Report Number : ICRR0021310

## 1. Project Data

**Country**
Nigeria

**Practice Area(Lead)**
Macroeconomics, Trade and Investment

**Programmatic DPL**

**Planned Operations:** 2

**Approved Operations:** 2

**Operation ID**
P123352

**Operation Name**
NG-Lagos State DPO II

**L/C/TF Number(s)**
IDA-54000

**Closing Date (Original)**
31-May-2015

**Total Financing (USD)**
197,996,752.00

**Bank Approval Date**
27-Mar-2014

**Closing Date (Actual)**
31-May-2015

| | IBRD/IDA (USD) | Co-financing (USD) |
|---|---|---|
| Original Commitment | 200,000,000.00 | 0.00 |
| Revised Commitment | 200,000,000.00 | 0.00 |
| Actual | 197,996,752.00 | 0.00 |

| Prepared by | Reviewed by | ICR Review Coordinator | Group |
|---|---|---|---|
| Antonio M. Ollero | Clay Wescott | Malathi S. Jayawickrama | IEGEC (Unit 1) |

**Operation ID**
P151947

**Operation Name**
Lagos State DPO 3 ( P151947 )

| L/C/TF Number(s) | Closing Date (Original) | Total Financing (USD) |
|---|---|---|
| IDA-54000,IDA-56700 | 30-Jun-2016 | 198,623,763.00 |
| **Bank Approval Date** | **Closing Date (Actual)** | |
| 26-Jun-2015 | 31-Dec-2016 | |

| | IBRD/IDA (USD) | Co-financing (USD) |
|---|---|---|
| Original Commitment | 200,000,000.00 | 0.00 |
| Revised Commitment | 200,000,000.00 | 0.00 |
| Actual | 198,623,763.00 | 0.00 |

## 2. Program Objectives and Policy Areas

### a. Objectives

The program development objective (PDO) in the third Lagos State Development Policy Operation (TLSDPO) Program Document (second in the DPO II series) (page v) is the PDO for the full programmatic series, to support "the Lagos State Government in its endeavor to improve public finances and the investment climate, which is expected to contribute to sustained rapid economic growth and poverty reduction in a fiscally sustainable manner." There is an equivalent PDO statement in the Second Lagos State Development Policy Operation (SLSDPO) Program Document (page vi) with slightly different wording, to support "the Lagos State Government in its endeavor to improve public finances and sustain rapid growth and poverty reduction in a fiscally sustainable manner". The PDO was reworded to reflect that the program was expected to have indirect, rather than direct, effects on economic growth and poverty reduction via improvements in public financial management (PFM) and the investment climate. There was no PDO statement in either of the financing agreements.

### b. Pillars/Policy Areas

Both operations in the series had the same four policy areas, the first three of which advanced the objective to improve public finances, and the fourth, the objective to improve the investment climate.
Fiscal Sustainability aimed to strengthen medium-term fiscal sustainability by: (a) adopting a medium-term fiscal framework (MTFF) for fiscal balances and debt; (b) strengthening the monitoring of contingent liabilities (due to sub-national parastatals); and (c) increasing internally-generated revenue from land transactions.

Budgeting Planning and Preparation aimed to strengthen budget planning and preparation by: (a) adopting a rolling three-year medium-term expenditure framework (MTEF); (b) piloting performance-based budget systems in select agencies; and, (c) maintaining minimum expenditures for health and education.

Budget Execution aimed to enhance budget execution with reforms to: (a) procurement - use standard bidding documents, streamline procurement implementation and review, and conduct post-procurement audit in small contracts; (b) auditing - expand audit coverage and resources; and (c) public financial management (PFM) - improve cash management and payroll reporting.

Investment Climate aimed to: (a) simplify procedures and reduce costs for property registration and development permits; (b) use geographic information systems, electronic certificates of occupancy, and electronic planning permits.

### c. Comments on Program Cost, Financing, and Dates

The Programmatic Series of the Second and Third Lagos State Development Policy Operations consisted of the Second Lagos State Development Policy Program (SLSDPO) and the Third Lagos State Development Policy Program (TLSDPO). The first Lagos State Development Policy Program (FLSDPO) was completed as a stand-alone operation in 2012, after the National Assembly failed to approve the federal borrowing plan for 2011-12 on time (which would have authorized federal borrowing for the SLSDPO and on-lending to the sub-national Lagos State). As a result, the Bank requirement that the Government complete the preparation of the SLSDPO within a 24-month period after the approval of FLSDPO was not met. The Bank subsequently approved the SLSDPO and TLSDPO as a single programmatic series. While the series has the same structure as originally envisaged for the three-part LSDPO series, some triggers initially envisioned for the SLSDPO were dropped as prior actions, since the actions had already been taken during 2011-2012 (SLSDPO PAD, p. 22).

Program Cost: The cost at appraisal of SLSDPO was estimated at SDR 130.4 million (US$200 million equivalent), and TLSDPO, SDR 142.3 million (US$200 million).

Financing: SLSDPO was financed with an IDA credit of SDR 130.4 million (US$198 million equivalent). TLSDPO was financed with an IDA credit of SDR 142.3 million (US$198.6 million equivalent). Both were fully disbursed in single tranches.

Dates: SLSDPO was approved March 27, 2014, became effective August 1, 2014, and closed as scheduled on May 31, 2015. TLSDPO was approved on June 26, 2015, became effective five months later than scheduled on December 31, 2015, (after a new Cabinet was formed in November 2015 following the general election of March 2015), and closed six months later than scheduled on December 31, 2016.

## 3. Relevance of Objectives & Design

## a. Relevance of Objectives

The broad formulation of the PDO means that this review needs to infer the objectives from the description of the program's intent in the four policy areas, and from the associated outcome targets. On this basis, the program objectives were relevant to the country conditions in Nigeria and the state of Lagos at the time of program appraisal in 2014 and at the time of program closing in 2016.

- For Nigeria, which in 2014, relied on oil for a tenth of GDP, nine-tenths of goods exports, and two-thirds of fiscal revenues, a prolonged period of low global oil prices implied lower economic growth (the IMF estimated a 1.5-percentage-point reduction in GDP growth to 4.75 percent in 2015).
- For Nigeria's 36 states, of which Lagos State was the second most populous, lower federal fiscal revenues meant lower federal transfers --- states and local governments receive roughly half of general government revenues and account for roughly half of general government expenditures under revenue-sharing arrangements and the division of administrative responsibilities set in the 1999 Constitution.
- The program objective to improve public finances --- through fiscal balance and debt sustainability measures, reforms to budget planning and preparation, and reforms to budget execution, including procurement, audit and financial management --- would help Lagos State respond to the revenue shock. Similarly, the program objective to improve the investment climate --- through reforms to land registration and development permit issuance --- would help address both problems in "doing business" in Nigeria and non-oil revenue mobilization challenges in Lagos State.
- The continued weakness of global oil prices in 2016 would reinforce the necessity of the fiscal and investment climate reform agenda in Lagos State at program closing. Although oil prices would recover in 2017-18, the medium- to long-term forecast at that time was that oil prices would not return to their peaks in the decade 2003-2012, due to fundamental changes in the global oil market (with shale oil raising the volume of recoverable oil reserves and turning the scarcity of supply into a glut). At the same time, the demand for competitive procurement, efficient public spending, and transparent financial reporting would remain important to the public finances, suggesting the ongoing relevance of the program objectives at closing and beyond.

The program objectives were aligned with the Bank Group's country strategy for Nigeria at the time of program appraisal in 2014 and at the time of program closing in 2016.

- Bank Group's "Country Partnership Strategy for the Federal Republic of Nigeria for the Period FY2014-FY2017" (CPS) supported the government's development objectives around three "strategic clusters": (a) promoting diversified growth and job creation by reforming the power sector, enhancing agricultural productivity, and increasing access to finance; (b) improving the quality and efficiency of social service delivery at the state level to promote social inclusion; and (c) strengthening governance and public sector management, with gender equity and conflict sensitivity as essential elements of governance. The series objective "to improve public finances" was aligned with the second and third strategic clusters of the CPS, while the program objective "to improve the investment climate" was aligned with the first and third strategic clusters.

- At the federal level, the CPS advocated for Bank Group lending to “advance the PFM reform agenda” (CPS, page 38). At the state level, Bank Group support was to be anchored in investment operations and state-level development policy operations “as a strong vehicle for deep engagement at the state level, particularly for improving [sub-national] PFM” (CPS, page 38).

**Rating**
Substantial

## b. Relevance of Design

The results chain was logical.

- Prior actions supporting higher non-oil state revenues, sustainable levels of the state fiscal deficit, lower debt service ratios, and more transparent monitoring and reporting of fiscal risks including those arising from sub-national parastatals would help ensure fiscal and debt sustainability in Lagos State in the medium-term. The adoption of improved measures for policy based strategy and budgeting, including a medium-term expenditure framework (MTEF), the use of performance-based budgeting, and the maintenance of targets for education and health spending would help to ensure that the fiscal strategy and the budget are prepared with due regard to fiscal policies. Similarly, reforms to procurement, audit, and financial management, including cash management and accounting, would, by strengthening budget execution, help to ensure that resources were used as intended.
- Improvements with the registration of property and the issuance of development permits would help enhance the investment climate for private activity. At the same time, they would also enable the state to levy and collect land use charges and land registration fees, helping with state revenue mobilization. One concern is access to land is only the seventh most important obstacle in Nigeria's business environment, according to *Business Surveys, Nigeria Country Profile 2014*. The reason why the series focused on property registration rather than other obstacles considered much more important such as electricity is that the former is under the state government’s direct control.

The prior actions to SLSDPO and TLSDPO would enable a strong reformer state government to provide reliable funds and quality spending for infrastructure investment and public service provision, and supported structural reforms to enhance the state's investment climate.

- Achieving fiscal and debt sustainability remained a major challenge to Lagos in the face of falling federal oil revenues, more volatile transfers from the federal government to the states, and heightened pressure on the states to deliver local infrastructure and social services (SLSDPO Program Document, pages 8-18). The state had adopted an MTEF, a medium-term fiscal strategy, and medium-term sector strategies (MTSS) to help ensure fiscal and debt sustainability. The SLSDPO and the TLSDPO addressed impediments to the continued implementation of these frameworks: the inability of the Supervision Board of the Lagos Internal Revenue Service to properly oversee internal revenue generation (hence, the amendment to the Lagos State Revenue Administration Law as a prior action to SLSDPO) and the poor monitoring of contingent liabilities associated with parastatals (hence, the preparation of consolidated government balance sheets as a prior action to TLSDPO).

- To address the weaknesses in budget planning identified by the Public Expenditure and Financial Accountability (PEFA) assessment in 2012, the SLSDPO required the adoption of a three-year MTEF as a prior action, and the TLSDPO, the adoption of 25 MTSSs.
- To address weaknesses in budget execution, especially with procurement, audit, and financial management, the SLSDPO and TLSDP required as prior actions: the use of standard bidding documents in contracts exceeding N100 million in pilot entities (to help ensure competitive procurement); the establishment of the Public Procurement Agency (PPA) Board; the staffing of key positions in the PPA; the appointment of the Audit Service Commission; and, the implementation of the "procure to pay" module in at least eight ministries, departments and agencies. These actions would support the implementation of the Procurement Law and oversight of the State Audit Institution.
- The Bank's "Doing Business 2016 – Going Beyond Efficiency" publication listed five areas where Nigeria lagged the most behind other countries: getting electricity (where the country ranked 187 among 189 countries); registering property (185); paying taxes (179); dealing with construction permits (171); and, trading across borders (159). The SLSDPO and TLSDPO focused on reforms with the property registration and the development permit issuance systems, as these were more amenable to purely state, rather than federal or joint federal and state, action (TLSDPO Program Document, page 34). The prior actions for SLSDPO included making the GIS database and GIS orthophotos accessible to the government and to the public, and for TLSDPO, adopting a new method to assess land values, reducing the cost of land transactions by at least half, and introducing an Internet-based electronic system for processing planning permits. As mentioned above, businesses in Nigeria agreed that getting electricity was a major obstacle (second from the top), but this was not addressed by the series because it was not under the control of the Lagos state government.

The development policy loan was a suitable instrument for the programmatic series.

- On-lending by the Federal Republic of Nigeria to Lagos would help meet the financing needs of the state government. The Bank projected fiscal deficits for Lagos of 0.8 percent of state GDP (base case) over 2014-15 (SLSDPO Project Document, page 17) and 0.2 percent of state GDP (base case) over 2015-16 (TLSDPO Project Document, page 15).
- Fulfillment by the state government of the prior actions to SLSDPO and TLSDPO would advance the reform plan, and the attainment of the program targets would meet the program objectives.

The federal government maintained an adequate macroeconomic policy framework for the series.

- At the time of SLSDPO appraisal in February 2014, the IMF Staff Report for the Nigeria 2014 Article IV Consultation, which covered developments through end-2013, reported that growth was strong; inflation, within the target of monetary policy; and public and external debt, comparatively low. The trade surplus, however, had been declining and gross international reserves had been falling, on weakening global oil prices. The IMF expected growth to moderate as the economy adjusted to permanently lower oil prices over the projection period 2014-18, which would cover the implementation of the SLSDPO. Fiscal oil revenues were projected to be lower, straining fiscal spending by the national government and requiring an adjustment by state and local governments. In this context, mobilizing non-oil fiscal revenue was a key fiscal priority and ensuring the efficiency of public spending was critical to fiscal sustainability and economic growth. The objectives of the SLSDPO were supportive of these macroeconomic policies.

- At the time of TLSDPO appraisal in June 2015, the IMF Staff Report for the Nigeria 2016 Article IV Consultation, which covered developments through end-2015, noted that Nigeria had adopted bold policy actions earlier in November 2014 after international oil prices collapsed in July 2014, including by enacting spending cuts to the proposed 2015 budget. The IMF projected growth to slow further in 2016 and remain below the historical average over the forecast period 2016-21, during the implementation of TSLDPO, before recovering moderately in the medium term. The IMF cited the uncertainty of oil prices, a disruption in private sector activity due to exchange rate restrictions, and a further deterioration in the fiscal position of state and local government as downside risks to the outlook and advised that additional policies would be needed, including among others, further fiscal adjustment, particularly by state and local governments. The objectives of the TSLDPO were aligned with the IMF policy recommendations.

**Rating**
Substantial

## 4. Achievement of Objectives (Efficacy)

### Objective 1

**Objective**
To improve public finances, which is expected to contribute to sustained rapid economic growth and poverty reduction in a fiscally sustainable manner.

**Rationale**
The degree of achievement of the objective is assessed as modest. Only six of the twelve outcome targets related to the objective were effectively met. A seventh outcome target was partially met but could not be sustained following program closing.
<u>Fiscal and Debt Sustainability</u>: One of the three results targets for strengthening the foundations for achieving medium-term fiscal and debt sustainability was met and sustained; one was met but not sustained; and one was not met at all. There is also no evidence that the targets achieved contributed to sustained rapid economic growth and poverty reduction.

- The target to keep the fiscal deficit under 3 percent of state GDP and debt service under 30 percent of state revenue was met but not sustained. The state government posted a fiscal deficit of 0.4 percent of state GDP in 2016, at the closing of TLSDPO, essentially by reducing budgetary transfers to state-level parastatals, cutting salaries and overhead, and restructuring debt to reduce debt service. The fiscal deficit was maintained at 0.6 percent of GDP in 2017, one year after the program closing date, according to the Lagos Commissioner of Finance. The state government achieved a debt service ratio of 23.2 percent of state revenue in 2016, at the closing of TLSDPO. However, the achievement was not sustained as debt service rose to 36.5 percent of state revenue in 2017, one year after the program closing date, according to the Lagos Commissioner of Finance (See Section 9a for discussion of quality of these indicators).

- The target to raise revenue from land use charges from Nigeria Nara (N) from 7.1 billion in 2013 to N8.0 billion in 2015 was not achieved. Revenue from land use charges rose to N7.2 billion in 2016, but declined to N5 billion in 2017, stalled by administrative difficulties. According to the task team, the consultant helping the state government with property identification and land use billings terminated the engagement, and a replacement team had yet to gain traction with the assignment. To help compensate for the under-achievement and advance the reform plan past the program closing date, the government: (a) contracted with three firms to collect land use charges; and, (b) passed a new Land Use Charge Law in 2018 to expand the tax base, adopt market valuations of property, and simplify the rate structure. The ICR doesn’t indicate the extent to which collections increased as a result.
- The state government achieved the target to enhance transparency in reporting fiscal risks in the budget document by including parastatals in government financial reports. Taking over the functions of the defunct Parastatal Monitoring Unit, the Lagos State Accountant General monitored fiscal risks in parastatals, reported the consolidated balance sheet of 15 parastatals, and published the consolidated parastatal statement together with the state government's annual financial statement. Meanwhile, the state government published its first financial statement compiled on an accrual basis in 2016 and committed to fully implement the International Public-Sector Accounting Standards (IPSAS) by 2018. The ICR does not state if this goal was achieved.

<u>Budget Planning and Preparation</u>: The sole target for strengthening budget planning and preparation was achieved.

- The target for the state to maintain the share of education expenditures at no lower than 13 percent of total budget expenditures (the baseline number), and health expenditures, at no lower than 9 percent, was achieved. The state government raised education expenditures to 17.1 percent of total expenditures in 2015, and health expenditures, to 9.8 percent.
- Overall, the state government improved budget planning and preparation, as evidenced by: (a) the adoption of the MTEF in fulfillment of the Public Finance Law of 2011; (b) preparation of the 2016 Budget based on the MTSSs, following the MTEF rolling plan for 2016-18; (c) the pilot for performance-based budgeting systems in 10 ministries, departments and agencies, which, in addition, enabled the Ministry of Economic Planning and Budget to monitor key performance indicators; and, (d) the construction, equipping, and rehabilitation of schools and the procurement of equipment for hospitals, which helped drive the increased expenditures for education and health.

Budget Execution - Procurement: The four targets for procurement reform were not achieved, despite several rounds of capacity building during program preparation.

- The new Nigerian federal government elected in the general election of March 2015 dissolved the Board of the PPA in July 2015 and did not reconstitute the Board until July 2017, half a year after the closing of the TLSDPO in December 2016. According to the ICR (page 20), many reform measures were not achieved, or could not be documented to have been achieved, with the change in PPA management and the absence of a PPA Board.
- The target to use standard bidding documents for all contracts greater than N100 million was not achieved. Rather, the number of contracts awarded through a competitive process using standard bidding documents declined.
- The target to reduce the time of procurement implementation, from bidding to contract award, by 20 percent, from the baseline 173 days in 2013 to 138 days by 2015, could not be measured (no data was available, as the survey to measure the time to implement a procurement was not conducted). The target is, therefore, deemed to have not been achieved.
- The target to reduce the time taken by the PPA to review and issue a certification of "no objection" to a contract subject to its review by 20 percent, from 30 days in 2013 to 24 days by 2015, could not be measured (no data was available, as the survey to measure the time to review and issue a certification was not conducted). The target is, therefore, deemed to have not been achieved.
- The target to raise the percentage of small contracts subject to a post-procurement audit from zero in 2013 to 5 percent in 2015 was not achieved. No small contract was subject to a post-procurement audit, according to the PPA.

Budget Execution - Audit: The two targets for audit reform were met. Apart from widening the audit coverage of the Auditor General's Office, the state government also created the Audit Service Commission in 2014 to help instill the principles of probity, merit and transparency among the auditors employed in the Lagos State civil service.

- The first target to improve the coverage of the Lagos State Auditor General's Office by raising the number of organizations audited from 99 in 2013 to 110 in 2015 was achieved. A total 138 organizations were audited in 2015, 146 in 2016, and 155 in 2017.
- The second target to improve the coverage of the Lagos State Auditor General's Office by raising the percentage of budgetary resources controlled (through the audit) from 67 percent in 2013 to 69 percent in 2015 was achieved. A total 91.7 percent of budgetary resources was audited, far exceeding the target.

Budget Execution - Financial Management: The two targets for financial management reform were met.

- The target to improve cash management during budget implementation in eight ministries, departments and agencies through the monitoring of expenditure commitments and obligations was achieved. The eight entities, accounting for 85 percent of capital spending in the state, utilized the budget execution reporting system, allowing them to review their capital expenditure commitments and spending in real time and to produce their budget execution reports beginning in March 2015. In addition, six more entities adopted procure-to-pay systems in 2016, taking the number adopting these systems to 21, although the ICR (page 21) reports some weaknesses in system implementation by some entities, which need to be addressed moving forward.

- The target to attain real-time reporting of payroll expenditures in the state's monthly financial statements was achieved. The payroll reporting system was electronically integrated with the general ledger, allowing direct posting of payroll expenditures and timely reporting of the state fiscal accounts. Previously, the state government corrected its payroll accounts for errors. Meanwhile, it has yet to implement the new Chart of Accounts, currently under review for alignment with the IMF Government Finance Statistics Manual of 2014. Once completed, the new budget and account classification system will allow the state to fully implement the financial statement preparation and reporting standards recommended by the IPSAS Board for use by public-sector entities globally.

Overall, the objective is rated as modest because only six of the twelve results targets were effectively met. A seventh results target was met but not sustained.

### Rating
Modest

## Objective 2
### Objective
To improve the investment climate, which is expected to contribute to sustained rapid economic growth and poverty reduction in a fiscally sustainable manner.

### Rationale
The degree of achievement of the objective is assessed as high because all four program targets related to the objective were met.

- The target to create geographic information system (GIS) maps with orthophotos was achieved. The state's GIS mapping database was integrated with orthophotos (aerial photographs or images which are geometrically corrected to make the scale uniform edge-to-edge) and access to the database was granted to all ministries, departments and agencies in the state. Moreover, the state government enhanced the system after program closing by upgrading the electronic GIS project in 2018 to create the integrated land automation system that would manage land registration, cadaster property assessment, valuation and revenue collection seamlessly.
- The target to issue 3,600 electronic certificates of occupancy (e-CofOs) was achieved. The state government issued 5,625 e-CofOs in 2015, exceeding the target. The e-CofOs were developed to

increase the security of property rights, improve the accuracy of property registration information, and reduce certificate approval time. With the use of e-CofOs, the state government cleared the backlog of certificate issuance for private lands and government grants by September 2015.

- The target to reduce the cost of registering a property from 20.8 percent of a property's value in 2013 to 14 percent by 2015 was exceeded. The cost of registration was reduced to 10.1 percent of a property's value in 2015, according to the Bank's "Doing Business 2016 – Measuring Regulatory Quality and Efficiency" publication (page 224). The ICR (page 22) reports that the gains have been sustained since program closing.
- The target to install an operational electronic planning permits system, including with disaggregated gender data, that regularly issues planning permits was achieved. The Ministry of Physical Planning and Urban Development created the system, tested it successfully, and integrated it into the electronic banking system of revenue cycle management. The state government also conducted an outreach campaign to familiarize surveyors, property developers, and architectural firms with the new system.

Overall, the objective is rated high because four targets were achieved, including two that were exceeded.

**Rating**
High

## 5. Outcome

The outcome of the programmatic series is assessed as moderately satisfactory.

- The relevance of objectives is rated as substantial because: the program objectives were relevant to the country context in Nigeria, and aligned to the Bank Group's country partnership strategy, both at the time of program appraisal and closing.
- The relevance of design is rated as substantial because: the results chain was logical; the prior actions were directed at key constraints to attaining the program objectives; the program instrument was appropriate; and, the macroeconomic policy framework was adequate.
- The efficacy of the first objective, to improve public finances, is rated as modest because only six of the twelve results targets were effectively met. A seventh results target was met but not sustained.
- The efficacy of the second objective, to improve the investment climate, is rated as high because all four results targets were met, including two that were exceeded.

a. **Outcome Rating**
Moderately Satisfactory

## 6. Rationale for Risk to Development Outcome Rating

The risk to the sustainability of the development outcome is assessed as substantial.

Political risk: There is evidence of political commitment to enhanced transparency in reporting fiscal risks to the budget, shares of budgetary expenditures devoted to education and health, improved coverage and scope of Lagos State Auditor General's Office, improved management of cash in budget implementation, real time reporting of payroll expenditures in the state's monthly financial statements, GIS mapping, certificates of occupancy, reduced cost of property registration, and electronic planning permits. Although the state government did not meet the target for land use revenues in 2015, it continued with reforms after the program closing date, including by passing a new Land Use Charge Law to expand the tax base for land use charges in 2018. The ICR (page 26) argues that because the political will to sustain reform flows from political leaders, changes in the political priorities of the leadership in Lagos State could divert focus away from financial management and procurement reform.

Institutional capacity risk: The program documents had highlighted the relative inexperience of public finance institutions in Lagos State. The ICR also documented the inability of the procurement function and the PPA to meet the program targets for procurement reform. The institutional capacity risk to sustaining the program's development outcomes needs monitoring by the state government, if not more technical assistance directed at institutional capacity building.

Macroeconomic risks: Nigeria fell into a recession in 2016, during the implementation of TLSDPO, with oil and gas GDP contracting by 14.4 percent, and overall GDP, by 1.6 percent. With the recovery of oil production, and with higher global oil prices, oil GDP bounced back to a 7.6 percent growth in 2017, and overall GDP, by 0.8 percent. According to the IMF's Report on the Nigeria 2018 Article IV Consultation, macroeconomic risks are balanced, with the improved outlook for oil prices expected to support near-term growth projections. The downside risks include weak implementation of structural reforms, delayed fiscal policy response, and heightened security tensions, with stress scenarios indicating the sensitivity of public and external debt to oil exports and currency depreciation.

a. **Risk to Development Outcome Rating**
Substantial

## 7. Assessment of Bank Performance

### a. Quality-at-Entry

The program was underpinned by extensive analysis performed by the Bank in the four policy areas, including some 14 reports prepared over the six-year period 2009-15, many of which were specific to Lagos

[1]. Bank analysis in the policy areas was complemented by other studies prepared by the state government, the United Kingdom's Department for International Development, and a private consulting firm.

Although SLSDPO and TLSDPO were formally de-linked from FSLDPO following a lapse of 24 months between the approval of the first and the completion of the preparation of second operation, the Bank strove to maintain the programmatic approach to the reform program. The Bank maintained the four policy areas supported by the first operation and aligned the prior actions of the programmatic series with those of the first operation. More importantly, the programmatic series expanded and strengthened the reform program in many sub-areas.

The Bank coordinated the reform plans closely with the federal government and the state government. According to the ICR (page 26), the Bank also collaborated closely with the political leadership of Lagos, both with the administration holding office during program preparation and the new officials elected in the gubernatorial election of 2015, although there were challenges on procurement reform.

The Bank assessed the program risks correctly. The program document for SLSDPO (pages 46-47) and for TLSDPO (pages 42-43) highlighted four significant risks to the program: (a) macroeconomic risk, from a fall in world oil prices (oil accounted for a tenth of Nigeria's GDP, nine-tenths of exports of goods, and two-thirds of fiscal revenues), which would negatively affect the state government's ability to meet fiscal and debt sustainability targets; (b) institutional capacity risk, including fiduciary risk, arising from the relative inexperience of the sub-national public financial management institutions on Lagos, which would pose a challenge to the implementation of the budget execution reforms; (c) political risk, from a change in political leadership after the gubernatorial election of 2015, which might disrupt program continuity; and, (d) country risk, related to any slowdown of separate reforms at the federal level, which would adversely impact the performance by the state government.

The Bank advanced credible mitigation measures to address the risks: (a) prudent fiscal policy, including reductions in expenditures, in response to revenue shortfalls; (b) technical assistance and training to strengthen the institutional capacity for program implementation; and, (c) constant policy dialogue with the government to encourage political commitment to the reforms. The results of the program would, however, show that political and institutional capacity risks associated with the change in management at the PPA and the absence of a PPA Board for a lengthy period would derail the implementation of many procurement reforms, suggesting that risk were underestimated/mitigation measures were inadequate.

There were shortcomings with quality at entry. The project documents did not make a distinction between the parts of the outcome targets for fiscal and debt sustainability (the first objective) that were the responsibility of, and therefore attributable to the federal government, and the parts that were the responsibility of, and therefore attributable to the Lagos State government. The state government decides on state spending, but part of state revenue consists of transfers from the federal government. Therefore, the state fiscal deficit and the debt service-to-revenue ratio were results targets that were not the outcome solely of state government action.

At least one results indicators could have been improved on: the "*percentage* of contracts exceeding N100 million that were awarded through a competitive process using standard bidding documents" could have been a better results indicator for procurement reform than the "*number* of contracts exceeding N100 million that were awarded through a competitive process using standard bidding documents"; the reason is that it is more important to know the proportion of such contracts, rather than the number.
[1] SLSPO Program Document (pages 24-25) and the TSLDPO Program Document (pages 32-33). Among the Bank reports were: the Lagos State Public Expenditure and Fiscal Accountability (PEFA) Report (2009 and 2012); the World Bank Diagnostic for Debt and Finances (2009); the World Bank Debt Sustainability Analysis (2013); the Lagos State Procurement Assessment (2009 and 2012); the Lagos State Functional Review of Procurement (2013); the Lagos State GIS Assessment (2013); and the Nigeria Investment Climate Assessment (2011).

**Quality-at-Entry Rating**
Moderately Satisfactory

### b. Quality of supervision

The SLSDPO and TLSDPO teams maintained regular contact with state government implementing agencies during program implementation.
The Bank prepared an Implementation and Results Status Report (ISR) for the SLSDPO in November 2014, and an ISR for the TLSDPO in July 2016. In the ISR of July 2016 (page 2), the supervision team called on the PPA to conduct the survey that would supply the data for two procurement reform results indicators --- the time to implement a procurement and the time for the PPA to review and issue a certificate of "no objection" to a contract under its review.  The PPA would fail to undertake the survey (see Section 4 – Objective 3).

However, other indicators were measured, including use of standard bidding documents, and the target to raise the percentage of small contracts subject to a post-procurement audit.

There were deficiencies with the Bank's supervision.

According to the ICR (page 26), engagement with the state government during program implementation declined after completion of the series, leading to a failure by the authorities to authorize a mission for the preparation of the ICR. Also, the supervision team failed to employ a private sector development specialist, a deficiency which was notable because of the importance of the investment climate policy area.

**Quality of Supervision Rating**
Moderately Unsatisfactory

**Overall Bank Performance Rating**
Moderately Satisfactory

## 8. Assessment of Borrower Performance

### a. Government Performance

The federal government was committed to the reform program in a complex political environment. The delay in forming the Cabinet following the general election of 2015 had delayed the effectiveness of, and the disbursement of funds from TLSDPO by five months. However, the federal government subsequently ensured the disbursement of the program funds and requested an extension of the closing date of TLSDPO by six months.

However, the lack of traction with reforms with federally-collected non-oil revenues reduced the overall resources available for both levels of government. According to the ICR (page 27), this was a deficiency with the federal government's performance. According to the IMF Staff Report on the Nigeria 2018 Article IV Consultation, which covered developments through end-2017, federal revenue performance had been weak and reform of the value-added tax (VAT), increases in excise taxes, and the rationalization of tax incentives remained necessary and urgent.

### Government Performance Rating

Moderately Unsatisfactory

### b. Implementing Agency Performance

The Lagos State government collaborated closely with the Bank in the preparation of the program. The state government readily completed the prior actions for SLSDPO and ensured that prior actions for TLSDPO were met, as the new administration assumed office.

The state government remained committed to the reform program during program implementation. Eleven of the sixteen results targets were met, although one was not sustained (see Section 4). Of the targets that were not met, the use of standard bidding documents in all contracts greater than N100 million, the reduction in the time to implement procurement by 20 percent, and the reduction in the time for the PPA to review and issue a certificate of "no objection" to a contract under its review by 20 percent would have significantly advanced the procurement reform plan. However, the change in the Lagos State PPA management and the prolonged absence of a PPA Board negatively affected performance with the procurement reform plan (see Section 4 – Objective 1).

The state government sustained many reforms after the program closing date. Internally-generated revenue collections grew in 2016 and 2017 despite the recession of 2016. The relative importance of the state's revenues to total revenue grew as federal transfers declined. The debt service-to-revenue ratio declined in 2016, although the improvement was not sustained in 2017. The fiscal balance reverted to a deficit in 2016 and 2017, but the deficit remained small and well within the program target of 3 percent of state GDP. Budget planning and execution continued to improve with the adoption of accrual accounting and further implementation of reforms to financial management systems.

There was inadequate communication between the state government and the Bank after the closing of

TLSDPO, which affected the preparation of the ICR. Agencies of the state government provided information directly to the Bank, but the data was limited (ICR, page 27). This was a moderate deficiency with the state government's performance.

### Implementing Agency Performance Rating

Moderately Satisfactory

### Overall Borrower Performance Rating

Moderately Satisfactory

## 9. M&E Design, Implementation, & Utilization

### a. M&E Design

The program documents defined results indicators that were mainly adequate to measure the program outcomes. The indicators, some of which were adjusted between SLSDPO and TLSDPO implementation periods, were generally measurable and could be mostly drawn from publicly available information, including the Lagos State government audited financial statements and the Bank's doing business reports.

However, there were deficiencies with the M&E design.

The outcome indicators for fiscal and debt sustainability --- the state fiscal deficit, in percent of state GDP, and the state debt service, in percent of state revenues --- were not under the sole control of the state government (see Section 7.a).

In addition, at least two quantitative indicators --- the time to complete a procurement, and the time for the Public Procurement Agency to issue a “no-objection” decision on a contract subject to its review --- depended on the conduct of special surveys, that were not, however, carried out by the agency (see Section 4 – Objective 1).

Some qualitative indicators were not fully defined at appraisal. "Enhanced transparency in reporting fiscal risks to the budget" was subsequently interpreted to mean financial reporting on 15 parastatals. "Improved management of cash in budget implementation in eight ministries, departments and agencies through monitoring of expenditure commitments" was later interpreted to mean the establishment of a budgetary commitment control system.
Indicators on fiscal deficit and debt service had shortcomings that they didn't clarify that the targets needed to be achieved in a sustainable manner. They were also problematic, given the extent to which nominal debt service was largely a function of past decisions, not current ones supported by the series.

### b. M&E Implementation

The state government conveyed a strong commitment to transparency during program implementation. The M&E was implemented jointly with the Bank.

Yet, there were slippages with M&E implementation.

The PPA did not conduct the surveys needed to measure the time to complete the procurement process or the time for the agency to issue a no objection certificate to contracts subject to its review. Hence, two of the procurement results targets could not be reported on (see Section 8.b).

Participation by the state government agencies in post-program activities waned after the program closing date. Hence, the Bank found it difficult to prepare the ICR. According to the ICR (page 15), the Bank had requested a six-month extension for the completion of the document in the expectation that the state government would approve the ICR mission, which the state government did not.

### c. M&E Utilization

The M&E data were used regularly to assess the progress with the programmatic series during implementation and to motivate remedial action by the government. With the adoption of the new Chart of Accounts still pending, the ISR of July 2016 urged the government to train the budget and accounting staff to ensure an easier migration to the new GFS-consistent system.

### M&E Quality Rating

Substantial

## 10. Other Issues

### a. Environmental and Social Effects

Environmental Effects: Following the requirements of Bank Environmental Policy OP 8.60 (paragraph 9: Poverty and Social Impacts, and paragraph 10: Environmental, Forests and Other Natural Resource Aspects) which govern DPLs, the Program Documents for SLSDPO (page 43) and TLSDPO (pages 37-38) made the following determination of the environmental effects of the program: (a) the policies supported by the programmatic series were not likely to have negative impacts on the country's natural resources; (b) any negative effect would likely be mitigated under existing environmental laws and regulations both at the federal and state level, which were considered comprehensive and at par with international best practice; (c) the Lagos State Environmental Protection Agency had strong enforcement capacity, evidenced by cases of industrial facility closures because of violations of environmental regulations; (d) the introduction of standard bidding documents for government contracts, an intervention supported by the program, would help strengthen environmental integrity; and, (e) the development of the GIS, another intervention supported by the program, would help identify territories in Lagos which were subject to environmental risks.

Social Effects: The program document for SLSDPO (pages 40-43) and TLSDPO (pages 35-37) determined that the reforms supported by the programmatic series would have strong and positive indirect impacts in the medium- to long-term through improvements in state services including in the processing of landholder rights. Specifically, the GIS mapping, an intervention supported by the program, would establish the technical building blocks for enabling access to secure land titles for poor households. Improvements in registering properties and obtaining occupancy permits, two targets of the program, would benefit property owners, including those who had previously benefitted from the state government's land regularization program in 2009-13, under which residents who occupied land informally were brought into the formal system. Should public land zoning and private land registration result in eviction and displacement, the state government pledged two mechanisms to provide grievance redress services --- a Citizens Mediation Centre to provide legal assistance to the indigent, and the Office of the Public Defender to provide dispute resolution. Both bodies were previously assisted by a Bank project. The ICR (page 24) documents these and other benefits.

## b. Fiduciary Compliance

The program document for SLSDPO (pages 44-46) and for TLSDPO (pages 38-41) stated that the programmatic series would follow established disbursement procedures for DPLs. Because the IDA credits would be on-lent by the federal government to the state government of Lagos, the establishment of the on-lending agreements would be conditions for the effectiveness of the credits. Separate program agreements between the IDA and the state government would be negotiated and signed at the same time as the financing agreements between the IDA and the federal government were negotiated and signed.

The overall fiduciary risk of SLSDPO was rated substantial, and of TLSDPO, high, as weaknesses remained with the Lagos State's expenditure management and control system despite recent improvements. To meet assurance requirements for the two operations, audits of the dedicated foreign currency accounts of the state government with the Central Bank of Nigeria and with any commercial bank would be conducted by independent auditors acceptable to the IDA within four months after the end of each fiscal year and until such time that the account balances reached zero. The ICR does not report on these audits.

## c. Unintended impacts (Positive or Negative)

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## d. Other

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## 11. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|---|---|---|---|
| Outcome | Moderately Unsatisfactory | Moderately Satisfactory | Because 7 of the 12 targets were met, but only 6 were sustained, the efficacy of the first objective is assessed as modest. With the efficacy of the second objective being high, and the relevance of objectives and design both substantial, the rating for the program's outcome is upgraded to moderately satisfactory. |
| Risk to Development Outcome | Modest | Substantial | Due to institutional capacity risks. |
| Bank Performance | Moderately Satisfactory | Moderately Satisfactory | --- |
| Borrower Performance | Moderately Satisfactory | Moderately Satisfactory | --- |
| Quality of ICR | | Substantial | --- |

**Note**

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 12. Lessons

Three lessons are drawn from the ICR (page 29), with some adaptation. The predecessor to this programmatic series, the stand-alone FLSDPO, drew similar lessons.

Sub-national operations should carefully consider the degrees of dependence of the sub-national government on the central government and define prior actions and results targets that do not unduly penalize the sub-national government for actions not under its control. The fulfillment by Lagos of the program's state-level fiscal balance and debt ratio targets depended on the status of inter-governmental revenue transfers.

Sub-national operations should consider the institutional capacity of sub-national agencies to implement reform plans. In some cases, technical assistance may help upgrade the capacity of state agencies. The state government agencies met the program targets for audit and for financial management but missed the outputs for procurement reform.

The programmatic approach can help sustain the momentum of a medium-term reform program during changes in political leadership to the extent that they commit the government to a multi-year reform path and keep the policy dialogue active. The programmatic approach to SLSDPO and TLSDPO, and the close link between the two operations and the FLSDPO, helped ensure that the Bank's engagement and dialogue with the state government was ongoing and continuous even as the state held its gubernatorial election in March 2015, prior to the completion of SLSDPO and before the approval of TLSDPO. The continuity of the reform program could have been compromised without the programmatic approach, which had secured the state's commitment to the medium-term initiative before the new electoral cycle.

## 13. Assessment Recommended?

No

## 14. Comments on Quality of ICR

The assessment of the program's results is evidence-based. The ICR provides a useful summary and narrative of the operations' performance, set within the results framework for the reform program (pages 17-23).

The analysis of the program outputs and outcomes is candid. The ICR cites how the program only partly met the objective to improve public finances through fiscal and debt sustainability measures (pages 17-18) and through reforms with budget execution (pages 19-21). It also cites significant deficiencies with the Bank’s supervision (page 26), and moderate deficiencies with the Government's and the implementing agency's performance (pages 27-28).

The document provides a comprehensive record of the program. The ICR adequately documents the political and economic context of the project, including the rationale for Bank involvement (pages 2-5); the program design, including the revisions to the objectives and results indicators (pages 5-7); and, the status of prior action (pages 11-12).

The ICR task team also took the initiative on following up with the Lagos State government and tracking down results data that were missing at the time of ICR preparation, but which became available at the time of this ICR Review.

A shortcoming is that the ICR would have been strengthened by additional information, such as the results of *Business Surveys, Nigeria*, and data on the relative importance of land registration and use charges to total state revenue. Also, the assessment of the outcome rating as moderately unsatisfactory does not flow from the ratings on relevance and efficacy according to ICR guidelines.

### a. Quality of ICR Rating

Substantial