

# OFFICE MEMORANDUM

DATE: October 14, 2000

TO: *The Country Director for Nigeria* (Mark Tomlinson)  
*The Regional Sector Directors who deal with water in Africa* (Praful Patel, Hans Binswanger)  
*The Regional Sector Managers who deal with water in Africa* (Letitia Obeng, Jeffrey Racki, Joseph Baah-Dwomoh, Sushma Ganguly, Jean-Paul Chausse,, Charlotte Bingham)  
*The Lead Water Resources Advisor for Africa* (David Grey)  
*Bank staff working on Water in Nigeria* (David Henley, Sidi Jammeh, Talib Esmail)  
*The Bank African Water Team* (Senai Alemu, Jakob Granit, Alain Locussol, Andrew Macoun, John Shepherd, Yao Badjo, Francois Gabelle, Jane Walker, Claudia Sadoff, Ousmane Dione, Eustace Ouayoro, Jennifer Sara, Richard Verspyck, Tracey Hart, Franklin Cardy, Ijsbrand de Jong, )  
*The Water Resources Management Group Principals and Alternates* (Abel Mejia, Alejandro Deeb, Alfred Duda, Ashok Subramanian, Barry Trembath, David Grey, Claudia Sadoff, Salah Darghouth, Douglas Olson, Fernando Gonzalez, Francois Patorni, G. Acharya, Geoffrey Spencer, Guy Alaerts, Karin Kemper, Javier Jarquin, Joop Stoutjesdijk, Lee Travers, Manuel Marino, Masood Ahmad, Rafik Hirji, Stephen Lintner, Tony Garvey)  
*The ESSD Anchor Water Team* (Alessandro Palmieri, Ariel Dinar, Astrid Hillers, David Groenfeldt, David Hanrahan, Geert Diemer, Greg Browder, Hans Ibrekk, Inger Andersen, Itaru Minami, Luitzen Bijlsma, Marea Hatzios, Martha Jarosowich-Holder, Martin Fodor, Safwat Abdel-Dayem, Thomas Panella, Tor Ziegler)  
*The Bank-wide Sector Managers who deal with water* (Frannie Leutier, Robert Thompson and Kristalina Georgieva)

FROM: John Briscoe, Senior Water Advisor

EXTENSION: 3-5557

SUBJECT: **The World Bank's role in Water Resources Management in Nigeria and its implications for the Bank's Water Resources Sector Strategy: Results of a consultation**

## SUMMARY:

In the spring of 2000 we will present a new Water Resources Sector Strategy to the countries who sit on the Board of the World Bank. A central part of the process is getting detailed feedback from stakeholders in our borrowing countries on what we are doing and how we are doing it and what we should be doing. Previous consultations were held in Brazil, Yemen, the Philippines and India. This memo reports the conclusions of a set of field visits and a formal consultation in Abuja in September.

In many respects the Nigeria-Bank relationship is atypical, given the Bank's disengagement during the years of military rule in the 1990s. Bank projects in Nigeria are, accordingly, largely a legacy of many, large projects designed a decade or more ago. In the interim the world, Nigeria and the Bank have changed in many ways.

The current performance of water institutions – agencies for managing urban and rural water supply and sanitation, irrigation, and the domestic and international rivers – is abysmal. And with a soaring and urbanizing population the challenges in the coming decades are immense.

(continued)

(continuation of Summary)

The return of democracy to Nigeria opens a special and daunting set of challenges for the World Bank, in which the link between water and politics (present everywhere) is particularly prominent. On the one hand, civilian government (and the involvement of the Bank in Nigeria) is unlikely to last unless the population sees substantial improvements in services, with urban water services particularly prominent, and Lagos (with its gigantic problems) uniquely important. On the other hand, the water sector itself offers a promising arena for engaging civil society in “the new Nigeria”.

This argues for a multi-track Bank engagement. Track One would be assisting Nigeria to move rapidly to address the most politically visible issues in innovative ways. Lagos Water Supply Corporation is THE test case. The Bank (including IFC and the WBI) have been heavily and productively involved in preparing for a concession contract to a private operator. The good work notwithstanding, there is understandable concern that things are moving too slowly, and that the Bank is part of this problem. It is also clear that the Bank has not used its capabilities for addressing several critical governance issues (specifically the development of regulatory capacity, and engaging the press and the public in a transparent and thus robust concession transaction).

Track Two would be making progress on a series of equally obvious, albeit less politically explosive, water service challenges. These include developing a sustainable strategy for addressing the formidable urban sanitation problems and rural water and sanitation problems (on which an ongoing Learning and Innovation Loan represents a good start). It also involves following up on the Bank’s successful family-based, fadama groundwater irrigation project (a second project is in preparation), coupled with grappling with the appalling legacy of large public-sector irrigation infrastructure (using lessons learned from the fadama project) .

Track Three involves laying the groundwork for the longer-term water management challenges in Nigeria. These include developing modern stakeholder-based institutions for river basin management, watershed management (on which the Bank is currently identifying a first project), and cooperative arrangements for the management of the international water basins of the Niger and Benue rivers and the Lake Chad Basin.

Above all what is needed from the Bank is a clear “engagement strategy” which sets realistic, prioritized actions which will yield results rapidly and will avoid making the best the enemy of the good. If we can articulate such a strategy it is evident that we can be great partners to the large number of committed and trained Nigerians who are anxious for our help at this critical juncture in their history.

### Preamble:

In the spring of 2001 we will present a new Water Resources Sector Strategy to the Board. A central element in developing this strategy has been a series of “focus country consultations”, which have proved to be a terrific mechanism for getting the views of our clients about what we are doing and how we are doing it, and the directions in which they would like us to move both in terms of substance and process. Over the past eighteen months we have held consultations in Brazil, Yemen, the Philippines and India.

As a result of a request from the Nigerian Government, the Africa Region suggested that Nigeria be the African “Focus Country”.

### What we did in Nigeria:

The process followed was the same as in other regions: a review of recent Bank lending and non-lending operations; commissioning of reviews of “the state of the Nigerian water sector” and “the role of the Bank” by an eminent national “informant”; discussions with Bank staff in the region; a week of field visits and a two day roundtable with stakeholders. Herewith a few details on the Nigeria consultation.

In our visits to Nigeria, the core Bank team (Greg Browder and me) were accompanied by Hans Ibrekk of the Environment Dept (who is coordinating the environmental inputs into the Strategy) and Ousmane Dionne (a young professional who has recently joined the Africa region). In Nigeria we were enormously fortunate in getting a “giant” as our “national informant” -- in this case Professor Adebayo Adedeji, former Planning Minister, Director General of the Economic Commission on Africa and *eminence grise* in Nigeria.

Prior to the round table, we visited several Bank and related projects. These included:

- In the West -- The Lagos State Water Corporation and the Lagos Urban Drainage Project;
- In the Middle Belt -- the Kaduna State Water Corporation;
- In the North -- the Tiga Dam and the Hadeija-Jama’are gravity irrigation scheme; the Fadama Groundwater Irrigation Project and the Kano State Water Corporation.

During the visits we met with villagers and residents of the served areas in the cities; with water officials; and with senior officials (including the Commissioner for Finance in Lagos, the Commissioner for Water in Kano and the Governor of Kano); and with traditional leaders.

On the field visits to the Middle Belt and North we were joined by Professor Adedeji and Director Mustapha Bukar of the Ministry of Water Resources (the dynamo behind much of the progress in water management in Nigeria). And in Abuja we met with the State Minister for Water Resources.

We held the two-day roundtable in Abuja on the 6<sup>th</sup> and 7<sup>th</sup> of September. The invitees were carefully selected to represent the full range of stakeholders – regional, institutional (government, NGOs, the private sector, academia, legislators) as well as representatives from donors and international agencies operating in Nigeria.

As shown in Annex 1, an evaluation of the workshop showed that (as in other countries) the format and conduct were judged to be highly appropriate.

Some personal impressions:

Not for the first time (and not, I trust, for the last), my prejudices prepared me poorly for the reality I encountered! I had never been to Nigeria before, and, to be honest, never wanted to find out first-hand about the country's fearsome reputation! (The Lonely Planet Guide for Nigeria lists "survival" as one of the "10 highlights" of a trip to Nigeria!) While it is obvious that this reputation is well-deserved, there is another side which I had not previously appreciated, namely the country's extraordinary human and social capital. There are a large number of very smart and well-trained people, many of whom direct their intelligence to socially-productive ends. And there is enormous social capital in the traditional forms of governance.

We were deeply privileged to learn something about these traditional forms of organization, especially in the North. We had two remarkable guides. Engineer Bukar is a madawaki ("little emir", in his modest words) from the royal family of Daura (one of the seven northern emirates) and thus a source of first-hand wisdom as to how that system functions. And a major thrust of Prof. Adedeji's scholarly and political work is an attempt to modify the existing form of local government. Whereas the British colonial government relied heavily on traditional governance structures through "indirect rule", the post-colonial Nigerian state has been based on a Western model which is often divisive and predatory in the Nigerian context. Prof. Adedeji and his colleagues are advocating adjustments which would make greater use of the strengths and stability of the remarkable traditional systems. Aside from the great hours of "Land Rover discussion" on these issues, our extraordinary guides meant that we were able to meet both senior elected officials (we dined with the Governor of Kano), and traditional leaders (we had an audience with the Emir of Zazzara in Zaria).

While recognizing that our privileged status sheltered us from the worst of Nigeria and gave us access to the best, I left Nigeria with a deep respect for the quality of many of the people we met, and for the social institutions we had learned something of.

**The Water Resources Sector Strategy Web Site:**

All documents and powerpoints developed in the course of the Sector Strategy are available on the Water Resources Sector Strategy Web Site. To access the site go to [www.worldbank.org/environment](http://www.worldbank.org/environment), click on "Water Resources Management" (twice) and "Water Resources Sector Strategy".

### The moment in Nigerian history and the portfolio of Bank projects:

In some ways Nigeria would appear to be an inappropriate choice for assessing what the Bank has done and how we have done it. The repression of the military regimes (and especially that of Sani Abacha in the mid 1990s) gave Nigeria a pariah status, with little new lending by the Bank. Accordingly, the Bank water projects we visited are really the remnants of projects prepared a decade ago, before the 1993 Water Resources Management Policy Paper (and many other changes).

While this limited our ability to assess how the contemporary Bank is operating in Nigeria, our visit also coincided with a period in which the Bank is forming a response to the critical national situation. Nigerians know that democracy will not last unless the population perceives the civilian governments as capable of addressing some of the more critical challenges facing their country. (In the words of a recent book on Nigeria, *“The primary task facing Nigeria’s leaders is to convince the majority of their people that the government exists to serve rather than to prey upon them”*.) This small and vital window of opportunity requires a special type of support from the Bank, one which focusses heavily on the major problems as they are perceived by the population, and which focusses on quick delivery rather than perfection. Just as there are enormous expectations on the civilian governments, so too there are enormous expectations on the Bank (a point to which we will return later). And the test for the Bank must be the same – can we assist the civilian governments in winning the confidence of the people by producing some rapid results on issues for which there is a strong demand for change?

### The centrality of infrastructure to poverty alleviation, growth, and perceptions of the quality of governance

In the late 1980s the Bank’s Kyu Sik Lee did some pathbreaking work on the impact of infrastructure deficiencies on the productivity of the Nigerian economy and on poverty. The overall findings are illustrated best by the cost of unreliable power supply from NEPA (the National Electricity and Power Authority, otherwise known as “Never Ever Power Always”). The unreliability of the power supply increased the overall cost of inputs to industry by 10%, with the figure rising to 25% for the small industries which are so critical to employment generation and poverty alleviation. Casual observations today would suggest that this premium has risen substantially. In many water utilities, for example, the biggest capital item is their back-up generators, and their biggest cost is fuel for powering these. The Emir of Zazzau told us of how the city of Zaria (where he lives) was without water for five months, primarily as a result of problems with electricity.

The situation regarding water utilities is little different. If there were a world-wide poll on the most dramatically unproductive water utilities, Lagos would surely contend for first prize! It is an astonishing fact that of all the money paid for water in Lagos every month, only about 4% is paid to the utility, with the other 96% going to private vendors and for self-supply! The IFC consultants working with the Lagos State Water

Corporation (LSWC) estimate that unaccounted for water is 96%<sup>1</sup> (sic!). The consultants correctly characterise the situation as follows “the LSWC is in a dramatic state of neglect, close to collapse”.

It is no wonder that the performance of public utilities have come to be THE symbol for ineffective government, as witnessed by the songs of the late Fela Kuti, who sung: “*If I say there is no water, that’s old news.... If I say there is no electricity, that’s old news....*”

The corollary is clear, and echoed by virtually everyone we spoke to: THE short-term test of civilian government in Nigeria is an ability to provide better public utility services. And the corollary for the Bank, I believe, is that our highest priority should be to assist the civilian government in this task. If they fail, then democracy will be in jeopardy, centrifugal tendencies will dominate and, again, lead to a de facto withdrawal of the Bank. In the political reality of Nigeria today, the short term is everything, and perception is paramount.

This reality poses a severe challenge to the Bank of today. The credibility challenges are not primarily in the “soft” areas which the Bank finds most comfortable these days. Frequently they are in the unfashionable “old” infrastructure areas. If we are engaged in these “reputationally-risky” areas, and cut corners (especially in a country with many institutional limitations and, specifically, so formidable an installed capacity for corruption as Nigeria) we will inevitably make mistakes and put our reputation at risk. If we require perfection before we act, we will be unable to make a contribution in the critical areas where the effectiveness of civilian rule will be judged, and we will not be effective in the (small) window of opportunity which exists. There can be few other situations where the best would so evidently be the enemy of the good. This is a stark choice which the Bank needs to face directly and explicitly.

#### Our findings, I: The state of the water sector in Nigeria

As can be seen in the powerpoint presentation “What we Heard in the Abuja Consultation, A Global View”<sup>2</sup> both Bank staff and the 80 participants at the roundtable have a dismal view of virtually every aspect of all water sectors in Nigeria.

Some examples that we saw first-hand illustrate the gravity of the situation.

#### **Urban water supply and sanitation:**

- Lagos – the utility (directly or indirectly) provides water to only half of the 10 – 12 million people in the metropolitan area. As described earlier, it is in a state of both financial and physical collapse. And the sanitation situation is much worse,

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<sup>1</sup> LSWC management reasonably points out that these estimates do not take account of the fact that the state government makes a block payment to the utility, partially in lieu of actual payments for the services provided to state government entities.

<sup>2</sup> This and all other documents from the consultation are available on the web. To find them, go to: [www.worldbank.org/environment](http://www.worldbank.org/environment) and Select Water Resources Management and Water Resources Sector Strategy, then Nigerian consultation.

with no treatment plants functioning, and with septage, sewage and industrial waste discharged into the lagoons. In the words of a recent commentator, *“Makoko, a giant slum of some 500,000 people perches precariously on stilts above the marshy edge of a black lagoon that also serves as an open sewer... carried to a new level its assault on the sense, especially its spirited affront to one’s nose. So powerful was the aroma that it took the best part of a day to block it from my mind.”*

- Other cities – No utility in Nigeria<sup>3</sup> meets even its operation and maintenance costs, let alone the costs of depreciation. The utility of the second city of Kano is only slightly less precarious than Lagos. Kaduna, which has been the greatest beneficiary of Bank loans (for twenty years) is one of the better utilities, but still does not even cover all of its operation and maintenance costs.

#### **Rural water supply and sanitation:**

- Nigeria has one of the lowest service rates in Africa. Many at the consultation stressed the huge costs of poor service in rural areas, and the need for action. One ray of hope is improvement in some of the small towns, where a demand-driven approach is being piloted by the Government and the Bank (through an \$8 million Learning and Innovation Loan).

#### **Public Surface Irrigation Systems:**

- If anything could be worse than the urban water supplies, this is it. In 1976 the Federal Government created 11 River Basin Development Authorities (RBDAs). Over recent decades large investments have been made in creating capacity for gravity canal irrigation systems designed to irrigate some 390,000 hectares. Only a small proportion of these projects have ever been finished, and only a small proportion of the command area is actually irrigated. The total now irrigated is about 20,000 hectares, or about 5% of the installed capacity! We visited one of the major schemes in the North, the Hadeija-Jama’are scheme, which accounts for a substantial proportion of the canal irrigated area in the country. Over the 20 years of operation, there has been little maintenance. The balancing reservoir is overgrown with reeds, the canals have lost most of their carrying capacity due to siltation. And the farmers have had to drastically reduce their irrigated areas, with severe consequences. The situation has reached the point where the bill for de-silting the major canals is now \$ 6 million, a level way beyond the capacity of the users to pay. This physical deterioration, of course, is a consequence of a familiar set of institutional distortions – the River Basin Development Authority is not accountable to its users (who have no representatives on the RBDA Board); fees are low and generally not paid, and so the vicious cycle goes. Discussions in the field – with users, political leaders and staff – also showed that there IS a way to a virtuous circle, since the returns from reliable water supplies are great. (Their neighbours who irrigate with groundwater pay – for equipment and fuel – more than 10 times as much for water as the going rate in the canal system. Our back-of-the-envelope calculations suggested that a mere doubling of tariffs in the canal system would be sufficient for covering all the operation and major maintenance needs of the system.). There is a growing understanding in Nigeria that the RBDAs are anachronistic organizations in need of major reform.

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<sup>3</sup> With the arguable exception of Abuja, which has a low-cost gravity-supplied water system.

### **Groundwater supplementary irrigation in the river valleys (“fadamas”)**

- Groundwater irrigation is a bright spot in the bleak water landscape of Nigeria. Significantly, these are ‘new’ investments, with ‘new’ institutional approaches. Everyone – Nigeria and Bank – is clear on the lessons learned of farmer responsibility, ownership and financing, and the need to revisit the ‘old’ and find ways to incorporate (where feasible) the lessons of the ‘new’. The Fadama Projects (financed by the Bank and others) provide credit for the purchase of wells and pumps. There is an implicit small subsidy (farmers pay the market price for equipment, but pay it over three years, without any adjustment for inflation). But the cost of water is high (an estimated 8 US cents per cubic meter) and yet farmers are willing and able to pay this. As expected, farmers use water carefully, and grow primarily high-value crops. The challenges in these projects – being addressed in the second Bank-financed fadama project – have more to do with credit and marketing issues than with water management.

This generally dismal picture, of course, is one which is quite typical of an economy suffering from a serious case of “the Dutch disease” (a paradoxical phenomena in which natural resource windfalls lead to economic distortion and stagnation). The huge overinvestment in non-tradeables is perhaps most graphically illustrated by the investment of \$8 billion in the Ajaokuta steel mill without producing one steel bar, but it is also visible in unfinished hotels and office buildings everywhere. And the end result of this, is, of course, an economy which is hugely uncompetitive -- ranked 23<sup>rd</sup> out of 27<sup>th</sup> in a recent survey done by Harvard University for the World Economic Forum ([www.weforum.org](http://www.weforum.org)) (see Figure 1 overleaf) of competitiveness of African economies.

### Our findings, II: The hopes for the water sector in Nigeria and their implications

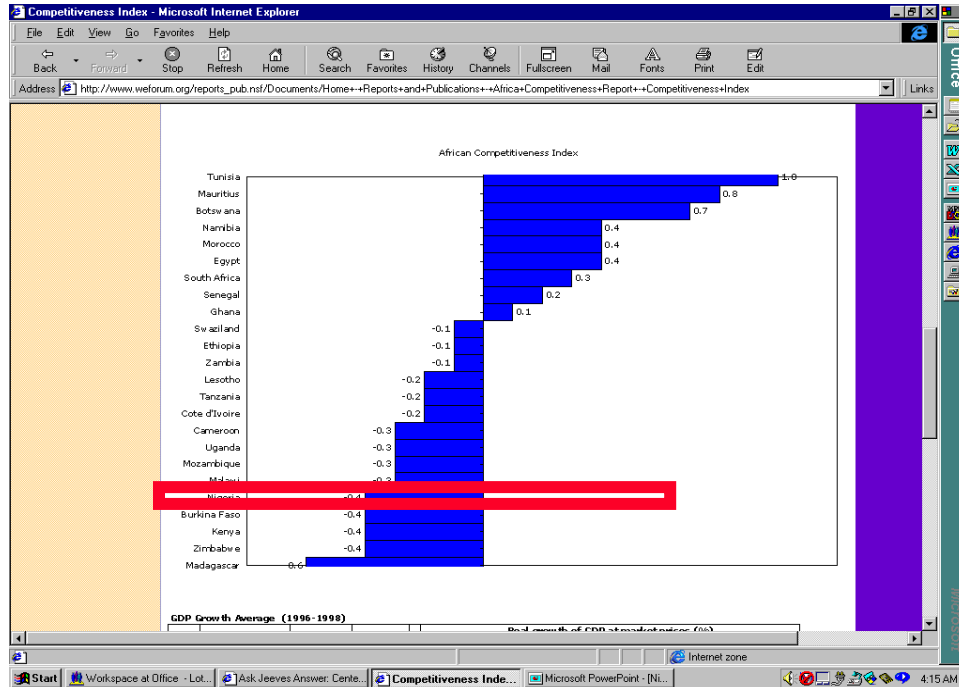
In our discussions and roundtable it was also evident that this dismal reality co-exists with considerable optimism that things can and will change. Again, this is reflected in the same recent survey of perceptions of African economies – in terms of the “optimism index”, Nigeria ranks (see Figure 2 overleaf) as “the most optimistic in Africa”!

This optimism is a precious asset. In the water sector there are bright spots (the fadama projects and the will to reform urban utilities, for example) and there is a reform minded government and a reform movement among Nigerians at large. Without this mind-set, the task ahead would be impossible; with it there is some hope.

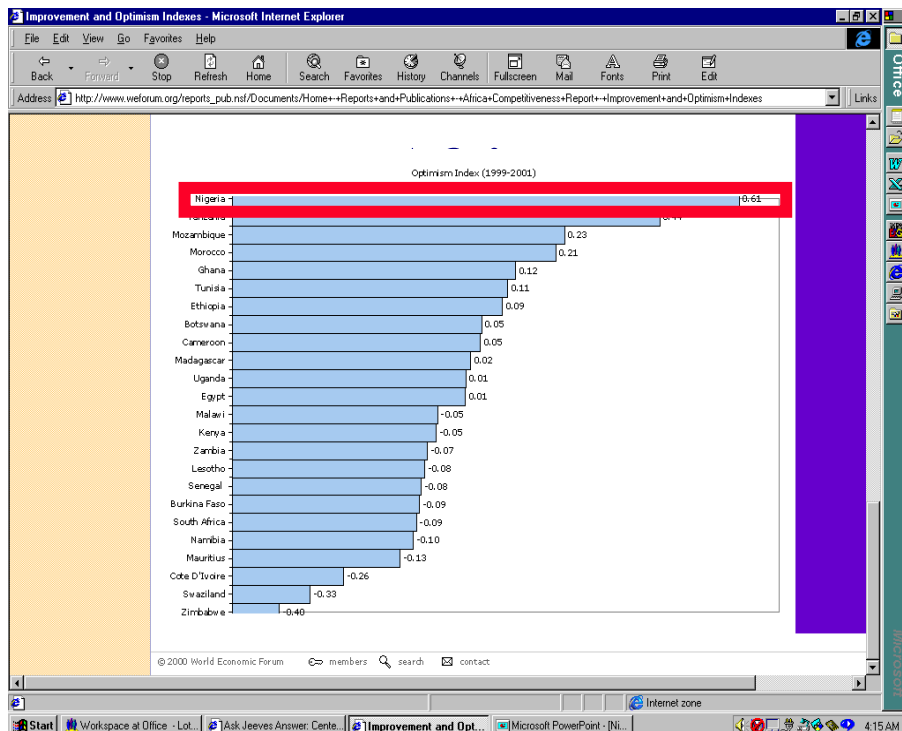
In our field visits and the consultation in Abuja we heard frank self-criticism, a hunger for ideas and a willingness to move ahead against the odds. We did not hear reactionary forces – from the RBDAs, for example -- seeking to maintain any status quo.

It is equally obvious that optimism can turn into cynicism if results are not delivered and delivered fast. And here the Bank has a vital role, in supporting the reform movement and assisting with setting priorities and moving rapidly to produce results on the ground.

**Figure 1: How things are – Nigeria near the bottom of the African Competitiveness Index**



**Figure 2: How things might be – Nigeria at the top of the African Optimism Index**



This “optimism” is of the utmost importance for the future of Nigeria. On the one hand it shows that there IS a rare window of opportunity. But from our discussions throughout the country it was obvious that this is a “thin optimism”, one that can turn to cynicism (and create, once again, the ground for military intervention) very quickly. THE challenge, again, is whether civilian governments can produce results and be perceived to do so.

Just as the expectations of the government are great, so too are the expectations of the Bank. And just like governments throughout Nigeria, governments will have to both manage expectations and produce results rapidly. It is evident that to date, since the restoration of democracy, the World Bank has not done very well on either front. We were struck everywhere by the huge and unrealistic expectations Nigerians have of the Bank. People at every level expect us to be involved in, supporting them in solving, virtually every existing problem in the public domain. There is an urgent need for some first-class “expectations definition and management” work by the Bank. For example, it would have been great for us (and for every other Bank mission, I suspect), to have had a thousand copies of a glossy flyer which could have helped define what the Bank can do and how we can do it and what we can produce in the next few years, and to give it to everyone (including many from the press) who have an inflated view of what the Bank can and should do. That said, it is vital that we continue to support the ‘reform movement’ by producing concrete results on the ground., and producing them fast and on the issues which the public at large perceive to be the highest priority.

#### The priority for the Bank – helping to improve services and sustainability

The overwhelming immediate priority of everyone we spoke to was for an improvement in public services, especially energy and water supply (but also education and health services). This should be the priority for the Bank, too, in the immediate future.

There are two principles which should guide the Bank’s work in this area. The first is that the best is the enemy of the good – there must be action and results and the perception of results. This will mean that the pragmatic must take precedence over the normative. The second principle is that immediate actions should lay the ground for institutional and financial sustainability. If this is not done, then the effect will just be to delay and not avert the crisis. What might these principles mean in practice?

First, by far the highest priority for Bank support is water supply in urban areas. To which there are two questions which need to be addressed.

- *Why only water supply and not sanitation?* Because, despite the awful sanitation conditions everywhere, the immediate demand is for water supply. And water supply is relatively easy to do in towns and cities, because consumers are already paying very high monetary costs for unsatisfactory alternatives. Once some real progress has been made on water supply, and is perceived to be made, then the priority will shift to sanitation.
- *Why urban and not rural?* Because the consequences of lack of service in urban areas is more serious than in most rural areas, where there are alternatives (albeit not always healthy or convenient ones). And because it is in the urban areas that the

political battle for legitimacy will be lost or won. But this is not an either/or question, just one of relative priority.

And in urban areas, THE test case is Lagos. Why? Because of the number of poor people affected, and its visibility. But also because there is a governor who is committed to reform, and it is Lagos which has gone furthest – with the help of the IFC and the Bank – in exploring the participation of the private sector. The challenge in Lagos is to move and move rapidly. Discussions on a concession have been going on for about 6 years, as yet with no result. The political window of opportunity is already starting to close, as the governor reaches the middle of his four-year term of office. It may be now or not for a very long time. And here there are several critical issues for the government (and the Bank and the IFC). These include:

- *The scope of the concession:* A major issue is whether the first concession should be confined to Lekki Island (a relatively prosperous area, but one with huge supply problems) and restricted to water supply. The pros of this “limited scope” are clear – here is where the chances of making a quick and visible improvement are greatest. In my view the naysayers – it is “cherry picking if only 20% of the metropolitan area is served” and “a concession must include sewerage as well as water” – are making the best the enemy of the good.
- *The role of the Bank and the IFC.* The Bank (with excellent contributions from the WBI) has played a major role in stimulating the debate about private sector participation, and in outlining a reasonable first step, broadly consistent with the above recommendation. Because the Governor wanted to move quickly to a transaction, he (independently) contacted the IFC (before his inauguration 18 months ago). Although the IFC consultants have done a lot of good work, they have, in our view (and in the view of the State Government) not accounted sufficiently for the political and implementation realities, or for the importance of moving fast.
- *The state of play:* During our visit, the State Government wrote an appropriately sharp letter to the Bank, indicating that they wanted to move on the Lekki Island option, and that they wanted to move fast. They have (appropriately, in my view) put the ball into our (Bank and IFC) court to get our act together and to do it fast before the window of opportunity closes.
- *Complementary actions:* While the focus on the contract is necessary, there are two outstanding elements which have largely been ignored, on which parallel action is urgently needed, and in which the Bank could help a lot.
  - (a) *Regulation:* The first is to structure an informed debate about the regulatory framework and options, and to prepare a group of people to assume that task. Views in government are all over the place – “*the Lagos Water Corporation would become the regulator*” (a certain disaster); “*regulation should take place at the state level vs federal level*”; “*there should be a single regulator for all utilities*”, “*the regulator should not just be an economic regulator but regulate environmental aspects, too*”, etc. etc. There is an urgent need for engaging with the State Government on these issues, for bringing global best practice to their attention, and helping them agree on a design and getting people trained (through the Bank-sponsored “Utility Regulation Course and Network” in Florida).
  - (b) *Public Information and Transparency:* Global experience shows that engaging the public in the debate about private sector participation in utility service, and in

equipping the public (and the press) to accompany the process and assess its transparency is a sine qua non for political sustainability. This requirement is even greater in environments of pervasive mistrust and endemic corruption. Here, despite years of engagement, and despite a good amount of experience to bring to the table (such as that of Manila<sup>4</sup>) the Bank and the IFC have done little. This is an area where we can and must help immediately, and where the State Government is anxious for help.

While Lagos is the litmus test, the needs in other urban areas are also acute. Here the Bank and the government are making important progress, again with substantial help from the Bank's task team and the World Bank Institute. There is now a widespread understanding in the professional community of the centrality of private sector participation, both as a means for cementing the managerial autonomy of water utilities, and as a means of bringing in expertise. An important element of this discussion is recognition that there is a large informal domestic private sector operating already, and there is some important innovation taking place in how to harness the capacity of this private sector. The Abidjan-based Water Utilities Partnership (in which the Bank has played an active role) is proving to be an important partner in this process.

The government is making some sound decisions in moving forward on this with the Bank (as part of a proposed Water Supply Sector Reform Project) and on its own. It is requiring up-front commitment of State Governments to reform if they are to be part of the process. An important challenge (for the government and the Bank) will be to ensure that governors are given a menu of reform options from which to choose, and the information on which to base their choice.

In terms of surface irrigation systems the situation is both similar and different. "Similar" in that the poor performance of the River Basin Development Authorities (which manage the large surface irrigation schemes) is as bad as that of the urban water supply utilities, and has many of the same characteristics. And "similar" in that the challenge is to develop a coherent vision of a sustainable set of institutional and financial arrangements, with users moved from the margins to center stage. And also "similar" in that the solution will surely involve substantial investments to "get things running again", but only in conjunction with a new set of institutional arrangements which can ensure sustainability. (The Guinea-Conakry case shown in Box 1 is as relevant to these systems as it is to the urban systems.) But surface irrigation is "different" in Nigeria in that this issue affects far fewer people and is far less politically visible. And it is different in that (aside from putting the RBDAs on the list of "state agencies to be commercialised" as part of the overall Privatization Program) there has been no discernible leadership taken, within the Ministry of Water Resources, or by any external partners (including the Bank, who implicitly appear to have chosen to not get engaged in the difficult but important

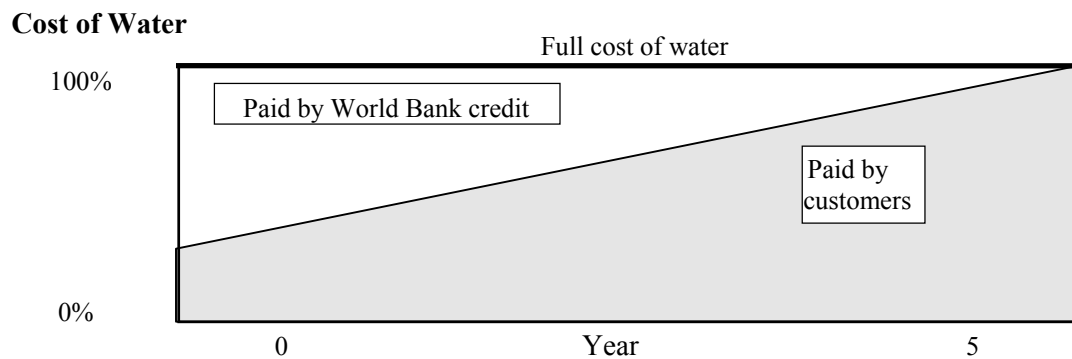
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<sup>4</sup> The World Bank has recently published a remarkable book by a senior government official on the water concession contract in Manila. The book, "Manila Water Concession: A Key Government Official's Diary of the World's Largest Water Privatization", is particularly insightful on how to make such a process open and transparent.

issues related to surface irrigation<sup>5</sup>. The Bank has, as described earlier, been involved and done good work in the fadama projects, which embody a modern, decentralised approach dealing with family-owned boreholes. The work on the fadama projects is and should be continued, but it is not a substitute for engagement with determining what to do with the very large investments – a command area of about 400,000 hectares, of which about 20,000 hectares are functioning -- made in surface irrigation systems.

Box: How to move from a vicious to a virtuous cycle – the case of Conakry Water Supply

A very common problem for water utilities in developing is how to make a transition out of a “low-level equilibrium trap”, in which the quantity and quality of services are poor, which means willingness to pay is low, which means revenues are low, which means services are poor, and so on. An innovative approach in the city of Conakry shows how creative financing can help break out of this vicious cycle. In 1987, the government water utility functioned very poorly, and the quality of services in Conakry was abysmal. The government of Guinea decided that they wanted to attract the private sector in, an approach which had worked well in the Ivory Coast and other countries in the region. The problem was an obvious one -- no private company would be interested in a contract when revenues were only a fraction of the costs! The solution which was devised is illustrated in the figure below. The private operator was assured of sufficient revenues by a combination of (initially low, but rising) revenues from users and (initially high, but declining) subsidies from the government (largely paid out of a World Bank credit). The trick was to use a time-bound, transparent “transition subsidy” to improve services, and then raising tariffs for the improved service. The vicious cycle was replaced by a virtuous cycle of good service and reliable revenues.



<sup>5</sup> The World Bank has had relatively little involvement with the RBDAs, or investments in the dams they have built and manage. The one exception is that the Bank did finance the large Kainhi hydroelectric dam, which has some downstream irrigation potential.

## Preparing the ground for long-term challenges

On the optimistic assumption that the service supply issues can be addressed, there are a host of water-related long-term challenges which will then come to the fore. By the year 2025 Nigeria will be the 5<sup>th</sup> most populous country in the world, posing huge challenges for using water more effectively in employment-generating agriculture, for meeting the needs of the mega cities (with the population of Lagos projected as 25 million and Kano and Kaduna over 10 million! Bank priority should overwhelmingly be focussed on the short-term implementation priorities, while continuing to support substantive dialogue on the reform agenda as the Ministry of Water Resources quite appropriately also wants some help in starting to develop an understanding of, and capacity to deal with, these long-term challenges.

There are several of these.

Beyond the challenge of urban water supply, there are two major water challenges in the water environment. The first is to supplement the actions on water supply with actions on sanitation. These will overwhelmingly NOT be investments in sewerage, but in improving the provision and management of on-site systems (including septic tanks and improved pit latrines). The second is to address the serious problems of water supply and sanitation in rural areas, building on the demand-oriented approach which is being piloted in the Bank Learning and Innovation Loan for small towns.

In the rural sector, an important challenge identified by the Government is transforming the River Basin Development Agencies from being de facto construction agencies into participatory management agencies. The Government is aware that this is a long-term task and that, again, the sequencing issue is vital. There is broad agreement that it would be best to start with one or two of the twelve RBDAs, and to start where there are major users who are demanding greater participation and clarity about rights, allocation procedures and financing. Here there is an obvious (and potentially productive) spinoff from a concession agreement in Lagos, which would make a good pilot case. For a private operator cannot depend on the current vague “license agreement” between the Ogun-Oshun RBDA and users, but will require much greater clarity on water rights, operating procedures and financing. A second pilot basin which might prove productive is the Hadeija-Jamaare, where stakeholders include the city of Kano, irrigators of 20,000 hectares, the Hadeija Wetlands (whose interests are represented by mobilised and articulate NGOs) and ultimately Lake Chad.

Nigeria also faces a number of water-related environmental problems. Some of these relate to the operation of the large surface water systems (as exemplified by the problems in the Hadeija Wetlands). Others relate to the management of watersheds (on which a start is being made in a World Bank Micro Watershed Management Project currently being identified.)

Finally, Nigeria’s water resources challenge is complicated by transboundary issues that are both intra-national (inter-state) and international. RBDA reform and re-birth is needed if Nigeria is to deal with effectively with inter-state water quantity and quality management. In addition, Nigeria, like all other African states have to develop effective

mechanisms for joint management and benefit sharing on international river basins (most notably the Niger, the Benue and the Lake Chad system in the case of Nigeria). There are long-standing but ineffective arrangements for dealing with these. There is now some support from the Bank through GEF-funded projects, but a strong desire from the Government to have greater activity and commitment from the Bank.

### The challenges for the Bank – walking the talk

The Bank is in the process of formulating a new relationship with a democratic Nigeria, and faces several challenges in doing this. Our visits and consultation brought to the fore several elements which we need to face.

First and most important is the fact that civilian rule in Nigeria is precarious, and that THE short-term test for the Bank will be to help the government produce improvements in peoples' lives, and be seen to produce them. As indicated earlier, this will need to focus on high-visibility high-profile issues – such as electricity and water supply -- for which there is an overwhelming need and demand. And it will mean moving fast and with a clear understanding that the best can easily become the enemy of the good.

Second are some implications in how we deal with water-related issues. As in most of the other country consultations we have had around the world, our clients perceive us to talk about dealing with water in a holistic manner, yet see that there is little communication among Bank staff working on water supply, water resources, irrigation, the aquatic environment, and international water issues. And the client does not see a clear dialogue between our water staff and those working on broader strategic issues. Finally (and particularly important in the case of Lagos) the client sees the IFC and Bank working, at best, as separate institutions and, at worst, at cross purposes.

In part these concerns are a result of the fact that the Bank's program in Nigeria has been in limbo, and in part they will be addressed once a Nigeria Country Team is put in place.

Finally, we were deeply impressed by the quality of many of the Nigerian leaders we met, in the water sector and beyond. And came back home to read an op-ed piece on biotechnology in the Washington Post (<http://washingtonpost.com/wp-dyn/articles/A46532-2000Sep10.html>) by the Minister of Agriculture showing that Nigerians can and will take a leading role in shaping the debate on development issues. This is a partnership which offers great promise.

Our consultation was also enriched by the participation of senior officials who shared with us their experience with the Bank in countries where engagement has been more continuous (Ghana and Tanzania) and on the most ambitious regional water engagement we are involved in in the water sector (the Nile Basin Initiative). Their views confirmed that the Bank had a vital role to play in helping articulate and fund reform activities, and as an honest broker in bringing together partners within countries and on regional challenges.

## Implications for the Bank-wide Water Resources Sector Strategy:

The Nigeria focus country visits and consultation offers an interesting perspective on how the Bank's work on water has changed in the past decade, since conceptually much of the Nigeria water portfolio is a "portfolio of the late 1980s".

On the one hand, the portfolio shows that we have come a long way in ten years. It is striking, for example, how a "wish and hope" strategy for institutional reform in the urban water supply sector was still the norm ten years ago. We set ambitious targets and hoped that a combination of training and twinning and conditionality would do the trick this time. Realities on the ground also show that committed and innovative task managers can find a lot of space for adapting to new information and to innovating. In the portfolio of urban water projects, for example, the task manager has, the design of these projects notwithstanding, made a great contribution by putting the issues of private sector participation on the map (in part with good support from WBI). And the (only) new water sector loan – a Learning and Innovation Loan for Small-Town Supplies – shows that much of the best new thinking on both substance (demand-driven, with heavy involvement of users) and process (experimental, adaptable approaches) have been incorporated and are yielding results.

The irrigation sector brings both good and bad news. Good news in that the small-scale, farmer-based fadama irrigation projects have been a bright spot, both for Nigeria and the Bank, showing that well-targeted support without distorting subsidies can have a major impact and lead to sustainable rural development. The bad news is that little has been done to rescue the appalling state of the large-scale (surface water) irrigation projects. Whatever the initial economics and science of these projects, the reality is that structures have been built, huge investments have been made, the lives of many farmers have been constructed around these investments and the lives of many downstream riparians affected. There is a need for a clear government strategy on these (with the most informed participants at the roundtable arguing strongly that these projects can and must be given attention since they can produce substantial food security and poverty alleviation developments). Once again, as in so many other of the Bank's clients, there is a compelling need for a Bank role in formulating a reform strategy for irrigation and drainage and providing help and best practice guidance in implementing that strategy.

One of the newest areas of Bank activity – micro watershed management – is a promising one. Identification of a first project is currently underway. This is a growing (and exciting) area of Bank involvement, and one where there are substantial gains to be made by sharing cross-regional experiences (something which has not yet been part of the Nigeria project). Bank projects in other regions (South and East Asia and Latin America) have shown that by putting farmers in the drivers' seat, these projects can produce both economic benefits and environmental improvement, and thus contribute to sustainable poverty reduction in rural areas.

One of the clear conclusions emerging from our field visits and the roundtable is that the Bank's Africa Region has played a very constructive and central role in bringing together partners around water issues. These partnerships range from sector-specific partnerships (such as the Abidjan-based African Water Utilities' Partnership) to the broader Global

Water Partnership and African Water Resources Management Forum to the revitalization of discussions around international water courses such as the Niger, Benue and Lake Chad basins.

In the roundtable it was agreed that while short-term results on issues of great public concern must be the highest priority for Bank support, we must simultaneously start to address some of the longer-term issues, primarily through policy dialogue at the moment. These include the pervasive set of environmental issues (ranging from sanitation and industrial waste, on the one hand, to land-use, coastal zone and wetland management on the other) and the vital issues of international water management.

Finally, in the area of water (as in other areas) Nigeria is blessed with many highly-trained, dedicated professionals capable of assuming leadership roles in Africa and beyond. While their (like our) primary focus must be on solving domestic problems, there are two compelling reasons for coupling this domestic focus with a greater role on the continental and global stage. First because exposure to regional and global dialogue will have substantial benefits for Nigeria. And second because many of these individuals have (for example in the case of the newly-created African Water Forum) and can take regional and global leadership roles.