1. Country and Sector Background

Country Context

1. After a sustained growth spurt, Nigeria’s economy now faces testing times. Between 2003-2008 Nigeria’s economy boomed. Higher oil prices and a series of home-grown, economic reforms put the country on the road to middle-income status. Oil dominates the Nigerian economy accounting for over 95 percent of exports and nearly 85 percent of government revenues. Economic growth continues to be closely linked to oil. As oil prices climbed inexorably higher, the Nigerian economy grew rapidly. In 2008, the fall in oil prices led to a budget shortfall and depreciation of the Naira. However, prudent management of previous oil windfalls has resulted in a public debt/GDP ratio of 12.5 percent and foreign currency reserves of over US$45 billion in 2008. This provides Nigeria with a sizeable cushion and the ability to weather the current financial storm.

2. Growth has yet to benefit large parts of the workforce and the population. The oil sector accounts for just 0.15 percent of employment. The majority of the workforce and almost all the poor are engaged in the non-oil sector which is dominated by agriculture; a sector which accounted for 23 percent of GDP and 60 percent of employment in 2005. Although the non-oil sector has grown rapidly, averaging 10.2 percent in 2004-2007, it has not been able to create a large number of formal sector jobs.

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1 According to UNCTAD this represents the most highly concentrated export structure in the world.
2 Commercial Agriculture Development Project, Project Appraisal Document
3. **The reform momentum and infrastructure spending has slowed over the past year.** The administration has understandably taken time to take stock of the situation and build an inclusive coalition for reform. A consensus has emerged on revenue sharing and the use of the excess crude account. Nevertheless challenging structural reforms are needed to close the infrastructure gap, diversify the economy, improve living standards and resolve the Niger Delta situation. Recent political challenges related to the absence and illness of President Yar’Adua heighten the uncertainty around reform momentum.

4. **The global financial crisis presents a serious challenge to Nigeria’s growth ambitions.** Nigeria has a vision of becoming a top twenty economy by the year 2020. Achieving this objective would require sustained growth at close to double digit rates. However, growth started to slow in 2008 and early estimates of growth for 2009 range from 5–6 percent as the secondary impacts of the financial crisis begin to be felt. The main transmission mechanisms of the global financial crisis are falling commodity prices, especially oil prices, reduced net capital inflows (in particular FDI and remittances), and the drying up of trade finance and international lines of credit. Despite improvements in economic and political governance stretching almost a decade, Nigeria finds itself in economic difficulties due to the global economic crisis and has drawn down the excess crude account from a high of over US$22 billion to just US$4.5 billion in February 2010.

5. **Nigeria’s pro-private sector growth strategy is embodied in the President’s 7-point agenda and the National Economic Empowerment and Development Strategy (NEEDS).** The President’s 7-point agenda also stresses the need for wealth creation and employment as a priority. Policy-makers are agreed that Nigeria needs to explore options to diversify into non-oil sources of growth and reduce the current dependence on hydrocarbons. Diversification is important for making growth sustainable, increasing employment and living standards of the poor and hedging against the potential shocks from dependence on a single commodity. Nigeria’s growth strategy, NEEDS, targets improved public finances and a better economy through structural and institutional reforms. Complementary strategies have taken the reform impetus to the thirty-six states. All the strategies have recognized the importance of the private sector for growth and poverty reduction.

6. **Nigeria is at a crossroads.** The country can choose to tackle the distortions that have reduced incentives for investment and productive activity and move towards sustainable and diversified growth. It can also build on islands of success and promising cluster initiatives and enclaves that can then pull along the rest of the economy (successfully achieved in China and India) or it can ignore the reform imperatives and pay the price of having a highly distorted, rentier economy, once oil prices fall.

**Sector Challenges**

*Removing the bottlenecks to private sector growth and competitiveness*

7. **The project will focus on improving the investment climate and supporting public and private interventions in six key growth sectors:** meat and leather, construction, ICT, tourism and hospitality, entertainment and wholesale/retail.

8. **Sustaining recent growth rates depends on improving national competitiveness.** Despite recent progress, the Nigerian economy continues to face significant competitive challenges. Total factor productivity appears to have fallen consistently between 1970 and 2000. By several
measures Nigeria is one of the least competitive countries in the world. Agricultural exports have fallen from 2.5 percent to 0.2 percent of total exports between 1980 and 2005. Manufacturing has similarly shrunk from 8.4 percent of GDP in 1980 to just 4.6 percent in 2005. Entire sectors, such as textiles, have been all but wiped out over a few years despite high tariff and non-tariff barriers.

9. **For years Nigerian firms have faced a tough business environment.** A desperate shortage of energy and a poor transportation network as well as low-levels of education in the workforce in general and continuing unrest in the Niger Delta have all played a part in a declining manufacturing sector and reduced competitiveness. And yet Nigeria’s resourceful businessmen and women continue to find ways of coping. The resilience of the private sector promises a much improved performance if government and the private sector can partner to remove some of the most significant obstacles to doing business. Improving the investment climate will also spur the repatriation of Nigeria’s capital. Without national investment opportunities, domestic savings have consistently been higher than national savings, confirming Nigeria’s net capital flight.

10. **Government must move quickly to tackle job creation and poverty reduction.** With one in five Nigerians unemployed, the country is not maximizing its human resource potential. Demographic trends are equally alarming. It is estimated that each year as few as one in ten of the six million new entrants to the labor market find jobs. The World Bank’s Growth and Employment study heralds this as “a growing employment crisis”. Open unemployment of the youth aged between 15 and 29 years is estimated to be 60 percent. Persistent youth unemployment coupled with unrest in the Niger Delta and other parts of the country is a potentially incendiary situation. Nigeria’s policy-makers and development partners recognize that this requires swift attention.

11. **Nigeria’s workers need to be more productive to compete in a globalized 21st century economy.** An unskilled Nigerian worker is paid around $100 per month. This is lower than many of Nigeria’s competitors. And yet they produce less than $300 per month. When their output is compared to their cost, Nigeria’s workers are shown to be less productive than their counterparts in more dynamic countries such as Kenya and South Africa. One reason that Nigeria’s workers are less productive is that Nigeria’s factories and enterprises are idle close to one-third of the time. Another reason is the low levels of skills of the workforce in general and the growing preference for non-science and non-technology related subjects at the tertiary level: a trend that needs to be reversed if Nigeria is to reap the benefits of becoming a 21st century knowledge-based economy.

12. **The investment climate has been neglected for too long.** The relationship between a better investment climate and higher levels of private investment is well established in Africa. Since independence, Nigeria’s oil sector has provided the vast majority of government revenues. As long as they did not need a robust private sector to provide tax revenues and job creation,

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4 Kwawka et. al.
5 Nigeria ranks 118 out of 181 countries in the World Bank Doing Business Index.
6 It is estimated that Nigeria generates less than 3,000MW of power while there is demand for more than 40,000MW of power.
8 Nigeria: Investment Climate Assessment
9 See for example *The Investment Climate in Africa from the Perspective of Private Investors*, World Bank Paper (2007)
government largely ignored the private sector. As a result much of the legal and regulatory framework that governs private sector activities dates to colonial times.

13. **Nigeria’s investment climate is particularly poor**\(^ {10}\). Nigeria ranks 125 of 183 in the World Bank’s Doing Business index, performing particularly poorly in four indicators: registering property (178); obtaining construction permits (1621); trading across borders (146); and paying taxes (132). It is now time for government to focus on providing the public goods and conducive investment climate that are essential to enable private sector growth.\(^ {11}\)

14. **Improving productivity will take simultaneous efforts to improve whole industries and to improve individual firms within the industry.** Unlike other countries, Nigeria’s best firms have not been able to grow larger and take a bigger market share. To allow this to happen, policymakers need to identify and eliminate the obstacles to competition, by reducing barriers to entry, simplifying taxes, property registration and licenses and facilitating trade across borders. (See Section II and Annex 4).

**Overcoming challenges within the investment climate and promising value chains**

15. GEMS will support key investment climate reforms in Land and Tax administration. It will also support a process of improved investment promotion.

16. Investment in land and buildings represents just 12%-14% of gross capital formation. The low rate of investment causes shortages of housing and commercial and industrial property preventing the growth of many industries, including the construction industry itself. The Doing Business 2010 Report indicates that Nigeria is one of the slowest and most expensive places to register property. A detailed 2008 study of eleven states showed that on average it took 12 procedures and 4 months (see Figure 1). The costs were on average 16% of the property value compared to China (3% of value), South Africa (8%) and India (9%).

17. The ICA revealed that businesses regard tax rates and administration to be significant constraints to business expansion. In fact, tax rates are lower than most comparator countries but the way taxes are administered makes their level appear arbitrary, and they are time consuming for businesses to comply with. A typical Nigeria business takes 1,120 hours per annum to comply with 35 separate tax payments. Tax evasion is widespread, reducing the tax base and constraining government investment in infrastructure. The whole system operates at a low equilibrium in terms of tax collection, investment and growth.

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\(^ {10}\) Nigeria Investment Climate Assessment. World Bank, 2008.

\(^ {11}\) Kwawka et. al.
18. The poor competitiveness is caused both by government failures, notably poor policies and institutions and lack of investment in infrastructure and other public goods, and by market failures of information and coordination that result in a low correlation between market share and efficiency. In addition, productivity is low because of poor management and business models. The lack of competitiveness reduces the return to investment and its productivity in terms of growth and jobs. These issues are explained in detail in the Bank’s “Employment and Growth Report”.

Figure 2 - Growth by sector 2005 – 6 (percent)

19. Nonetheless there are sectors which are growing quickly (Figure 2). GEMS will increase the incentive to invest in industries with high potential for growth and employment by improving the competitiveness of strategic clusters.

20. As part of the GEMS design process, a study was carried out to identify industries with high growth and employment potential and which provide fertile ground for successful intervention. Industries were judged against two criteria:

The potential to offer strong upside in terms of growth, employment and spillovers (cost discovery and economic linkages);

The feasibility of successful intervention in terms of ability to bridge the competitiveness gap, likelihood that policy failures could be addressed and the presence of a private sector able to address market failures.

21. Based on the finding of the GEMS sector study, six industries were identified for intervention: i) ICT; ii) Hospitality (Hotels & Restaurants); iii) Entertainment; iv) Wholesale/Retail; v) Construction; and vi) Meat & leather. Detailed analysis of how the cost structures of three of these industries are presented in the figure above.

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12 The ICA reports low Total Factor Productivity compared to other countries but notes that better managed firms 60%-80% more competitive than the worst.
14 Entertainment (film and music) was not analyzed in the first study but included subsequently through analysis carried out by the World Bank.
these of industries are affected by government and market failures has also been carried out. In summary, some of the key constraints in each sector include:

- **ICT**: infrastructure, skills, and regulatory constraints;
- **Hospitality**: convoluted and expensive visa process, little use of ICT for booking payment or marketing, weak management and customer service skills, slow uncertain and expensive land acquisition and development process;
- **Entertainment**: copyright piracy; weak distribution chains; low levels of technical skills, production equipment; investment and little access to finance;
- **Wholesale/retail**: poor storage, handling/transport and physical market infrastructure; underdeveloped processing and packaging; and constrained competition;
- **Construction**: lack of skilled labour linked to weak TVET; constraints of slow uncertain and expensive land acquisition and development process; poor quality/high cost inputs such as concrete and poor access to finance;
- **Meat and leather**: poor quality hides, veterinary services, cold chains/storage, outdated abattoir practices, high stock levels because of lengthy import and export delays.

22. The potential contribution that the six industries selected could make to growth and employment, and the pressing issues that each faces and the strategic clusters in which GEMS will work is set out below. More details of the interventions envisaged in each industry are set out in the appendices. During its implementation, GEMS may identify additional industries that also have the potential to make strong contributions to growth and employment and where the conditions for success are favorable. More detail on this is available in the various notes on file including the Project Components and Economic and Financial Analysis. The complete value chain analysis is also on file.

2. Objectives

23. The GEMS Project represents a broad multi-donor initiative of which IDA will fund certain components and sub-components. The Project Development Objective is to: increase growth and employment in participating states. This will be addressed by improving the Investment Climate (Component A, to be funded directly by DFID) and by strengthening industry competitiveness and job creation in selected states (Component B, funded in part by the Bank), and by leveraging impact beyond immediate stakeholders and target areas (Component C, funded by the Bank). The Project will deliver three outcomes:

- An improved investment climate that reduces the cost and risk of doing business providing a greater incentive to invest; (linked to Component A)
- Increased competitiveness of strategic clusters in selected non-oil industries improving the return to investment in terms of growth and jobs; (linked to Component B) and
- Effective monitoring, evaluation and dissemination of information to provide valuable lessons which, through communication and peer learning, help to leverage the project impacts. (Linked to Component C)

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15 Product Value Chain Analysis, Consilium International, 2008 covers the construction, wholesale/retail and meat & leather industries.
The project will be delivered through the Nigeria’s Federal Ministry of Commerce and Industry. The annual allocations for spending across the four target states and FCT will be determined through annual work-plans and budgets. Support to deliver Outcome 1 will focus initially in four states: Kano, Kaduna, Lagos and Cross River. Additional focal states will be added according to demand, needs assessed, growth potential in relevant industry sectors, favorability of context and availability of funds. Outcome 2 will focus on these four states plus the FCT, while working in other states as required by value chains that do not fit neatly within state boundaries. Anambra as a growth pole for the South East zone is likely to be included once the project has been established and has the capacity to support further expansion. If conditions in the Niger Delta region improve the project may also support development efforts possibly focused around youth employment and/or oil-related services in that troubled region.

The key performance indicators for the project are:

- An increase in current levels of inward investment including foreign direct investment in selected value chains (achieved by improving the investment climate as measured by various indices including time to start a business);
- An increase in the number of formal sector jobs created in each value chain; and
- An increase in competitiveness of selected value chains.

This project aims to reduce poverty in Africa’s most populous country by contributing to Nigeria’s growth and employment objectives. Growth and employment are at the heart of the NEEDS and SEEDS strategies. President Yar’Adua’s 7-point policy agenda, (the country’s poverty reduction strategy), explicitly recognizes the importance of employment and wealth creation. Nigeria’s 2020 strategy also targets economic growth as a critical development initiative. The strategy includes an ambitious goal of taking Nigeria into the ranks of the world’s top twenty economies by the year 2020.

The proposed project also represents a central element of the World Bank’s strategy in Nigeria. The Country Partnership Strategy (CPS) which is a joint World Bank / DFID document was presented to the Board in July 2009. It aims to improve the enabling environment for non oil growth. The Nigeria CPS aims to consolidate the country’s recent, rapid growth, embed it in a more diversified economy, and broaden its distributional impact. This project directly supports the second CPS pillar; growing the private sector and focusing on non-oil growth. The CPS also recognizes Nigeria’s federal structure and the need to carry growth to the state level which is also supported by this project.

The Country Partnership Strategy is conducted jointly with the Federal Government of Nigeria and DFID. The discussions are attended by Nigeria’s other major donors USAID and the African Development Bank (AfDB). As such the CPS is an important attempt at donor harmonization and implementation of the Paris principles. The proposed project follows this spirit as it is delivered through a parallel co-financing arrangement with DFID. The project has three components. DFID will directly fund Component A; and two further sub-components of Component B. The IDA project directly funds five further sub-components of the Component B, and the remainder of Component C. The Bank and DFID teams have worked closely together throughout project preparation, and the overall project is described by shared objectives and a joint results framework. DFID has funded the Investment Climate Program (ICP), implemented

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16 See later for more breakdown of component activities and funding, and Annex 5 for a detailed budget.
17 The term ‘project’ is used throughout the document to refer to the joint activities of DFID and the Bank relevant to GEMS. The project is made up of IDA- and DFID- funded components and sub-components
by the Bank, which has produced much of the diagnostic work for the project design. The teams have also ensured full collaboration with USAID and AfDB during the design process. Towards the end of the design phase the French Government through Agence Française De Développement (AFD) also confirmed their interest in providing additional US$100m either through additional parallel co-financing mechanism or another mechanism to be determined. This funding has not been confirmed and the success of the project as currently envisaged does not depend on it.

29. The project also contributes directly to the second strategic priority of the Bank’s Africa Action Plan (AAP) which is to support the private sector as a driver of growth by building skills within the framework of a shared growth strategy. It also supports the Africa Region’s FPD strategy which is focused on improving the investment climate and providing support to SMEs.

30. The proposed project will address remaining challenges in the investment climate, job creation strategies, national competitiveness, and human resource weaknesses. If addressed successfully, the project will make a significant and measurable impact on these higher level objectives.

3. Rationale for Bank Involvement

31. The Federal Government of Nigeria (FGN) has requested the World Bank’s assistance to prepare and finance the proposed project for four major reasons:

(a) The Bank’s expertise in growth oriented investment climate reforms: The Bank has conducted a number of proprietary diagnostics in Nigeria including; (i) Doing Business in Nigeria 2008, (ii) Investment Climate Assessment 2008 and (iii) State Level Institutional Mapping. The Bank administers an ongoing Investment Climate Program (ICP) trust fund (financed by DFID). Government counterparts have requested the Bank’s assistance in improving Nigeria’s investment climate and national and state-level doing business scores.

(b) The Bank can bring an array of global expertise: Successfully tackling growth and competitiveness issues will require; public policy advice, investment finance, reform experience as well as experience in the application of growth theories. The Bank is the only institution that can bring together IDA, IFC, FIAS and MIGA expertise as well as experience on key value chain improvements, taxation policy etc.

(c) The Bank is seen as an honest broker: Improving the investment climate will require a concerted effort by the public and private sectors as well as support from academics, think-tanks, donors and other stakeholders. The Bank has successfully won the trust and confidence of both the public and private sectors through a series of public-private dialogues and consultations. It has also drawn on other stakeholders such as AIEA, NESG, Lagos Business School and Kano Business School.

(d) The Bank has already laid much of the groundwork: In addition to the diagnostic studies that have been completed and the Bank’s ongoing activities financed through the ICP trust fund, the Bank also has an ongoing Micro Small and Medium Enterprise (MSME) project. The MSME project has supported investment climate reforms including; alternative dispute resolution, credit bureaus, secured lending and business registration initiative. The Bank therefore has concrete and recent experience in supporting improvements in the investment climate.
4. Description

32. The proposed project comprises three components:

A. An improved investment climate;  
B. Increased competitiveness of strategic clusters; and  
C. Effective project implementation, monitoring and evaluation, and communication.

IDA will finance component C and the following strategic clusters; ICT, Entertainment, Hospitality and Wholesale and Retail trade. The components are described in more detail below.

**Component A: Improved Investment Climate**  
(US$75 million equivalent which will be fully funded by DFID)

33. The Investment Climate Assessment highlighted three key areas of weakness in Nigeria’s current investment climate; Energy, Transport and Access to Finance. With infrastructure and access to finance addressed by other operations, GEMS will focus on improving the business environment, the next most important cause of Nigeria’s poor investment climate. DFID and the World Bank are piloting reforms of land and tax administration under the Investment Climate Program (ICP) in all four GEMS focal states. GEMS will consolidate and deepen ICP progress as follows.

34. **Land:** ICP has developed a strategy to address the causes of low investment in land development. This builds on the successful land administration modernization work of the DFID Security, Justice & Growth Project. Action plans based on this strategy have been agreed for Kano and Lagos and will be developed for other states. There is tremendous appetite for reform as agencies stand to earn higher fees from a greater volume of land transactions. GEMS will provide the technical and financial assistance required covering the following areas.

1. **Design and install an effective system for making serviced land available for development.** Access to land was ranked highest of the business environment constraints in the Nigeria Investment Climate Assessment (ICA). This will be addressed by improving land planning, greater use of public-private partnerships to develop land and auctioning, rather than administered, allocation of land.

2. **Develop more simple and transparent procedures for investors to acquire secure title to property and reduce the cost of land transactions.** Secure title exists for just 3% of land, preventing the poor and businesses from using it to raise finance. The length of time and cost of obtaining title make Nigeria one of the most difficult places to register property worldwide. Surveys reveal tremendous variation between states suggesting huge scope for improvement. Reducing the number of procedures, greater delegation of authority and establishing electronic registries with

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18 The business environment is a subset of the investment climate and includes the administration and enforcement mechanisms established to implement government policy, as well as the institutional arrangements that influence the way key actors operate – Donor Guidance on Business Environment Reform, DCED , 2008.
21 In Kano, it takes on average 38 days to register property, in Kaduna 130 days. The administrative cost of registering property amounts to 11.9% of its value in Kano, 22.2% in Lagos.
computerised search systems for all property records would reduce the time and cost of obtaining title. The project will support experts and stakeholders in identifying and removing the key obstacles through technical and financial assistance.

3. **Simplify and streamline the procedures for obtaining planning consent and construction permits to allow investors to develop land quicker and at a lower administrative cost.** The time and cost of obtaining construction permits and utility connections is excessive, delaying land development: it takes on average 350 days and 1016% of national income in Lagos. Other states also perform poorly so there is room for improvement in all.²² Time and cost can be addressed by simpler, more transparent procedures, better planning and better coordination between federal and state level. The project will support experts and stakeholders in identifying and removing the key obstacles, including through the provision of improved digitised processing and data management.

35. **Tax:** The ICP’s pilot work has revealed that GEMS can improve tax administration through:

- **Improved capacity and incentives for Boards of Internal Revenue (BIRs):** GEMS will train officials in tax assessment and administration and explore ways of providing greater autonomy to BIRs so that tax officials may be better remunerated.

- **Establish better systems of tax administration:** GEMS will support BIRs to improve the efficiency and transparency of tax administration by computerising tax assessment, payment and the issuance of tax clearance certificates. The project will support both technical assistance and hardware.

- **Reduce multiple taxation:** State and local government areas (LGAs) may attempt to collect over 150 taxes and levies. Many are without legislative backing and do not generate much revenue, but do provide the pretext for officials to predate on businesses and citizens. GEMS will provide the technical assistance to focus states and LGAs to reduce multiple taxation and move to a system of a fewer, more easily administered taxes.

- **Tax payer education:** GEMS will help increase the amount and quality of information available to tax payers by assisting BIRs to establish walk-in and call centers for tax payer queries and complaints.

36. **Investment Promotion & Facilitation:** The discovery of new opportunities for investment is undermined by information failures. The Nigerian Investment Promotion Commission (NIPC) is responsible for investment promotion federally. NIPC is not able to reflect the opportunities and priorities of individual states to attract investment, prompting some states to establish their own investment promotion agencies.²³ However, they lack the know-how, and infrastructure to do so effectively.

37. The process of obtaining the approvals, licenses and permits businesses need to operate is not transparent and can take many months, adding to the cost and risk of investment. At Federal level, NIPC has established a One Stop Investment Center (OSIC), bringing together 16 agencies in one place to process investor applications, reducing the time taken from months to days. The main bottleneck now is at state level where the investor may need to obtain approvals from a plethora of agencies. The states are keen to establish OSICs but have very limited experience in this.

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²² Kaduna performs best requiring 61 days and 141% of income per capita compared to 350 days and 1,016% of income in Lagos, the worst. There is much scope for improvement even in Kaduna.

²³ Cross River has already done so and the other three are at various stages of planning.
38. GEMS will provide the technical assistance required to establish effective investment promotion agencies and OSICs in the four states. It will support the federal OSIC to undertake a process of simplifying procedures for the agencies involved thereby providing a model that states can follow.

39. **Flexible Facility including Peer Learning:** It is the aim of the project to leverage impact throughout Nigeria. This will be achieved in case of investment climate reform through the use of a flexible facility and through peer learning activities. Both will be used in response to opportunities as and when they are identified.

To respond to new opportunities to promote investment climate reform, this DFID-funded and administered component of GEMS will provide a pool of unassigned funds – the ‘flexible facility’. When the conditions for success are favorable, as identified by Service Providers and stakeholders, the project will allocate funds to address new areas of reform against agreed reform deliverables. Reform opportunities identified will not differ significantly from those areas described above, being limited by definition to those that support the investment climate. The flexible facility will allow the project to respond to reform opportunities where political will, technical feasibility and impact potential are identified. With adequate political will, for example, the reform of customs would be an obvious example: the time and cost of clearing shipments through Nigeria’s ports and land borders is amongst the highest in Africa, contributing to poor competitiveness of all industries.

40. Peer learning activities will work in support of the aims of the flexible facility and the project more broadly, by strengthening demand for reforms and promoting good practice at the federal and state levels. For example, lessons learned from improving the tax administration system in the focal states will be shared through the Joint Tax Board. Peer learning may also cover workshops, study tours, some communications activities etc.

**Component B: Increased Competitiveness of Strategic Clusters**

(*US$172 million equivalent of which IDA will contribute US$140 million equivalent*)

41. This component includes interventions in six promising value chains to increase growth and employment. Four of these sub components will be funded by the IDA; and two by DFID. IDA will also support ‘Additional Cluster Development Activities’. This element is included in order to allow the program to respond positively, through similar interventions, to new opportunities that are likely to arise during the project for which financing is not available. This could involve the expansion of work on one of the six selected value chains to a new state, for example. In contrast to Component A, activities under Component B will focus on specific industries, and will include activities such as ‘performance grants’, public private dialogue, infrastructure investment, and market analysis, as well as some industry specific legal and regulatory reforms. In each sector, Service Providers will undertake a thorough mapping of the sector and stakeholders, and help establish a ‘Cluster Stakeholder Group’ to inform and oversee interventions. The precise combination and delivery mechanisms of these interventions will vary according to sector, and will be devised by the service providers selected for each industry and/or the PMU. The performance grant mechanisms of the IDA funded components will be governed through guidance developed and updated in the PIM. A very brief summary of the six intervention areas, and the

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24 Service Providers (SPs) referring to various consultant and service teams contracted to deliver the project
25 The Joint Tax Board brings together all the state boards of internal revenue and the Federal Inland Revenue Service (FIRS).
26 Performance grants are awarded on a competitive basis to businesses to incentivize them to address market failure in ways that produce positive development outcomes. See para 43 below for more details
additional cluster development activities, is presented below and the details are available in the various annexes to the PAD and the notes on file.

I. ICT: (US$50m fully funded by IDA). This sector is growing at over 30 percent per annum and attracts $3-4 billion of investment annually. Continued growth is made likely by strong demand for new products and technology, and access to submarine cabling. The industry is creating 150,000 formal jobs per annum, 10,000 of which are for new IT graduates. Developing high labor use sub-sectors, such as call centers and software services, could substantially increase employment in well paid jobs for school leavers.

The objective of this value chain intervention is to address the binding constraints to the sector’s growth focusing on issues including infrastructure, skills, access to finance and other BDS, and industry specific regulation. GEMS will work on ICT clusters in all four focal states as well as Abuja where call centers and an ICT park are emerging.

The project will fund:

- Business incubation grants
- Training grants for public and private institutions
- Technical assistance for companies seeking to plug in to global incubation network support.
- Creation of a Nigerian network of IT business incubators
- Investment in ICT infrastructure, including IT parks and broadband connectivity.

Direct beneficiaries will include ICT firms and their current and potential employees, and consumers - including businesses and public sector institutions - of improved ICT services in Nigeria. As a direct result of the project, for example, it is expected that some 174 government Ministries, Department and Agencies will be linked to broadband networks. It has been estimated that a 10% increase in telephone penetration rate over the long run is likely to register a 0.6% higher annual growth in GDP. The intervention aims to generate 15,000 extra jobs over 5 years.

II. Entertainment: (US$25m fully funded by IDA). The Nigerian film industry euphemistically known as “Nollywood” is the most prolific film industry in the world with an output of 40 films a week. It is the world’s third largest by value, estimated at $250 million per annum. The music industry is estimated to be of similar size. Strong demand domestically and from consumers in Sub-Saharan Africa and the large African diaspora is driving growth. Employment is estimated at 350,000 formally and a as much as 1 million informally. Growth could be much faster if the loss of revenue from piracy, which deprives the industry of up to $1 billion in revenue annually, can be addressed.

The objectives of the GEMS intervention are to: i) improve the protection of intellectual property rights (IPR); ii) strengthen formal marketing and distribution channels; iii) increase access to equity and loan finance; iv) improve management and skill training; v) develop leasing and equipment hire services; vi) develop the national film institute to serve as a center of excellence.

The project will fund:

- TA and training to support public sector capacity building, public awareness building and law enforcement to reduce piracy. Partner institutions include the Federal Ministry of Information

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27 The business incubation grants and the training grants will not be part of the performance grant system, and will be awarded on a case by case basis according to criteria devised by service providers during the inception phase.
and Communication, the National Film and Video Censors Board and the National Copyright Commission.

- TA, training, financial support and performance grants to support improved distribution through improved packaging and marketing, twinning with established distribution networks, overseas marketing, film festivals and improving access to finance
- TA and financial support to the Nigerian Film Institution to provide studio space, equipment, training and a focal point for the industry.
- TA to improve access to finance in collaboration with the private sector.

The potential beneficiaries will include up to one million plus employed in the production of film and music content, and whose jobs and income depend on quality of product, effective distribution and protection from piracy. The industry will benefit from improved coordination, more investment, faster growth, and the creation of up to 50,000 additional jobs over 5 years.

III. Hospitality: (US$25m fully funded by IDA). The hotels and restaurants sector is growing at 11% p.a. In the domestic market, business travel is booming and a leisure travel market emerging. In the international market, visitor numbers are amongst the highest in Africa (more than 3 million visitors annually) though most are visiting friends and relatives or business travelers. Driven by greater participation of women in the workforce, the trend towards convenience foods is driving a catering boom. The fast food industry is growing at 40% p.a. The industry currently employs 150,000 formally but several times that number informally.

The objective of this GEMS component is to improve industry growth and job creation through improving i) access to land; ii) protection of and investment in visitor attractions; iii) relevant skills; iv) institutions for marketing and standards enforcement; v) efficiency and inclusivity within supply chains. GEMS will focus on Lagos, Kano and Cross River, recognized growth poles for the industry.

The project will fund:
- TA to ensure that planning guidelines and regulations protect tourism assets and provide for the needs of the catering industry and the process of obtaining permits and licenses is streamlined;
- Technical and financial assistance to ensure natural and cultural assets are developed to provide an attractive, authentic and socially and environmentally sustainable experience to visitors using public private partnership (PPP) arrangements.
- Technical and vocational education and training (TVET) pilots.
- Financial incentives (ie performance grants) to encourage investment in innovative new business models and technologies;
- TA to support institutional strengthening within the hospitality industry improving capacity to pursue policy change, upgrade products, ensure health and safety of visitors and employees and promote better environmental stewardship.

The potential project beneficiaries include those who fill the expected 10,000 job positions created; those in industries such as agriculture, construction and transport benefiting from the externalities of a stronger hospitality industry; employees benefiting from increased skills, incomes and working conditions.

IV. Wholesale & Retail Trade: (US$30m fully funded by IDA). This is the largest part of Nigeria’s underdeveloped service sector accounting for 17% of GDP. Growing at 13 percent per annum, the industry

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28 The country attracts over 3 million international visitors, largely business visitors from neighboring countries and the Nigerian diaspora visiting friends and relatives
29 The country’s Tourism Master Plan prioritizes the three states.
employs 500,000 in the formal sector and nearly 10 million informally. Growth and incomes would increase substantially if the high levels of waste and inefficiency in the industry were reduced. Kano and Lagos have huge wholesale/retail clusters, including West Africa’s largest markets, but there are significant clusters in Kaduna and Cross River that GEMS will also target.

The objective of the GEMS interventions will be to maintain industry growth and boost employment through efficiency improvements. The project will aim to i) increase income opportunities and reduce waste by increasing investment in better storage, distribution systems and market infrastructure; ii) promote better business models to reduce transaction costs in the traditional wholesale/retail system and make the emerging modern retailing system more accessible to small suppliers; iii) improve the enforcement of weights and measures, food safety and product standards to increase consumer confidence.

The project will fund:

- TA and financial assistance to support investment in physical market infrastructure to increase space and improve handling and storage facilities, solid waste disposal and storm water drainage;
- TA and financial assistance/performance grants to support innovation of new business models and technologies that will help to reduce transaction and coordination costs and waste and are inclusive of small producers;
- TA and financial support to market associations to develop and enforce private standards, including weights, measures and product standards, and ways to improve health and safety and environmental impacts;
- TA, training and financial support to federal agencies and local governments to improve the enforcement of health and safety and product standards. Provide evidence for policy advocacy and reform.

Beneficiaries will include the 2-3 million employed in the sector across the four target states, who will benefit from greater efficiencies in the supply chain, increasing incomes, and from improved working conditions. Consumers across Nigeria should benefit from reduced cost of food, and from greater confidence in standards. At least 5000 formal jobs are expected to result from the interventions.

V. Construction & Real Estate: (US$21m fully funded by DFID). This is a relatively under-developed industry (less than 2 percent of GDP) that is nevertheless growing at 12 percent per annum. The demand for housing, commercial property and civic infrastructure is buoyant. The industry is labor intensive employing some 2-3 million people directly and a similar number in supplier industries such as wood and metal fabrication. The major issues include access to serviced land and skill shortages that are causing the industry to import labor. Up to 35% of skilled labor in Lagos is made up of foreigners as local labor lacks the relevant skills.

The objective of the GEMS intervention is to improve industry growth and job creation through improved; i) access to serviced land; ii) project management and vocational skills; iii) access to finance; iv) systems of construction permits and standards; v) improved public-private coordination. The largest cluster is in Lagos but the other three focal states also have significant construction industries.

The project will fund:

- Performance grants to incentivise innovation in business models and technology
- TA to improve access to finance

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30 Estimated at 30%-40% for perishable and 20% for non-perishable products
31 Up to 35% of skilled labor in Lagos is made up of foreigners as local labor lacks skills
• TA and financial assistance to improve skills development systems and institutions
• Provide evidence to support policy advocacy and reform

The key beneficiaries include an estimated 20,000 workers with improved skills and income potential; those filling the estimated 20,000 additional jobs created; 1 million plus benefiting from improved working conditions; and consumers benefiting from reduced prices and better enforcement of appropriate standards.

VI. Meat & Leather: (US$11m fully funded by DFID). Meat consumption is growing at 6-7% annually and would grow faster if its high cost could be reduced32. About 1 million households keep livestock in Kano and Kaduna and sizeable numbers are employed in slaughtering, butchering and trading livestock in these states. Incomes earned by farmers are low because of poor animal husbandry and a hugely inefficient supply chain that transports animals, not meat, to the South.

The leather industry is Nigeria’s largest source of non-oil exports and has experienced a phenomenal recovery in recent years. Nigerian sheep and goat skins are regarded as amongst the best in the world. Direct employment is limited to 10,000 directly but the sale of skins constitutes part of the value of animals which are kept widely in the North (see above). The major issue for the industry is the inadequate supply of good quality skins which is limiting growth and employment. This is closely related to the poor state of abattoirs in the North. Other issues include: i) high cost of finance; ii) inadequate power supply. The leather industry of Nigeria is focused on a single cluster in Kano which will be assisted to increase growth and employment. Ensuring that women benefit will form an explicit target for this intervention.

The objective of this GEMS component is to reduce the constraints and inefficiencies which restrict growth and employment in the industry. The interventions will: i) support investment in abattoirs in the North to supply more and better quality meat to the South ii) improve animal health and nutrition by training private sector para-veterinarians; iii) support feed suppliers to develop a market for feeding ruminants; iv) improve food safety throughout the meat chain v) generate efficiencies within the international leather value chains. The development of better abattoirs in the North will increase the supply of skins to the Nigerian leather industry addressing the main constraint to growth. The important clusters are in Kano, Kaduna and Lagos.

The project will fund:
• Performance grants to private sector to improve productivity and performance
• Grants to improve public sector performance
• TA to support meat and leather industry initiatives
• Development and supervision of skills acquisitions programmes
• Research to support policy advocacy and reform

The main beneficiaries will be the approximate 1 million households that keep animals in Kano and Kaduna State, who could benefit from estimated 20% higher prices for their herds. The interventions should generate 5000 new jobs. Consumers will benefit from improved quality and safety of meat, and lower prices.

• Additional Cluster Development Activities: (US$10 million fully funded by IDA). The remainder of the project finances may be used to support additional cluster development activities within Component B of the project, similar to those described in the six value chains described above. This fund will allow the project to respond flexibly to a dynamic and developing agenda, and will enable it

32 Meat consumption per capita is lower than neighboring countries.
to exploit opportunities to expand the project impact in a cost effective way. For example it may become clear that a major bottleneck in a given supply chain actually occurs outside of the states initially identified. The GEMS National Steering Committee (NSC), in collaboration with the PMU, will develop suitable criteria for inclusion of such additional activities in order to maintain the focus and ensure the efficiency of this sub-component. Activities that meet the eligibility criteria will be appraised, approved and included in the relevant annual work plan and budget for funding on a first-come, first-served basis thereby ensuring that the project channels funds to the most proactive and successful reform areas.

The process for the identification of such activities has been outlined in the project implementation plan. The process ensures that money is only allocated to well prepared activities that include suitable ToR, procurement timeline and are tied to government’s stated reform objectives as agreed with the Bank. Key milestones for each additional cluster development activity would be submitted that would allow the central FPIU to supervise and monitor the activity going forward.

42. The performance grants will be managed within each cluster by a designated service provider. They will operate on a transparent and competitive basis, modeled on the ‘Challenge Fund’ approach successfully used by DFID. Relevant businesses will be invited to submit proposals for matching funding (at least half to be provided by the business) to reduce the cost and risk of investments that address systemic market failures. For example, within the hospitality industry, grants may be used to support the establishment of a franchising business model, or to support the development of new BDS. The Service Providers will manage the operation of these funds, although approval for each round of awards will require ‘no objections’ from the FPIU in the case of IDA funded components. (DFID will approve performance grants within the DFID funded components). The size of the minimum and maximum grants, the detail of their operational mechanisms and the criteria through which they will be awarded will be determined by Service Providers and FPIU/DFID during the inception phase of each sub-component. They are likely to vary somewhat between sectors.

Component C: Effective Project Implementation, M&E and Communications

(US$20 million fully funded by IDA)

43. In a large country with a federal structure, reforms need to be proven in a few states and clusters where conditions for success are favorable to deliver tangible results. The demonstration effect will be leveraged by high quality monitoring, evaluation, and reporting systems, as well as a communications project that will disseminate lessons learned widely to influence other states and industries. The peer learning and M&E built into interventions described above will be supplemented by a strong lesson learning and communication capability at the apex of the project.

A Federal Project Implementation Unit (FPIU), staffed by officials of the Federal Ministry of Commerce and Industry has been established, using the project preparation facility funding during the project preparation stage. It will be responsible for project management, procurement and financial management, delivered with the support of a commercially tendered Project Management Unit (PMU). The (PMU), reporting directly to the FPIU, will serve to carry out financial management, work planning and reporting, M&E independent of implementing service providers, identify lessons learned and communicate them widely to influence other stakeholders within the purview of the project and wider afield. The PMU will also manage the procurement of World Bank funded sub-components, including the selection of service providers, and the procurements and disbursements pertaining to each industry cluster funded by the

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33 The PMU will not be responsible for procurement within the DFID funded sub-components. These DFID funded service providers will report directly to DFID. The PMU will, however, coordinate reporting, lesson learning etc over the whole GEMS project.
Bank. In addition DFID is funding a full time private sector development adviser to be seconded to the Bank for the duration of the project to provide oversight of project management.

(a) **Project Management:** The project will support incremental operating costs related to the FPIU. This sub-component will cover the costs of equipment, vehicles, minor civil works such as office rehabilitation, and other operational and maintenance expenditures. It will also cover the costs of implementation-related studies, and the costs of the PMU.

(b) **Monitoring and Evaluation:** The project will finance the establishment and operation of a results-based monitoring and evaluation system including maintenance and management of the management information system and the associated training costs. The project will fund baseline surveys as well as periodic impact assessment surveys during project implementation. The delivery of the M and E will be one of the responsibilities of the PMU.

(c) **Project coordination:** The GEMS project encompasses a complex array of stakeholders and institutions including at least seven Service Providers (SPs), Cluster Stakeholder Groups (CSGs), State Growth Committees (SGCs), and a range of related DFID and World Bank programs. The PMU will be tasked with ensuring information sharing and potential synergies are maximized, whilst reducing the risk of duplication or misaligned objectives amongst the different actors.

(d) **Environmental and Social Management:** The project has funded the costs of implementing a comprehensive Environmental and Social Management Framework (ESMF), Resettlement Policy Framework (RPF) and Pest Management Plan (PMP), which includes the preparation and implementation of Resettlement, Pest Control and Environmental Management Plans as required in accordance with the ESMF, RPF and PMP. The project will also use the M&E system to monitor the various aspects of the environmental and social management measures.

(e) **Strengthening Government Institutions:** The project will support technical assistance and training for Federal and State level government employees and consultants required to successfully implement the project. It is expected that this support will include state level coordinators, contracted through the FPIU as independent local consultants, as well as their accompanying costs such as vehicles, equipment, office space and other incremental operating costs. The proposed project would also fund training and capacity building for full time government officials domestically and internationally as appropriate.

(f) **Communications Strategy:** In order to maintain support for national growth objectives, government intends to undertake a communications campaign that will raise awareness of the benefits of an improved investment climate, increasing liberalization of factor markets, improved competitiveness and introducing increased private sector participation in all aspects of the economy. A major goal of the communications campaign will be to encourage open and transparent, two-way communications and to build support among key interest group and the public at large for the growth agenda. This component will help the project achieve its objectives as well as demonstrate results. The country-wide effort to involve and inform stakeholders of the reform process is likely to begin with a detailed segmentation of the key stakeholders and will result in customized strategies to reach as much of the population as possible especially those in the rural areas. The communications strategy will consist of (i) outsourced public relations campaign to “sell the growth agenda”, (ii) two-way dialogue between government representatives and reform stakeholders in the private sector to inform and refine the process.
44. The dedicated service providers appointed for each intervention will be tasked to ensure there is effective M&E and lessons are learnt and communicated to the rest of the industry thereby leveraging the results of activities carried out in strategic clusters.

5. Financing

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<tr>
<td>Total</td>
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</table>

6. Implementation

45. The GEMS project represents a strong partnership between FGN, DFID and the World Bank. It will be implemented with a common logical framework and apex level governance and management arrangements to ensure strategic oversight, and coordination across interventions supported by both development partners.

46. It is recognized that the World Bank and DFID have different comparative advantages in terms of type of financial instruments, flexibility of resource use and industry experience. The management arrangements for individual interventions are designed to ensure timely and relevant assistance drawing on the strengths of both organizations. The World Bank has the experience needed to support the establishment of an effective National Steering Committee (NSC) and Federal Project Implementation Unit (FPIU). The lessons learnt from that experience will be harnessed for GEMs.

47. The Bank will fund specialists, procured through FPIU, and its agent, the PMU, to support Federal and state level agencies that are promoting and facilitating investment based on its experience worldwide. The Bank has expertise in the service industries of ICT, entertainment, wholesale & retail and tourism and will support FPIU’s procurement of specialist service providers who can command the respect of stakeholders for these industries. Its loan instrument is particularly appropriate to these industries as they require large scale investment in market infrastructure.

48. DFID and the Bank will work together to support the establishment of effective State Growth Committees (SGCs) in each of the four target states, building on those established by the DFID funded and World Bank implemented ICP program. Advisers, contracted through the FPIU, will be appointed to service them. The SGCs will be peopled by senior public and private sector figures, who will provide guidance, advice and oversight of project activities in a given state (see para 77 below for further details). DFID has established a sound partnership with Kano, Kaduna and Lagos state governments supporting improvements in governance, business voice and health and education. The partnership represents a major asset for GEMS. Recently, the CPS agencies, including the World Bank and DFID, signed MoUs with Kano and Kaduna states in relation to development activities to formalize commitments to partnership.

49. DFID will appoint the service provider to support business environment reforms. DFID has considerable experience in supporting land and tax administration reforms at the state level in Nigeria through the Security, Justice and Growth (SJG) program and the ICP. Its grant instrument, flexible procurement procedures and ability to switch resources are well suited to the unpredictable process of supporting policy and institutional change. DFID will also appoint Service Providers to support stakeholders in the meat & leather and construction industries. DFID has a track record in making commodity markets work better in Nigeria and has been working on land issues that are central to the construction industry.
50. The GEMS project will seek support from further partners. The Agence Française de Développement (AFD) have recently indicated their willingness to provide $100m to enable the project to expand its impacts, whether through additional states, or value chains. However, the project as described here does not rely on this input to achieve the objectives set out above. GEMS project will also engage the IFC in dialogue to identify opportunities for additional targeted support. This is likely to include both direct investment in certain value chains, and the provision of technical investment climate reform advice from FIAS.

51. **Executing agency**: The Federal Ministry of Commerce (FMOC) will have overall responsibility for the execution of the project through the FPIU, based in the Directorate of Trade, which will maintain day-to-day relations with the financing institutions. The project’s administrative, financial and implementation arrangements will be handled by the FPIU, supported by the PMU.

52. **Project implementation period**: The project will be implemented over a period of five years from approximately July 2010 – June 2015.

**Strategic Oversight**

53. Figure 5 below sets out the structure for implementing the project. Strategic oversight and governance will be provided by a National Steering Committee to be constituted by representatives of the Ministries of Finance, Commerce, Information and Communication, the National Planning Commission, each focal state, and eminent people from the private sector. The National Steering Committee will set overall policy, take responsibility for deploying resources to their most productive use and ensure the project is coordinated with FGN and state government interventions. It will have the delegated authority to take decisions on behalf of all key stakeholders including FGN, state governments, and DFID. As a strategic body it would normally only meet bi-annually.

54. **Project Management**: The NSC will be served by the FPIU housed within the Federal Ministry of Commerce and Industry, and staffed by its officials. FPIU will procure the services of a Project Management Unit (PMU) through commercial tender; a lean secretariat responsible for coordinating the work of all components of the project and providing M&E, lesson learning and communications functions. It will also procure all Service Providers and process payments for GEMS activities financed by the IDA. It will keep track of DFID-funded components which will, however, be procured and accounted for directly by DFID. All IDA funded GEMS Service Providers will report to the FPIU via the PMU, and both DFID and World Bank funded Service Providers will supply information to the PMU for the collation of consolidated GEMS work-plans, budgets, and reports. The PMU will also be housed within the Federal Ministry of Commerce and Industry.

55. The FPIU and its agent, the PMU, will work closely with the four State Growth Committees, and the six Cluster Stakeholder Groups. The FPIU is established and comprises of 10 members who take on their roles as part of their official jobs: a project coordinator, his deputy, two project officers, three M and E officers, a procurement manager, specialist project accountant, and a project auditor. It may also include engineers and other experts as required, as official secondments, or procured through the PMU. The FPIU’s performance will be benchmarked against timely implementation of the project work plans and will report to the Federal Minister of Commerce, and to the National Steering Committee.

56. The main activities of the FPIU, and it agents, the PMU, will be: (i) implementation of all IDA funded activities; (ii) annual consolidation of the work programs and budgets; (iii) maintenance of records and accounts for all transactions related to the IDA funded components; (iv) preparation and production of consolidated annual financial statements and quarterly Financial Management Reports (FMRs) for the IDA funded components; (v) contracting and supervision for the IDA funded project; (vi) management of
disbursements for components under its responsibility and replenishment applications for the special account; (vi) monitoring and evaluation of the various activities supported under the IDA funded components; vii) collation and presentation of information across all GEMS components; and managing project communications.

Figure 5 – Project Governance and Management

57. **State Growth Committees** (SGCs) will ensure state level ownership and coordination. They will be made up of representatives from government and the private sector and will oversee and advise on project activities that occur in their states, ensure coordination with the policy thrust of the state government and meet the evolving needs of the private sector. The SGCs will report through the PMU to the NSC. The SGCs will be serviced by state coordinators contracted by the FPIU/PMU who will support them in ensuring that their own cohesive program of activities is developed and implemented effectively. More information on the project implementation is provided in Annex 6.

7. Sustainability

58. The sustainability of project benefits will depend on several factors, including, financial sustainability of the project, ownership and recipient commitment, capacity of stakeholders (Cluster Stakeholder Groups and State Growth Committees) and the broader enabling institutional environment.
59. **Financial sustainability of the project.** The sustainability of the project benefits at the state level depends on the financial soundness of the value chain interventions. The interventions are based on solid analytical underpinnings that have identified the key drivers of demand including, for example; a rapidly expanding population, change in consumer taste, and increase in supermarkets. These factors will drive the market demand for increased livestock and wholesale and retail operations. The construction boom in Lagos is clearly not a short term phenomenon but based on a rapidly urbanizing population. The city remains at the beginning of this demographic trend and with limited land and limited financing options there is clear pent-up demand in this sector that will be unleashed through project interventions.

60. **Ownership and beneficiaries’ commitment.** The project has been tailored to national development needs as expressed in the President’s 7-point agenda, the NEEDS and SEEDS documents as well as more specific industry strategies such as the Cluster Development Strategy of the FMOC. It has also been adapted to the advice of other relevant stakeholders, including private sector leaders in the various industrial sectors, and state and federal government officials in relevant fields. This advice has been received during study tours by consultants preparing the project, and through the workshops and committee meetings held throughout related DFID and World Bank projects. The latter include the World Bank/DFID’s Investment Climate Program, MSME program and DFID Security, Justice and Growth program. This inclusive approach to the design and implementation of the project will ensure continued relevance to the beneficiaries’ needs, and a national perspective and ownership. Interventions at the state level will build on participative approaches and collective decision-making to enhance the ownership and commitment of the beneficiaries. The project will also contribute to the social mobilization and awareness creation at the state level.

61. **Capacity of Cluster Stakeholder Groups:** The sustainability of the project benefits depends on the durability of the CSGs as well as the capacities of their leaders and members to manage the proposed project and future improvements and reforms. The project will make significant investments in capacity building efforts through training and technical assistance to build technical expertise, social capital and expand the knowledge frontier. In particular, the CSGs will gain capacity in industry diagnostics, planning, and in respect to more productive and transparent relationships with relevant government and non-government agencies.

8. **Lessons Learned from Past Operations in the Country/Sector**

62. **Maintaining the reform momentum:** Broad-ranging improvements in the investment climate and in infrastructure provisions through regulatory, institutional reforms and sector investment are typically done with national coverage. However, experience shows that such a strategy does not bring results in the short-term, and, more important, does not necessarily allow the emergence of a better business environment to foster private sector investment. Given the importance of a reliable business environment for the success of this project, a combination of targeted investments and regulatory reforms focusing on: (i) regulation and taxation; (iii) finance and infrastructure; and; (iii) customs reforms, will be financed through the project. The project will focus on quick-wins in order to generate sustained support for the broader reform program.

63. **An integrated approach:** Delivering sector investments sequentially will not yield the expected results and the project will not reach its objectives until the platform for growth is completed. Each sector investment implementation schedule will be carefully timed to coincide with other sector investments in order to allow the delivery of the integrated services essential to the platform, which will then support
economic growth. The integrated approach is a results-based approach combining all segments of the project to attain one single objective.

64. **A regionally focused approach:** An emerging lesson from other growth projects is that a regionally focused approach to development in response to private sector demand might better enhance impacts on growth and poverty reduction. Focusing on selected areas allows optimal allocation of scarce public resources and strategic deployment of limited institutional capacity. It also achieves the critical mass of inputs required to generate sustainable growth and build best practices for future initiatives.

65. **Decentralized and independent implementation arrangements:** The Madagascar growth pole project demonstrated that to achieve better ownership, accountability and monitoring over the life of the project and to ensure quick delivery of the planned investments, the project needs to be executed with one central implementation unit reporting to a central Steering Committee with regional representations in each regional pole concerned.

66. **Building public private relationships:** The recently concluded investment climate assessment revealed that along with the fairly common list of investment climate constraints there is a more fundamental problem of government credibility. A legacy of recent periods of military rule, and a reputation for corruption, has generated a sense of mistrust towards the institutions of government. For this reason the project will need to encourage sustained public-private dialogue in order to rebuild trust. It will also support to other initiatives such as the better business initiative and strategic partnerships with private sector oriented Federal agencies such as the Nigeria Investment Promotion Commission (NIPC).

67. **Establishing a forum for dialogue:** Madagascar’s experience indicates that the success of the growth poles approach depends on establishing an institutional platform to foster regular dialogue and a working, collaborative partnership amongst various stakeholders including different line Ministries, the public and private sector as well as National and regional/Municipal authorities and civil society groups. Such an institutional platform requires high level oversight and direction at the level of the key implementing ministry that is responsible for the conceptualization, design and implementation of the strategy. This ensures that the interests of all the key stakeholders are addressed early in the project cycle.

68. **Improving impact and sustainability:** Previous reform oriented efforts have failed because they remained only known to a select group of high level policy-makers in the Federal government and a few members of the private sector. Successful efforts to reform the business environment need to have a national brand with sufficient recognition and credibility across a broad network of policy-makers.

69. **The commitment of “champions”:** Reforms in many countries have relied on the presence and energetic commitment of champions. The downside, however, is that dependence on a particular champion can put the project at risk should the individual not remain in position. The project will need to maintain the buy-in from key ministries that it currently enjoys, and broaden buy in across a range of federal and state level actors who are necessary to move forward on targeted reforms.

70. **Selectivity and sequencing:** There are clear reform lessons emerging from several developing countries concerning the prioritization of investment climate improvements. A recently concluded Country Economic Memorandum highlighted the “binding constraints” to growth. The CEM looked at systematically identifying the key constraints and the cost-benefit factors that could help to determine the best sequencing of reform actions. The project has also been informed by the latest economic thinking on growth diagnostics from the Harvard University growth team including Professors Rodrik and Hausmann.

71. **Inter-state competition:** Experience in India and other countries organized along federal lines has shown that generating inter-state competition can have as powerful an impact as national
benchmarking. It can help to generate spill-over effects and foster sustained demand for increasingly complex reforms. Benchmarking across the states also has the advantage that it illustrates to other states what can be done within Nigeria. The current investment climate and doing business surveys will therefore quickly be widened to cover all 36 states plus the FCT early during the project implementation period. The project will also support peer-to-peer learning and build the capacity to carry out future state level diagnostics and analysis.

72. The project draws a number of lessons from IEG reports. The recent evaluation of state level programs in federal countries\(^34\) confirms the desirability of such an approach in countries such as Nigeria, and the desirability of selecting a few states. The IEG 2006 report on the Bank’s investment Climate approach\(^35\) urged the World Bank to approach a balanced constituency for reform by making better use of the Bank’s convening power to bring the government together with other stakeholders. This partly informs this program’s strong focus on public private partnerships and dialogue at the centre of reform design and implementation. The project design also reflects the other key recommendations within this report to identify and respond to political economy context, and to use a critical mass of micro-economic reforms, rather than piggy backing small reforms onto macro-economic adjustment operations.

9. Safeguard Policies (including public consultation)

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\(^{34}\)IEG, 2009 ‘World Bank Engagement at the State Level: The Cases of Brazil, India, Nigeria, and Russia Evaluation Summary


* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
10. List of Factual Technical Documents

**Key Analytical Work**


11. DFID/World Bank Value Chain Analysis, Nathan EME (2008)


**Removed From Earlier Versions of the PAD**

13. Comprehensive Country Context

14. Social and Environmental Assessment

15. Procurement Assessment

16. Economic and Financial Analysis

17. Making Markets Work for the Poor

18. Governance Arrangements

19. Program Description

20. Financial Management Assessment
11. Contact point

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