I. Project Context

Country Context

1. Nigeria is Africa’s most populous country, and the continent's second-largest economy. It has an estimated population of about 162.5 million people, about half of whom live in urban areas, and accounts for almost one fifth of Africa’s population. Nigeria’s economy is one of the fastest growing in the world. GDP growth between 2003 and 2010 averaged about 7.6 percent. The country’s current GDP is about US$340 billion annually, equivalent to about US$2,400 per capita in purchasing power parity terms, split almost equally between the agriculture, industry, and services sectors. The economy is dominated by oil and gas, which constitute 25 percent of GDP and provide 85 percent of Government revenue. In spite of Nigeria’s relatively strong economic track record, the country continues to face significant economic and development challenges.

2. Poverty remains high and Nigeria’s Human Development Index ranking is 158th in the world. There are large disparities between and within regions and states: 63.4 percent of the total population and over 75 percent of agricultural households in the North live below the poverty line, with income of less than US$1.25 per day. Reducing poverty will require strong non-oil growth and focus on human development. In spite of successful initiatives in human development, Nigeria is off-track for meeting most of the Millennium Development Goals (MDGs), with a particular focus required on Northern Nigeria.
Sectoral and institutional Context

3. Access to adequate infrastructure services in Nigeria, including to safe reliable water supply and sanitation services (WSS), remains low compared to other developing countries. According to the WHO/UNICEF Joint Monitoring Program (JMP), access to reliable water sources in Nigerian urban areas declined from 81 percent in 1990 to 75 percent in 2011 (JMP 2013 Update), while developing countries’ urban water coverage is on average 95%. Furthermore, while the JMP concludes that the world is on track to meet the urban water supply Millennium Development Goals (MDGs), Nigeria appears to be off-track in this respect. This has implications on not just Nigeria’s, but Africa’s achievement of the MDGs considering that Nigeria accounts for nearly 47 percent of the West African population.

4. Sector Challenges: While Nigeria’s Government has invested considerably in its WSS sector infrastructure in several States, the impact on the quality of service delivery and coverage has been limited due to, among other things, lesser focus on reforms to ensure the sustainability of services. Thus, significant challenges remain and there is need for a sustained focus on strategic investments and reforms at State level to meet the country’s development goals. Some key challenges facing the sector are discussed below.

- Weak Financial and Operational Autonomy and Inefficient Commercial Services: In the majority of Nigeria’s States, State Water Agencies/boards responsible for managing water supply service delivery lack financial and operational autonomy, and current operations are not commercially viable. The agencies remain financially dependent on budget transfers from State governments for their operations. Flat rate water tariffs are the norm, and in some States, water agencies do not charge for water. In order to cover utilities’ financial deficits, many State governments provide operational subsidies to utilities to partially or fully cover operating costs, and capital expenditures are partly financed through grants from the Federal Government. Water managerial staff lack the autonomy to fully control operational decisions such as hiring and firing of staff, and to efficiently operate the utilities on a commercial basis. Many also lack adequate incentive structures to attract and maintain high performers.

- Inadequate service delivery: Access to improved water supply in Nigeria is still lower than the average for Sub-Saharan Africa, and water supply services, where accessible, are still unreliable and often characterized by poor quality in terms continuity and water quality. Many water supply systems are experiencing extensive deterioration and inadequate utilization of capacity due to ageing, under-maintenance, inadequate capital investment, and inadequate power supply. While it is difficult to measure in the absence of metering, non-revenue water is considered to be very high nationally, estimated at 50 percent or more. Water managers are unable to reverse the situation or plan for the future given the lack of autonomy to manage current or capital expenditures, let alone manage resources collected from users. As a result, many households, often the poorest, end up purchasing water from private vendors at much higher cost than the public supply.

- Inadequate Enabling Environment and Institutional and Regulatory Constraints: Although Nigeria’s WSS sector political and policy framework is relatively well developed in principle at the Federal level, its implementation and compliance tends to be weak in comparison to international benchmarks. The status and commitment to implementation of sound sector policies varies widely across States, but remains weak in most. Some of the States lack overarching water policy
frameworks while others are currently strengthening their Water Edicts to enhance commercialization and create the enabling environment for implementation of measures, including through PPP, to improve the efficiency and sustainability of service delivery.

- Absence of adequate accountability instruments such as performance contracts between policy makers and service providers in the States. This is compounded by the absence in many States of sound regulatory frameworks that allow service quality control and generation of performance information. Performance across States differs on various governance dimensions; according to a case study on Governance and service delivery in water supply in six Nigerian States, most states performed poorly on aspects such as ‘voice and choice’, monitoring and evaluation, and ‘access to information’. The chronic lack of reliable sector performance data makes it difficult to accurately track progress, allocate resources, or establish standards.

5. Institutional Structure: The Nigerian Government has long considered the provision of WSS services to be the domain of line Ministries and agencies in the public sector. This is aligned with the country’s governance structure, which constitutes the Federal Government at the center, a Federal Capital Territory (FCT) administration in Abuja, 36 State Governments, and 774 Local Government Councils. The Federal Ministry of Water Resources (FMWR) has a mandate to ensure access to adequate potable water supply for the entire country. The SWAs are responsible for establishment, operation, quality control, and maintenance of urban and semi-urban water supply (and sometimes rural) at the State level. There are 37 Water Agencies in the country – one for each State and one in the FCT. Most are established as corporate bodies fully owned by State Governments, but often run according to civil service rules. Generally, most SWAs are established under an edict to develop and manage water supply facilities within their respective State and to meet sound financial objectives. The Local Government Authorities (LGAs) are responsible for the establishment, operation, and maintenance of rural water supply schemes and sanitation facilities in their areas, although only a few have the resources and skills to fully address the sector needs. At the local level, WSS services are frequently lumped under Community Services.

6. The Government has long recognized the challenges the water sector is facing, and has prioritized improvement of access to sustainable water supply and sanitation services on its development agenda. Federal Government commitment is demonstrated by the National Transformation Agenda for 2011-2015 which confirms the national focus on infrastructure and human development, the 2013 national budget allocation of Naira 84 bn ($540 million) for water resources (doubling the 2012 budget), and the Presidential Summit on innovative funding of water that was held in February 2013. The National Water Supply Policy states that the overall objective of the urban water supply sub-sector is to “improve the public health and economic well-being of the urban populace through provision of adequate, safe and sustainable water for domestic, commercial and industrial purposes in a planned and coordinated manner, at reasonable cost to enable water operators to break even”. Both the Federal and selected States support the proposed water sector reform process aimed at creating autonomous utilities that are managed under commercial principles and are independent in their planning, investment and operational decisions.

7. Donor Support and On-going Projects: The Bank provided a US$5 million credit for the Small Towns’ Water Supply and Sanitation Program Pilot Project that was implemented from 2000 to 2003. In 2004, the Bank approved the first IDA-funded National Urban Water Sector Reform Project (NUWSRP 1) in Kaduna, Ogun, and Enugu States for US$120 million (followed by an
additional financing of US$80 million in 2010). In 2005, it approved the Second National Urban Water Sector Reform Project (NUWSRP 2) in Lagos and Cross River States (US$200 million, with an additional financing of US$120 million approved in May 2012). The African Development Bank (AfDB) is preparing support to three States (Rivers, Oyo and Taraba States) while the European Commission is assisting the States of Cross River, Anambra, Osun, Kano, Jigawa and Yobe in their water sector reform, with limited investment on water supply infrastructure rehabilitation and expansion. The Agence Francaise de Development (AFD) or French Development Agency is in the process of assisting Cross Rivers and Lagos State through the cofinancing of the IDA-funded NUWSRP 2, and the United States Agency for International Development (USAID) is providing institutional and reform support to Bauchi State and has selected Rivers and Ebonyi State for the second phase of that support. The Third National Urban Water Sector Reform Project (NUWSRP 3), aims to build on the lessons learned of the implementation of previous projects in the water sector reform at Federal and State level, by increasing support on institutional reforms in selected States, introducing performance incentives and supporting benchmarking to allow the Federal Government a better targeting of support resources.

II. Proposed Development Objectives
The Project Development Objectives (PDO) are: a) to increase access to improved water supply service in selected States of Nigeria; and to improve the financial viability of existing water utilities in those States, and b) to increase the investment planning capacity of selected States.

III. Project Description

Component Name
Component 1: Sector Reforms and Water Supply Investments
Comments (optional)
Subcomponent 1.1 - Rehabilitation and Expansion of Water Production and Distribution Facilities.
Subcomponent 1.2 - Secondary Towns Water Supply Improvement.

Component Name
Component 2: Capacity Building for Reform and System Improvements
Comments (optional)
This component will support the design and implementation of reforms in nine States as well as minor water supply infrastructure investments to improve service provision.

Component Name
Component 3: Institutional Strengthening at the Federal Level and Project Management
Comments (optional)
This component supports the capacity of the Federal Government to support and monitor the reform process, utility performance, and hydrological data collection.

IV. Financing (in USD Million)

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<th>Total Project Cost:</th>
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V. Implementation
10. Federal Ministry of Water Resources Project Management Unit (FPMU): The FMWR, through its Project Management Unit (FPMU), currently responsible for managing the ongoing World Bank financed National Urban Water Supply Projects, will play an important role in coordination of overall project implementation. The FPMU is well experienced with implementation of Bank financed projects. The FPMU will also be responsible for implementation of Components Two and Three, working in close collaboration with the respective States.

11. For Component Two, the FPMU will coordinate with the nine States to procure on their behalf the required works and goods and select the required consultants to undertake project activities. Basic Project Coordination Units will be established within these States’ SWAs, comprising suitable staff such as the General Managers and Technical Directors, to act as focal points that will coordinate selection and implementation of activities in their States with the FPMU.

12. For Component Three, the FPMU will be in charge of capacity building activities, undertaking the studies for identification of the sector financing model, the performance monitoring and evaluation system as well as data collection, gender mainstreaming activities, and modeling capacity with NHISA, working closely with relevant Units and Departments within the FMWR.

13. State Project Implementation Units (SPIUs) for Component One States: For Component One activities, SPIUs will be established at the State level. They will be responsible for project implementation, including Fiduciary and Safeguards, with support from the FPMU as needed.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point
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