

DFID Nigeria

Draft Country Assistance Plan (CAP) 2004



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Introduction to the draft CAP

The UK Department for International Development (DFID) has been working in Nigeria since the 1990s. The DFID strategy which was developed for the period 2000-2002, following the inauguration of civilian rule, now needs to be updated and replaced with a Country Assistance Plan (CAP) for the period 2004-7.

DFID's mission is to help achieve the elimination of poverty world-wide. Our approach, working with other development partners, is to base our development partnership firmly on backing a country's own national strategy for poverty reduction. We warmly welcome the development of the National Economic Empowerment and Development Strategy (NEEDS), and its sister strategies for state level, the State Economic Empowerment and Development Strategies (SEEDS). We deliberately delayed the finalization of our own Country Assistance Plan to ensure that it is based on Nigeria's NEEDS document.

Now that the NEEDS is more or less complete, and as states move forward with the development of their SEEDS, DFID is consulting with partners in the Nigerian government, and with stakeholders in Nigerian civil society and the private sector, on its approach to backing reform and supporting poverty reduction over the next three years. With the 2007 elections already looming on the political horizon, the next few years are critical for Nigeria's future. We firmly believe that there is an important opportunity for change in Nigeria, which can make a real impact on the lives of the many millions who continue to live in poverty.

In this document, we set out some of our key ideas and plans about how we can best work in partnership with Nigeria and the international community to back reform and help bring about real poverty reduction over the next three years. The full Country Assistance Plan is currently being drafted and will be finalised over the next few months.

We really need to know whether our partners agree with our analysis of the challenge ahead, and with our proposed approach to addressing the opportunities. We would like you to take time to read this document and let us know what you think. You can do so in writing, sending your comments by e-mail or letter to the addresses shown on the back of the document, or you can attend one of the consultation meetings which we will be organising both in Nigeria and the UK. Your feedback matters to us, and we look forward to hearing your views and suggestions.

A Summary

1. Nigeria is Africa's most populous country, and with 80-90 million Nigerians living in poverty, only India and China have more poor people. Whether Africa attains the Millennium Development Goals (MDGs) depends to a large extent on Nigeria's success in reducing poverty. Nigeria currently has the best opportunity for a generation.
2. Nigeria may appear to be wealthy due to its oil resources, but in fact it is a poor country given its population size (133 million people). Nigeria is also severely under-aided. International development assistance is \$1-2 per capita compared to a sub-Saharan average of \$21 per capita.
3. A National Economic Empowerment and Development Strategy (NEEDS) has been launched as Nigeria's home-grown poverty reduction strategy. Similar strategies are being developed across the 36 states, called SEEDS. The NEEDS and SEEDS focus on achieving growth, better service delivery, reform of government institutions and the political system, and a transformation of values to overcome corruption and inefficiency.
4. However, the obstacles to reform in Nigeria are however deep-rooted following nearly forty years of military rule and widespread corruption. A broad range of stakeholders need to be involved in taking forward the reform effort and pressure for sustained change needs to be brought to bear from the Nigerian public as well as the international community.
5. Over the past year Nigeria has made good progress in the management of the economy. Fuel prices have been deregulated from government control. The National Assembly has agreed a prudent budget for 2004. There is more transparency regarding government expenditure, through publication of releases to state governments. Important action has been taken to tackle corruption and to promote greater transparency. Nigeria is providing leadership in taking forward the Extractive Industries Transparency Initiative (EITI) to promote transparency in the use of oil revenue.
6. DFID Nigeria's CAP is based on extensive analysis of Nigeria's political economy undertaken through our Drivers of Change initiative. We have researched the opportunities and constraints associated with reducing poverty in Nigeria and achieving the MDGs. We concluded that Nigeria confronts three inter-related constraints to the achievement of the MDGs.
 - Firstly, dependence on oil revenue has institutionalised mismanagement of Nigeria's most important economic asset;
 - Secondly, years of military rule, institutionalised corruption, and weak formal accountability has weakened the relationship between poor Nigerians and their government; and
 - Thirdly, extreme dependence on revenue from oil has retarded activity in other areas of the economy (particularly agriculture and manufacturing), reducing non-oil sector economic growth, fuelling unemployment and exacerbating poverty and conflict.
7. Addressing each of these constraints will become a specific objective of DFID Nigeria's CAP, enabling DFID to optimise the use of resources, curtailing non-strategic activities and prioritising our development efforts.

8. In addressing each objective, DFID will adopt a two-pronged approach. The first approach will support the Nigerian government's efforts, through NEEDS, to address the constraints. The second approach, consonant with NEEDS, is an issues-based approach that builds on our understanding that the government faces significant constraints in the implementation of its strategy, and will encounter opposition from the political and economic elites that have a vested interest in the current system. DFID will work with a broad range of stakeholders including government, civil society organizations, trade unions, the media, faith based groups and the private sector to build Nigerian-led coalitions to reform the institutional arrangements that govern Nigeria.
9. This transformational approach is dependent upon DFID influencing change in the way Nigeria's political economy is managed. It is a medium to long-term endeavour. But it is essential to start to deliver improved human development outcomes immediately. DFID will also introduce programmes that will have a direct, rapid impact on poverty reduction.
10. There are a number of important issues that cut across all our work in Nigeria and are vital to our effectiveness as a development partner. These themes include: conflict; environmental sustainability; gender; vulnerability; HIV/AIDS; voice and rights. We will ensure that we incorporate these themes throughout our programme and activities.
11. DFID will work to harmonize donor efforts in support of NEEDS. DFID has close working relationships with all the main donors operating in Nigeria – the World Bank, USAID, the European Commission (EC) and United Nations Agencies, and is planning that much of our programme will be implemented through joint initiatives.
12. DFID will work cooperatively with other UK departments. On financial crimes and stolen assets, DFID will work with the Foreign and Commonwealth Office (FCO), Home Office and Her Majesty's Treasury. We will work with Her Majesty's Treasury to coordinate an appropriate response to Nigeria's debt. Work on reducing conflict is already well coordinated between DFID, FCO and the Ministry of Defence (MoD). Counter-terrorism has become an important issue for the FCO, and DFID will work closely to ensure that the development and poverty dimensions are addressed. FCO will focus attention on energy-security in the Niger Delta, and DFID will complement this work through development assistance and conflict reduction work.

B The challenge

13. Nigeria, Africa's most populous and diverse country, has an opportunity to reverse the trend of forty years of military rule, weak economic and political governance exaggerated by the effects of the oil economy, and to begin addressing some of the highest levels of poverty in the world.
14. In a historic landmark, in April 2003 Nigeria successfully held its second consecutive elections, consolidating the transition from military to civilian rule that had been achieved in 1999. The second Obasanjo administration that took office in May 2003 has assembled a highly competent, professional tight knit group of reformers to implement macro-economic reform, enact service delivery improvements, to battle corruption, and to address poverty. The work of this group is focused on a well-articulated reform agenda, the National Economic Empowerment and Development Strategy (NEEDS). NEEDS is Nigeria's home grown poverty reduction strategy, and DFID Nigeria will use NEEDS as the basis for its support for poverty reduction within this Country Assistance Plan (CAP).
15. At the same time, the ruling party, the Peoples Democratic Party, has much stronger support in the National Assembly and in the states. This stronger mandate should underpin political stability and facilitate consensus building.
16. The NEEDS document provides an honest and self-critical assessment of poverty in Nigeria, its causes, and the challenge confronting the nation. While highlighting Nigeria's potential, NEEDS explains that Nigeria is currently one of the weakest economies in Africa (although the second largest in sub-Saharan Africa), and one of the poorest countries in the world, and that attainment of the MDGs in Nigeria is central to poverty reduction.
17. Under President Obasanjo, Nigeria has been quick to assume its international responsibilities. Nigeria is a leading player in the Commonwealth, in the New Economic Partnership for African Development (NEPAD), in Economic Community of West African States (ECOWAS) and plays an important role in peacekeeping throughout West Africa.
18. Nigeria's per capita income fell significantly to about \$290 between 1980 and 2000 (well below the Sub-Saharan average of \$490) which means that approximately 80-90 million Nigerians from a total population of 133 million are living in absolute poverty, on less than one dollar a day. Unless Nigeria reduces poverty the Millennium Development Goals (MDGs), both in Africa and globally, will not be achieved. GDP growth over the three years prior to 2003 was estimated at an average of around 3.5% per year - barely above population growth of around 2.6% and far lower than the 5% per capita growth rate NEEDS identifies as necessary to stop poverty from increasing. In 2003, growth was nearer 10%, driven by strong oil receipts, and agricultural growth of 7%.
19. Nigeria's poor economic performance can be traced to the failure during the 1970s to productively manage Nigeria's oil windfall, either to improve social conditions or encourage non-oil sector economic activity. The non-oil sector suffered from macroeconomic mismanagement, exacerbated by oil price volatility. Corruption related to weak governance and patronage-based

politics fuelled unproductive public investment, while an unsustainable increase in external debt left the economy vulnerable to falling oil prices. By 1998 approximately 70% of private wealth had been taken out of Nigeria. The non-oil sector (especially in manufacturing) became uncompetitive and dependent on protection and political patronage, and unable to compete in export markets. The livelihood opportunities of Nigerians have been reduced, exacerbating poverty and conflict.

MDG Challenge in Nigeria

Millennium Development Goal	Current Status in Nigeria
Extreme poverty to be halved between 1990 and 2015	70% of Nigerians live on less than \$1 per day
Proportion of people suffering from hunger to be halved	29% of children are underweight
All children to complete primary education	Less than 60% of primary aged children attend school. 7 million primary aged children are not in school.
Eliminate gender disparity in primary and secondary education by 2005	The number of girls enrolled in primary education is 77% the number of boys. In some states it is less than 40%.
Reduce child deaths by two thirds between 1990 and 2015	One child in five dies before its fifth birthday, one child in ten before its first birthday.
Reduce deaths of mothers due to child bearing by three quarters between 1990 and 2015	One birth in a hundred results in the death of the mother. Women in northern Nigeria have a one in fifteen chance of dying through a pregnancy related cause.
Stop the spread of AIDS.	5% of Nigerians are infected with HIV – over 10% in some states. Over 1 million children have already been orphaned by AIDS.
Halve by 2015 the proportion of people without safe drinking water.	Less than 50% of the rural population has access to a safe water source.

20. Since the end of military rule there has been a significant expansion of public spending, fuelled by increases in oil revenues and the distribution of these revenues to state and local government. (Historically, Nigeria has always implemented pro-cyclical fiscal policy). Total public spending has increased from 19.1% of GDP in 1997 to 50.2% in 2001. State and local government spending has more than tripled its share of GDP, and capital expenditure has more than doubled.
21. NEEDS highlights the central role for a growing, dynamic private sector to deliver growth in the non-oil economy, essential for poverty reduction. This will require strong macroeconomic management at federal and state level, a conducive business environment for formal and informal enterprises, and improved access to markets and assets (including commodities, finance and land) for poor people.
22. Significant progress towards macroeconomic stability has been made during the Obasanjo administration. In the last year, inflation and exchange rate instability have been reduced. The introduction of a more liberal exchange rate system in 2002 has led to a more competitive rate and a reduction in the gap between official and parallel rates. The deregulation of the petroleum sector has seen prices at the pumps align with border prices leading to marked improvements in fuel availability. The privatisation process has made

some progress and is a pillar of NEEDS. Liberalization of the telecoms market, for example, has led to a rapid expansion in mobile telephone services.

23. The government's 2004 budget adopts a prudent fiscal stance, winning high praise from the IMF and World Bank. The federal government has also linked its budget parameters to policy objectives and outcome targets. In the budget, two thirds of capital expenditures are directly related to the achievement of MDG targets. The federal government has begun a practice of publishing budget allocations made to the 36 states and 776 local government areas (LGAs). This has initiated a vigorous debate in the media among state politicians and the public on processes used to allocate and account for resources. And government is increasing the transparency of oil revenues, becoming the first country to begin to implement the Extractive Industries Transparency Initiative (EITI). The first audit is expected before the end of 2004.
24. It is also noteworthy that fake and illegal drugs are being better controlled by the National Agency for Food and Drug Administration Control (NAFDAC), through an aggressive programme of arrests, seizures and prosecutions.
25. Nigeria's external debt is about \$33 billion, equivalent to 60% of GDP. This includes significant arrears and penalties accrued during the years of military government. Debt service due in 2004 is about 33% of projected exports (World Bank estimate, May 2004). External debt obligations impose a heavy burden.
26. Nigeria is the World's 13th largest oil producer, and the 6th largest in OPEC. Nigeria has an estimated proven reserve of 32 billion barrels – sufficient for 37 years at the current rate of production. Nigerian gas reserves, when fully exploited, will place it in the world's top ten gas producers. Gas reserves are 174 trillion cubic feet, and will last for 110 years at current rates of production. Oil continues to dominate the economy with about 70% of Nigeria's fiscal revenues derived from oil. Oil and gas revenue to the government was equivalent to US 17 cents per person per day in 2002. The anticipated development of gas liquefaction and gas exports will diversify the country's export base, but will not end Nigeria's dependence on extractive industries for the generation of foreign exchange and government revenues and potentially exacerbate the effect of 'Dutch Disease'.
27. Despite some trade liberalisation, protection remains relatively high and uneven, with some favoured industries enjoying particularly high protection. NEEDS takes a stance against Nigeria's past trade policy and variable tariff regime that generated an uncertain environment for the private sector. NEEDS commits the government to diversification of exports away from oil, a gradual liberalization of imports and ECOWAS tariff liberalisation.
28. NEEDS highlights a 'hostile business environment' where private business is hampered by weak infrastructure (particularly electricity, roads and ports), lack of personal and property security, poor governance and corruption. Formal enterprise faces significant red tape, multiple taxation, and rent seeking behaviour by government officials. Informal enterprises, dominated by those in the agricultural sector, tend to be excluded from secure access to productive assets.

29. The poorest Nigerians depend heavily on natural resources. Poverty is strongly influenced by the performance of agriculture, the main sources of livelihoods among the poor. Over 80% of the rural population are employed in agriculture, forestry and fisheries. Agriculture faces seasonal labour shortage and declining soil fertility. Extensive agriculture exacerbates deforestation across Nigeria, increasing the vulnerability of the poor, with land being the only asset that does not erode rapidly during times of stress. Poor management of common natural resources further exacerbates the vulnerability of the poor, reducing the incentives for investment. Growing a competitive agriculture sector by improving productivity and increasing value addition to agricultural commodities is a key aim of NEEDS.
30. High and rising HIV prevalence in Nigeria will have devastating social and economic consequences. The epidemic in Nigeria is fuelled by poverty, lack of awareness, large pockets of most-at-risk populations, early age of sexual debut, poor gender empowerment, and harmful traditional practices. There is poor infrastructure and a lack of capacity to address the epidemic. The challenge in Nigeria is to curb the epidemic before it spirals out of control. Nigeria has the third largest population of people in the world living with HIV/AIDS after South Africa and India. An estimated 3.5 million people are living with HIV and the national prevalence is estimated to be 5.0%. Young people, particularly women aged 15-24, are the most vulnerable to infection. Although no part of the population is unaffected by HIV, the poorest are most vulnerable and the consequences for them are most severe.
31. Whilst rural poverty remains higher in absolute and percentage terms, urban poverty is increasing rapidly as Nigeria has one of the fastest rates of urbanization (5.3% annual growth) in the world, and urbanisation has been accompanied by economic stagnation rather than growth. Lagos has been growing at between 10 and 15% per annum, and if this growth continues it will be the third largest city in the world by 2020. The city is throttled by infrastructure deficiencies and decades of neglect. Poverty is more pronounced in the northern part of the country. Women are particularly disadvantaged. For example, in Jigawa (a Northern state), only one in four girls of primary school age goes to school, compared with one in three for males. The proportion of undernourished children is significantly higher in the North East and North West than the South East and South West, and across Nigeria child mortality rates have fallen more slowly than in any other African country.
32. The quality and coverage of basic services did not improve over the last two decades, and in some areas - notably health and education - there was a dramatic decline. In the 1980s, Nigeria had one of the best education systems in Africa, with near full primary enrolment in some parts of the country. The Nigerian education system has declined considerably since then, and in some parts of the country is amongst the worst in Africa. Net primary school attendance has fallen from 64% to 55% between 1995 and 1999.
33. In health care, there remain substantial regional disparities in the quality of service provision. There is a ten-fold difference in maternal mortality ratios between the North East and South West, and a five-fold difference in the proportion of the population lacking access to health facilities. There is growing, but largely undocumented and unregulated, private sector provision of basic health services. Quality varies widely, and paying for basic services

takes up a large proportion of poor households' income. Over 60% of Nigerians will use private and informal health services. In 2000 the WHO rated the health system at 187 out of 191 countries in the world. Immunisation coverage has fallen from around 30% in the early 1990s to 13% in 2003.

34. Over the last 10 years water supply coverage in urban areas has dropped while coverage in rural areas has increased only slightly. A similar situation is reflected in the provision of sanitation services.
35. Nigeria remains a conflict afflicted country, with persistent localised conflict centred around the extraction of oil in the Niger Delta, and with the potential for violence to flare almost anywhere in the country in response to various political, economic, and social triggers. Conflict is a symptom of poor security services, limited conflict mitigation mechanisms (politicians often fail in this role) and poverty. Leaders manipulate violent conflict as a technique to retain, or compete for, access to economic and political power, and will also be used to disrupt the government's reform initiatives if the reforms threaten the status quo. In the short-term, violent conflict has the potential to undermine the government's reform programme. Over the long-term, violent conflict dramatically reduces the potential for economic activity, reducing the opportunity for non-oil sector growth, exacerbating unemployment and poverty, and creating a new generation of disaffected youth that are easy to manipulate into violence for political ends. NEEDS presents the best opportunity for a generation to break the cycle and embed changes that will, over time, reduce poverty and strengthen Nigeria's democracy. DFID will also engage in targeted conflict reduction initiatives, and supports the reform of the Nigeria Police Force.
36. Nigeria's complex political economy and the negative impact of years of military rule have imposed deep-rooted constraints on the achievement of the MDGs that many in the international community, and many Nigerian reformers, under-estimated. Previous governments, both military and civilian have failed to achieve sustained growth that leads to poverty reduction. The executive is constitutionally powerful but is constrained by the complexity of Nigeria's political system and the paramount importance of ensuring national unity in a country with 200 ethnic groups, more than 500 indigenous languages, and two major religions (Islam and Christianity). Capacity is weak across the three tiers of government, all of which are critically important for service delivery, and in the long term will be further eroded in all sectors as the full impact of HIV/AIDS is felt.
37. The federal system has been a vital contributor to the survival of Nigeria as a cohesive nation. States exercise considerable political and fiscal autonomy, control approximately 50% of government resources, and have power over local government. But there is a lack of accountability and responsiveness of state governments, serious capacity constraints, and misallocation of state resources are the main challenges to be confronted through the introduction of greater fiscal discipline within the State Economic Empowerment Strategies (SEEDS).
38. The federal government will also introduce discipline on public expenditure through a Fiscal Responsibility Bill (to be introduced in 2005), and the restriction of bank lending to states imposed by the Central Bank, and the Securities and Exchange Commission. The international community will provide development assistance to states that develop SEEDS, supporting

their reform initiatives and coherence with federal reforms, thus strengthening the benefits and opportunities that states can generate for poor people through reform.

39. There is widespread opposition to a return to military rule and although the recent elections have consolidated civilian rule. There is a need to strengthen the connection between the majority of Nigerians and the government. Politics is dominated by ethnicity and religion, and politicians often exploit these divisions to create powerful patron-client relationships that undermine issues-based politics. The National Assembly has begun to play a more constructive role, while the media, policy think-tanks, academic institutions, faith-based organizations, and trade unions all function but have yet to play a critical role in reform. NEEDS provides an opportunity for civil society to contribute by representing the interests and demands of Nigeria's traditionally disenfranchised majority.

Nigeria's PRS – NEEDS

40. In May 2004 President Obasanjo launched the National Economic Empowerment and Development Strategy (NEEDS) as Nigeria's home-grown poverty reduction strategy. The international community, including DFID, have welcomed NEEDS and it has been accepted as the Poverty Reduction Strategy that will guide international community support in Nigeria. NEEDS focuses on four key strategies. Firstly, reforming government and institutions to restructure, rightsize, re-professionalise and strengthen government. The focus is on improving service delivery to poor people, eliminating waste, and fighting corruption. Secondly, growing the private sector by reducing the influence of government in the economy, and accelerating the privatisation, de-regulation and liberalization programme. There will be a particular focus on economic infrastructure – including transport and electricity. Thirdly, implementing a social charter to improve peoples' access to health, education, welfare, employment, empowerment, security and participation. HIV/AIDS is acknowledged as a major threat to the economy and not just a social problem. Fourthly, value reorientation that emphasises that NEEDS is not 'business as usual'. Attention will be given to privatisation, anti-corruption, freedom of information, and enhancing the role of civil society in this campaign.
41. NEEDS, if fully implemented, will have significant benefits for the poor. NEEDS is comprehensive and acknowledges the multi-dimensional nature of poverty in Nigeria. The international community has made inputs into the process and has recommended that: in time the consultation process becomes even more inclusive; that attention be given to implementation, goal-orientation, and careful monitoring and evaluation (with particular focus on HIV/AIDS, health and education); that political reform, and particularly reform of the public service with a focus on service delivery are enhanced; that the complex issues surrounding concurrent responsibilities between federal and state levels of government be addressed; that practical measures to tackle corruption and conflict are developed further; and that the role of civil society be strengthened.

C Risk Analysis

42. The greatest challenge to the implementation of Nigeria's poverty reduction strategy (NEEDS) is the government's capacity. The NEEDS agenda is fully owned across the whole of the federal government and has strong political backing from the President. But there is only a relatively small team of competent civil servants. At state level, for the most part, commitment and capacity remain weak.
43. President Obasanjo's administration is term-bound and the next elections will be held in 2007. There is thus a brief window of opportunity for lasting reforms to be introduced and to be made sustainable before the President relinquishes power. The President and his team are well aware of this, and part of the President's commitment to reform comes from his determination to leave an important legacy. Given Nigeria's deeply entrenched constraints, there is a strong likelihood that the NEEDS process will be disrupted and less effective than envisaged, as is the risk that a less effective NEEDS process will not translate into full benefits in terms of poverty reduction. NEEDS encapsulates a basket of macro-economic and governance reforms that are essential to improve service delivery for poor people and create an environment for pro-poor growth. The international community (including DFID) seek to reduce this risk by providing significant support to NEEDS. DFID will also reduce this risk with a focus on achieving the MDGs by strengthening the delivery of basic services and building coalitions of interests that promote long term institutional change.
44. The NEEDS document states that, "until 1999, corruption was practically institutionalised as the foundation of government". Progress has been made by the government to tackle gross corruption in the public service (through the work of the Independent Corrupt Practices Commission and the Economic and Financial Crimes Commission, and the 'Due Process' initiative) and in the transparency and management of extractive industries' revenues (through Nigeria's early adoption of the Extractive Industries Transparency Initiative). However, there is much further to go and corruption still remains a threat to accelerated progress towards poverty reduction. DFID and the international community will work with the government, with civil society organizations and the private sector to support anti-corruption initiatives. Supporting the Extractive Industries Transparency Initiative and the work of the newly established Petroleum Revenue Management Unit will be a particular focus of DFID Nigeria's anti-corruption strategy.
45. Nigeria is confronted by an advanced HIV/AIDS epidemic. A life-expectancy of 49.1 years in 1991 had fallen to 47 years by 2002 (World Development Indicators, 2003). There is strong leadership for action on HIV/AIDS from the President. This needs to be harnessed into concrete multi-sectoral action underpinned by the federal government's commitment to the three 'ones' – one HIV/AIDS strategy, one multi-sectoral coordinating body, and one monitoring and evaluation framework.
46. Rapid progress in reducing poverty and achieving the MDGs is dependent upon improved access to basic services – particularly education, water and sanitation, and health. Few in Nigeria (63% in urban areas and 48% in rural areas according to the World Bank) have access to primary health care. The health services that are available are of low quality, and many lack basic

equipment and drugs. As stated earlier, the education system has practically collapsed, with less than 60% of primary-aged children in school, and far fewer girls than boys in school across the north of the country. NEEDS has prioritised health and education, with 20% of federal expenditure earmarked for these sectors, an increase of 12% in comparison with the previous administration. Given the size of population, this is a limited investment, with relatively little donor money. Estimates suggest that achievement the 'Education of All' MDG by itself would require an additional \$650 million a year. However, funding is only one part of the problem, and attention needs to be given to systems improvements, financial management, and improved training of health practitioners and teachers. The international community seeks to put more resources directly into primary education and primary health care, while supporting the development of sectoral strategies within NEEDS and SEEDS at the same time

47. The lack of quality data adds to the risk of poor analysis, lack of evidence based policy and investment decisions. Data in Nigeria is patchy and often unreliable, frequently highly politicised, and monitoring is a serious challenge. Nigeria's universities, once the best in Africa, are now unable to provide quality analysis and research. DFID, with other members of the international community, will work to improve the government's capacity within NEEDS and SEEDS to collect and use social and economic statistics, and develop research capacity to produce data on poverty and the economy that is gender disaggregated and accessible.
48. Given high levels of institutionalised corruption, the relative infancy of the NEEDS macro-economic reforms, and the lack of direct control the federal government is currently able to exercise over state fiscal autonomy, Nigeria is currently a high fiduciary risk. Concerted effort by the government to address gross corruption, control the macro-economy and reduce state-level discretionary expenditure will reduce this risk over the period of the CAP. Towards the end of the CAP there may be an opportunity, within specific sectors or within specific states, to begin poverty reducing budgetary assistance.

D What we have learned

49. Everyone, including DFID, underestimated the challenge Nigeria confronted in 1999 and was over-ambitious in the timeframe for reform. DFID, and other international donors gave insufficient attention (and resources) to tackling deep-seated constraints blocking pro-poor change. There was an assumption that the transition from military to civilian rule would create the necessary political space, and political will, for significant pro-poor reform. A better understanding of the underlying political economy and socio-cultural factors inhibiting change, is critical for the design of appropriate policy from government, and appropriate support from the donor community. Support to individuals or organisations as 'change champions' will be more effective as part of a broader strategy that achieves institutional reform.
50. Capacity to drive reform remains limited across government, with the notable exception of the Economic Management Team and parts of the Presidency. Capacity is particularly weak at state and local government level. Development assistance aimed at building the generic capacity of government has had less impact than envisaged, as insufficient attention was paid to the incentives that motivate state politicians and civil servants to

engage with reform. Linking development assistance to supporting specific improvements in service delivery, for example, will build increased demand from the public and strengthen the incentives of both public officials and politicians to implement reforms.

51. Working in partnership with government is complex, has in the past been slow to yield results, and government commitment to reform in some areas remains fragile. The government's NEEDS agenda provides an appropriate poverty reduction strategy for guiding the international community's efforts to achieve the MDGs in Nigeria, but it will take considerable effort to ensure NEEDS has the impact needed and donors are barely engaged. The World Bank argues that without an order of magnitude increase in resources to complement the accelerated reforms on which the administration has embarked, Nigeria will miss most if not all MDG targets, some by a wide margin.
52. DFID's support for poverty reduction in Nigeria should be focused on supporting the government's efforts to achieve reform through NEEDS, but should also support the development of broad-based constituencies drawn from across civil society, the private sector, and the media, to build effective demand for change and to hold government to account. Given limited resources, DFID will focus attention on a few key 'issues' that will maximize lasting change within Nigeria's institutional framework and begin to address the deep-seated constraints that prevent progress towards the MDGs. DFID will also introduce programmes that will have a direct impact on poverty reduction, and the achievement of the MDGs with a particular focus on support for primary health care, primary education, and combating HIV/AIDS.
53. DFID's programme under the 2001 Country Strategy Paper focused mainly on support for government and sought to engage with formal systems (organizations and institutions established by legislation and governed by published and understood rules). We have learned that in Nigeria a large proportion of social, economic and political transactions in Nigeria take place outside the formal system, even when a formal system exists, and are governed by informal, personalized and patronage-based arrangements. Engagement with the formal system (whether the justice system or the private sector) has had less impact than envisaged as the strength of informal arrangements frequently undermines the formal system. Understanding the impact of informal arrangements is essential, as the majority of the poor remains dependent on informal networks and institutions and derives limited benefit from the existing formal systems. We need to be prepared to work innovatively with a wider range of partners to achieve real impact.
54. Engagement at state level remains important as approximately 50% of government expenditure takes place at state and local level, with states being responsible for the delivery of basic education and health services. However, our original assumption that it was possible to identify and support reforming states and support accelerated development has been less successful than anticipated. The incentives for states – particularly the political leaders – to engage with the reform agenda has been weak. The resources (both financial and technical) that DFID's engagement has brought to the states have been insufficient to compensate for the loss of highly personalised, discretionary use of resources, that engagement with the reform agenda would entail. The NEEDS and SEEDS agenda provides a more robust framework for reform, and, if implemented, will begin to change the political

system at state level and create opportunities for growth. DFID's state level assistance will support states that engage meaningfully with the SEEDS agenda. DFID should provide technical and financial resources that increase the tangible benefits of reform to provide stronger incentives to both public officials and civil society to engage with reform. In this way, reforms are likely to become sustainable, reducing the risk associated with a change in political leadership following the 2007 elections.

55. DFID's preferred method of working will be with state governments that develop and implement a SEEDS. There will be states (some with high concentrations of poor people) that do not develop SEEDS. To make progress towards the MDGs DFID will engage with direct service provision in these states to improve MDG outcomes. This may include working with civil society organizations, non-governmental organizations, and the private sector. Our focus will be on reducing the spread and impact of HIV/AIDS; supporting the private (and not-for-profit) provision of primary health care and education; supporting immunization campaigns; and providing health care commodities (including anti-malarial bed nets and condoms). This direct-impact approach will be supplemented and reinforced by a transformational-impact approach focused on the identification of issues at state level that increase demand from poor people for change, and improve the capacity of the state government to respond appropriately. The overall objective of this engagement will be to support the development of SEEDS in as many states as possible.
56. Donor harmonization and coordination of effort during Obasanjo's first term was weak, largely as a result of the absence of an agreed government-led poverty reduction strategy. Nigeria has few donors and, by sub-Saharan African standards, is significantly under-aided (the average per-capita assistance to Sub-Saharan Africa is \$21; aid to Nigeria is approximately \$1 per capita). The introduction of NEEDS and its acceptance as a Poverty Reduction Strategy by the international community provides a focus for donor coordination. The major donors (DFID, the World Bank, European Commission, USAID and United Nations Development Programme) are working cooperatively to support NEEDS and SEEDS; to achieve Universal Basic Education; to basket-fund support for free and fair elections in 2007; and to target MDG related issues including HIV/AIDS, polio and malaria. Donor coordination can and should be improved further, and the opportunity for donors to coalesce around NEEDS and SEEDS will improve the overall impact of development assistance.

E The UK Development Partnership

57. The overall purpose of DFID Nigeria's programme is to work as part of the broader UK government and part of the international community to support the Nigerian government and other stakeholders from civil society and the private sector, to achieve progress towards the Millennium Development Goals (MDGs). Supporting NEEDS as Nigeria's poverty reduction strategy will contribute to achieving the Millennium Development Goals, and is a central platform of this CAP. DFID will refocus its work at state level, working with other members of the international community, to help develop and implement SEEDS in as many states as possible.

58. DFID will work to have both a transformational impact through programmes that improve the capacity of Nigeria's government and economy to achieve poverty reduction and a focus on rapid attainment of the MDGs.

Transformational Impact

59. DFID Nigeria's CAP is based on extensive analysis of Nigeria's political economy undertaken through the Drivers of Change initiative. The Drivers of Change initiative has researched the opportunities and constraints associated with reducing poverty in Nigeria and achieving the MDGs. The Drivers of Change research concluded that Nigeria confronts three inter-related constraints to the achievement of the MDGs.

- Firstly, dependence on oil revenue has institutionalised mismanagement of Nigeria's most important economic asset;
- Secondly, years of military rule, institutionalised corruption, and weak formal accountability has weakened the relationship between poor Nigerians and their government; and
- Thirdly, extreme dependence on revenue from oil has retarded activity in other areas of the economy (particularly agriculture and manufacturing), reducing non-oil sector economic growth, fuelling unemployment and exacerbating poverty and conflict.

60. Addressing each of these constraints will become a specific objective of DFID Nigeria's CAP, enabling DFID to optimise the use of resources, curtailing non-strategic activities and prioritising our development efforts. In addressing each objective, DFID will adopt a two-pronged approach. The first approach will support the Nigerian government's efforts, through NEEDS, to address the constraints. The introduction of NEEDS provides an appropriate vehicle for the international community to support the reform of Nigeria's political economy and for poverty reduction. The effective implementation of NEEDS and SEEDS will have a greater impact on poverty reduction in Nigeria than all international development assistance combined.

61. The second approach is an issues-based approach that builds on our understanding that the government (as stated in NEEDS) faces significant constraints in the implementation of its strategy, and will encounter opposition from the political and economic elites that have a vested interest in the current system. The reform agenda needs to be broadened out to strengthen participation in reform beyond the core team of individuals and organizations around the Presidency. DFID will work with a broad range of stakeholders (including government, civil society organizations, trade unions, the media, faith based groups and the private sector) to build Nigerian-led coalitions to reform the institutional arrangements that govern Nigeria.

62. The two approaches are mutually reinforcing and complementary. Working to support the government to implement NEEDS and SEEDS will require engaging with a broad range of stakeholders from across civil society. The government will be a central stakeholder in all issues-based interventions.

63. **Objective One:** *To support the government and other stakeholders to better utilize and manage revenue from oil to achieve improved public service delivery and poverty reduction.*

64. NEEDS establishes the over-arching framework that will guide DFID's support for government-led reform to address better utilisation of public revenue and to support improved public service delivery and poverty reduction. Support will be provided to strengthen macro-economic management, with particular reference to strengthening budgetary processes at both federal and state levels, tax reforms, and improvements to public expenditure management and debt management. Our efforts will concentrate on ensuring the maximization of poverty reduction impact from public revenue – particularly revenue from oil, but may also include debt relief – as well as the creation of an enabling macro-economic framework to support pro-poor growth.
65. In the short to medium-term, DFID will work with pilot ministries identified under NEEDS (including the Ministry of Finance, Office of the President, Ministry of the Federal Capital Territory, Ministry of Information, and the National Planning Commission) to support public sector reform (including public expenditure management), and the restructuring of the civil service. DFID will work with the Office of the Secretary to the Government of the Federation to implement a Service Delivery Initiative (SDI), with pilot initiatives likely to be undertaken with the police, National Electric Power Authority (NEPA), in health, and passports or customs. Under NEEDS, DFID will also engage with those ministries where there is an established relationship – including the Ministries of Health, Justice and Education. Particular attention will be given to working to reform the Nigeria Police Force.
66. At state level, DFID will move, within the duration of the CAP, to a regional focus in support of states that develop and implement SEEDS. With the international community, DFID will establish benchmarks for engagement, support states in the achievement of the benchmarks, and then provide a basket of support (in health care, education, support for the justice sector, public service reform, etc) that will accelerate state-level reform and achievement of SEEDS objectives. Under this Objective, the focus of DFID's engagement will be on improving public expenditure management, and improvements in service delivery.
67. Working with coalitions drawn from across civil society, the private sector, the media, trade unions, and policy think-tanks, DFID will support an issues-based approach in support of NEEDS and SEEDS to achieve improvements in public expenditure management and service delivery. An issues-based approach may involve focusing on the delivery of a specific service (for example immunisation, girls primary education in the north, reducing the number of prisoners awaiting trial, or improving access to safe water). Success around each issue can only be achieved through a multi-faceted approach that secures engagement from a broad spectrum of interested parties and that achieves institutional change.
68. **Objective Two:** *To support government and other stakeholders to improve the accountability and transparency of government, and strengthen the relationship between Nigeria's poor and their government.*
69. The focus in NEEDS on value re-orientation and on implementing a social charter is acknowledgement that fundamental reform in the relationship between the government and the people is required to achieve NEEDS. DFID has identified the weak link between government and the people (most recently expressed through voter disinterest and low turnout at the local government elections) as a constraint on achieving poverty reduction. DFID

will work with the government, and with representatives from across civil society, to improve the accountability, transparency and responsiveness of government to the legitimate demands of Nigerians – particularly the poor.

70. DFID will work with the government at federal and state level to strengthen its capacity to review and reform existing legislation and strengthen accountability; and will work closely with the National and State Assemblies to improve their ability to hold the executive to account and to formulate legislation that makes government more accountable. We will work with the international community to develop and implement a basket-fund to support the delivery of democratic elections in 2007.
71. NEEDS has made the fight against corruption a central element of the strategy, and DFID will work with government to support anti-corruption initiatives. This may include working with the Independent Corrupt Practices Commission (ICPC); the Economic and Financial Crimes Commission (EFCC); the Budget Monitoring and Price Intelligence Unit (to strengthen 'due process'); the Code of Conduct Bureau; as well as other ministries, agencies, and committees within the National Assembly with responsibility to reduce corruption. DFID is already working with the Convention on Business Integrity (CBI) to reduce corrupt practices within the private sector, and will strengthen this work under the CAP.
72. DFID will adopt an issues-based approach to address specific accountability and transparency issues. This will include work around the Extractive Industries Transparency Initiative; support for the Freedom of Information Bill; support for the government's efforts to reduce advance fee fraud (419 scams); support to organized labour to improve social dialogue with employers and government; and working with the media to spotlight transparency and accountability issues.
73. **Objective Three:** *To support government and other stakeholders to build a vibrant, diversified non-oil economy that generates employment, and reduces poverty.*
74. In achieving this objective, DFID will work with the government to deliver macroeconomic stability and improved economic management, particularly in areas of fiscal and monetary policy, public financial management, debt management, trade policy and privatisation. DFID will also work at federal and state level to develop an enabling environment for private sector activity in the non-oil sector. We will collaborate with the DFID International Trade and Africa Policy departments, other donors and regional organisations such as ECOWAS to support the development of trade policy to promote a competitive industrial, commercial and agricultural base in Nigeria. The UK will continue to press for significant liberalisation of agriculture by the OECD in the Doha Trade Round.
75. The issues-based approach will include support for improvements in Nigeria's financial sector, and targeted support around specific commodities to maximise livelihood opportunities for the poor. We will work to develop markets that enable the poor to gain value from their assets, and focus on those sectors, particularly agriculture, where most of the poor make their living. With other bilateral and multilateral donors we will seek to promote sustainable improvements in the conduct, structure and performance of markets in which the poor participate and address infrastructure constraints.

We will give attention to addressing key constraints in agricultural commodity and service markets and financial markets, and will explore other inter-linked issues in land, knowledge and labour markets and the legal and regulatory framework.

Direct Approach

76. The transformation approach is dependent upon DFID influencing change in the way Nigeria's political economy is managed. Although this is the long-term goal of DFID's strategy it is dependent, in part, upon the success of the NEEDS and SEEDS reform initiative. To manage the risk associated with this approach, DFID will also introduce programmes that will have a direct rapid impact on poverty reduction. This will be addressed through DFID's fourth objective.
77. **Objective Four:** *To have direct rapid impact on the achievement of the MDGs through the provision of goods and services that improves the standard and quality of life of poor Nigerians.*
78. DFID Nigeria will contribute to the achievement of the MDGs through a range of programmes that directly provide goods, commodities and services to poor Nigerians. These programmes will be specifically focused on MDGs related to health (child mortality; maternal mortality; combating HIV/AIDs, malaria and other diseases); and education (universal primary education). These programmes will work with federal and state governments where appropriate and possible, but will also strengthen the private sector, NGOs, faith based organizations (both Christian and Muslim) and not-for-profit organizations' capacity to improve service delivery. The programmes will focus on geographic areas (particularly the north) where poverty is most severe, and where capacity to achieve progress towards the MDGs is constrained.

Cross-Cutting Issues

79. There are a number of important issues that cut across all our work in Nigeria and are vital to our effectiveness as a development partner. These themes include: conflict; environmental sustainability; gender; vulnerability; HIV/AIDS; voice and rights. We will ensure that we incorporate these themes throughout our programme and activities. To do this we will develop strategies and systems that allow us to ensure that potential concerns and opportunities relevant to these themes are identified across our activities and portfolio, and appropriate action taken.

Mainstreaming cross-cutting issues

Environmental Sustainability: We will proactively seek and implement strategic opportunities to promote the wise use of natural resource assets and the delivery of effective environmental services in order to support poverty reduction and promote sustainable economic growth.

HIV/AIDS: We will work to ensure that there is a strong and well co-ordinated response to HIV/AIDS by government, civil society and the private sector at all levels. To support this, action on HIV/AIDS will be

built not only into our health sector programmes, but also into the broad range of initiatives we will be supporting across all sectors.

Gender: Gender is a specific concern because of its importance for the achievement of the MDGs. The education of girls is critical in overcoming poverty. More active involvement of women in society and politics has proven developmental benefits. We will therefore work to ensure that effective approaches to promoting gender equity are built into the CAP, with all programmes identifying their impact by gender.

Conflict: Violent conflict and lack of security are an increasingly important fact of life in Nigeria. Continued violent conflict will retard human development and act as a disincentive to investment and job creation. We will promote a multi-stakeholder approach to understanding and addressing the causes of conflict to reduce the level, frequency and impact of violent conflict within the country, improve human security, and promote investment

Rights: Rights include the right to health, water, education, freedom from hunger, security of life and property, and meaningful participation in the social, economic and political life of the nation. It is evident that the majority of Nigerians do not have access to these basic rights. Women and children are particularly vulnerable to exploitation and abuse. We will work to protect and promote the rights of all Nigerians (the right to services and government accountability), as well as the specific rights of vulnerable groups (women, children, people with disability and people living with HIV/AIDS).

DFID Nigeria – Working in Partnership

80. The CAP will respond to DFID's evolving policy framework. During the CAP, the UK government will chair the G8 and assume the Presidency of the European Union. This will provide opportunities for issues of importance to Nigeria – including HIV/AIDS, girls' education, African peacekeeping and conflict – to be addressed. The Commission for Africa provides an opportunity both to ensure that our experience in Nigeria influences the Commission's work, and to learn from experiences elsewhere in Africa. DFID will work to improve its external communications to raise the profile of Nigeria, to ensure that more people in the international community understand the development challenge and opportunities that Nigeria presents. Attention will be given to Nigeria's pivotal regional role – both political and economic – with ECOWAS a focus. We will look to strengthen Nigeria's capacity to respond to humanitarian problems, both inside Nigeria and within the region.
81. DFID will work to harmonize donor efforts in support of NEEDS. DFID has close working relationships with all the main donors operating in Nigeria – the World Bank, USAID, the European Commission (EC) and United Nations agencies. DFID is working cooperatively with these donors to maximize the combined impact of international assistance. DFID has a comparative advantage in working with public sector reform and civil service reform (in cooperation with the World Bank); in health service strengthening and health commodities delivery (in cooperation with WHO and UNICEF); in water and sanitation (through cooperation with UNICEF); in justice sector reform and conflict reduction (in cooperation with the MoD and FCO); and in supporting

free and fair elections in 2007. DFID's main comparative advantage is our ability to respond relatively swiftly and flexibly to government requests for assistance, and in response to new reform opportunities.

82. DFID will work cooperatively with other UK departments. On financial crimes and stolen assets, DFID will work with the Foreign and Commonwealth Office (FCO); Home Office and Her Majesty's Treasury. We will work with Her Majesty's Treasury to coordinate and appropriate response to Nigeria's debt. Work on reducing conflict is already well coordinated between DFID, FCO and the Ministry of Defence (MoD). Counter-terrorism has become an important issue for the FCO, and DFID will work closely to ensure that the development and poverty dimensions are addressed. FCO will focus attention on energy-security in the Delta, and DFID will complement this work through development assistance and conflict reduction work.

ANNEX:**Measuring DFID's success in helping Nigeria**

DFID is required to demonstrate clearly the way in which it is contributing to any improvements in MDG outcomes and poverty reduction in Nigeria. The way in which we are required to do this is through developing what is called a **Change Forecast**. This involves identifying a series of **key changes** which we expect Nigeria to achieve over the period of the CAP. We relate these key changes to DFID's international priorities as set out in its Public Service Agreement. The key changes envisaged over the lifetime of the CAP 2004-7 will be translated into a set of **annual change indicators**. These annual indicators will be closely linked to the performance targets set in the country's own national poverty reduction strategy – we will therefore use targets and indicators set in the NEEDS (and potentially SEEDS) as much as possible. But we may also need to add some other change indicators of our own.

Against these annual change indicators we need to set out clearly exactly what DFID will do to contribute to the achievement of the change specified. In identifying our contribution, we need to assess carefully what the government, Nigerian civil society and private sector, and other development partners plan to do to help achieve the desired outcome. Only then can we be clear what role we as DFID specifically need to play, and what our comparative advantage is.

We have started preliminary work on our Change Forecast for the CAP, using our knowledge of the NEEDS. We have identified a series of proposed “key changes” to be achieved in Nigeria by 2007 (Step One). These are set out in the box below. We would like your feedback as to whether we have captured the key changes that you also would like to see.

The CAP Key Changes: “What we hope to see achieved in Nigeria by 2007...”

- 1) A stronger approach to poverty reduction by the federal and state government, working jointly with the private sector and civil society.
- 2) A higher rate of economic growth which benefits the poor and moves Nigeria away from its current dependency on oil, with the private sector able to play a more active and dynamic role.
- 3) Improved delivery of basic services especially to the poor, with a stronger focus on the needs and rights of citizens as consumers, and with government becoming much more accountable to its citizens.
- 4) Effective action by government, working together with the private sector and civil society, to tackle corruption.
- 5) Effective action to reduce inequality between men and women, and between different parts of the country (for example, levels of literacy, and the number of children dying before they reach their 5th birthday)
- 6) A reduction in the rate of spread of HIV/AIDS, achieved by government working together with other stakeholders at all levels.
- 7) A sustainable reduction in violent conflict through effective joint action by government and other stakeholders to address the underlying causes.

Implementing the CAP

DFID will need to ensure that its Nigeria Country Office is adequately equipped to implement the ambitious programme of work contained in the new CAP 2004-7. This will include ensuring adequate staff with the required skills to manage an expanding programme, working at different levels and with a wide range of stakeholders. Our staff will work in three overall teams linked to the CAP objectives: Pro-Poor Growth (PPG), Social and Political Change (S&PC), and Human Development (HD). A fourth Office Services Team will support the work of the CAP by providing high quality support services to ensure a well-functioning country office.

Alongside our head office in Abuja, we plan to open new regional offices to cover the different sectors of the country. These will replace the current four state offices and will play an important role in the delivery of the CAP. Regional offices will enable us to provide effective support to SEEDS implementation across a range of states, working in close collaboration with other donor partners, as well as enabling us to address the other key strands of work in our CAP (the “issues-based” and basic service delivery focus). The exact location of our future regional offices will be decided in consultation with the government and our donor partners.

We want your feedback

Some specific questions on which we would welcome your feedback....

Do you consider that we have adequately understood the challenge facing Nigeria and facing the international development partners wanting to be of assistance to Nigeria's development?

Do you agree with our proposed approach as set out in this document?

Have we identified all the key players that we need to work with and how to go about working with the various stakeholders most effectively?

Have we set realistic and well-focused objectives?

Have we adequately identified the key risks, and how best to go about mitigating these risks?

Do the proposed CAP “Key Changes” set out what you would like to see achieved in Nigeria by 2007?

We are committed to trying to communicate our ideas in a language which avoids too much jargon and which makes sense to those we are communicating with. Does the language we have used here make sense to you?

Sending us your feedback

You can send us any comments by e-mail, by fax or by post. It will be helpful to us if you can include your name and address and tell us which stakeholder group you belong to (e.g. government employee, politician, civil society representative, private sector/ businessperson etc.).

You can e-mail your feedback to: NigeriaCAPconsultations@dfid.gov.uk.

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