

**DEPARTMENT FOR INTERNATIONAL DEVELOPMENT  
NIGERIA**

**Growth & Employment in States (GEMS)**

**PROGRAMME MEMORANDUM**

**Draft**

*17 December 2008*

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## 1. SUMMARY

This memorandum sets out the rationale for DFID to support the Growth & Employment in States (GEMS) programme in Nigeria in partnership with the World Bank and the Federal Government of Nigeria.

Nigeria is experiencing rapid growth which, if sustained, would enable it to achieve middle income status. However, as few jobs have been created, large parts of the work force are yet to benefit. Sustaining rapid growth and increasing job creation depend upon increasing private investment as falling oil revenues will constrain government investment.

[Later we will need to add a line with more specifics on past and anticipated job creation]

The programme aims to reduce poverty in Africa's most populous country. Its **goal** is increased growth, incomes and jobs in selected states. Its **purpose** is increased private investment in the non-oil economy in selected states. The programme will deliver three outputs:

1. An improved business environment reduces the cost and risk of investment in selected states.
2. Increased competitiveness and returns to investment in selected industry clusters.
3. Effective monitoring and evaluation and dissemination of programme lessons leverage programme impacts.

GEMS builds on strong foundations. Macro economic conditions are favourable and Federal and state governments are beginning to address Nigeria's large infrastructure gap, reducing the binding constraints to investment. DFID and the World Bank have piloted business environment reforms and interventions to improve competitiveness from which valuable lessons have been learnt.

GEMS will work flexibly, starting with four states, later extending to others that have the commitment and capability to bring about reforms rapidly. It will start with business environment reform of land and tax administration and investment facilitation but respond flexibly as the appetite and capability for undertaking other reforms emerges. These cross-cutting reforms will be complemented by focused interventions to drive growth and job creation in high potential industry clusters. Six industries have been selected as first movers as they have the potential for delivering large impacts on growth and jobs and committed stakeholders to bring about reform. A further four will be added that also meet these conditions.

Due attention will be given to increasing incomes and employment opportunities for young people, women and the disadvantaged, promoting social cohesion. Interventions will contribute to improving labour standards, health and safety and stewardship of the environment.

The programme is expected to contribute strongly to Nigeria's growth and poverty reduction strategies which prioritise faster non-oil growth and job creation. It is central to the Country Partnership Strategy developed by the DFID, USAID and the World Bank with the Federal Government (FGN) which focuses on providing platforms for growth.

GEMS should provide high returns to investment. Even relatively modest increases in growth in the focal states should result in net present values in excess of US\$350 million at a 6% rate of discount. It should result in the creation of 100,000 jobs directly and improve the incomes of 2-3 million farmers and self employed persons.

GEMS is the product of the strong partnership between DFID and the World Bank to use their complementary strengths in this joint project to support growth and employment. GEMS will have a common logical framework and apex level governance and management arrangements that will deliver effective oversight and coordination of interventions funded by both organisations.

[At appraisal time we will need to add a line or two here summarising the institutional arrangements]

## **2. PROGRAMME RATIONALE**

### **2.1 The Country Context**

The Nigerian economy averaged 6.3% p.a. growth between 2000 and 2007, raising per capita incomes from US\$358 to \$850. If growth is maintained, Nigeria should become a middle income country shortly.

Maintaining growth will be challenging. The economy remains hugely dependent on oil: it contributes 52% of GDP, 99% of exports and 85% of government revenues. Falling oil revenues will constrain the growth of government expenditure and public investment, important sources of growth in the recent past. The growth of oil output will continue to be restricted by security problems in the Niger Delta.

Growth has not benefitted large parts of the workforce. Job creation has been low, so over 90% of the workforce is employed informally<sup>1</sup>. Oil employs less than 4% of the workforce. Only 5%-10% of young people entering the workforce find formal jobs so 35%-40% are unemployed<sup>2</sup>. With more and more people forced to survive off informal activities, real incomes have fallen in many occupations.

Sustaining growth and creating jobs depend on increasing private investment and growth in the non-oil economy building on recent success: between 2002-2007, the non-oil economy outperformed oil growing at 8.1% p.a. compared with 3% p.a. Private investment has been low, just 13.2% of GDP in 2004. It has risen rapidly lately but remains below the level of comparator countries.

Moreover, private investment has been drawn to a few economic sectors, such as oil: 75% of FDI in 2005 was in the oil sector. These sectors tend to be capital intensive and do not create many formal jobs. Returns to investment in sectors with greater job creation potential are depressed by one of Africa's worst investment climates.

The main cause of the poor investment climate is infrastructure (electricity and roads), followed closely by access and high cost of finance<sup>3</sup>. The business environment is also poor. Returns to investment are depressed further by low productivity and competitiveness, reflected in Nigeria ranking 94 of 134 in the World Economic Forum's competitiveness index.

#### ***2.1.1 Alignment with National Development Strategies***

GEMS is aligned to Nigeria's growth strategy as set out in the President's 7-point agenda and related state level multi-point agendas. GEMS stresses the need for greater wealth creation and employment which is likely to be central to the emerging National Development Plan which is being developed by the Federal Government to align the 7 point agenda, the National Economic Empowerment and Development Strategy (NEEDS), and the State Level Economic Empowerment and Development strategies (SEEDS).

Private sector led growth features prominently in these strategies. Government is improving the investment climate providing the conditions for GEMS to succeed:

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<sup>1</sup> World Bank research as yet unpublished.

<sup>2</sup> Employment, Unemployment, Joblessness and Incomes in Nigeria: 1999-2006, Luke Haywood and Francis Teal, 2008.

<sup>3</sup> Nigeria: Growth & Competitiveness, World Bank Country Economic Memorandum, 2006. This finding is confirmed by the World Bank's Nigeria Investment Climate Assessment 2008.

- Sound macro policies are in place. Inflation is moderate, reserves are around US\$60 billion and Nigeria's sovereign rating has risen to BB due to low domestic and foreign debt.
- FGN and state governments are beginning to address the significant gaps in infrastructure financing and maintenance which are binding constraints to growth.
- Private sector access to finance is growing strongly driven by successful banking consolidation reforms in 2005 and a new financial sector strategy which is under implementation (Financial Sector Strategy 2020).

DFID and the World Bank have established a close working relationship harmonizing their assistance in support of national development strategies. Along with USAID, and in consultation with FGN, they have developed a Country Partnership Strategy (CPS) a central theme of which is to establish platforms in support of growth such as GEMS.

DFID and the World Bank have launched programmes to support investment in infrastructure and improve access to finance<sup>4</sup>. They have jointly funded the Investment Climate Programme (ICP), which is piloting business environment reforms at the state level, and interventions to improve cluster competitiveness in selected industries. These pilots have established the foundations and provided valuable lessons for the implementation of GEMS<sup>5</sup>.

## 2.2 Programme Description

The programme aims to reduce poverty in Africa's most populous country. Its **goal** is increased growth, incomes and jobs in selected states. Its **purpose** is increased private investment in the non-oil economy in selected states. The programme will deliver three outputs:

1. An improved business environment reduces the cost and risk of investment in selected states.
2. Increased competitiveness and returns to investment in selected industry clusters.
3. Effective monitoring and evaluation and dissemination of programme lessons leverage programme impacts.

Support to deliver output 1 will focus initially in four states Kano, Kaduna, Lagos and Cross River. Additional focal states will be added when conditions are favourable. Output 2 will focus on these four states plus the FCT, while working in other states as delivery of the strategic cluster outputs requires. Anambra as a growth pole for the South East zone is likely to be included, once the programme has been established, and has the capacity to support further expansion.

### 2.2.1 Output 1: Improved Business Environment

The relationship between a better investment climate and higher levels of private investment is well established in Africa<sup>6</sup>. Nigeria's investment climate is particularly

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<sup>4</sup> Examples include DFID's Nigeria Infrastructure Advisory Facility (NIAF) and Enhancing Financial Innovation and Access (EFInA) and the World Bank's technical assistance to refining the FSS 2020 and its MSME Project.

<sup>5</sup> Examples include DFID's Promoting Pro-Poor Opportunities in Commodity & Service Markets (PrOpCom) and the value chain component of the World Bank's MSME Project.

<sup>6</sup> See for example *The Investment Climate in Africa from the Perspective of Private Investors*, World Bank Paper (2007)

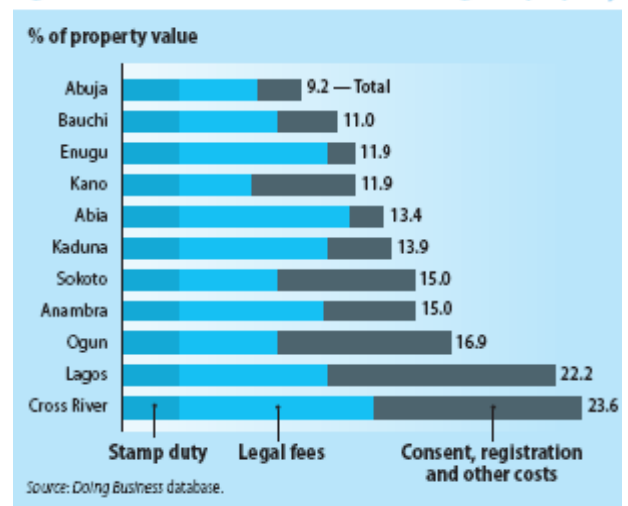
poor<sup>7</sup>. With infrastructure and access to finance being addressed, GEMS will focus on improving the business environment<sup>8</sup>, the next most important cause of Nigeria's poor investment climate.

Nigeria ranks 118 of 181 in the World Bank's Doing Business index, performing particularly poorly in four indicators: registering property (176); obtaining construction permits (151); trading across borders (144); and paying taxes (120). DFID and the World Bank are piloting reforms of land and tax administration under the ICP in all four GEMS focal states. GEMS will consolidate and deepen ICP progress as follows.

**Land.** 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 2009 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%). ICP has developed a strategy to address the causes of low investment in land development. This builds on the successful land administration modernisation 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.

**Figure 1 - Land registration costs as % property value**

*Big differences in administrative costs to register property*



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<sup>9</sup>. The length of time and cost of obtaining title make Nigeria one

<sup>7</sup> Nigeria Investment Climate Assessment. World Bank, 2008.

<sup>8</sup>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.

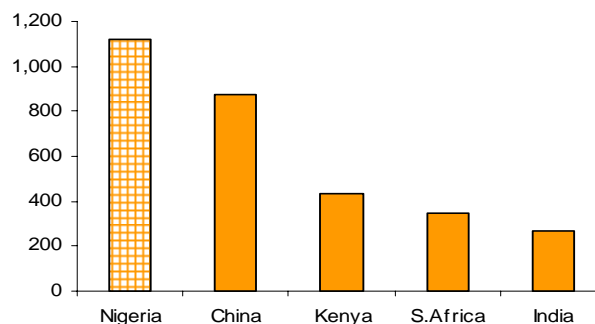
<sup>9</sup> See for instance, The Mystery of Capital : Why Capitalism Triumphs in the West and Fails Everywhere Else, Hernando De Soto, 2000.

of the most difficult places to register property worldwide. Surveys<sup>10</sup> reveal tremendous variation between states suggesting huge scope for improvement<sup>11</sup>. Reducing the number of procedures, greater delegation of authority and establishing electronic registries with computerised search systems for all property records would reduce the time and cost of obtaining title.

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<sup>12</sup>. Time and cost can be addressed by simpler, more transparent procedures and better planning.

**Tax:** 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 1120 hours per annum to comply with 35 tax payment (see figure 2). Tax evasion is widespread reducing the tax base, constraining government investment in infrastructure. The whole system operates at a low equilibrium in terms of tax collection, investment and growth.

Figure 2 - Hours p.a. to fill in all tax forms



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.
- *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 on a fewer number of easily administered taxes.

<sup>10</sup> Doing Business in Nigeria, Comparing regulations in 10 states and Abuja, World Bank & IFC, 2008

<sup>11</sup> 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.

<sup>12</sup> 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

- *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 centres for tax payer queries and complaints.

***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 the states to establish their own investment promotion agencies<sup>13</sup>. They lack the know-how to do so.

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 Centre (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.

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.

***Flexible Facility & Peer Learning:*** Other state and federal reforms could also make a valuable contribution to improving the business environment. With adequate political will, reforming 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.

To respond to new opportunities, GEMS will provide a pool of unassigned funds. When the conditions for success are favourable, it will allocate tranches of funds from the pool to address new areas of reform against agreed reform deliverables

Business environment reform activities will be accompanied by peer learning. For example, lessons learned from improving the tax administration system in the focal states will be shared through the Joint Tax Board<sup>14</sup>. The aim of this peer learning will be to strengthen demand for reforms and promote good practice at the federal and state levels.

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<sup>13</sup> Cross River has already done so and the other three are at various stages of planning.

<sup>14</sup> The Joint Tax Board brings together all the state boards of internal revenue and the Federal Inland Revenue Service (FIRS).

### 2.2.2 Output 2: Increased Competitiveness of Industry Clusters

Nigeria is not competitive in many industries as evidenced by: i) the negligible share of non-oil exports; ii) much lower productivity per worker than comparator countries<sup>15</sup>; iii) prices are often much higher than international markets<sup>16</sup>. The poor competitiveness is caused by government failures, notably poor policies and institutions and lack of investment in public goods. And, by market failures of information and coordination that result in a low correlation between market share and efficiency<sup>17</sup>. In addition, productivity is low because of poor management and business models<sup>18</sup>. The lack of competitiveness reduces the return to investment and its productivity in terms of growth and jobs.

Figure 3 - % growth by sector 2005 - 6



Figure 4 – The M4P Framework

Nonetheless there are sectors which are showing significant growth as shown in figure 3. GEMS will support the improvement of competitiveness in strategic industry clusters which show high potential for growth and employment. Initial studies have identified clusters in six such industries: ICT; Entertainment; Wholesale & Retail; Tourism; Construction; Meat & leather. During its implementation, GEMS will identify four more industries that also have the potential to make strong contributions to growth and employment. In each industry, GEMS will use the Making Markets Work Better for the Poor Framework (M4P) (see figure 4). M4P brings about sustainable improvements in market outcomes by altering the incentives that the market as a system provides to participants. It addresses major government and market failures in the system thus bringing about systemic change.

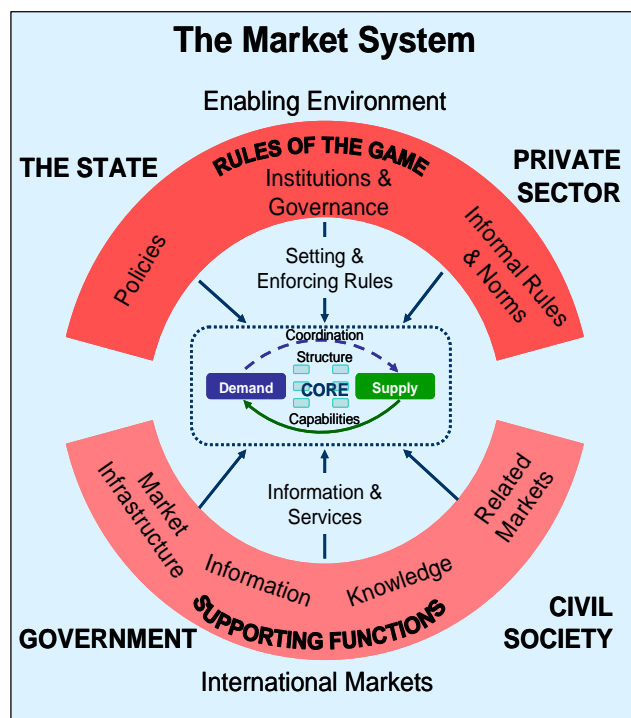


Figure 1.

<sup>15</sup> Nigeria Investment Climate Assessment. World Bank, 2008.

<sup>16</sup> See, for instance, Identifying Growth Pole Value Chains for Cross River, Kaduna, Kano and Lagos States, Emerging Market Economics, May 2008.

<sup>17</sup> As above

<sup>18</sup> The ICA reports low Total Factor Productivity compared to other countries but notes that better managed firms 60%-80% more competitive than the worst.

Interventions in the six industries will increase growth and employment as follows:

- **ICT:** Growing at over 30 % p.a. attracting \$ 3-4 billion investment annually. Future growth is assured by strong demand for new products and technology. The industry is creating 150,000 formal jobs per annum, 10,000 of which are new IT graduates. Developing high labour use sub-sectors, such as call centres and software services, could substantially increase employment in well paid jobs.

GEMS will improve: i) broadband connectivity increasing returns to investment; ii) management and vocational skills; iii) access to private equity and credit; iv) and support incubation and cluster development services through ICT parks. GEMS will work on ICT clusters in all four focal states as well as Abuja where call centres and an ICT park are emerging.

- **Entertainment:** Nollywood is the world's third largest film industry producing 40 films a week worth \$250 million annually. 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 500,000 formally and a much larger number 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.

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

- **Wholesale & Retail Trade.** Largest part of Nigeria's underdeveloped service sector accounting for 17% of GDP. Growing at 13% p.a. Employs 500,000 in the formal sector and nearly 10 million informally. Growth and incomes earned would increase substantially if the high levels of waste<sup>19</sup> and inefficiency in the industry were reduced.

GEMS will: i) reduce waste by increasing investment in better storage and distribution systems and markets; 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.

Kano and Lagos have huge wholesale/retail clusters, including West Africa's largest markets, but there are significant clusters in Kaduna and Cross River as well that GEMS will work in.

- **Construction & Real Estate:** An under developed industry but growing at 12% p.a.. The demand for housing, commercial property and civic infrastructure is buoyant. Growth could be strengthened by increasing the supply of land for

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<sup>19</sup> Estimated at 30%-40% for perishable and 20% for non-perishable products

development. The industry is labour intensive employing some 2-3 million people directly and a similar number in supplier industries. Addressing skill shortages that are causing the industry to import labour would provide better job opportunities<sup>20</sup>.

GEMS will address; i) access to serviced land; ii) project management and vocational skills; iii) access to finance; iv) construction permits and standards. The largest cluster is in Lagos but the other three focal states also have significant construction industries.

- **Tourism:** 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. The country attracts over 2.5 million international visitors, largely the Nigerian diaspora visiting friends and relatives (VFR). The industry currently employs 520,000 formally but several times that number informally.

GEMS will address i) investment in visitor attractions to increase length of stay and visitor expenditure; ii) skills in designing and operating accommodation and attractions; iii) effective institutions to market destinations and attractions. Lagos, which has a large tourism cluster, and Cross River, which attracts over a million visitors to its Carnival, would form the focus of the intervention.

- **Meat & Leather:** Meat consumption is growing at 6-7% annually and would grow faster if its high cost could be reduced. About 1 million households keep livestock in Kano and Kaduna and sizeable numbers are employed in trading livestock and butchery 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.

GEMS will: i) support investment in abattoirs in the North to supply 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. The development of better abattoirs in the North will increase the supply of skins to the Nigerian leather industry addressing the main constraint to the growth of the country's major non-oil export. The important clusters are in Kano, Kaduna and Lagos.

The conditions for success are favourable in the six industries:

1. There are pressing policy concerns or market driven opportunities to motivate stakeholders to bring about change.
2. Credible and capable stakeholders are willing to provide leadership in responding to the pressing issues. In ICT and entertainment, stakeholder groups have been formed that have developed action plans to improve competitiveness.
3. The presence of large clusters will enable effective outreach.

GEMS will use a variety of instruments to bring about systemic change. The major government failures will be addressed through financial and technical assistance to invest in public goods (i.e. vocational training), facilitate public private partnerships

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<sup>20</sup> Up to 35% of skilled labour in Lagos is made up of foreigners as local labour lacks skills

(i.e. to improve storage facilities) and strengthen institutions (i.e. IPR enforcement agencies). GEMS will engage with the private sector to address market failures by: i) increasing the supply of business developing services to improve management and access to finance; ii) using public monies to trigger innovation in business models that provides public benefits using the challenge fund mechanism to obtain the best value for money<sup>21</sup>.

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.

### **2.2.3 Output 3: Effective M&E, Dissemination to Leverage Impacts**

In a large country with a federal structure, reforms need to be piloted in a few states and clusters to deliver tangible results thereby demonstrating what can be achieved. The success of these pilots will need to be leveraged by influencing other states and industry stakeholders.

The peer learning and M&E built into interventions will be supplemented therefore by a strong lesson learning and communication capability at the apex of the programme. The Programme Management Unit (PMU) of the programme will serve to carry out M&E independent of implementers, learn lessons and communicate them widely to influence other stakeholders within the purview of the programme and wider afield.

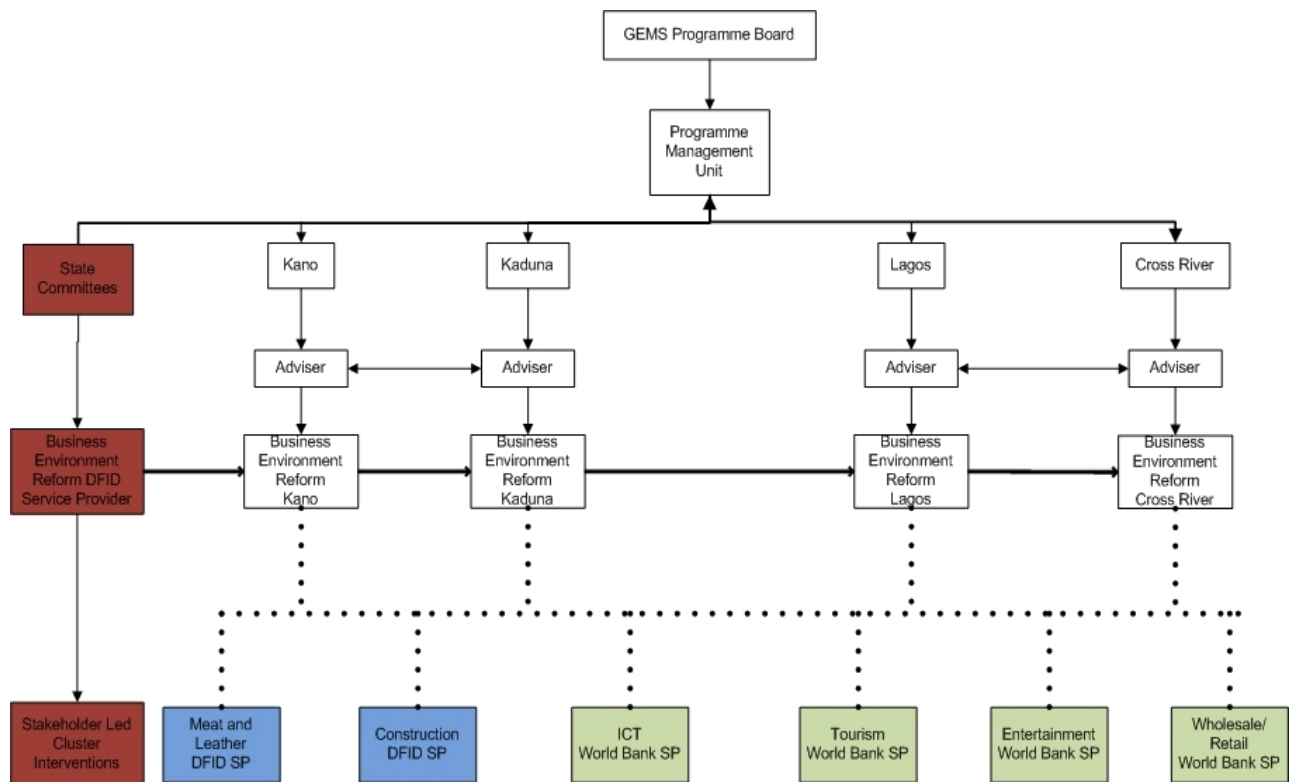
## **3. IMPLEMENTATION ARRANGEMENTS**

GEMS represents a strong partnership between FGN, DFID and the World Bank. It will be implemented as a unified programme 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.

It is recognised 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 organisations.

### **3.1 Programme Governance & Management**

Figure 5 below sets out the structure for implementing the programme.



Strategic oversight and governance will be provided by a **National Steering Committee** constituted by representatives of the Ministries of Finance and Commerce, National Planning Commission, each focal state, eminent people from the private sector and DFID and the World Bank. The National Steering Committee will set overall policy, take responsibility for deploying resources to their most productive use and ensure the program is coordinated with FGN and state government interventions. It will have the delegated authority to take decisions on behalf of all stakeholders.

The Board will be serviced by a **PMU**, a lean secretariat responsible for coordinating the work of all components of the programme 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 World Bank. It will keep track of DFID-funded components which will, however, be procured and accounted for directly by DFID. All GEMS service providers will report to the PMU. The PMU will work closely with the NIPC which will serve as FGN's Executing Agency. NIPC has discharged this role effectively on the MSME Project funded by the World Bank.

**State Committees** will ensure state level ownership and coordination. They will be made up of representatives from government and the private sector and will ensure that state specific work plans are agreed and delivered in a timely fashion, are coordinated with the policy thrust of the state government and meet the evolving needs of the private sector. The State Committees will report through the PMU to the GEMS Board. The State Committees will be serviced by advisers who will support them in ensuring that a cohesive programme of activities is developed and implemented effectively. It is intended that the two Northern and two Southern states share an adviser.

### 3.2 The Complementary Roles of DFID and the World Bank

The **World Bank (WB)** has the experience needed to establish an effective a National Steering Committee and PMU to work with the NIPC through its successful MSME Project. The lessons learnt from that experience will be harnessed for GEMS.

The WB will procure specialists to support Federal and state level agencies that are promoting and facilitating investment based on its experience worldwide. The WB has particular expertise in the service industries of ICT, entertainment, wholesale & retail and tourism and will appoint 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.

**DFID** will lead on establishing effective State Committees and appoint Advisers to service them. DFID has established a sound partnership with Kano, Kaduna and Lagos states supporting improvements in governance (SPARC) and health and education. The partnership represents a major asset for GEMS.

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.

**Figure 6 - Division of support between DFID and WB**

Component	DFID	World Bank
<b>Business Environment</b>		
Land	√	
Tax administration	√	
Investment promotion		√
Flexible facility	√	
<b>Cluster Development</b>		
ICT		√
Construction & Real Estate	√	
Meat & Leather	√	
Tourism		√
Entertainment and Film		√
Wholesale & Retail		√
Other (to be determined)		√
<b>M&amp;E, Communication</b>		
PMU		√

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.

Responsibilities for the delivery of the joint GEMS logical framework will therefore be divided as follows:

### 3.3 Financial Arrangements

## 4 APPRAISAL & RISK ASSESSMENT

### 4.1 Appraisal

#### 4.1.1 Economic Appraisal

The \$ million invested in GEMS' will deliver faster growth through greater and more productive private investment in the non-oil economy of the focal states. It will contribute to a better investment climate increasing the incentive to invest and improve the effect investment has on growth and jobs in selected industries

Studies show that improving the investment climate in Africa can increase private investment by 6%-7% of GDP<sup>22</sup>. Improvements in macro conditions alone have increased private investment by 5% of GDP in Nigeria. So, it would be reasonable to assume that, together with wider investment climate reforms, GEMS will boost private investment by 3% of GDP.

The increase in private investment is likely to increase growth substantially. The 5% of GDP increase in private investment boosted Nigeria's growth rate by 4% p.a. from the late 1990s to currently. Assuming that a 3% increase in private investment would boost growth in the focal states by 2%-3% p.a. appears reasonable, especially as investment will be drawn to non-oil industries with high incremental capital ratios where GEMS will be working to improve competitiveness.

The four focal states have a combined GDP of approximately \$ 30 billion, roughly 25% of the country's GDP. Assuming that GEMS and other improvements in the investment climate increase growth by 2% would result in benefits of \$ 600 million annually. This should result in very high returns to the programme even if the proportion of benefits attributed to GEMS is mode (table 2 below). The net present value of investment would be over \$350 million at the 6% discount rate.

Incremental Growth of 2%					
Discount Rates		6%	10%	15%	IRR
% Attributed to GEMS	20%	372.6	270.3	181.5	48.1%
	25%	525.8	391.3	273.4	63.0%
	30%	679.0	512.3	365.3	77.0%

In addition to its impact on aggregate growth, GEMS is likely to produce high returns to investment in selected industries. For example, reducing the revenue lost by the Entertainment industry to piracy by a quarter could increase the industry's contribution to growth by \$ 250 million p.a., representing a huge return to the \$ 15 million that GEMS intends to invest in that industry.

GEMS should have a significant impact on job creation, indirectly through higher investment, and directly through cluster interventions. Across the 10 industries that it will support, it should help to create an additional 100,000 jobs at a cost of just \$ 1,700 per job. Nigeria has suitable labour laws. GEMS will help to provide the incentive investors need to create permanent jobs formally.

In addition, large numbers of farmers and the self employed would have their incomes boosted through increased efficiency of the markets in which they participate. This

<sup>22</sup> *The Investment Climate In Africa From The Perspective Of Private Investors*. G. Iarossi, World Bank. **Date?**

includes the 2-3 million people involved in the four states in informal wholesale/retail and the 1 million rural families in Kano and Kaduna that keep animals.

### **3.1.2 Social Appraisal**

Promoting social cohesion and helping to increase access to markets for the poor and disadvantaged will be integral to all GEMS interventions. The programme design has been informed by extensive use of action research. Stakeholder consultation has been carried out with all relevant parties and interests including unemployed youth, casual female labourers, employees in the targeted industries, CEOs of businesses, unions, community based organisations and departmental heads within the civil service. The project's National Steering Committee (NSC) will task all service providers to report on the social outcomes of their interventions. The NSC will assess these reports and provide policy guidance on ways to improve the social benefits of each intervention. The M&E function of the programme will include participatory approaches that will include the views of beneficiaries on the social outcomes and impacts of the programme.

There are several social issues triggered by the GEMS programme and most are expected to lead directly to favourable social outcomes, principally:

- (i) Business environment reforms will be undertaken in ways that reduce the disadvantage currently faced by women in securing access and title to land and paying taxes. Release of land for development will be accompanied by effective resettlement schemes for the displaced.
- (ii) Young people, women, the poor and disadvantaged will be given priority in skill training so that they may avail of jobs created by cluster interventions. This will address a major cause of crime and violence which threatens social cohesion in Nigeria;
- (iii) Whilst jobs created in the ICT and entertainment industries may require levels of education that the poor are yet to attain, the poor would be able to improve the incomes they earn from wholesale/retail trade and rearing animals and by finding employment in construction and tourism;
- (iv) Interventions in all industries will take account of cultural traditions and the relationships between ethnic groups thus preventing the social dislocation and potential ethnic conflict that may arise if economic development takes precedence over social development;
- (v) Health and safety and core labour standards will be promoted in the work place by demonstrating the benefits they provide to employers and employees;
- (vi) Improvement in food hygiene in the meat and wholesale/retail industries will reduce health hazards for consumers;
- (vii) The public awareness and communication function of the programme will target culturally appropriate media to ensure that all parts of society are made aware of the opportunities for economic advancement provided by the programme.

### **3.1.3 Political and Institutional Appraisal**

GEMS is closely aligned to Nigeria's 7 point agenda, NEEDS, SEEDS and the thrust of the emerging National Development Plan. Its goal of increased growth, incomes and jobs is widely supported by politicians across the political divide. Discussions with

policy makers in relevant Federal and state ministries and leaders of private sector organisations have indicated their commitment to the programme

Experience from pilot projects has provided valuable lesson that have informed the institutional arrangements for GEMS. NIPC's effectiveness as an Executing Agency will be improved by changes to procurement processes and financial management procedures which should make it possible for GEMS to deliver more timely and relevant assistance. Learning from the ICP experience, GEMS will ensure that implementing agencies take greater ownership of the reform process and receive more intensive technical and financial assistance from the business environment service provider.

As part of the design process, GEMS has already helped to establish stakeholder groups in the ICT and Entertainment industries. These groups have provided leadership in developing action plans for their industries. Stakeholders are willing to take leadership in improving the competitiveness of the remaining four industries. Service providers will help to formalize participation in stakeholder groups and facilitate the development and implementation of action plans for each industry.

#### **3.1.4 Environmental Appraisal**

GEMS represents an opportunity to improve environmental stewardship in the focal states.

Addressing land administration provides the opportunity to improve the chaotic state of urban planning which causes land degradation, over burdens systems of solid waste disposal and sanitation and leads to excessive use of transport. Assistance given to ministries of planning will help to develop better land use policies.

Cluster interventions provide multiple opportunities to improve environmental stewardship. Energy conservation measures that benefit businesses and the environment will be promoted in all industries. GEMS will also address a set of industry specific issues:

- Waste recycling schemes will feature prominently in developing wholesale/retail clusters;
- Cost effective ways of improving the treatment of effluents will be given special emphasis in the leather and tourism industries;
- Land conservation and improved disposal of excess soil and construction waste will be incorporated in the assistance given to the construction industry;
- Sustainable use of grazing lands and greater use of nitrogen fixing crops to provide fodder in the meat industry will help to increase soil fertility.

#### **3.2 Risk Assessment**

Nigeria is a country noted for its poor governance, and unstable economic performance and GEMS will be implemented at a time of global economic uncertainty. This should make GEMS a high risk undertaking. However, an objective assessment of the risks posed to the success of GEMS suggests that it is a medium risk programme for two reasons;

1. Since the return of democracy, FGN has made progress in improving governance. There is now a strong consensus in favour of policies to sustain growth and macro conditions are now more stable;

2. Returns to GEMS depend upon incremental gains in investment and growth. So, even if global economic conditions cause investment and growth to fall, provided GEMS is able to achieve its purpose, it will still be able to provide attractive returns compared to the without programme case.

Risks to GEMS may be categorised as four types: political, economic, governance and programme implementation. In general, it is possible to anticipate and mitigate the most significant risks. The major risks, their probability and impact and how they can be measured and mitigated are set out in the Risk Annex.

**Risk Matrix (over leaf)**

<b>Risk</b>	<b>Probability</b>	<b>Impact</b>	<b>Monitoring/Effect</b>	<b>Mitigation</b>
<b>Political Risks</b> 1. FGN and state governments withdraw support for GEMS  2. FGN and state governments reduce investment in infrastructure.	Low   Medium	High  Medium	FGN fails to abide by terms of IDA credit. State governments do not commit their agencies to reform.  ICAs reveal electricity & roads remain binding constraints to investment.	Regularly briefing policy makers on progress achieved.  State Committees maintain pressure on governments to honour commitments.  Continued DFID and World Bank support for investment in infrastructure.
<b>Economic Risks</b> 3. Global economic trends cause a severe recession in Nigeria reducing investment & growth  4. Nigeria's financial system is destabilised causing private credit to fall reducing ability to invest.	Medium  Low	Medium  High	Private investment falls as % of GDP. Rate of growth falls sharply.  Private credit as % of GDP falls & ICAs reveal access to finance is a binding constraint to investment.	Ensure GEMS increases amount & productivity of investment to deliver incremental gains over "without programme" levels  DFID and World Bank support FSS 2020 and aligned programmes.
<b>Governance Risks</b> 5. Increased crime & corruption reduce the willingness to invest.  6. Poor financial controls lead to mismanagement of GEMS resources.	Medium  Low	Medium  Medium	Levels of investment. ICA surveys.  IDA funds cannot be accounted for.	Support public sector governance reforms, empower private sector to hold government to account via DFID's ENABLE and SAVI projects.  Improve financial management at NIPC.
<b>Implementation Risks</b> 7. GEMS National Steering Committee fails to exercise effective oversight and governance.  8. Business environment reforms fail to materialise because agencies are not committed to the reform agenda or incapable of implementing them.  9. Stakeholder groups prefer to serve their own narrow interest rather than improve industry performance.	Low  Medium  Medium	Medium  Medium  High	GEMS funds are not deployed to best effect and progress is slow, caused by poor accountability for performance.  Sub-national Doing Business indicators reveal lack of progress focal states.  The M&E system shows that GEMS funds are benefitting only a few firms.	Careful selection of GEMS NSC.  Ensure State Committees maintain pressure on agencies to deliver reforms, including raising concerns with the state governor.  Careful selection of stakeholder groups and monitoring of their allocation of resources by service providers and the PMU.