoring and Price Intelligence Unit (BMPIU) has brought
substantial improvements to procurement outcomes by beginning to re-establish “due process” in
the public sector contract award process. New procurement guidelines have been issued, and a
Public Procurement Bill, legislating open and competitive public procurement is under preparation. This sub component will support deepening of the ongoing reforms to bring Federal Government’s procurement system to international standards. It will provide support in three broad areas: legal and regulatory strengthening; training and capacity building; and public enlightenment and awareness building.

**Legal, Regulatory and Institutional Strengthening ($6.5 million).** The activities in this area will seek to establish a sound and modern legal regulatory and institutional framework to underpin effective procurement in the Federal Government. These include:

(i) Preparation of implementing regulations for the Nigeria Procurement Law and wide dissemination including in local languages;
(ii) Regular publication of tender invitations and contract awards;
(iii) Preparation of the national standard bidding documents and updating of the national procurement manual;
(iv) Establishment and effective take-off of the regulatory body, the Public Procurement Bureau (PPB) including strengthened capacity for post and prior reviews and procurement audits; and institution of an effective, efficient and transparent independent complaints mechanism within the PPB; and
(v) Establishment of a reliable and regularly updated procurement databank in the PPB.

**Procurement Training and Capacity Building in the Public Service ($3.5 million).** Procurement capacity in the federal public service is weak. Often this function is carried out by staff who have no professional skills or training in this area. The function needs to be professionalized and adequate capacity built to effectively implement the Government’s new procurement policies. Specific activities include:

(i) Professionalization of the procurement function in the public service including through the creation of a procurement professional Cadre in the federal public service;
(ii) Procurement skills and training needs assessment for various implementing agencies as basis for preparation of a procurement training strategy and development of a procurement curriculum to be delivered by local training institutions;
(iii) Strengthening procurement training capacity of identified local training institutions through “training of trainer programs”; and
(iv) Strengthening capacity of existing procurement professional bodies.

**Procurement Awareness and Capacity Building of Non Government Actors (US$ 0.5 million).** To help build demand for good procurement behaviour from public officials, non-government actors need to understand better the important role of procurement in the fight against corruption and also build their capacity to understand procurement processes and practice good procurement themselves. The specific actions include:

i) Vigorous nationwide campaigns on role of good public procurement system in the fight against corruption. This will include seminars, conferences, printing and circulation of the new laws and regulations and preparation of Procurement Journals.

ii) Demand driven technical assistance to oversight and watchdog institutions and civil society groups to develop, build and strengthen their capacity to monitor procurement.
c) Tax Administration Reforms (US$8.0 million)

The Government wants to improve tax and customs policy and administration in order to reduce high dependency on oil revenue and consequent fiscal volatility. In 2003, about 70 percent of consolidated government revenue came from the oil and gas sector. Tax compliance rate has remained low at between 5.4 and 7.8 percent as against the average ratio of 18 percent for developing countries. The low revenue performance is largely attributable to weak capacity of tax administration, a narrow tax base, complex tax system, and widespread fraud and corruption.

A report on Tax Reform was prepared in 2003 and a Tax Reform working group has reviewed this report and made detailed recommendations to government on the way forward. Since then the FIRS has prepared a detailed reform strategy. This component will support the implementation of key elements of the tax administration element of this strategy. The objective is to create a modern and efficient domestic revenue administration that is able to serve the government’s objectives of increasing revenues while diversifying revenue sources. Specific activities include:

Support for tax administration reforms will include:

i) Preparation and implementation of change management action plan for FIRS’s organizational reform/realignment;

ii) Development of new tax administration procedures to improve transparency and effectiveness including in collection, audit, dispute resolution, and investigative intelligence, and preparation of new operations manuals;

iii) Development of institutional capacity of the FRIS including preparation of training needs analysis, a comprehensive training plan, and provision of general and specialized staff training;

iv) Modernization of the basic FRIS information systems including provision of network facility support, intensive ICT training for both senior management and end-users, and preparation of preliminary study for integrated tax information management system; and

v) Conduct of annual perception survey to monitor the progress and impact of tax administration reforms.

These activities form part of a broader tax administration reform plan for which FIRS expects additional resources to be mobilized from other donors through UNDP.

(d) Support To Economic and Financial Crimes Commission (EFCC) (US$3.6 million)

Financial and other economic crimes have taken a heavy toll on the Nigerian economy. The EFCC which began operations in April 2003 has been given the responsibility of enforcing all laws relating to financial and economic crimes in Nigeria. Since its inception, the EFCC has moved swiftly and effectively to investigate and begin prosecution of several cases of economic and financial crime in Nigeria. It has taken on cases against prominent and influential Nigerians including some members of the House of Assembly. The EFCC needs considerable support to set itself up and to ensure that these initial successes will be sustained. This component will help fund:

i) Support for take off of the Financial Intelligence Unit, particularly training in the use of key IT applications for financial intelligence gathering;

ii) Strengthening staff capacity in investigative techniques through development and implementation of a training curriculum, recruitment of experienced investigators to work with and mentor EFCC personnel, and training;
iii) Upgrading of IT capacity through implementation of state of the art case management system, incorporating finger printing and other technologies; and development of capacity and skills in installed case management applications; and

iv) Development of a communications strategy.

These activities have been designed to ensure complementarity with planned EU support to EFCC, which is expected to commence in June 2005.

**Component 2: Civil Service Administrative Reforms (US$66.86 million)**

This component will support restructuring in four pilot ministries, the implementation of a payroll and personnel control system and diagnostic studies and dialogue on a number of critical civil service-wide management issues. It will also support capacity building for the newly established Bureau for Public Service Reforms (BPSR).

Over two decades ago, the federal public service functioned relatively well and was regarded as amongst the best in Africa. However under years of military misrule, government institutions were neglected, procedures were overridden, merit gave way to patronage. Consequently, standards of public administration plummeted and the standing of the public service in the eyes of the general public fell sharply.

The Federal Government recognizes that major reform of the public service is critical in order to correct the dysfunction of many public institutions and the programs they are supposed to operate. It also recognizes however that reversing the damage of decades is both complex and politically contentious because of the vested interests in the *status quo*, which have arisen. The Federal Government has therefore decided to adopt a highly pragmatic approach: to start initially with the civil service and within the civil service to begin with pilot reform programs in ministries headed by strongly reform minded ministers. These pilots will then provide lessons for extending reforms to the rest of the Federal Government. A progressive approach will also help minimize any initial adverse social effects, by demonstrating, as the reform effort is deepened, that positive results in the form of better services can be demonstrated. This component will support the roll out of these pilot civil service reforms.

The Federal Government believes that a number of system-wide civil service issues need to be addressed, including the overlaps between different agencies of the federal government and between federal agencies and agencies at lower tiers of government, human resources management, the policy process, pay incentives for key staff, and payroll and establishment management. This component will therefore also support diagnostic work and dialogue on these cross-cutting issues.

The BPSR located in the OHCSF was created in early 2004 to coordinate and lead the civil service reform effort. It needs help to get itself fully operational and resourced to play an effective role in determining the agenda of change, coordinating the stakeholders, driving the reforms forward and monitoring implementation. In particular, the BPSR will play a key role in building broad support for the reforms—getting civil servants to understand the reforms and support their implementation. It will take the lead role in preparing the detailed action plan for extending the reforms service wide, identifying potential sources of challenge for the implementation of the program, trouble shooting and proposing solutions. It will also facilitate learning and cross-fertilization between the pilot agencies and interaction between the pilot agencies and core civil service management agencies on some of the difficult areas of reform.
Its location under the OHCSF should also help build support and buy in for the reforms in this critical agency.

2.1 Strengthening BPSR’s capacity to coordinate the reforms (US$2.31 million)

This subcomponent will help bring much needed professional expertise to the BPSR in the short term while building BPSR’s internal capacity over time. It will fund:

(a) The services of consultants to help support BPSR in defining and managing the following areas of the reform program: consolidation and streamlining of government functions, human resources, parastatal reform, monitoring, reform of Cabinet and policy making process, and evaluation of reform implementation and outcomes. These consultants will work with the relevant managers in the BPSR. A senior adviser will also be recruited to provide more strategic support to the Bureau.

(b) Training and Equipment. Training will be accessed in management as well as in the substantive technical skills needed to manage the various aspects of public sector reform. All consultants working with BPSR will have an obligation to provide on-the-job training. Over time, as BPSR’s capacity grows, its need for consultant will diminish.

2.2 Strengthening personnel and payroll system (US$8.88 million)

Although on paper a system exists to control establishments and maintain personnel data, it is vulnerable to manipulation, and in need of modernization. In the past three years considerable effort has gone into auditing payrolls and verifying staff strength in the Federal Government’s ministries and extra-ministerial departments but the gains have not been sustained. Putting in place effective personnel and payroll control systems is a critical first step towards improved management of service numbers and costs and for greater transparency in service management.

Without such controls any separation programs could also be abused with separated staff re-appearing on the Federal Government’s payroll after having been paid their terminal benefits. Specific activities to be funded to achieve this objective include:

- A staff audit and verification for the entire civil service, drawing on the lessons from the failed efforts of the last three years. This will constitute the baseline on personnel numbers and costs and could in part be contracted out, with the results forming the foundation of a new system of personnel data management;
- Implementation of modern technology based systems for effective personnel and payroll controls. This system will be based in a new central personnel and payroll facility under the OHCSF. While the system itself would be centralized, the usage and maintenance of the information in the system would be decentralized within the individual agencies.

Given the importance and the magnitude of this task, Government intends to implement in the following sequential steps:

- A detailed specification for an integrated payroll and personnel application which complies with international standards and current best practice;
- Implementation of service-wide data standards once this common approach and the related detailed specifications have been developed, as a precursor to software deployment. For example, there is presently no single employment number, a critical component of any personnel or payroll application, at the Federal level. Each Ministry derives its own series of employee numbers. This will be revised as part of a Federal specification;
- Roll out and testing of the integrated payroll and personnel applications in line with these specifications first in the pilot agencies;
- Extension of this application to the rest of the civil service.

As the new system is being developed, transitional strengthening of payroll and personnel management in the pilot ministries will be supported.

2.3 Diagnostic studies and dialogue (US$3.49 million)

This component will fund preparatory diagnostic studies to help define several elements of the service wide reforms, which will also be used to promote dialogue and consensus around the reforms. Specific studies will be in the areas of:

(a) Government wide and Selected Functional Reviews.

This will address the issues of overlap and duplication of functions between different federal government agencies as well as between federal government and state agencies. The objective is to propose ways in which government functions can be consolidated and streamlined both across the federal government and between the federal government and state governments. Functional reviews of individual government agencies will also be carried out as they begin their reform process.

(b) Human Resources Management Issues in the Civil Service.

This will be a series of studies covering (i) roles and capacity of Central Civil Service Management Agencies; (ii) review of current system of performance management to ensure greater staff accountability and incentives for performance; (iii) professionalization of common staff cadres and preparation of plan for reform; (iv) management structure and decision-making processes in the civil service; (v) pay reform; (vi) feasibility of a Senior Executive Service; and (vii) an assessment of the capacity of current public and private training institutions to provide the training needed to support the reform of the public service.

(c) Processes for Formulation, Decision Making, and Monitoring of Policy

The study will be carried out on the process by which policies are formulated, discussed, decided upon, implemented and their implementation and impact monitored. This should come up with proposals for reform that can be submitted to the Federal Executive Council for approval. The objective of this activity will be to make sure that policies are well formulated and that all due consultation among MDAs and other stakeholders take place in readiness for consideration of the policies by FedExCo; and to make sure that once decided upon policies are implemented as planned.

(d) Reform of Parastatals

A review will be carried out of those federal parastatals that are not yet slated for privatization as well as of other autonomous or semi-autonomous units of Government. The review will cover their roles, current dependence on Government for support and options for their reform.

2.4 Design and Implementation of the Performance Improvement Facility (PIF). (US$2 million)

The PIF will fund inputs needed to bring about business process reengineering associated with the reform of the MDAs and the agencies involved in providing cross-cutting services. Funding
will be provided for the consulting services required to review the current processes; design improvements and implement the process reengineering of staff in the reengineered processes; and modest equipment needs. It is important to point out that in most cases the improvements will be brought about by reducing the steps in the process as a whole, or the time taken to undertake the steps, rather than by expenditure on equipment to make staff more productive. The PIF will not be an alternative source of funds for equipment to the national budget. Most of the funding will go for consulting services and training. A transparent governance process for the fund will be established. Applications will be made by MDAs to a committee of senior officials chaired by a senior official from the Ministry of Finance or the Office of the Head of Service. In setting up the governance arrangements the Government will draw upon the experience of the PIFs that have been implemented in a number of other countries.

2.5 Reform of Pilot Ministries. (US$ 50.18 million)

The pilots are a self-selected group, headed by members of the government’s reform team, which predisposes them towards vigorous implementation. In addition, the following factors are important in their inclusion as pilots: The Federal Ministry of Finance (FMF) will play a lead role in instituting reforms in budget, public expenditure and financial management and procurement reforms; the National Planning Commission (NPC) has a key role in Nigeria’s economic development. It has not been effective in recent years and needs to re-evaluate its mandate in the light of reforms and redefine its contribution. It is now the focal agency for the preparation and coordination of the implementation of the NEEDS and for providing support to States for their SEEDS processes; the Ministry of the Federal Capital Territory (MFCT) is one of the largest ministries, with about 25,000 employees (including in its parastatals) and epitomizes the loss of control over staff numbers and the extent to which management control processes in Federal Government agencies have decayed into inefficiency and rent-seeking. It also provides several basic services to a population of about 6 million. Its inclusion as a pilot provides the opportunity to test different approaches to downsizing and to private/public partnerships in service delivery. Due to its size and the fact that it is the seat of government, it is highly visible and epitomizes what reform in a large service delivery agency should be; the Federal Ministry of Information (FMI) is the government spokesperson, and provides the vehicle with which the Federal Government communicates with the citizens, and the citizens with government. It should be a good vehicle for communicating reforms; it can only do that most effectively if it is actively engaged in the reform process.

(a) Mandate and Organizational Reforms

Mandate and organizational reforms will be the most pronounced in the National Planning Commission which will overhaul its mandate and structure to create a much smaller agency with strong technical competency focused on leading strategy and policy planning for the Federal Government. One of its current functions—responsibility for preparation and monitoring of the capital budget—has been transferred to the Ministry of Finance. It will retain 5-6 departments organized along key strategy and policy thematic lines, compared to the 11 departments that exist now. It will take on a lead role in coordinating implementation and monitoring of the NEEDS. The project will also support the revision to the NPC Act to allow these changes to be made.

The Ministry of Finance’s mandates remain largely the same but will be consolidated through the return of elements that are currently being undertaken by other agencies including the NPC, returned to it. It plans to rationalize the number of departments (13 at present), and create four
new specialist units (Oil Gas Accounts, Anti-Corruption, Information Technology and Parastatal Oversight). Most important, the capacity of the FMF to exercise its financial management stewardship function across government will be strengthened, as will its capacity to identify and manage fiscal risks as they pertain not just to the FGN, but also to the parastatal sector and the sub-national tiers of government. The new public finance law, revising the Finance (Control and Management) Act, will be critical in this regard, as will also the proposed law on Fiscal Responsibility.

Ministry of the Federal Capital Territory has already moved forward on its organizational and structural reforms. It has developed a new organizational structure based on what it sees as its mandate for delivery of services in five key areas: Education, Health and Human Services, Transportation, Social Development, and Agriculture and Rural Development. These mandates form the basis for Mandate Departments headed by Secretaries (the equivalent of Commissioners in States) who are political appointees reporting directly to the Minister, but not politicians. They will be technocrats appointed for their skills and will be on fixed term contracts tied to delivery. The Secretaries have been identified and appointed. They assumed duty during the week of April 12 2004.

The Ministry of Information has reviewed its mandate, organizational structure and staffing levels and skills. Staff and structures will be focused on more effective communication of key government policies and programs and total employment, currently about 5,000 will be reduced to about 2000. A key issue for the Ministry is addressing the considerable overlap between the functions of the main ministry and several of its parastatals. An increasing proportion of government printing work will be put to tender and the Government Press will be required to compete. Getting structures and staffing levels right will enable the Ministry to more effectively disseminate government policies and programs, not least the NEEDS. In addition, upgrading IT capability will also be an important component.

Reforms of the pilot ministries will be facilitated by assisting them get organizational structures and staffing aligned with mandates, the introduction of IT and associated capacity building, and the funding of productivity enhancing initiatives through the Performance Improvement Facility (PIF), operated by the BPSR.

(b) Staffing Reforms

Currently federal civil service staff structure can be described as an inverted pyramid with excessive numbers of non-professional staff at the lower level inadequate numbers at higher more professional levels. Overall staff numbers are also greater than needed and clearly not affordable. Changes are needed to re-professionalize, build staff capacity, and rightsize. Staffing reforms will be based on the restructuring plans of pilot MDAs which will in turn be informed by detailed functional reviews being carried out by the MDAs. Reforms will be implemented fully in accordance with Federal Government extant rules and regulations, due process and existing Bank operational policy on staffing reform. The Government is keen to ensure that this is done in transparent manner, that staff are treated fairly, and benefits of separated staff paid promptly. It also plans to put in place measures to strengthen payroll and personnel management systems to reduce chances of separated staff re-entering the system. The details of how staffing reforms will be carried out will be fully spelt out in the project implementation manual.

Early estimates which will be confirmed/refined after completion of the functional analysis indicate that as many as 7,500 staff could be separated from the five agencies. Based on current
Federal Government separation rules, this could cost an average of $4,900 per person (about 16 times per capita GDP). UK-DFID is already working closely with MFCT in implementing these reforms and will contribute about $15 million towards the total cost of the separation program. $15 million would come from IDA resources, and any remainder would come from FGN resources. Mechanisms will be introduced to control the risk of fraud, and there will be both pre-audits of proposed lists, and post audits to ensure payments were made correctly.

Aside from their termination benefits, to the extent practical, staff will be provided assistance to facilitate their re-insertion into other economic activities. To help the redundant staff to find a new job, a resources unit will be created within the BPSR to help identify training activities to facilitate redeployment toward new activities, adaptation to new jobs, acquisition of skills necessary to develop personal projects and customized counseling to meet the individual’s specific needs, practical and emotional support. Training will be carried out mostly by existing training outfits in Nigeria such as Fate Foundation, STEP, NDE and the operating costs of the unit and training will be financed by the Project. Redundant staff will contribute financially by paying an entrance fee to have access to training. However, access to information provided by the unit, group interviews and meetings organized by the unit, and micro training (preparation of resumes) will be free.

Staff separation activities will be monitored and its impact evaluated annually. Tracer studies will be conducted to determine how quickly separated staff are able to find other employment, whether in the traditional or modern sectors, and how rewarding. This information will be fed back into the design of subsequent “rightsizing” operations in later stages of the PSRP.

A further element of the staffing reforms will be to define appropriate requirements including professional background of staff that may be needed in the various pilot agencies at professional levels. Ways will need to be found within existing recruitment rules to ensure that the right professional staff can be hired into the right jobs.

(c) Improvement in work processes including through basic IT systems and infrastructure

A critical enabler to improving service delivery and increasing the productivity of staff in the pilot agencies is the implementation of relevant business systems and applications underpinned with an appropriate information and communications technology infrastructure. The challenges in introducing complex systems and technologies in the current environment of these agencies, where there is little to no automation or ICT infrastructure are significant. Computer literacy is low and the internal capacity to manage any significant implementation of technology is minimal.

The IT components for this proposed project may be grouped into three sub-areas:

- **Infrastructure** consisting of the network, desktops computers, servers and office productivity suites, email and Web access;
- **Common Business Systems** consisting of information systems that are common across the agencies including the payroll and personnel management system; and
- **Specific Business Systems** consisting of applications that are specific to the work processes of the agency. For example the Ministry of Information, this component will support the development of a simple set of tools to automate the Government’s Press Releases, from beginning to end, specifically the writing, editing, approval and dissemination. NPC considers the dissemination of econometric and business climate
information on Nigeria one of it key activities. The development of a Nigerian Economic Portal for the Internet is seen as priority for the next 18 months. The project will provide Technical Assistance in the design, development and implementation of this portal -- Providing linkages and access to accurate econometric and statistical data and business environment information on Nigeria.

Training will be the major determinant for the success of the IT implementation in the selected agencies. Beginning with basic familiarization through to the use of the actual business systems, training will need to be targeted at the various levels of competencies in the agencies. The project proposes an initial consultancy to carry out training needs analysis across the pilot agencies and with this requirements in hand for the consultants to develop a training program that meets these requirements as well as develops a cadre of trainers within these agencies who can take on and sustain the program in the future.

(d) Capacity Building and Training

All agencies will be supported to carry out capacity building and training activities. While the content will be different from pilot to pilot, the approach and strategy will be similar. The objective will be to achieve more frequent training of shorter duration, and driven by functional demands rather than accreditation -- or as a perk for long service. In turn, training will be integrated into the APERs (annual performance reviews) of individual staff, and performance will be assessed against training received. Once organizational and staffing changes have been carried out, agencies will carry out capacity building and training needs assessment, which will form the basis of detailed capacity building and training plans, to be funded under the project. Agencies will be required to report on the implementation of the government’s training policy as regards their own staff in their annual reports. In all pilot ministries, training will be provided in basic areas such as budget preparation, financial management and procurement.

A second element of the component will fund availability of technical capacity in the short term through selected recruitment of skills from outside of the federal civil service for stints of about 2-3 years. This will be done by building on an existing draft document to design and begin implementation of a focused and meaningful staff exchange program with appropriate private sector entities that could facilitate access to much needed skills while public sector capacity is being built over time.

Component 3: Strengthening Pension Management and Accountability—(US$6.69 million)

The pension system in Nigeria had been characterized by a number of problems including the following:

a) The pay-as-you-go defined benefit scheme that has been operating in the public sector has become increasingly costly and unsustainable, compounded by recent increases in salaries and pensions. Estimates of outstanding Federal Government pensions obligations in may 2002 was about N85 billion;

b) Pension contribution and benefit arrears constitute a large and growing component of government obligations. Indeed, a further indication of the gravity of the problem is that pension costs now constitute a significant proportion of personnel costs;

c) The public service pension schemes have been poorly administered, including weak and inefficient administration and fraudulent claims and representation; and
d) Private sector pension schemes have largely been unregulated and unsupervised.

A new Pensions Act passed in July 2004 aims to address these problems. This Act seeks to establish a contributory, fully funded scheme, based on individual accounts that will be privately managed by Pension Fund Administrators with pension funds assets held by Pension Assets Custodians. It also envisages strict regulation and supervision. The primary objectives of the scheme are to ensure that every person who has worked in either the public or private sector receives retirement benefits as established in the law and that the management system ensures maintenance of principal and minimization of risk for the ensured. This component will support measures to implement reforms to strengthen management and accountability of pension funds for federal civil service employees. The sub-components are as follow:

(i) **Development of a regulatory and supervisory framework (US$0.92 million).** This subcomponent would support the establishment of a comprehensive regulatory and supervisory framework for the pension system including a structure, rules and regulations that govern the establishment of custodian and investment management institutions that can reliably hold and manage pension assets without exposing members to the risk of poor returns or losses of principal.

(ii) **Institutional design, capacity building and skills enhancement for the Pensions Commission (US$0.47 million).** The Commission was recently constituted and will need assistance in establishing the institutional structure and in recruiting and training a capable cadre of staff and management to serve as a strong and credible regulatory institution. Resources will be used in reviewing and designing lines of authority to maximize efficiency and accountability, establishment of operating procedures and training of skilled staff in supervision and risk management. Training techniques will include training of Trainer workshops as well as attachments at relevant institutions.

(iii) **Information Technology (US$ 4.39 million).** The National Pensions Commission has drafted a tentative Information Technology Deployment Strategy. The implementation of the IT Deployment Strategy would facilitate acquisition of core applications including Surveillance Analysis System (SAS), Investment Analysis Systems, Human Resource & Accounting Systems and Document Archiving Management. Its aim is to establish public internet access on a secure basis, deployment of a corporate website, Local Area Networks and a VSAT link. Initial hardware requirements have been considered in accordance with the tentative strategy. Resources would be used under the project to refine the IT strategy, procure select hardware; database management, operating system and communications software, peripherals, related equipment and for the above systems.

(iv) **Determination of Accrued Pension Rights (US$0.40 million).** There are two stages of this process: (i) constitution of a database based on reconciled documentation for each worker and retiree on benefit entitlements; (ii) actuarial valuation of accrued pensions rights and structuring of retirement benefit bond; and (iii) analysis of options for addressing these arrears. The project would support (i) a full scale audit and reconciliation of pension entitlements for existing Federal civil service workers and retirees; (ii) assistance in the constitution of the necessary economic and actuarial data for actuarial valuations; and structuring of retirement benefit bond; and (iii) simulations of fiscal financing strategies for the existing pensions arrears.

(v) **Public Education Campaign (US$0.51 million).** An effective communication strategy is essential on multiple levels: (i) to educate investment practitioners on the technical aspects of the system being instituted; (ii) to educate employers as to their rights and responsibilities under the
law; (iii) and to educate employees and retirees as to both their entitlements and responsibilities under the law. Resources would be used under the project to fund those aspects of the reform, which support the strengthening of management and accountability of pension fund management for federal civil service.

**Component 4. Strengthening of Statistics (US$20.0 million)**

The Federal Government recognizes that it needs a strong statistical system to underpin the development and constant refinement of development policy and strategy; to monitor the impact of policies and progress towards the achievement of MDGs; and to ensure that Nigerians have adequate information on various aspects of national life and are able to engage in more informed dialogue on various development policy challenges. A medium term Statistical Masterplan has been developed with the full participation of key stakeholders—both users and producers of data and different levels of government. Some support is being provided through EU resources in the ongoing EMCAP to staffing reforms in the FOS. The Masterplan will take several years to implement fully. This component will fund key elements of this plan including:

(i) **Organizational and Institutional Development (US$0.84 million).** This subcomponent will fund preparation of new statistical legislation and regulations; establishment of effective mechanisms for the coordination of statistical activities at the federal level, with both technical and political oversight; establish effective mechanisms to provide for regular consultation between data providers, compilers and user; and put in place a set of indicators to monitor the performance of the federal statistical system and a mechanism for reporting these to the legislature on an annual basis;

(ii) **Human Resource Development (US$1.65 million).** Activities to be funded include carrying out initial staffing reforms to begin to build a professional FOS; development of effective staff appraisal and human resources development processes in FOS; establishment of an appropriate scheme of service for statistical workers and a career structure that can be applied as widely as possible; and upgrading of staff technical skills, especially in data analysis and dissemination;

(iii) **Data Development (US$14.37 million).** While there is a need in the medium to longer-term to develop new data collection activities, as set out in the SMP, the immediate focus for the project is to improve existing data processes, with particular emphasis on coverage, data quality and dissemination. A second objective is to put in place the statistical infrastructure in the form of: a comprehensive business register; targeted sampling frameworks for surveys; cost effective and efficient methods used for statistical operation; and database structures that promote easy access to and use of statistical data. Activities in this area include the adoption, by the main statistical agencies, of internationally accepted standards and methodologies in data production; conduct of target surveys in areas such as: national accounts; poverty and living standards monitoring statistics; business and industrial statistics; demographic and vital statistics; health statistics; education statistics; employment statistics; agricultural and agriculture-related statistics; and dissemination of results; improve data processing and analysis to reduce the delays in dissemination and more effective use of data that are already collected; use of modern database management techniques to make it possible to use data from different sources and to produce statistical products that are easier to access and use; and strengthening data dissemination especially using new formats such as CD-ROMs and the Internet; and conduct of a user-satisfaction survey, to measure user response to data improvements.
Component 5. Project Management and Portfolio Monitoring (US$3.31 million)

A PCU in FMF will provide overall coordination for the project, and arrange the monitoring and evaluation of project activities. The PCU will consolidate project work programs, plans and reports for review by the PCT and SCR, report monthly to the PCT, and facilitate the PCT’s half-yearly reporting to the SCR. The PCU will also support definition of reforms and capacity building in key areas including tax and customs administration. Each implementing agency will establish a PITT to implement project activities.

Specifically, this component will finance the following:

(i) Incremental operating costs of the PCU and PITTs, and the fees of project external auditors to be appointed by the Auditor-General; and

(ii) Monitoring and Evaluation of project activities, and the review and monitoring of projects in the Government’s World Bank portfolio by the Project Monitoring Team of the Department of Multilateral Institutions, FMF.

Unallocated (US$8.56 million)

The provision of US$8.56 million in unallocated funding is intended to provide some flexibility in reform implementation specifically to fund unforeseen costs including emerging issues that require attention to the reforms. This should allow pilot agencies as needed to expand reforms or modify reforms initially envisaged on the basis of implementation experience.
# Annex 5: Project Costs

**FEDERAL REPUBLIC OF NIGERIA**

**ECONOMIC REFORM AND GOVERNANCE PROJECT**

<table>
<thead>
<tr>
<th>Project Cost By Category</th>
<th>Total (US$ million)</th>
<th>Local (US$ million)</th>
<th>Foreign (US$ million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>51.96</td>
<td>32.63</td>
<td>19.33</td>
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<td>2. Consultants’ Services and Audits</td>
<td>42.43</td>
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<td>3. Training/Workshops/Seminars</td>
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<td>4. Severance Pay</td>
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<td>6. Unallocated/Contingencies</td>
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<td>7. PPF</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>179.22</strong></td>
<td><strong>136.46</strong></td>
<td><strong>76</strong></td>
<td>100%</td>
</tr>
<tr>
<td>Financing Required (IDA)</td>
<td>140.00</td>
<td></td>
<td></td>
<td>78%</td>
</tr>
<tr>
<td>Financing by DFID</td>
<td>22.53</td>
<td></td>
<td></td>
<td>13%</td>
</tr>
<tr>
<td>Counterpart Funding</td>
<td>16.69</td>
<td></td>
<td></td>
<td>9%</td>
</tr>
</tbody>
</table>
1. Implementation Period. FY2005-FY2010

Borrower and Coordinating Agency. The Borrower is the Federal Government of Nigeria, represented by the Federal Ministry of Finance (FMF), and it will have overall responsibility for project implementation. Project execution is decentralized to the respective agencies with overall coordination provided by a Project Coordinating Team/Unit in the Multilateral Institutions Department of Federal Ministry of Finance.

Project Implementation. The project is focused on economic reforms and governance at the federal level, and implementation will be in pilot ministries/agencies and key financial management institutions/agencies. The details of implementation arrangements are illustrated in Figure 1.

*Figure 1. Project Implementation Arrangements*

PCT /
PCTU

BPSR FIRS AccGen AudGen PPB NASB FOS Nat. Pens. EFCC

PET, FMF PET, MOI PET, NPC PET, MFCT

An existing Steering Committee on Reform (SCR) chaired by the Minister of Finance will have oversight responsibility for implementation of the project. More specifically, the Committee will meet twice each year to: (i) review the implementation of the project as defined in this PAD and address any emerging issues; (ii) ensure that set targets and timelines are met; and (iii) make recommendations to the Federal Executive Council on further reforms.

In performing the oversight functions, the SCR will be supported by a Project Coordinating Team (PCT). The PCT, which will be chaired by the Director of Multilateral Institutions Department in FMF, will comprise all Directors with supervisory responsibility for the project in each
implementing agency and will meet at least once every quarter. The PCU will have overall responsibility for coordinating implementation of all components of the project and will report to the SCR twice a year. The main coordinating functions of the PCU include: (i) approving annual work programs, budgets, and procurement plans for each PITT; (ii) reviewing progress with project implementation; (iii) presenting progress reports on project implementation to the SCR; (iv) identifying and removing constraints to project implementation on a timely basis; and (v) reviewing consolidated FMRs and annual financial statements for the project.

A Project Coordinating Unit (PCU) will be established in the Multilateral Institutions Department in FMF to serve as the Secretariat for the PCT. It will comprise a Project Coordinator and relevant support staff. The PCU will meet with project officers from the PITTS on a regular basis, and ensure that PITTS prepare and submit the aforementioned plans and reports on a timely basis and follow up on implementation of PCU decisions with respect to project implementation. Additionally, the PCU will be responsible for (i) consolidating annual work programs, budgets, and procurement plans submitted by PITTS and presenting these to the PCT; (ii) preparing quarterly progress reports on project implementation, based on inputs from the PITTS; (iii) preparing consolidated FMRs and annual financial statements for the project; and (iv) monitoring project implementation in the PITTS.

Each of the implementing agencies (BPSR, PPB, Federal Inland Revenue Service (FIRS) National Pensions Commission, and Office of the Accountant-General, Office of the Auditor-General, NASB, EFCC and FOS) will establish an empowered Project Implementation Task Team (PITT), which will be responsible for the implementation of its respective components/subcomponents on a day-to-day basis in line with the PIM and Bank guidelines. For the Civil Service Reform Pilot subcomponent, the PITT will be the PCU and each of the pilot ministries/Agency will have a Project Executing Team (PET). A PET will be headed by a Project Desk Officer and comprise relevant technical staff. A PITT (or PET) is not a Project Implementing Unit (PIU) but rather a team of dedicated staff in the executing agency empowered to implement project activities in collaboration with other units in the agency. Each PITT will have the following responsibilities: (i) preparing work programs, procurement plans, budgets, etc in consultation with officials in the agency, and ensuring that programs and plans are approved by the accounting officer in the agency; (ii) preparing and submitting monthly progress reports to the PCU; and (iii) implementing the agency’s component/subcomponent, in collaboration with relevant officers in the Ministry/Department. The PETs on the Civil Service reform pilots subcomponent will have similar functions, and provide the plans and reports to the PCU.

The project will be an integral part of the respective implementing agency's work program and each PITT shall be fully staffed by the agency's regular staff. The head of the relevant implementing agency will deploy to each PITT necessary staff, including a project officer to head the PITT, procurement officer, and other relevant staff to be determined based on the nature of activities being implemented by the Agency. The PCU will have two Procurement Officers to handle the volume of work required for the four pilot civil service reform agencies and its own project activities. The PITTs where experienced Procurement Officers do not exist will hire a Procurement Consultant for a period of not more than 1-2 years to assist with the implementation of their procurement activities. Part of the TOR of the Procurement Consultant will include training and development of the PITT designated Procurement Officer’s skills in Bank procurement procedures. The Project Officer will report to a director who will serve as the project coordinator and a member of the PCT, and will provide adequate supervision for the PITT. Once the PCU has approved the work plan/program for the year, the process of approval of individual transaction will be provided in each PITT. This should help avoid unnecessary delays in the implementation of activities.
Dedicated staff from the Finance and Accounts Department (FAD) of the Ministry/Agency where each PITT is located will be responsible for managing the financial operations of the component. (Note that the financial management responsibilities for the Pilot Civil Service Reform Subcomponent will be handled by PCU.). These dedicated staff will be qualified accountants. They will be responsible for ensuring compliance with the financial management requirements of the Bank and the government, including forwarding the quarterly Financial Monitoring Reports and audited annual financial statements to IDA. They will maintain adequate FM arrangements to support the deployment of Project resources in an economic, efficient and effective manner to achieve the stated development objectives. The arrangements will provide relevant information to the PCU and SCR to facilitate the performance of their functions.

All goods, works and services financed under the Credit will be procured in accordance with appropriate IDA procurement Guidelines. Bank’s standard bidding document for goods and works and standard Request for Proposals for Consultants as well as standard evaluation forms will be used throughout project implementation. The Project will follow disbursement procedures described in the World Bank Disbursement Handbook. Regarding flow of funds and banking arrangements, IDA will disburse the credit through 10 Special Accounts (SAs), i.e. one for each implementing agency and the PCU. The SA limit for each PITT will set relative to the size of the component/subcomponent implemented by the relevant agency. In case of counterpart fund requirements, each PITT will be required to submit to the PCU the annual counterpart fund needs. Dedicated staff assigned to the Project from the Internal Audit Unit of each implementing agency will be responsible for the internal audit function for the project. Experienced and well-qualified external auditors will be appointed by the Auditor-General for the Federation, in collaboration with the PCU, (on a TOR acceptable to IDA) to audit Project accounts, financial statements and transactions irrespective of the source of financing.
Annex 7: Financial Management and Disbursement Arrangements

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

I. Summary of the Financial Management Assessment

A. GENERAL

Objective of the FM System

The objective of the Financial Management Systems (FMS) is to support the implementing agencies in deploying Project resources to produce the required outputs and with attention to economy, efficiency and effectiveness. Specifically the government FM systems which will be used, will be capable of producing timely, understandable, relevant and reliable financial information that will enable the implementing agencies plan, coordinate, monitor and appraise progress towards the achievement of the Project's overall objectives as well as ensure that costs are kept under control and that Project funds are used for the purposes intended.

Implementation Arrangement

At the political level, oversight for implementation of the project and its outcome and the overall governance reform agenda will be carried out by an existing Federal Government's Reforms Steering Committee which is chaired by the Minister of Finance. Reporting to the SCR will be a Project Coordination Team (PCT) headed by the Director of Multilateral Department in FMF and comprising Directors with supervisory responsibility for the project in each implementing agency will have responsibility for coordinating implementation of all components of the project. A small Project Coordinating Unit (PCU) in the Multilateral Department, FMF, will support the team.

Implementation of project activities will be carried out in key financial management institutions/agencies and in the pilot civil service ministries. Each of the implementing agencies (BPSR, PPB, National Pensions Commission, Office of the Accountant-General, Office of the Auditor-General, NASB, FIRS, EFCC and FOS) will establish a PITT, which will be responsible for the implementation of its respective components/subcomponents on a day-to-day basis in line with the PIM and Bank guidelines. For the Civil Service Reform Component, the PITT will be the PCU and each of the pilot ministries will have a Project Executing Team (PET).

Dedicated staff from the Finance and Accounts Department (FAD) of the Ministry/Agency where each PITT is located will be responsible for managing the financial operations of the Project. (Note that the financial management responsibilities for the Civil Service Reform pilots subcomponent will be handled by PCU.) They will be responsible for ensuring compliance with the financial management requirements of the Bank and the government, including forwarding the quarterly Financial Monitoring Reports and audited annual financial statements to IDA. They will maintain adequate FM arrangements to support the deployment of Project resources in an economic, efficient and effective manner to achieve the stated development objectives. The arrangements will provide relevant information to the PCU, PCT and SCR to facilitate the performance of their functions. Dedicated staff from the Internal Audit Unit of each implementing agency will be responsible for the project's internal audit functions.

All accounts personnel will be sufficiently trained in Bank procedures, including disbursements, financial management requirements and procurement.
B. RISK ANALYSIS

Inherent Risks

The Country Financial Accountability Assessment (CFAA), which was conducted in 2000, assessed the risk of waste, diversion and misuse of funds as high until such a time as the CFAA recommendations have been implemented. Some of the identified weaknesses have been addressed under EMCAP and through other government initiatives under the NEEDS aimed at improving financial management and accountability. These recent efforts would indicate that this risk is now reduced. However an update to the CFAA planned for completion in FY05 will provide a more rigorous assessment of the level of judiciary risk.

To minimize the aforementioned risks and ensure the appropriate financial management capacity is in place prior to project effectiveness, an assessment of the financial management capacity of each implementation agency has been undertaken.

Control Risks

The overall project risk from a financial management perspective is considered moderate, provided: (a) the weaknesses described below are satisfactorily addressed; and (b) the financial management action plan is fully implemented.

Strength and Weaknesses

**Strength:** The participating agencies are key government financial and economic management institutions. Their FADs are staffed with qualified personnel—some of these qualified staff, which will be assigned to the project, will fully dedicate their time to performing financial management functions for the project. The financial management environment within the Federal Government has improved reasonably as a result of the recent reform efforts. Finally, many of the agencies have some familiarity with the implementation of World Bank projects, having been involved in the implementation of EMCAP.

**Weaknesses:** The main weaknesses are: (a) Some of the agencies do not have experience in managing Bank-Assisted Projects; (b) Internal audit is weak in most agencies; and (c) most FM staff require training in World Bank financial management, disbursement and procurement procedures.

C. FINANCIAL MANAGEMENT SYSTEMS

Funds Flow and Banking Arrangements

The overall project funding will be from the IDA credit, UK-DFID grant resources, and government counterpart funds. IDA will disburse the credit through Special Accounts, which will be managed by the dedicated staff from the FADs in Ministry of Finance and the implementing agencies.

IDA will disburse the credit through 10 Special Accounts (SAs), i.e. one for each implementing agency and the PCU. The SA limit for each PITT will set relative to the size of the component/subcomponent implemented by the relevant agency. The PCU and implementing agencies will each maintain the following accounts:

(i) A SA in US Dollars to which the initial deposit and replenishments from IDA will be lodged;

(ii) A Current (Draw-down) Account in Naira with a commercial bank to which draw-
downs from the Special Account will be credited once or twice per month in respect of incurred eligible expenditures. Following the immediate payments in respect of those eligible expenditures, the balance on this account should be zero;

(iii) A Current (Project) Account in Naira with a commercial bank to which Counterpart Funds will be deposited;

(iv) A Domiciliary (Interest) Account in US Dollars into which interest on the SA balances will be credited;

(v) A Current (Interest) Account in Naira into which interest on the Project Account balances will be credited.

In addition, the PCU and implementing agencies will each maintain an IDA Ledger Loan Account (Washington) in US Dollars/Naira/SDR to keep track of draw downs from IDA credit. The account will show (a) deposits made into a commercial bank by IDA, (b) direct payments by IDA, and (c) opening and closing balances.

All bank accounts will be reconciled with bank Statements on a monthly basis by the PCU and implementing agencies. The bank reconciliation statements will be reviewed by designated officials, and identified differences will be expeditiously investigated.

Dedicated staff from the FADs in Ministry of Finance and the implementing agencies will be responsible for preparing and submitting to the World Bank consolidated applications for withdrawal, as appropriate. Appropriate procedures and controls, which will be documented in the Project Implementation Manuals (PIMs), will be instituted to ensure disbursements and flow of funds are carried out in an efficient and effective manner.

Dedicated staff from the FADs in Ministry of Finance and the implementing agencies will maintain a cumulative record of draw-downs from the Credit that will be reconciled monthly with the Disbursement Summary provided by the Bank.

Detailed banking arrangements, including control procedures over all bank transactions (e.g. cheque signatories, transfers, etc.), will be documented in the PIMs.

**Funds Flow Diagram**

*Sources of Funds*

<table>
<thead>
<tr>
<th>IDA</th>
<th>Government Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Accounts ($) for PITTs &amp; PCU</td>
<td></td>
</tr>
<tr>
<td>Drawdown (zero balance) Naira A/C</td>
<td></td>
</tr>
<tr>
<td>Project (Naira Counterpart Funds) A/C</td>
<td></td>
</tr>
</tbody>
</table>
Disbursement Arrangements

Use of statements of expenditures (SOEs)

All application for the withdrawal of proceeds from the credit will be fully documented, except for:
(i) contracts with an estimated value of less than US$250,000 for goods; (ii) contracts with an estimated value of less than US$200,000 for consulting firms, and less than US$100,000 for individual consultants; and (iv) training, study tours, and incremental operating costs which may be claimed on the basis of certified Statements of Expenditures (SOEs). Documentation supporting all expenditures claimed against SOEs will be retained by the FADs in Ministry of Finance and the implementing agencies, and will be available for review when requested by IDA supervision missions and project auditors. All disbursements are subject to the conditions of the Development Credit Agreement and the procedures defined in the Disbursement Letter.

Special account

To facilitate disbursements for eligible expenditures for goods and services, the FADs in Ministry of Finance and the implementing agencies, in a commercial bank to cover part of IDA’s share of eligible expenditures. The initial deposits into the special accounts have been set relative to the size of credit utilized by each agency. The amounts are stated in the DCA and cover an estimated four months of eligible expenditures financed by IDA. The allocation would be increased as project implementation progresses, based on the criteria specified in the DCA.

To the extent possible, all of IDA’s share of expenditures should be paid through the SA. The Special Account will be replenished through the submission of Withdrawal Applications with appropriate supporting documents for expenditures on a monthly basis by dedicated staff from FADs in Ministry of Finance and the implementing agencies. This will also include reconciled bank statements and other documents as may be required until such time as the borrower may choose to convert to report-based disbursement. All disbursements will be channeled through SA and in lieu of SA, the borrower may choose to pre-finance project expenditure and seek reimbursement from IDA.

By effectiveness, the Project will not be ready for report-based disbursements. Thus, at the initial stage, the transaction-based disbursement procedures (as described in the World Bank Disbursement Handbook) will be followed, i.e. direct payment, reimbursement, and special commitments.

When project implementation begins, the quarterly Financial Monitoring Reports (FMRs) produced by the project will be reviewed. Where the reports are adequate and produced on a timely basis, and the borrower requests conversion to report-based disbursements, a review will be undertaken by the Task Team Leader (TTL) to determine if the project is eligible. The adoption of report-based disbursements by the project will enable it to move away from time-consuming voucher-by-voucher (transaction – based) disbursement methods to quarterly disbursements to the Project’s Special Account, based on FMRs.

Detailed disbursement procedures will be documented in the PIMs.

Planning and Budgeting

Cash Budget preparation will follow the Federal Government’s procedures. Additionally, financial projections or forecasts for the life of the project (analyzed by year) will be prepared. On an annual basis, the dedicated staff from the FADs of Ministry of Finance and the implementing agencies (in consultation with key members of the implementing unit) will prepare the cash budget for the
coming period based on the work program. The cash budget should include the figures for the year, analyzed by quarter. The cash budget for each quarter will reflect the detailed specifications for project activities, schedules (including procurement plan), and expenditure on project activities scheduled respectively for the quarter. (Guidance on the preparation of budgets is available in the Bank publication entitled "Financial Monitoring Reports: Guidelines to Borrowers"). The annual cash budget will be sent to the TTL at least two months before the beginning of the project fiscal year.

Detailed procedures for planning and budgeting will be documented in the PIMs.

**Fixed Assets and Contracts Registers**

Using the Government’s format, the dedicated staff from FADs in Ministry of Finance and the implementing agencies, will prepare and regularly update a Fixed Assets Register. A Contracts Register will also be maintained in respect of all contracts with consultants and suppliers. The dedicated staff from FADs in Ministry of Finance and the implementing agencies will prepare Contract Status Reports quarterly. Control procedures over fixed assets and contracts with consultants and suppliers/vendors will be in line with the revised government financial regulations which will be re-emphasized in the PIMs.

**Information Systems**

The accounting systems in the Ministry of Finance and the implementing agencies are essentially manual. However, part of this project activities focus on computerizing the accounting systems in government ministries/agencies. In the interim, simple financial management software will be acquired and installed in the PCU and PITTs. Staff will be trained adequately.

**Financial Reporting and Monitoring**

Monthly, quarterly and annual reports will be prepared for the purpose of monitoring project implementation. The reports will be submitted to SCR, political heads of the implementing agencies, PCT, PCU, Project Officers in PITT and IDA. In compliance with government reporting requirements, Monthly Returns will be made to the Accountant-General, for incorporation in the Government's accounts.

**Monthly:** On a monthly basis, dedicated staff from the FADs will prepare and submit the following reports to the director of the department where each PITT is located, the political head of the implementing agency, the PITT leader and the PCT:

(i) *A Bank Reconciliation Statement* for each bank account;
(ii) *Monthly Statement of cash position* for project funds from all sources, taking into consideration significant reconciling items;
(iii) *A monthly Statement of expenditure* classified by project components, disbursement categories, and comparison with budgets, or a variance analysis; and
(iv) *Statement of Sources and Uses of funds* (by Credit Category/ Activity showing IDA and Counterpart Funds separately);

**Quarterly:** The following financial monitoring reports will be prepared by dedicated staff from the FADs/PITTs on a quarterly basis and submitted to IDA:

(i) *Financial Reports* which include a Statement showing for the period and cumulatively (project life or year to date) inflows by sources and outflows by main expenditure...
classifications; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. The reports will also include cash forecast for the next two quarters.

(ii) **Physical Progress Reports** which include narrative information and output indicators (agreed during project preparation) linking financial information with physical progress, and highlight issues that require attention.

(iii) **Procurement Reports**, which provide information on the procurement of goods, work, and related services, and the selection of consultants, and on compliance with agreed procurement methods. The reports will compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building Borrower capacity.

Procurement Reports, which provide information on the procurement of goods, work, and related services, and the selection of consultants, and on compliance with agreed procurement methods. The reports will compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building Borrower capacity.

(vi) **SOE Withdrawal Schedule** listing individual withdrawal applications relating to disbursements by the SOE Method, by reference number, date and amount.

Each PITT/ dedicated staff from FAD will submit the FMR to the PCU for consolidation and the PCU will submit the consolidated quarterly FMR to IDA and the SCR.

**Annually**: The annual project financial Statements will be prepared by dedicated staff from the FADs in each implementing agency and submitted to the PCU for consolidation. The Statements include the following:

(vii) **A Statement of Sources and Uses of funds** (by Credit Category/by Activity showing IDA and Counterpart Funds separately);

(viii) **Statement of Cash Position** for Project Funds from all sources;

(ix) **Statements** reconciling the balances on the various bank accounts (including IDA Special Account) to the bank balances shown on the Statement of Sources and Uses of funds;

(x) **SOE Withdrawal Schedules** listing individual withdrawal applications relating to disbursements by the SOE Method, by reference number, date and amount;

(xi) **Notes** to the Financial Statements.

The PCU will prepare consolidated financial statements and present these to the auditors for annual audit. The consolidated financial statements will be submitted to IDA before 30 June of each financial year.

Government financial reporting format may be used. Additionally, the following two Bank publications provide indicative formats for the reports: (a) Financial Monitoring Reports: Guidelines to Borrowers-quarterly FMRs, and (b) Financial Accounting, Reporting and Auditing Handbook (FARAH) - monthly and annual reports.

**Accounting Policies and Procedures**

IDA and Counterpart Funds will be accounted for by the Project on a cash basis. This will be augmented with appropriate records and procedures to track commitments and to safeguard assets. Also, accounting records will be maintained in dual currencies (i.e. Naira and dollar).
The Chart of Accounts will facilitate the preparation of relevant monthly, quarterly and annual financial Statements, including information on the following:

i. Total project expenditures
ii. Total financial contribution from each financier
iii. Total expenditure on each project component/activity, and
iv. Analysis of that total expenditure into civil works, various categories of goods, training, consultants and other procurement and disbursement categories.

Annual financial Statements will be prepared in accordance with International Public Sector Accounting Standards (IPSASs). All relevant accounting and control procedures will be documented in the PIMs, a living document that will be regularly updated by the PITTs/ dedicated staff from FADs.

**D. ACTION PLAN**

The following actions are to be implemented as specified.

<table>
<thead>
<tr>
<th>S/N</th>
<th>ACTION</th>
<th>By Whom</th>
<th>By When</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strengthen internal audit by deploying qualified staff</td>
<td>Accountant-General</td>
<td>Nov 30, 2004</td>
</tr>
<tr>
<td>2</td>
<td>Open US Dollar SA; Current (Project) Account in Naira, Current (Draw-down) Account in Naira; Current (Interest on Counterpart Funds) Account in Naira; Interest on SA (US Dollar) Account; Finalize arrangements for Counterpart Funding and IDA advised of authorized bank signatories/specimen signatures.</td>
<td>PITTs</td>
<td>December 31, 2004</td>
</tr>
<tr>
<td>3</td>
<td>Appointment of external auditors for the Project</td>
<td>Auditor-General</td>
<td>Dec 31, 2004</td>
</tr>
<tr>
<td>4</td>
<td>Deposit counterpart funds into the Project Accounts</td>
<td>PCU &amp; PITTs</td>
<td>Prior to disbursement</td>
</tr>
<tr>
<td>5</td>
<td>Acquire and install financial management computer package in PITTs and PCU, and train staff to use the system.</td>
<td>PCU</td>
<td>Dec 31, 2004</td>
</tr>
</tbody>
</table>

Supervision activities will include review of quarterly FMRs; review of annual audited financial statements and management letter as well as timely follow-up of issues arising; participation in project supervision missions, including SOE review, as appropriate; and updating the FM rating in the Project Status Report (PSR).

**Audit Arrangements**

**Internal Audit**

The Internal Audit Unit (IAU) of each implementing agencies will be responsible for the internal audit function for the project – it will assign dedicated qualified staff to perform this function. Regular internal audit reports will be submitted to the PITT leaders, Director of the Department where each PITT is located, IDA and the Accountant General. Each IAU will be strengthened by the deployment of professionally qualified internal auditor.
**External Audit**

Audited Project Financial Statements for the project will be submitted to IDA within six months after year-end. Relevantly qualified external auditors appointed will be appointed by the Auditor-General, in collaboration with the PCU, based on Terms of Reference acceptable to the Bank to perform these audits.

Besides expressing an opinion on the Project Financial Statements in accordance with International Standards on Auditing (ISAs), the auditors will be required to comment on whether counterpart funds have been provided regularly and used in accordance with the financing agreement.

In addition to the audit report, the external auditors will be expected to prepare Management Letters giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the IDA agreement.

**Procurement Arrangements**

A Bank Procurement Specialist (PS) has carried out an assessment of the Procurement Capacity of the implementing entities.

For IDA Funds, the project will observe procurement procedures outlined in the Guidelines: "Procurement under IBRD and IDA Credits and Guidelines for the Use of consultants by World Bank Borrowers and by the World Bank as Executing Agency.” The Project Accountant, internal auditor and support staff must be conversant with the Bank’s procurement procedures, as internal control issues and the incurring of liabilities will be matters of concern to the financial management function.

**Financial Covenants**

1. The project shall maintain financial management systems including records and accounts and prepare financial statements in a format acceptable to the Bank. In addition the accounts and financial statement, will be audited each fiscal year and sent to the Bank not later than six months after period end. A quarterly financial monitoring reports will be prepared to include the financial reports, procurement reports and progress reports and forwarded to the Bank not late than 45 days after quarter end.
Annex 8: Procurement Arrangements

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

A. General

Procurement for the proposed project will be carried out in accordance with the World Bank’s "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan/Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Goods: Goods procured under this project would include: project vehicles, computers and accessories, software, communication and office equipment, Journals and Publications, Copyrights and Intellectual Properties, etc. The procurement will be done using the Bank’s SBD for all ICB and National Bidding Documents agreed with or satisfactory to the Bank. Procurement for readily available off-the-shelf goods that cannot be grouped or standard specification commodities for individual contracts of less than US$30,000 equivalent, may be procured under Shopping procedures as detailed in paragraph 3.5 and 3.6 of the "Guidelines: Procurement under IBRD Loans and IDA Credits" and June 9, 2000 Memorandum "Guidance on Shopping" issued by the Bank.

Selection of Consultants: Consultancy services which includes software development, studies, staff audit and verification, service-wide data collection, development of service standards for the public service, etc., from firms and individuals would be selected using Requests for Expressions for Interest, short lists and the Bank's SRFPs, where required by the Bank’ Guidelines. Short lists of consultants for services estimated to cost less than $200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. The recruitment of consulting services will include hiring of Research Institutes and Universities, and individuals from these entities, will also be contracted to carry out various studies, data collection, and monitoring and evaluation. The appropriate selection method for each consulting contract would be established in the Procurement Plan.

Operating Costs: The type of operating cost that shall be financed by the project are as agreed during negotiations and contained in the project Credit Agreement.

The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, will be presented in the Economic Reforms and Governance Project Implementation Manual (PIM) that is being developed.

B. Assessment of the agency’s capacity to implement procurement

A separate Project Implementation Task Team (PITT) will be established for each distinct component (or sub-component) in the relevant implementing agency to ensure smooth implementation. The PITTs will be responsible for the implementation of its respective
components/subcomponents on a day-to-day basis in line with the PIM and Bank guidelines. Each PITT will be fully staffed by the agency’s regular staff. The staff of each PITT will include an experienced Procurement Officer except for PCU where two experienced Procurement Officers will be required. At PCU, one Procurement officer will oversee procurement functions of two PEA. The PITTs where an experienced Procurement Officer does not exist will hire a Procurement Consultant for a period of not more than 1-2 years to assist with the implementation of their procurement activities. Part of the TOR of the Procurement Consultant will include training and development of the PITT designated Procurement Officer’s skills in Bank procurement procedures.

The Bank’s Procurement Analyst has conducted an assessment of the capacity of the Implementing Agency to implement procurement actions for the project. The assessment reviewed the organizational structure for implementing the project and the interaction between the project’s staff responsible for procurement and the Ministry’s relevant central unit for administration and finance. The assessment revealed that, some of the agencies (i.e., PITTs) do not have adequate experience in implementing World Bank financed projects. Therefore there is a gross lack of procurement capacity at the implementing agencies.

The key issues and risks concerning procurement for implementation of the project have been identified and include: (i) lack of appropriate structure (staffing) in place to manage the procurement function for implementation; (ii) lack of appropriate Regulation (bidding documents, Standard Evaluation formats, etc.); (iii) lack of Project Implementation Manual including Procurement and Financial Management Manuals; (iv) lack of experience in Bank procurement procedures, (v) absence of adequate record keeping; (vi) absence of procurement planning and noticeable split of contracts leading to high cost of contract in some cases; (vii) inadequate contract management systems and techniques; and (viii) frequent and undue political interference in procurement decisions.

Corrective measures agreed during appraisal are: (i) creation of appropriate implementation structure in each of the implementing agencies i.e., establishment of PITT in each of the implementing agencies; (ii) recruitment of relevant and experienced Procurement Officers by each PITT; (iii) engagement of experienced Procurement Consultant by the implementing agencies where procurement capacity is lacking; (iv) adoption of the Generic Procurement Manual for Bank assisted projects in Nigeria by all the implementing agencies; (v) training of relevant project staff especially Procurement officers on Bank procurement procedures before project effectiveness and on a continuous basis during project implementation (vi) establishment of electronic filling system for project records; (vii) conduct of contract management training for relevant project staffs; (viii) adoption of Bank’s Standard bidding documents for NCB in lieu of National Standard document; and (ix) re-assessment of procurement capacity of various executing agencies—one year after project effectiveness to ensure that appropriate capacity has been built.

The overall project risk for procurement is High.

C. Procurement Plan

The Borrower, at appraisal had developed a procurement plan for project implementation, which provides the basis for the procurement methods. This plan was agreed between the Borrower and the Bank at negotiations. The agreed plan will also be available in the project’s database and in the Bank’s external website. This plan is attached as attachment A to this annex. The plan includes relevant information (including selection/procurement methods) on goods and consulting services as well as the timing of each milestone in the procurement process for each implementing agency. The agreed Procurement Plan will be updated by the project in agreement with the Bank annually or
as required to reflect the actual project implementation needs and improvements in institutional capacity.

Publication of Results and Debriefing: Publication of contract awards would be required for all ICB, NCB, Direct Contracting and the Selection of Consultants for contracts exceeding a value of USD 200,000. In addition, where prequalification has taken place, the list of pre-qualified bidders will be published. With regard to ICB, and large-value consulting contracts, the Borrower would be required to assure publication of contract awards as soon as the Bank has issued its ‘no objection’ notice to the recommended award. With regard to Direct Contracting and NCB, publication of contract awards could be in aggregate form on a quarterly basis and local. All consultants competing for an assignment involving the submission of separate technical and financial proposals, irrespective of its estimated contract value, should be informed of the result of the technical evaluation (number of points that each firm received), before the opening of the financial proposals. The implementing agencies would be required to offer debriefings to unsuccessful bidders and consultants.

Fraud, Coercion and Corruption: All procuring entities as well as bidders, suppliers and contractors shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraphs 1.15 & 1.16 of the Procurement Guidelines and paragraphs 1.25 & 1.26 of the Consultants Guidelines.

D. Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended 2 supervision missions to visit the field to carry out post review of procurement actions.

E. Details of the Procurement Arrangements Involving International Competition

The project’s detailed activities for the first 18 months of implementation are detailed in the procurement plan that was agreed between IDA and the Federal Government during negotiations and will be incorporated in the PIM.

Table A: Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount of the Credit allocated (US$ million)</th>
<th>% Of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods</td>
<td>41.9</td>
<td>100 % of foreign expenditures and 80% of local expenditures</td>
</tr>
<tr>
<td>2. Works</td>
<td>0.0</td>
<td>100 % of foreign and 80% of local expenditures</td>
</tr>
<tr>
<td>3. Consultants’ services, including audits</td>
<td>36.4</td>
<td>90%</td>
</tr>
<tr>
<td>4. Training, workshops, and study tours</td>
<td>35.8</td>
<td>100%</td>
</tr>
<tr>
<td>5. Severance payments</td>
<td>15.0</td>
<td>100%</td>
</tr>
<tr>
<td>6. Incremental operating costs</td>
<td>1.9</td>
<td>80%</td>
</tr>
<tr>
<td>7. Repayment of PPF</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>8. Unallocated</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>140.0</td>
<td></td>
</tr>
</tbody>
</table>
1. Goods, Works, and Non Consulting Services

*Prior Review Threshold: Procurement decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement.*

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th>Prior Review Threshold (US$ equivalent)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ICB (Goods)</td>
<td>≥ 250,000</td>
<td>All</td>
</tr>
<tr>
<td>2. NCB (Goods)</td>
<td>&gt; 50,000 &amp; &lt; 250,000</td>
<td>None</td>
</tr>
<tr>
<td>3. Shopping</td>
<td>&lt; 50,000</td>
<td>None</td>
</tr>
<tr>
<td>4. Direct Contracting</td>
<td>Any Amount</td>
<td>All</td>
</tr>
</tbody>
</table>

2. Selection of Consultants

*Prior Review Threshold: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:*

<table>
<thead>
<tr>
<th>Selection Method</th>
<th>Prior Review Threshold (US$ equivalent)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 QCBS (Firms)</td>
<td>&gt; 200,000</td>
<td>ALL</td>
</tr>
<tr>
<td>2 Single Source (SS/Firms/ Individual</td>
<td>All</td>
<td>ALL</td>
</tr>
<tr>
<td>3 Individual Consultants (IC)</td>
<td>&gt; 50,000</td>
<td>ALL</td>
</tr>
<tr>
<td>4 Individual Consultants (IC)</td>
<td>&lt; 50,000</td>
<td>None</td>
</tr>
<tr>
<td>5 Consultant Qualification (CQ)</td>
<td>N/A</td>
<td>None</td>
</tr>
<tr>
<td>6 Annual Training Plan</td>
<td>ALL</td>
<td>ALL</td>
</tr>
</tbody>
</table>

*Short list consisting entirely of national consultants: Short list of consultants for services, estimated to cost less than $200,000 equivalent per contract, may consist entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.*
The project provides for funding of separation payments, to assist the pilot ministries shed the substantial numbers of redundant staff, hired when establishment and payroll controls were weak, and patronage appointments were rife. The bulk of overstaffing is in the Ministry of the Federal Capital Territory, but there is a need to shed surplus staff in the Federal Ministry of Finance and the Federal Ministry of Information. Furthermore, the transformation of the National Planning Commission into a smaller, more professional secretariat supporting the Chief Economic Adviser and focusing on strategic economic policy issues is likely to require the transfer or separation of a further number of staff.

This Appendix analyses the economic and financial implications of the separation arising from the project. The focus is on staff identified as surplus to needs, and separated from government employment. Some of the names on ministry and departmental payrolls are “ghosts”, effectively examples of payroll fraud. Once identified, they can be eliminated, and stronger establishment and payroll control systems should prevent their appearance again in the future. No economic analysis of this action is necessary, and in financial terms there is a straightforward wage bill saving. Until stronger payroll controls are in place, one cannot know for certain the number of “ghosts” in the civil service.

**Economic Analysis**

Economic analysis of separation programs is concerned with relating the upfront “investment” cost of separation with the productivity gains arising from shifting workers from a less productive occupation in the public sector to a more productive one outside it. The upfront costs are the separation payments together with the overheads of administering a separation program. In addition, there may be additional pension costs, if the staff separated have accumulated sufficient years of service to merit an early pension. The returns are the difference between the marginal product of staff in the public sector and the marginal product of such staff if they were to shift to the private sector. For the purpose of keeping the analysis simple, the cost of separation is assumed to be the average cost of separating a worker, expressed in terms of the budgetary costs of legally determined compensation.

Analysis of the manpower requirements of the pilot ministries after restructuring show that the vast majority of staff requiring separation are in junior grades, specifically Grade levels 1-6. Taking a GL04 officer with 20 years of service as typical of this group, such a person earns currently N75,287 per annum in base pay and a further amount in allowances, giving a total remuneration of N194,190 ($1,400). Not all of these allowances are counted in the pensions and gratuity base, but to retrench such a worker entails payment of a gratuity of 180% of the pensions base, amounting to N301,883 ($2,200). Adding a further 25% for overheads, including retraining or counseling, the total “investment” cost of separation, per worker at the lower end of the FGN salary scales, is around $2,700.

The national accounts convention is to value the output of a government worker as equivalent to the total remuneration paid. But this is clearly not applicable in circumstances of gross organizational overstaffing, where the true value of output is much less. In reality, under the project the FGN will be retrenching staff who produce little or no output. Typically, these are drivers who sit idle each day because there are no vehicles (a common situation in MFCT), or cleaning or security staff...
whose jobs have been contracted out, yet remain on the payroll (as revealed in the recent survey of headquarters staff in FMF). Some of these staff, when separated, will do nothing. The majority will apply their skills in either the formal or informal private sectors. As a base case, if it is assumed that separated staff engage in subsistence farming or similar low yielding informal sector activity, and earn an income three times Nigeria’s per capita income of $300, their marginal product will be $900 per annum. This suggests a payback period on the initial cost of separation of three years.

There is also the effect separations will have on the productivity of the staff who remain in government employment. With little baseline data, this is impossible to calculate. But it would be reasonable to assume that separation will pave the way to productivity improvements of staff remaining in the ministries and agencies undergoing “rightsizing”, for at least two reasons. First, once separation costs have been absorbed, the wage bill savings should free up resources to be applied to non-wage operating costs, thus improving the balance between personal emoluments and non-wage items on the current budget. Second, removal of obviously unproductive staff should send a signal to those who remain that the government is serious about performance, and that the purpose of employment as a public servant is not patronage but to deliver services to the public. However, separation alone will not yield these benefits, unless accompanied by management actions.

Financial Analysis

A financial analysis of separation compares the upfront cost of separation not with the gain in economic activity through shifting labor from the government to the private sector, but with the net impact on the public sector wage bill. Two cases are examined. The first is the separation of lower level staff, in the GL1-6 range with 20 years of service. The second is separation of middle level staff, say, at GL10 with 25 years of service. These groups will comprise by far the bulk of separations.

The up front cost of retrenching a lower level staff with 20 years of service is different to the economic analysis methodology. A typical staff at GL04, as noted, will be entitled to a gratuity and repatriation allowance total payment of N301,883, and will thereafter receive an annual pension of N89, 414. Likewise, a GL10 staff being separated after 25 years service will receive a separation payment of N1, 228,514, and begin receiving a pension of N347,589. Offsetting these amounts are the cost of continuing to pay the officer full salary and allowances until the mandatory retirement limit of 35 years service or age 60 has been reached, then paying a larger gratuity and thereafter full pension. These comprise continuing salary payments of N194,190 and N643,003 for GL04 and GL10 respectively, full term gratuities of N503,139 and N1.675,247, and full pensions thereafter of N119,232 and N397,245 respectively. Applying discounted cash flow analysis yields financial rates of return of 53% and 33% respectively, demonstrating that in terms of the government wage and Pensions Act, it is far preferable to retrench redundant workers, notwithstanding the initial costs, than keep them on the payroll unproductively, until retirement comes and larger gratuity and pension costs must be met.

Although the bulk of separated staff are likely to be lower level staff, some higher-level staff may need to be separated (for example if NPC is sharply downsized and only a fraction of staff can be transferred). Here, the costs are higher. For example, a 20 year officer at the mid-point of GL12 earns a base salary of N285,456 ($2114), plus allowances of N180,526 ($1337). The separation gratuity is 150% of base salary, N428,184 ($3171), plus three months’ notice, N116,495 ($863), giving a total separation cost to the wage bill of N544,679 ($4035). If the officer is over the age of 45, he/she will be due an immediate pension, in this case worth 40% of base pay or N114,182
Thus the wage bill saving from separation, net of pension, is N351,800 ($2606). The payback period is therefore just over a year and a half.

This analysis is concerned only with the economic and financial costs and benefits of separation payments based on the statutory entitlement of separated staff. A voluntary scheme will need to offer compensation in excess of the statutory minimum, and thus payback periods will be longer. Voluntary schemes, though not ruled out, are likely to play only a minor role in the downsizing strategy.
Annex 10: Safeguard Policy Issues

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

No safeguard (environmental) policy issues will be triggered by this project. The project will not fund any activities that would cause any adverse effect on the environment.

The envisaged political and social safeguard issues will be mitigated by adequate measures that will be put in place to cushion adverse effects on workers to be separated. The project includes activities to help separated staff acquire some basic skills that will help those who can join the private sector and provide training for setting up micro enterprises in a few key areas. The social impacts of the project will be monitored through tracer studies of staff who have been separated.
Annex 11: Project Preparation and Supervision

**FEDERAL REPUBLIC OF NIGERIA**  
**ECONOMIC REFORM AND GOVERNANCE PROJECT**

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
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</thead>
<tbody>
<tr>
<td>PCN Review</td>
<td></td>
<td>July 6, 2004</td>
</tr>
<tr>
<td>Initial PID to PIC</td>
<td></td>
<td>April 14, 2004</td>
</tr>
<tr>
<td>Initial ISDS to PIC</td>
<td></td>
<td>April 24, 2004</td>
</tr>
<tr>
<td>Appraisal</td>
<td>October 18-29, 2004</td>
<td>October 18-29, 2004</td>
</tr>
<tr>
<td>Negotiations</td>
<td>November 8-9, 2004</td>
<td>November 8-9, 2004</td>
</tr>
<tr>
<td>Board Approval</td>
<td>December 14, 2004</td>
<td></td>
</tr>
<tr>
<td>Effectiveness Date</td>
<td>February 28, 2005</td>
<td></td>
</tr>
<tr>
<td>Mid-term Review Date</td>
<td>January, 2008</td>
<td></td>
</tr>
<tr>
<td>Closing Date</td>
<td>28, February 2011</td>
<td></td>
</tr>
</tbody>
</table>

Key institutions responsible for preparation of the project:

- Bureau for Public Service Reform in the Office of the Head of Civil Service of the Federation
- Economic and Financial Crimes Commission
- Federal Inland Revenue Service
- Federal Ministry of Finance
- Federal Ministry of Information and National Orientation
- Federal Ministry of the Federal Capital Territory
- National Pensions Commission
- National Planning Commission
- Nigerian Accounting Standards Board
- Office of the Accountant General of the Federation
- Office of the Auditor General for the Federation

Bank staff and consultants who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victoria Kwakwa</td>
<td>Team Leader (Lead Economist)</td>
<td>AFTP3</td>
</tr>
<tr>
<td>Mike Stevens</td>
<td>Consultant</td>
<td></td>
</tr>
<tr>
<td>Ramesh Sivapathasundram</td>
<td>Lead Information Officer</td>
<td>ISGIA</td>
</tr>
<tr>
<td>Joseph O. Peters</td>
<td>Senior Human Resources Officer</td>
<td>HRS01</td>
</tr>
<tr>
<td>Gregory Taiwo Nzekwu</td>
<td>Senior Economist</td>
<td>AFTP3</td>
</tr>
<tr>
<td>John Y. Ngwafon</td>
<td>Senior Economist</td>
<td>AFTKL</td>
</tr>
<tr>
<td>Giorgio Valentini</td>
<td>Consultant</td>
<td>ISGIA</td>
</tr>
<tr>
<td>Chinedum Nwoko</td>
<td>Extended Term Consultant</td>
<td>AFTP3</td>
</tr>
<tr>
<td>Chukwudi H. Okafor</td>
<td>Senior Social Development Specialist</td>
<td>AFTS3</td>
</tr>
<tr>
<td>Edward Olowo-Okeere</td>
<td>Lead Financial Management Specialist</td>
<td>AFTFM</td>
</tr>
<tr>
<td>Adenike Sheriffat Mustafa</td>
<td>Financial Management Specialist</td>
<td>AFTFM</td>
</tr>
<tr>
<td>Bayo Awosemusi</td>
<td>Senior Procurement Specialist</td>
<td>AFTPC</td>
</tr>
<tr>
<td>Mary Asanato</td>
<td>Procurement Analyst</td>
<td>AFTPC</td>
</tr>
<tr>
<td>Roseleen K. Mba-Kalu</td>
<td>Operations Analyst</td>
<td>AFC12</td>
</tr>
<tr>
<td>Chau-Ching Shen</td>
<td>Senior Finance Officer/Disbursements</td>
<td>LOAG2</td>
</tr>
<tr>
<td>Hiep Quan Phan</td>
<td>Finance Analyst/Disbursements</td>
<td>LOAG2</td>
</tr>
<tr>
<td>Sameena Dost</td>
<td>Counsel</td>
<td>LEGAF</td>
</tr>
<tr>
<td>Junghun Cho</td>
<td>Young Professional</td>
<td>AFTPR</td>
</tr>
<tr>
<td>Aisha Kaga</td>
<td>Team Assistant</td>
<td>AFC12</td>
</tr>
<tr>
<td><strong>Nick Manning (Peer Reviewer)</strong></td>
<td>Lead Public Sector Management Specialist</td>
<td>SASPR</td>
</tr>
<tr>
<td><strong>Harry C. Garnett (Peer Reviewer)</strong></td>
<td>Consultant</td>
<td>AFTPR</td>
</tr>
<tr>
<td><strong>Ranjana Mukherjee (Peer Reviewer)</strong></td>
<td>Consultant</td>
<td>PRMPS</td>
</tr>
<tr>
<td><strong>Parminder P. S. Brar (Peer Reviewer)</strong></td>
<td>Lead Financial Management Specialist</td>
<td>OPCFM</td>
</tr>
<tr>
<td><strong>Trichur K. Balakrishnan (Peer Reviewer)</strong></td>
<td>Senior Financial Management Specialist</td>
<td>OPCFM</td>
</tr>
<tr>
<td><strong>Irene S. Xenakis (Quality Reviewer)</strong></td>
<td>Operations Adviser/Quality Enhancement</td>
<td>AFTOS</td>
</tr>
</tbody>
</table>

Bank funds expended to-date on project preparation: 08/02/04

1. Bank resources: $284,488.76

Estimated Approval and Supervision costs:

1. Estimated annual supervision cost: $150,000
Supervision Plan

This project features diverse components/subcomponents and is obviously complex. Given this complexity, a decentralized approach in which different Bank units have taken the lead for preparation of different parts of the project under the overall supervision of the managing unit, AFTP3 has been used. A similar arrangement will be used during supervision. A task management team consisting of lead persons on each component will be responsible for supervision with Task Team Leader ultimately responsible for the project. Lead persons on each component will have adequate flexibility and authority to supervise their respective component. This will ensure that the executing agencies get timely support from staff with relevant technical expertise.

In addition, given the close collaboration with DFID on this project, a DFID-Nigeria economic adviser and a governance advisor will be involved in all aspects of the supervision and policy dialogue and will be part of the Task Management Team. Much of the Project Team is based in the Bank’s field office in Abuja and this should make it easier to have intensive supervision and resolve any emerging areas of difficulty. Nevertheless considerable resources will be needed to ensure effective supervision. Three formal supervision missions will be held each year. It is anticipated that about $150,000 will be needed annually for this.

The supervision responsibilities have been allocated as follows:

<table>
<thead>
<tr>
<th>Supervision Responsibilities</th>
<th>Responsible Sector Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall task management and coordination, Supervision of PCU Activities</td>
<td>AFTP3</td>
</tr>
<tr>
<td>Supervision of the Financial Management &amp; Accountability Reforms subcomponent</td>
<td>AFTFM/DFID</td>
</tr>
<tr>
<td>Supervision of the Procurement Reforms subcomponent</td>
<td>AFTPC</td>
</tr>
<tr>
<td>Supervision of the Civil Service Reform component</td>
<td>AFTP3/DFID</td>
</tr>
<tr>
<td>Supervision of the Pensions Reforms Component</td>
<td>AFTP3/DFID</td>
</tr>
<tr>
<td>Supervision of the National Statistics component</td>
<td>AFTP3/DFID</td>
</tr>
</tbody>
</table>
Annex 12: Documents in the Project File

FEDERAL REPUBLIC OF NIGERIA
ECONOMIC REFORM AND GOVERNANCE PROJECT

A. Project Implementation Manual

B. Bank Staff Assessments (including ESWs):

C. Others:
## Annex 13: Statement of Loans and Credits

**FEDERAL GOVERNMENT OF NIGERIA**

**ECONOMIC REFORM AND GOVERNANCE PROJECT**

(Data as of October 31, 2004)

### Active Projects

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Fiscal Year</th>
<th>Project Name</th>
<th>Development Objectives</th>
<th>Implementation Progress</th>
<th>IBRD</th>
<th>IDA</th>
<th>Grant</th>
<th>Cancel</th>
<th>Undisb.</th>
<th>Orig.</th>
<th>Frm Rev'd</th>
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</thead>
<tbody>
<tr>
<td>P070290</td>
<td>2002</td>
<td>2nd Health Systems Dev.</td>
<td>U</td>
<td>S</td>
<td>0.00</td>
<td>127.0</td>
<td>0</td>
<td>0</td>
<td>135.3</td>
<td>53.3</td>
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<tr>
<td>P066571</td>
<td>2000</td>
<td>2nd Primary Education</td>
<td>S</td>
<td>S</td>
<td>0.00</td>
<td>55.0</td>
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<td>P069901</td>
<td>2002</td>
<td>Community Based Urban Dev.</td>
<td>S</td>
<td>U</td>
<td>0.00</td>
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<td>124.0</td>
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<td>P069086</td>
<td>2001</td>
<td>Economic Mgmt. Cap. Bldg.</td>
<td>S</td>
<td>S</td>
<td>0.00</td>
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<tr>
<td>P065301</td>
<td>2000</td>
<td>HIV/AIDS Program Dev.</td>
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<td>P070291</td>
<td>2002</td>
<td>Lagos Urban Transport Project</td>
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<td>2004</td>
<td>Transmission Development Project</td>
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<td>0.00</td>
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<td>0</td>
<td>0</td>
<td>96.1</td>
<td>65.8</td>
<td>39.6</td>
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<tr>
<td>P083082</td>
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<td>CB Poverty Reduction SIL</td>
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<td>S</td>
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<td>60.0</td>
<td>0</td>
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**IBRD/IDA**

- Total Disbursed (Active): 211.77
- of which has been repaid: 0.00
- Total Disbursed (Closed): 6,032.82
- of which has been repaid: 5,252.06
- Total Disbursed (Active + Closed): 6,244.59
- of which has been repaid: 5,252.06
- Total Undisbursed (Active): 1,151.15
- Total Undisbursed (Closed): 0.00
- Total Undisbursed (Active + Closed): 1,151.15

* Disbursement data are updated at the end of the first week of the month

a/ Intended disbursements to-date minus actual disbursements to-date as projected at appraisal
### NIGERIA
#### STATEMENT OF IFC’s
#### Held and Disbursed Portfolio
#### As of 6/30/2004
#### In millions of US Dollars

<table>
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<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Held Loan</th>
<th>Held Equity</th>
<th>Held Quasi</th>
<th>Held Partic</th>
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**Total Portfolio:**

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<th>Held Quasi</th>
<th>Held Partic</th>
<th>Disbursed Loan</th>
<th>Disbursed Equity</th>
<th>Disbursed Quasi</th>
<th>Disbursed Partic</th>
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<tr>
<td>143.48</td>
<td>9.57</td>
<td>21.37</td>
<td>15</td>
<td>64.24</td>
<td>7.47</td>
<td>6.87</td>
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Annex 14: Country at a Glance

NIGERIA: FEDERAL GOVERNMENT ECONOMIC REFORM AND GOVERNANCE PROJECT

Nigeria at a glance 9/20/04

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<th>Nigeria</th>
<th>Sub-Saharan Africa</th>
<th>Low-income</th>
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<td>2003</td>
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<td>Population, midyear (millions)</td>
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<td>703</td>
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<td>GNI per capita (Atlas method, US$)</td>
<td>320</td>
<td>490</td>
<td>450</td>
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<tr>
<td>GNI (Atlas method, US$ billions)</td>
<td>43.7</td>
<td>347</td>
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<tr>
<td>Average annual growth, 1997-03</td>
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<tr>
<td>Population (%)</td>
<td>2.4</td>
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<td>Labor force (%)</td>
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<td>2.4</td>
<td>2.3</td>
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<td>Most recent estimate (latest year available, 1997-03)</td>
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<tr>
<td>Poverty (% of population below national poverty line)</td>
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<tr>
<td>Urban population (% of total population)</td>
<td>47</td>
<td>36</td>
<td>30</td>
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<tr>
<td>Life expectancy at birth (years)</td>
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<td>46</td>
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<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>87</td>
<td>103</td>
<td>82</td>
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<tr>
<td>Child malnutrition (% of children under 5)</td>
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<td>44</td>
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<tr>
<td>Access to an improved water source (% of population)</td>
<td>57</td>
<td>58</td>
<td>76</td>
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<td>Literacy (% of population age 15+)</td>
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<td>Gross primary enrollment (% of school-age population)</td>
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<td>92</td>
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<tr>
<td>Male</td>
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<td>94</td>
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<td>Female</td>
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KEY ECONOMIC RATIOS and LONG-TERM TRENDS

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<td>Exports of goods and services/GDP</td>
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<td>47.1</td>
<td>40.8</td>
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<td>Gross domestic savings/GDP</td>
<td>10.8</td>
<td>20.2</td>
<td>25.8</td>
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<tr>
<td>Gross national savings/GDP</td>
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<td>15.1</td>
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<td>Interest payments/GDP</td>
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<td>Total debt/GDP</td>
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<td>143.8</td>
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<td>Total debt service/exports</td>
<td>23.6</td>
<td>14.8</td>
<td>15.4</td>
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<tr>
<td>Present value of debt/GDP</td>
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<td>(average annual growth)</td>
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<td>GDP</td>
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<td>GDP per capita</td>
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STRUCTURE of the ECONOMY

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<td>Services</td>
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<td>Private consumption</td>
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<td>Imports of goods and services</td>
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Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
Nigeria

PRICES and GOVERNMENT FINANCE

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<td>(% of GDP, includes current grants)</td>
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<td>4.3</td>
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<td>17,672</td>
<td>27,416</td>
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<tr>
<td>Fuel</td>
<td>9,954</td>
<td>9,697</td>
<td>15,878</td>
<td>24,683</td>
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<td>Liquified natural gas</td>
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<td>1,056</td>
<td>1,925</td>
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<td>Manufactures</td>
<td>40</td>
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<tr>
<td>Total imports (cif)</td>
<td>12,668</td>
<td>9,190</td>
<td>14,770</td>
<td>18,692</td>
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<tr>
<td>Food</td>
<td>1,908</td>
<td>771</td>
<td>1,919</td>
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<td>Fuel and energy</td>
<td>188</td>
<td>46</td>
<td>4,473</td>
<td>5,846</td>
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<tr>
<td>Capital goods</td>
<td>...</td>
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<tr>
<td>Export price index</td>
<td>166</td>
<td>89</td>
<td>139</td>
<td>161</td>
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<td>Import price index</td>
<td>62</td>
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<td>89</td>
<td>100</td>
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<td>Terms of trade (1990=100)</td>
<td>255</td>
<td>100</td>
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BALANCE of PAYMENTS

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<tbody>
<tr>
<td>(US$ millions)</td>
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<tr>
<td>Exports of goods and services</td>
<td>10,738</td>
<td>10,082</td>
<td>18,692</td>
<td>26,462</td>
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<td>Imports of goods and services</td>
<td>13,827</td>
<td>10,720</td>
<td>18,798</td>
<td>23,233</td>
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<td>Resource balance</td>
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<td>-658</td>
<td>-105</td>
<td>5,229</td>
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<td>Net income</td>
<td>-1,527</td>
<td>-2,346</td>
<td>-6,401</td>
<td>-8,444</td>
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<td>Net current transfers</td>
<td>847</td>
<td>1,399</td>
<td>1,857</td>
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<td>Current account balance</td>
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<td>-2,156</td>
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<td>Financing items (net)</td>
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<td>1,439</td>
<td>2,368</td>
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<td>Changes in net reserves</td>
<td>1,045</td>
<td>725</td>
<td>2,742</td>
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<td>Reserves including gold (US$ millions)</td>
<td>1,015</td>
<td>1,410</td>
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<td>Conversion rate (DEC, local/US$)</td>
<td>1.6</td>
<td>45.3</td>
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EXTERNAL DEBT and RESOURCE FLOWS

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<tbody>
<tr>
<td>(US$ millions)</td>
<td></td>
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<tr>
<td>Total debt outstanding and disbursed</td>
<td>17,561</td>
<td>30,698</td>
<td>30,476</td>
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<td>824</td>
<td>3,188</td>
<td>1,275</td>
<td>1,201</td>
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<td>IDA</td>
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<td>116</td>
<td>676</td>
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<td>599</td>
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<td>IDA</td>
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<td>Composition of net resource flows</td>
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<td>Official grants</td>
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<td>Official creditors</td>
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<td>Portfolio equity</td>
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<td>World Bank program</td>
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<td>Commitments</td>
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<td>151</td>
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<tr>
<td>Disbursements</td>
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<td>20</td>
<td>63</td>
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<td>Principal repayments</td>
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<td>189</td>
<td>220</td>
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<td>-157</td>
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<td>Interest payments</td>
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<td>251</td>
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<td>Net transfers</td>
<td>91</td>
<td>-269</td>
<td>-244</td>
<td>-224</td>
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</table>

Inflation (%)

Export and import levels (US$ mill.)

Current account balance to GDP (%)

Composition of 2002 debt (US$ mill.)

AFTFP4