

INTERNATIONAL DEVELOPMENT ASSOCIATION  
AND  
INTERNATIONAL MONETARY FUND

NIGERIA

**Joint Staff Advisory Note on the National Economic  
Empowerment and Development Strategy (NEEDS)**

Prepared by the Staffs of the International Development Association (IDA)  
and the International Monetary Fund (IMF)

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**I. Overview**

- 1. The 2004 National Economic Empowerment and Development Strategy (NEEDS) focuses on Nigeria's commitment to rapid and sustainable growth and poverty reduction.** NEEDS is based on three pillars: (i) empowering people and improving social service delivery; (ii) fostering economic growth, in particular in the non-oil private sector; and (iii) enhancing the effectiveness and efficiency of government and improving governance. This Joint Staff Advisory Note (JSAN) was prepared in response to two recent events: (i) the e-classification of Nigeria as an IDA-only country on June 2, 2005, and (ii) the authorities' request for the IMF to support their reform program under a proposed non-borrowing instrument. Since NEEDS was prepared about 18 months ago, the JSAN presents an assessment of the strategy itself, progress in its implementation to date and the staffs' advice on key priorities for strengthening NEEDS and its implementation.
- 2. The staffs of IDA and the IMF consider NEEDS a significant achievement.** NEEDS presents a first attempt to clearly articulate a coherent and comprehensive vision for economic growth and poverty reduction in Nigeria. In the view of the staffs, NEEDS correctly identifies the key development challenges Nigeria faces and proposes a response that is broadly sound. However, more work is needed to (i) understand better the nature and dynamics of poverty in Nigeria; (ii) prioritize and sequence the different elements of the strategy; (iii) make NEEDS more operational by detailing and costing specific sectoral strategies and programs to achieve the goals and objectives; and (iv) design and implement a strong evaluation and monitoring framework. Implementation of the strategy in 2004 and the first half of 2005 has been impressive, especially in the area of macroeconomic policies, but implementation of the overall strategy will need to be deepened and sustained over a period of time to begin to yield the desired impact on poverty.

3. **Within the framework of Nigeria's federation, policy coordination between the three tiers of government is critical for achieving poverty reduction objectives.** This presents an important challenge that cuts across all sectoral initiatives and requires a much better definition of the roles and responsibilities of the various levels of government. The federal government has set up a framework to make subnational governments active partners in a nationally coordinated economic reform and poverty reduction strategy. Under the umbrella of NEEDS, all 36 states have now developed state specific poverty reduction strategies—State Economic Empowerment and Development Strategies (SEEDS), and 35 states have volunteered to be assessed on their SEEDS and on their implementation performance to date. This presents, for the first time, an avenue for coordinated macroeconomic and sectoral policies, including reform strategies in priority areas.

4. **The staffs recommend that the federal government accelerate the preparation of the first annual progress report and revise and update NEEDS based on the recent implementation experience.** Special attention should be paid to clarification of program targets in the core social sectors, as well as stronger linkage between NEEDS targets and MDGs. In addition, several sectoral strategies will have to be developed to facilitate implementation of NEEDS policies.

## II. Poverty Diagnosis

5. **Poverty diagnosis in NEEDS is constrained by weak statistics on poverty, particularly on income poverty.** Surveys in 1980 and 1992 showed an increase in percentage of Nigerians living below the relative poverty line (defined as expenditures of less than 2/3 of the average per capita household expenditures), from 28 percent to 43 percent. A 1996 survey suggested a further increase in this level to 67 percent, but this is likely to be an overestimation in the light of the trend in GDP per capita over the same period (in addition, the various household surveys are not fully comparable over time). Based on the 1996 survey, the NEEDS document indicates that in 1999, over 70 percent of Nigerians lived below this relative poverty line, with an estimated 70 percent of this group living in rural areas. The available data on non-income indicators are weak as well, but they also suggest a high incidence of non-income poverty, especially in the rural areas. Life expectancy is a mere 54 years, and infant mortality (100 per 1000 live births) and maternal mortality (704 per 100,000 live births) are among the highest in the world. Only 64 percent of school age boys and 58 percent of girls attend primary school. These outcomes vary widely by income and by geographic location.

6. **A National Living Standards Measurement Survey (LSMS) was completed in 2004. Preliminary data from this source provide some of the first high-quality data on poverty levels in Nigeria.** Based on this data, the National Bureau of Statistics (NBS) estimates that in 2004, 54 percent of Nigerians lived below the relative poverty line of 2/3 of per capita household expenditures, while 22 percent lived below the extreme relative poverty line of 1/3 of average per capita household expenditures. Due to differences in coverage, these data are not directly comparable to earlier surveys. However, the current data provide a good baseline for future poverty measurements. The LSMS also provides a good opportunity for stronger poverty diagnosis to inform the updating and operationalization of NEEDS.

7. **To move towards an effective poverty monitoring system, the staffs recommend that the government strengthens its framework for generating, regularly updating and disseminating income and non-income poverty data.** Capacity for poverty monitoring and analysis at the NBS needs to be strengthened as part of the ongoing restructuring of the agency. An important short term priority in this area is the implementation of a national Core Welfare Indicators Questionnaire (CWIQ) survey in 2005.

### III. Macroeconomic Policies and Framework

8. **The staffs of IDA and the IMF support the thrust of the macroeconomic policies proposed in the NEEDS document.** The introduction in 2004 of a reference oil price in budget decisions is central to Nigeria's efforts to strengthen management of the volatility of oil revenue. Fiscal restraint, along with tight monetary policy was consistent with macroeconomic stability and inflation was reduced significantly by end-2004. Developments in the first half of 2005 were characterized by a pick-up in inflation and broad money growth. However, in June, the Central Bank of Nigeria (CBN) initiated actions to reduce broad money growth, including an increase in commercial banks' reserve requirements. The authorities have committed to implement a prudent fiscal policy consistent with maintaining macroeconomic stability and will therefore contain the 2005 non-oil primary deficit to 41 percent of non-oil GDP, while the deficit in 2006 is expected not to exceed 38 percent of GDP.

9. **The medium-term macroeconomic framework presented in the NEEDS document is broadly in line with staff projections under a policy reform/high growth scenario.** The medium-term macroeconomic outlook is positive against the backdrop of international oil prices that have increased substantially after the completion of the NEEDS document. Accordingly, external reserves have increased much faster than anticipated in NEEDS. NEEDS aims at achieving a medium-term annual growth of 7-9 percent in the non-oil economy, equivalent to real per capita income growth of about 4 percent, while maintaining single digit inflation, raising gross international reserve coverage to 7-8 months of imports (goods), and reducing the public debt burden to sustainable levels. Such sustained high growth rates are necessary to halve poverty by 2015 to meet the MDGs. To achieve these goals, which are very ambitious, overall favorable economic conditions and a strong coordinated implementation of reform policies will be needed across all main economic sectors. As done in some other countries preparing PRSPs, it may be useful to consider in the future alternative macroeconomic scenarios, some of which may be more in line with past experience. The staffs also recommend that fiscal projections in future NEEDS documents focus on the consolidated fiscal position, rather than just the federal government's fiscal position.

10. **NEEDS provides for a considerable increase in public investments, which primarily reflects the government's desire to address the country's vast development requirements.** Nevertheless, this may result in a wider non-oil fiscal deficit and complicate the management of monetary policy, while leading to spending inefficiencies and crowding

out exports and private investment. The staffs stress the importance of improving expenditure management, including by cost-benefit analyses for large investment projects, in order to reduce these risks (see below).

**11. The staff considers the passage and implementation of the Fiscal Responsibility Bill proposed in NEEDS as central to the sustained implementation of prudent fiscal policy, and to the reduction of the risks posed to macroeconomic stability by Nigeria's fiscal federalism.** The bill clarifies intergovernmental fiscal relations and the roles of the executive and the legislature in the budgetary process and sets out transparency requirements, sanctions for noncompliance, guidelines for budgetary practices, and a fiscal framework centered on an oil price-based rule. This will help improve macroeconomic management over the medium term. The staffs urge the authorities to complete work on the draft and intensify their efforts to garner support for the bill in the National Assembly and amongst state governors. As indicated in NEEDS, more work is also needed to improve revenue administration.

**12. NEEDS rightly recognizes that Nigeria's trade and tariff policies are out of tune with the rest of ECOWAS and with other developing countries and envisages a move to the ECOWAS Common External Tariff and the removal of the myriad of ad-hoc non-tariff barriers currently existing in Nigeria.** The staffs recommend that the government ensures that this major reform of the foreign trade regime is implemented in the second half of 2005 as scheduled. The new tariff system has four tariff bands (0, 5, 10 and 20 percent). A temporary 50 percent tariff band will be applied to selected imports that compete with locally produced goods. Import bans will be phased out by end-2006 and the 50 percent tariff band by end-2007, respectively. These measures are expected to enhance growth, redress anti-export bias in the current regime, and diminish incentives for smuggling and parallel market foreign exchange transactions. The staffs advise against NEEDS' proposal to use import restrictions to facilitate the restructuring of selected firms and industries, as this will harm other sectors of the economy.

#### **IV. Public Expenditure Management**

**13. NEEDS places considerable emphasis on strengthening public expenditure management to ensure that spending is effective, efficient, and clearly linked to the achievement of objectives of NEEDS.** The key elements of the strategy—improving the budgetary planning process, maintaining an oil-price based fiscal rule, adopting a Medium Term Expenditure Framework (MTEF), making public procurement open and competitive, strengthening the budget office, and ensuring better collaboration between the executive and the legislature on the budget—are sound. The authorities are now preparing an MTEF. Eight major ministries will formulate their medium term objectives and strategies in line with NEEDS and the MDGs, and link their spending programs to these objectives within the MTEF. In addition, a virtual poverty fund will be set up to track poverty-reducing spending. The authorities also aim to undertake annual public investment reviews and cost-benefit analyses for large investment projects to ensure rationalization of capital spending. However, more work is needed to detail the strategy to strengthen public expenditure management and the timeline for implementation. Financial management processes need to be modernized and a system for poverty-focused expenditure tracking and reporting for state and local

governments needs to be developed. The staffs also recommend that the authorities renew efforts to secure passage of the Public Procurement Bill, which provides for establishment of a Public Procurement Bureau to oversee all public procurement.

## V. Sectoral Policies

**14. Agriculture is identified as a major priority in NEEDS, but the strategy for achieving the ambitious performance targets needs to be better articulated and operationalized.** Agriculture is the backbone of the rural economy, and since about 70 percent of the poor live in rural areas, agricultural growth would have a high impact on reducing poverty. Nigeria's rich endowment of land and water resources confers a high potential for agricultural growth, but this potential is not being realized. The staffs stress that the achievement of the government's vision for agriculture as a major driver of growth and poverty reduction will require development of a comprehensive agricultural development strategy that directly addresses issues related to (i) the coordination of policies, including government support, in the sector; (ii) access to key production inputs such as seeds, fertilizer, and credit; (iii) definition of roles and responsibilities among the various actors in the sector, (iv) sequencing of interventions, and (v) strengthening cross-sector linkages.

**15. The staffs agree with the education and training strategy outlined in NEEDS, and urge the authorities to flesh out the operationalization and costing of the strategy.** More detailed analysis of the institutional and administrative structure for implementation is also recommended. The staffs also urge the authorities to prepare national and state secondary and tertiary education strategies in line with the objectives of NEEDS that aim to realign education with the needs of the labor market. More analysis of the growing demand for middle and higher level skills and how the quality of graduates can be improved at each level is needed. The staffs propose that the authorities review experiences in other federal systems regarding the use of matching grants in education and health to help define more clearly how the matching grants system suggested in NEEDS can be operationalized.

**16. The Universal Basic Education (UBE) Act, passed in May 2004, sets out roles and responsibilities and a new organizational structure at the federal level.** It includes a definition of the roles of federal agencies for formal education, non-formal programs, early childhood and nomadic education. Despite the considerable effort in the preparation of the UBE program, implementation will be challenging and will require close coordination between federal, state and local governments.

**17. NEEDS provides a comprehensive list of necessary activities in the health sector and supports the finalization of important legislation defining a national health system and the responsibilities of the three levels of government in the sector.** The health sector strategy outlined in NEEDS is extremely ambitious in terms of what can realistically be accomplished within the proposed time frame. Moreover, there is no clear indication of priorities and little indication of a sequence for introducing the changes. The staffs recommend that the authorities work to prioritize and detail the strategy, including by articulating elements that, as the NEEDS indicates, are yet to be prepared. The staffs stress the need for policies to address the large disparities across regions in health services utilization

and health outcomes and the need for increased funding of the sector, especially at state and local government levels. In addition, within the new set of government responsibilities defined in the National Health Act, all stakeholders will have to work hard to build the ownership and capacity of state governments, while simultaneously getting federal agencies to play a more facilitating, as distinct from implementing, role.

**18. To implement NEEDS' health sector strategy, the authorities have prepared a new National Health Policy (approved in 2004) and a detailed Action Plan for achieving progress towards the MDGs.** Key elements of the action plan include (i) a strengthening of the role of state governments in supporting local governments to provide basic health services (ii) developing a National Health Insurance Scheme to help more effectively channel the significant private resources in the system; and (iii) strengthening the federal government's direct support to primary health care under the Health Act. Each of these elements presents a significant coordination and technical challenge.

**19. With a prevalence rate of 5 percent, Nigeria is at the tipping point for an expansion of HIV/AIDS.** NEEDS unambiguously recognizes the potential negative impact of HIV/AIDS on the economic and social well being of Nigerians and outlines a sound strategy for meeting this challenge.

**20. NEEDS recognizes the importance of a competitive private sector for rapid and broad-based economic growth in Nigeria.** The strategy focuses on reducing administrative and regulatory barriers, promoting privatization, enhancing access to key infrastructure and specific measures to promote growth in selected key sectors. The discussion of private sector development however focuses on the formal capital intensive segment of the sector. The staffs recommend that greater emphasis be placed on strategies to develop the currently non-formal small scale sector and allow these enterprises to transit to the formal economy. The authorities will also need to pay greater attention to analytical work on labour market dynamics and the extent to which labour market regulations constrain productivity and growth.

**21. As part of the strategy to develop the private sector, NEEDS highlights the importance of a well developed and stable financial sector and outlines an ambitious strategy in this regard.** Progress has been already made in its implementation. The CBN announced a major bank restructuring reform in July 2004. The minimum capital requirement will be increased from about US\$15 million to US\$190 million at end-2005. The capitalization program is supported by measures to encourage bank consolidation through mergers and acquisitions. A high-level steering committee to guide the process was established in June 2005. While welcoming these steps, the staffs recommend that the CBN develops a strategic plan to deal with failing banks, strengthen its legal powers to close them, and enhance banking supervision. Moreover, the scope of the financial sector reform program needs to be broadened to improve the lending environment for banks and increase the capacity of the financial system to fulfill the financial service needs of the economy.

**22. NEEDS emphasizes rapid development of energy resources as critical for growth and poverty reduction.** It outlines an ambitious strategy to raise generation capacity by over 3000 MW in the next three years through public private partnerships. The staffs recommend

that in parallel with this effort to raise generation, adequate attention be paid to strengthening and improving transmission and distribution networks. The staffs also recommend that the recently adopted Electric Power Sector Reform Act be fully implemented, particularly in terms of expeditious set up of the regulatory framework and establishment of a competitive market for open access to the grid, to ensure the proper environment for more active engagement of the private sector. Since incremental power generation will depend crucially on access to domestic natural gas and associated essential infrastructure investments, the staffs also urge sustained pursuit of reforms in the gas sector. In addition to steps to improve transparency in the petroleum sector, the staffs advise completion of ongoing commercialization of the NNPC, the privatization of the oil refinery complexes and the articulation of a national petroleum sector strategy, which should include a plan for the re-introduction of a market-based mechanism for setting petroleum product prices. Considerable work has been done on appropriate strategies to encourage development of the local gas market. Reform legislation, which is now under consideration in the National Assembly, has to be adopted shortly. In addition, more attention could be paid in the strategy on the issue of access and affordability of energy services (and in fact other basic infrastructure services) at the household level, especially for the poor.

**23. The weak financial discipline in the power sector requires further government attention.** The annual subsidy from the federal budget to cover financial losses and investments in the sector amounts to nearly US\$400 million, higher than the federal budget for health. It will be important to identify the “full costs” of providing power and begin to translate this into appropriate pricing of the service, while introducing adequate mitigation measures to protect vulnerable groups. As part of efforts to improve financial discipline in the sector, the government is also implementing a strategy called CREST (Commercial Reorientation of Electricity Sector Toolkit) that targets loss reduction, energy accounting, commercial improvements and customer service enhancements. The objective is to build value in the distribution business in order to pave the way for further reforms and private sector participation.

**24. Implementation of the reforms underpinning the power strategy gained momentum with the unbundling of National Electric Power Agency into eleven distribution business units, six generation units and a Transmission Business Unit between January and October 2004.** These units are now operating as virtual companies as a prelude to their eventual set up as registered public companies under the new Electric Power Sector Reform Act.

**25. The transport strategy which focuses on rapidly privatizing key infrastructure services; providing targeted transport service interventions for the poor and vulnerable; and encouraging public-private partnership in the delivery and management of transport infrastructure is appropriate.** It also stresses the importance of sustainable road maintenance arrangements. The staffs recommend that the specific institutional and policy reforms needed to ensure service efficiency and sustainability be elaborated. The staffs also urge the government to pay specific attention to (i) enacting the Public-Private partnership in Infrastructure Bill, and entrenching the principle of balanced share of risks by adoption of a transparent costing process in the infant stages of the partnerships; (ii) drafting and enacting

legislation to establish the proposed Federal Highway Authority; (iii) drafting and enacting legislation to establish the National Roads Board and the Road Fund to finance road maintenance on a sustainable basis; and (iv) assisting states in improving mobility of and access to all season roads by rural communities.

**26. In line with this strategy, the government has now begun implementation of both port and railway reforms aimed at institutional restructuring, streamlined staffing, improved private sector participation and establishment of an independent regulator.** Negotiations are underway for the management of four port terminals to be handed over to private operators.

**27. NEEDS highlights the government's desire to accelerate privatization.** While the privatization strategy is sound, the pace of the process was disappointing in 2004. However, the authorities have ambitious plans for further privatizations and concessioning in 2005-06, including in key sectors such as oil and gas, power, telecommunications and transport. The government is also taking steps to upgrade legal and regulatory frameworks, creating a regulator for each sector to ensure transparency and accountability, and expanding market opportunities for private sector participation, including in unbundled services for the power and oil and gas sectors. In the area of privatization as well as in a number of other sectoral reform areas considered above, it will be important for the authorities to consider conducting Poverty and Social Impact Analyses of the potential impact of selected reforms on the poor.

## **VI. Governance, Transparency and Accountability**

**28. Strengthening the accountability and transparency of public policies, fighting systemic corruption in public institutions, and enforcing the rule of law are central elements in NEEDS.** The authorities believe that weak governance practices have been the root cause for Nigeria's poor economic performance and stalled reform efforts. The NEEDS strategy is comprehensive and broadly sound. Its specific elements include greater budget transparency; transparency in the oil sector; procurement reform, strengthening of anti-corruption agencies such as the Independent Corrupt Practices and Related Offences Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC); and review and strengthening of relevant laws and regulations. Implementation of these measures has been vigorous. The government has raised the profile of its anticorruption drive through the arrest and trial of high-level officials. A civil service reform program has recently been extended from the pilot ministries and agencies to the entire civil service, and work is under way to computerize the civil service roster and the payroll.

**29. Nigeria has made significant progress in advancing its commitment to the Extractive Industries Transparency Initiative (EITI).** Passage of an EITI bill, expected before end-2005, will provide the legal basis for collecting and publishing oil revenue data. Furthermore, an international firm is auditing the oil and gas accounts of both government and oil companies for 1999-2004. Physical and cost audits of the oil and gas industry will follow and the results are expected to be published by the end of 2005. Campaigns have also started to inform the wider public about the objectives of EITI and its relevance to the Nigerian population. Other critical actions include the publication of audited NNPC accounts and

transparent licensing of new exploration and production rights. The staffs advice that in line with the EITI, the above transparency and good governance initiatives be extended beyond the government departments/ministries to cover major parastatals.

## **VII. Participation, Coordination, and Monitoring**

**30. The authorities have deepened civil society consultation and participation during NEEDS preparation and implementation.** Core information is being provided to the Nigerian public on the management of public expenditures and on the NEEDS objectives. This is empowering Nigerians to demand accountability from the government. The federal government has also begun efforts to bring civil society into consultations on budget preparation.

**31. The poverty reduction strategy has been an important vehicle for donor coordination.** Nigeria's donor partners worked closely to support the preparation of the NEEDS and have also supported the ongoing benchmarking of states' performance under their SEEDS. Donors are now framing their assistance around NEEDS and SEEDS, thus bringing greater coherence into donor support programs. The World Bank and DFID have prepared a joint strategy of assistance to Nigeria and other donors are likely to join this partnership. On the side of the government, donor coordination is being strengthened through the consolidation of this function within the federal Ministry of Finance.

**32. The government has recently inaugurated a high level Committee for Monitoring progress towards the implementation of NEEDS/SEEDS and the MDGs.** This is chaired by the President and includes state governors, key ministers and directors of federal agencies. A technical secretariat to inform the work of this high level committee has also been set up. An MDG monitoring framework, which includes an expenditure tracking system, is being put in place. However, monitoring of NEEDS/SEEDS and the MDGs and tracking expenditures is complicated by Nigeria's federal structure and the considerable autonomy of states and local governments. A particular challenge will be to define proper roles and build adequate capacity for several agencies (such as Joint Planning Board, National Council on Development Planning, etc.) that are central to program monitoring. The staff highlighted the need for considerable technical assistance over a period of time to build needed capacity, particularly at the state and local levels. Building capacity of civil society to engage on budgets and on NEEDS will need to be a central element of this effort. The staffs noted the critical importance of considerably strengthened statistics for adequate monitoring and evaluation of the NEEDS.

## **VIII. Conclusion**

**33. In sum, Nigeria's poverty reduction strategy is a major first step forward in defining a credible agenda and framework for economic growth and poverty reduction.** Given the complexity of Nigeria's poverty reduction challenge, more work is needed in subsequent revisions of the NEEDS to further prioritize, detail and operationalize the strategy, amend it in light of implementation experience and prepare a detailed costing of the program. In addition, a strong monitoring and evaluation framework needs to be built to regularly

assess outcomes and impact. Implementation of the macroeconomic aspects of the NEEDS in 2004 and early 2005 has been impressive. The authorities have taken bold steps to improve macroeconomic policy management and to tackle corruption, in keeping with their intention to consolidate democracy and improve the business climate.

**34. At the same time, the staffs point to considerable risks for successful implementation of the NEEDS.** Domestic political support for reforms could diminish as Nigeria approaches the 2007 national elections. There are also fundamental risks associated with a possible negative oil price shock. Finally, institutional and technical capacity within the public service to implement and monitor the NEEDS is limited. To reduce these risks, the staffs recommend (i) adhering to the oil-price based fiscal rule, based on a conservative international reference price for oil; (ii) accelerating adoption of core reform laws (such as fiscal responsibility, procurement, and EITI bills); (iii) strengthening the government communication strategy to increase understanding of the benefits of reforms; and (iv) focusing implementation efforts to achieve “quick wins” in service delivery.

**35. As the government strengthens the focus and implementation of its poverty reduction strategy, the main challenges are:**

- to maintain sound macroeconomic policies and strengthen the links between the poverty reduction strategy and annual government budgets by the timely development and update of a Medium-Term Expenditure Framework aligned with the strategy;
- to strengthen the basis for private sector growth by improving power and transport infrastructure;
- to improve transparency and accountability of the public sector, rationalize the public investment program, and reduce corruption;
- to secure adequate resource allocations for the health and education sectors, improve service delivery, and develop a poverty-related expenditure tracking and reporting system for all government levels; and
- to update NEEDS, develop sectoral strategies, strengthen the links between NEEDS and SEEDS, and develop NEEDS-based performance targets and progress reporting.

## **IX. Issues For Discussion**

- Do Directors support the staffs’ view that NEEDS is a major first step forward in defining a credible agenda for economic growth and poverty reduction in Nigeria?
- Do Directors agree with the priorities for strengthening NEEDS and its implementation, as identified by the staffs?
- Do Directors agree with the major risks to the strategy, and the measures that could be taken to mitigate these risks, as identified by the staffs?