

Nigeria



key figures	
• Land area, thousands of km ²	924
• Population, thousands (2006)	134 375
• GDP per capita, \$ PPP valuation (2006)	1 070
• Life expectancy (2006)	44
• Illiteracy rate (2006)	28.1

Nigeria



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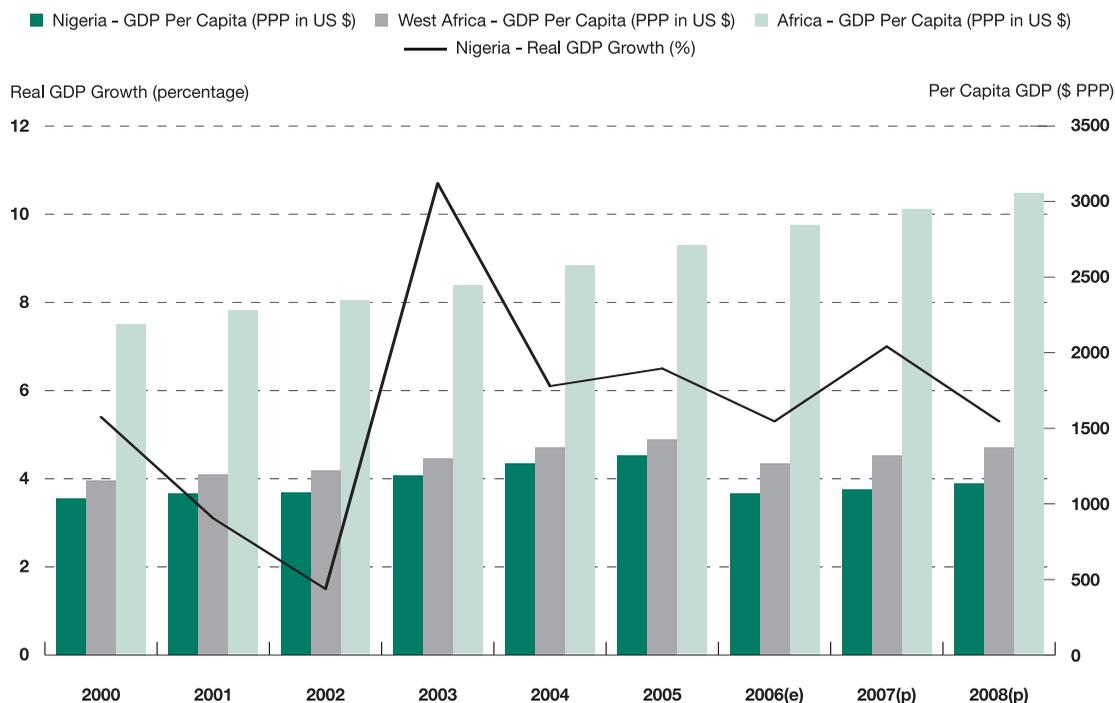
NIGERIA CONTINUES TO MAKE PROGRESS on its far-reaching economic reform programme, the National Economic Empowerment and Development Strategy (NEEDS), aimed at accelerating economic growth, reducing poverty, and achieving the Millennium Development Goals (MDGs). The reform programme received a significant boost in December 2006 when the IMF reviewed and approved the two-year Policy Support Instrument (PSI) for Nigeria. The PSI is intended to help the government maintain prudent macroeconomic policies, strengthen financial institutions, and create a conducive environment for robust private-sector development.

The reform efforts have led to significantly-improved macroeconomic results, with a modest GDP growth

and lower inflation. Real GDP growth in 2006 was estimated at 5.3 per cent, and inflation decelerated to 8.6 per cent from around 18 per cent in 2005. Progress has also been made in the areas of financial-sector reform, debt management, foreign reserves accumulation, exchange rate stability, and the fight against corruption. Notwithstanding these positive developments, the Nigerian economy is still confronted with many serious challenges, notably the high level of poverty, inefficient delivery of social services, high youth unemployment, poor infrastructure facilities, and widespread insecurity and crime. All of these problems lower the quality of life and undermine the business environment.

Reform has improved macroeconomic policies, strengthened financial institutions, and created a more business-friendly context.

Figure 1 - Real GDP Growth and Per Capita GDP
(\$ PPP at current prices)



Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

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Strengthening the reform process is clearly necessary. The most immediate concern is that pre-2007 election spending could erode some of the gains, as past experience suggests. A successful conduct of the 2007 elections and a smooth transition of power would mark the first democratic transition in the history of Nigeria. Moreover, political stability is essential in order to consolidate the achievements of the past few years.

The recent increases in world oil prices have enabled the government to pay off its remaining external debt, following the 60 per cent debt relief (amounting to about \$18 billion) offered to Nigeria by the Paris Club of creditor nations. At the end of 2006, the Nigerian Parliament approved an expenditure of \$1.4 billion to liquidate the external debt owed to the London Club of non-sovereign creditors. The fiscal space created by the debt relief and high oil prices is expected to be used to finance investment in infrastructure and poverty-reduction programmes.

The 2006 census results estimated the Nigerian population at 140 million, an increase of around 50 million over the 1991 census. The census outcome indicating that the north accounts for 53.4 per cent of the population has proved very controversial. Many southerners dispute the finding that the north is more populous than the south, while northerners applaud the results. These population figures are of great practical importance, as they influence the distribution of government revenues.

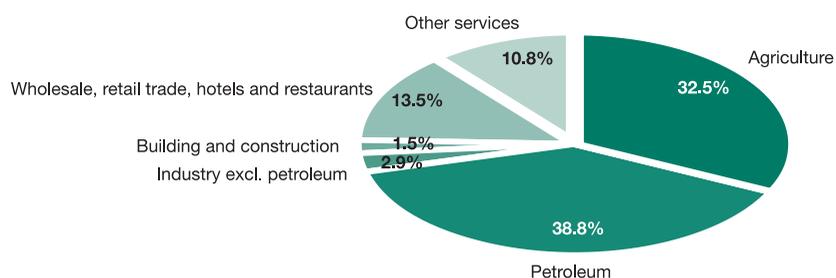
Recent Economic Developments

The performance of the Nigerian economy in recent years has benefited both from the high world price of oil and the efficiency gains resulting from economic reforms. Real GDP growth rate averaged 6 per cent during the period 2002-06. This solid growth rate, however, still falls short of the NEEDS target rate of 10 per cent required to achieve many of the MDGs. Moreover, after peaking at about 10 per cent in 2003, real GDP growth slowed to 6.5 per cent in 2005 and to 5.3 per cent in 2006, due to the disruptions in oil production in the Niger Delta. On the other hand, non-oil sector growth has been encouraging. Real non-oil GDP grew by 8.9 per cent in 2006 and 8.6 per cent in 2005. In contrast, oil output contracted by 4.7 per cent in 2006, after the very weak growth of 0.5 per cent in 2005.

Growth is expected to improve to 7 per cent in 2007, largely due to increased oil production as stability is restored in the Niger Delta, and to an anticipated increase in public investment on infrastructure. In 2008, economic growth is expected to return to its recent average of about 6 per cent as oil output stabilises¹.

The main drivers of growth in the non-oil sector were telecommunications, general commerce, manufacturing, agriculture, and services. The communications sector in Nigeria has boomed in the

Figure 2 - GDP by Sector in 2005 (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

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1. The Central Bank of Nigeria forecasts GDP growth in 2007 at 7.9 per cent, but this seems to be optimistic, as it is based on a best-case scenario regarding the 2007 elections, oil production and oil prices, improvements in electric power supply, etc.

last five years, with growth averaging around 30 per cent per annum, driven largely by the expansion of Global System for Mobile Communications (GSM) services. Large inflows of foreign direct investment (FDI) have played a crucial role. The stock of telecommunications FDI jumped from \$50 million in 1999 to \$7.5 billion in 2005. The number of mobile phone lines has increased from less than 0.25 million in 1999 to nearly 20 million in 2005, with tele-density attaining 15.7 lines per 100 inhabitants. The tremendous progress made in telecommunications has contributed to an overall improvement in the business climate, benefiting the manufacturing sector in particular. In both 2005 and 2006, the manufacturing sector grew by more than 9 per cent per annum. The agricultural sector has also performed remarkably well, with an average growth rate in 2005 and 2006 exceeding 7 per cent.

The contribution of the non-oil sector increased from 61.2 per cent of GDP in 2005. Although manufacturing has strengthened in recent years, the sector still accounted for less than 5 per cent of GDP in 2006. The low share of the manufacturing sector in GDP reflects long-standing problems of competitiveness.

The loss of competitiveness of Nigerian industry appeared during the oil-boom period of the early 1970s with the resulting real appreciation of the exchange rate², which led to a surge in imports. The inability to compete with imports can also be traced to high costs of production caused by poor infrastructure and a deficient business environment. The problems include: power shortages, poor transport infrastructure, widespread insecurity and crime, lack of access to finance, corruption, and inefficient trade-facilitation institutions. The woefully inadequate electricity supply is generally judged to be the most critical constraint, for example by the World Bank's investment climate survey³. With incessant power cuts in Nigeria, manufacturers rely increasingly on expensive generators. This problem is particularly acute for small and medium-sized enterprises (SMEs).

Total investment was estimated to have increased to 23.9 per cent of GDP in 2006, up from 20.9 per cent in 2005, as both public and private investment grew strongly. Overall investment is projected to continue to increase impressively in the next two years in both the oil and non-oil sectors.

Table 1 - Demand Composition (percentage of GDP)

	1998	2005	2006(e)	2007(p)	2008(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
Gross capital formation	26.2	20.9	22.9	19.8	12.0
Public	11.3	9.4	30.1	25.0	12.0
Private	14.9	11.5	17.0	15.0	12.0
Consumption	78.6	57.9	6.2	6.2	5.2
Public	11.9	21.2	4.3	5.9	5.4
Private	66.7	36.7	7.1	6.4	5.1
External sector	-4.8	21.2			
Exports	33.2	55.2	-4.0	3.1	2.3
Imports	-38.0	-34.0	15.2	8.1	6.9

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

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2. This is symptomatic of the Dutch Disease syndrome: an alteration in the relative price of the tradable sector (agriculture and manufacturing) resulted in the appreciation of the local currency (naira), thereby leading to a decline in non-traditional exports and a surge in imports.

3. See Salisu (2006), "Determinants of Firm Performance in Nigeria: Evidence from Investment Climate Survey Data", paper presented at the African Economic Research Consortium (AERC) biannual workshop, Nairobi, Kenya, 2-7 December.

Macroeconomic Policies

Fiscal Policy

In conformity with the NEEDS agenda, Nigeria maintained prudent macroeconomic policies. Fiscal policy is based on a Medium-Term Expenditure Framework (MTEF) prioritising expenditure towards the attainment of the MDGs. In 2006 fiscal policy prioritised infrastructure development.

Nigeria's consolidated federal, state, and local revenues averaged around 43 per cent of GDP during 2004-2006, with oil and gas contributing about 80 per cent. Consolidated expenditure accounted for 33 per cent of GDP over the same period, thereby giving rise to a very large consolidated fiscal surplus of about 10 per cent of GDP per annum. The federal budget,

however, recorded a deficit of 2.7 per cent of GDP, following a deficit of 1.1 per cent of GDP in 2005 and a surplus of 1.5 per cent of GDP in 2004.

Around 570 billion naira (approximately \$4.4 billion or 3.5 per cent of GDP) was withdrawn from the oil stabilisation fund in 2006, and shared between all the three tiers of government (federal, state and local governments) in accordance with the revenue allocation formula. This amount represented a shortfall of about 3.2 per cent in projected oil revenues, caused by disruptions in production in the Niger Delta. The use of the stabilisation fund to finance the budget is worrying at a time of high oil prices. Unless the social crisis in the Niger Delta is resolved, oil production will continue to be disrupted. Increased domestic revenue mobilisation from the non-oil sector, particularly through value added taxes (VAT) and company income taxes (CIT), is therefore a priority.

Table 2 - **Public Finances** (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total Revenue and grants^a	17.5	37.1	43.1	43.3	42.1	38.9	37.3
Tax revenue	7.2	8.3	7.3	6.2	6.6	6.4	6.2
Oil revenue	10.2	28.1	35.2	36.6	35.1	32.1	30.7
Total expenditure and net lending^a	25.5	37.1	33.2	32.6	32.3	33.8	35.2
Current expenditure	8.1	11.8	9.8	10.8	10.0	10.0	9.9
<i>Excluding interest</i>	4.9	8.6	7.4	7.8	8.3	8.4	8.4
Wages and salaries	2.0	4.9	4.3	4.0	4.1	4.2	4.1
Interest	3.2	3.2	2.4	2.9	1.7	1.7	1.5
Capital expenditure	10.3	9.5	7.5	6.7	8.1	9.4	9.8
Primary balance	-4.8	3.2	12.3	13.6	11.5	6.8	3.6
Overall balance	-8.0	0.0	9.9	10.7	9.8	5.1	2.1

a. Only major items are reported

Source: Domestic authorities' data, estimates (e) and projections (p) based on authors' calculations.

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Monetary Policy

Nigeria's monetary policy aims at promoting price stability. Inflation declined from double digits in 2005 to 8.5 per cent in 2006, in spite of a strong growth in monetary aggregates. The broad money supply (M2) grew 29 per cent in 2006, much higher than both the 16 per cent recorded in 2005 and the NEEDS' medium-term target of 15 per cent for the period 2004-07. The decline in food prices in 2006 and the rise in money

demand help to explain the decline in inflation in the face of a growing money supply.

In 2006, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) introduced a new interest-rate determination scheme. The new framework establishes an interest-rate spread of three percentage points above and below a short-term Monetary Policy Rate (MPR) set by the CBN. The upper limit is the REPO (repurchase agreement) rate at which the CBN

lends to banks. The lower limit represents the interest rate which the central bank pays on overnight deposits by other banks at the CBN. The MPR for 2006 was fixed at 10 per cent, and so the lending and deposit rates were 13 per cent and 7 per cent, respectively. Hence the new monetary framework represents an interest-rate-targeting system, as opposed to the previous system where interest rates were determined by the market.

The new framework has been criticised for a number of reasons. First, the interest spread is too large and excessively penalises banks that need to borrow reserves. This could lead to bank failures. In other countries, the central bank interest-rate spread is normally between 0.05 and 0.50 per cent. Also, since the REPO rate sets the floor for bank lending rates, the new policy will raise the cost of capital to the productive sector.

One of the goals of monetary policy in Nigeria is to maintain a competitive but stable exchange rate. The average rate stood at 128 naira per dollar for 2006, compared with the average rate of 131 naira per dollar in 2005. Even so, the exchange rate is uncompetitive, given the disparity between the official and the parallel market rates. In 2006, the central bank introduced the Wholesale Dutch Auction System (WDAS) as the main mechanism for exchange-rate determination and foreign-exchange management. The WDAS allows the CBN to engage in active trading with authorised dealers. The key objectives of the WDAS framework are to foster a unification of exchange rates between the official and inter-bank markets, and to reduce the premium

in the *bureaux de change*. Indeed, the implementation of the WDAS has helped to narrow the premium between the official and *bureau-de-change* rates from 13.6 per cent in February 2006 to an average of 7.6 per cent in the first six months of its operation.

External Position

Nigeria's external position is heavily influenced by developments in the international oil market, as the country is both a major exporter of crude oil and an importer of petroleum products. Although Nigeria is the world's eighth-largest exporter of crude oil, it imports 90 per cent of domestically consumed petroleum products⁴. Overall, of course, exports of crude oil greatly exceed imports of petroleum products, so Nigeria is a large net exporter of oil. The average price of crude oil increased from \$39 per barrel in 2004 to \$55 per barrel in 2006. These high oil prices have entailed large merchandise trade surpluses of 24.7 per cent of GDP in 2004, 27.6 per cent in 2005, and an estimated 22.1 per cent in 2006.

Merchandise trade surpluses have outweighed deficits in services, so that Nigeria has recently had substantial current-account surpluses averaging 8 per cent of GDP over 2004-2006; the surplus is expected to remain at around the same level of 8 per cent in the next two years.

It is also noteworthy that long-term capital inflows, both foreign direct and portfolio investments, increased

Table 3 - **Current Account** (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	8.2	13.4	24.7	27.6	22.1	19.6	18.0
Exports of goods (f.o.b.)	30.6	41.1	51.8	53.3	49.6	45.7	43.6
Imports of goods (f.o.b.)	22.4	27.7	27.1	25.7	27.6	26.0	25.6
Services	-9.5	-9.1	-8.3	-6.8	-6.1	-4.5	-4.4
Factor Income	-2.2	-14.4	-16.2	-12.2	-11.1	-8.8	-7.1
Current transfers	1.2	3.6	3.9	3.4	3.1	2.6	2.3
Current account balance	-2.4	-6.5	4.0	12.0	8.0	8.9	8.8

Source: Domestic authorities' data; estimates (e) and projections (p) based on authors' calculations.

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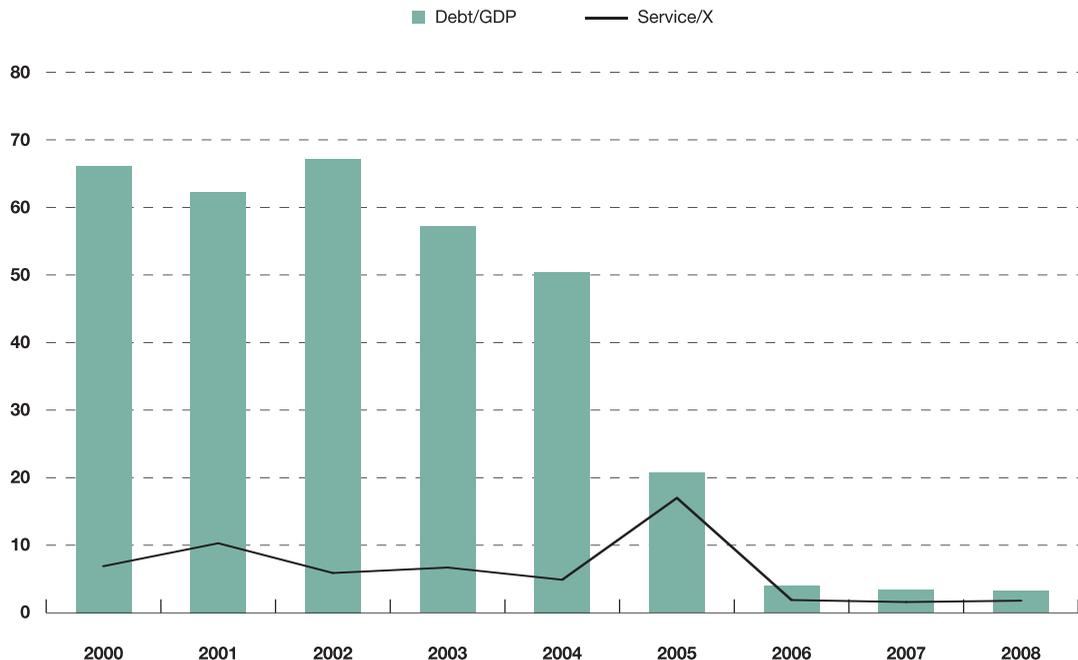
4. One of the problems of the Nigerian economy is the incessant shortages of refined petroleum. The country's four refineries are bedevilled by maintenance problems. Shortages occur especially during major festivities, such as Christmas and "Eid" periods.

significantly due to the banking-sector reform (consolidation) programme and other measures taken to improve the business climate. Combined foreign direct and portfolio investment was estimated to have increased to \$7.4 billion in 2006, up from \$6.4 billion in 2005. In an attempt to attract additional FDI, the government has recently established a One-Stop Investment Centre to facilitate procedures for foreign investors. Nonetheless, much still remains to be done to improve the investment climate.

Nigeria continues to play an important role in regional (Economic Community of West African States – ECOWAS), continental (African Union – AU) and international trade agreements. On the regional front, the ECOWAS customs union is viewed as a step towards an economic and monetary union with a single currency under the West African Monetary Zone (WAMZ). It should be noted that the Francophone countries within ECOWAS have a long history of monetary union, with a single central bank and single currency, the CFA franc. Efforts are underway to establish a second single

currency for the Anglophone countries within ECOWAS, with a specified timeframe for merging the two monetary institutions. ECOWAS is one of the regional groupings in Africa which is negotiating the Economic Partnership Agreement (EPA) with the European Union (EU). The EPA aims not only at creating a comprehensive free-trade area between ECOWAS and the EU, but also offers opportunities for addressing key development challenges facing the region. EPAs also raise concerns, however, about loss of government revenues and competitiveness of import-competing industries, given the reciprocal nature of the liberalisation. It is planned that the EPA negotiations will be concluded at the end of 2007 so that the agreed protocols will come into effect in January 2008. It is however unlikely that the EPA negotiations will be concluded by 2007 due to the sheer number of unresolved issues. Nevertheless, obtaining yet another WTO (World Trade Organization) waiver on the current trade preferences accorded by the EU to African, Caribbean and Pacific (ACP) countries under the Cotonou Agreement may prove very difficult,

Figure 3 - **Stock of Total External Debt** (percentage of GDP) and **Debt Service** (percentage of exports of goods and services)



Source: IMF.

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particularly given the concerns and opposition of the Latin American countries.

At the continental level, Nigeria continues to chair the Heads of State and Government Implementation Committee of the New Partnership for Africa's Development (NEPAD), and it has played an influential role in moving forward the NEPAD agenda. Internationally, Nigeria plays an active role in the United Nations and is an influential member of the Africa Group at the WTO.

Nigeria's stock of foreign reserves increased sharply from \$28 billion in 2005 to \$49 billion in 2006, despite the repayment of over \$12 billion to the Paris Club of creditors, and around \$1.4 billion to the London Club. The huge foreign reserves and the savings on debt-servicing, along with related budget surpluses, relaxed the balance of payments and fiscal constraints on boosting investment in infrastructure and poverty-reduction programmes.

Structural Issues

Recent Developments

In addition to consolidating macroeconomic stability, the NEEDS programme aims at improving the business environment, strengthening the financial sector, promoting private investment, and creating jobs, especially in the non-oil sector. Recent developments in these areas include accelerating the privatisation process, reforming the tax system, liberalising trade, improving infrastructure, and fighting corruption.

Measures for reforming the tax system have included the restructuring of the Federal Inland Revenue Service (FIRS) in order to improve revenue collection, broaden the tax base, and address tax evasion and avoidance. Efforts have also been made to strengthen inter-agency co-ordination on revenue collection, as well as to

simplify and harmonise tax procedures. The auditing powers of FIRS were also reinforced, and a tax-policy unit was created in the Ministry of Finance.

Privatisation remains critical to the government's reform agenda. Some of the achievements in 2006 included: the privatisation and unbundling of the Power Holding Company of Nigeria (PHCN) into 18 companies and the setting up of a power regulatory commission⁵; the sale of the Port Harcourt refinery; the privatisation of 11 oil-service companies; an Initial Public Offer (IPO) for the government's remaining 49 per cent share of Transcorp Hilton Hotel; and the concessioning of the Central Railways Corporation.

Trade policy reforms included the adoption of the five-band customs tariff under the Common External Tariff (CET) of ECOWAS and the elimination of the prohibition list, in line with ECOWAS convergence criteria. The reform of the Nigeria Customs Service was initiated, through fast-tracking of at least 40 per cent of the value of trade. The government also introduced a system for monitoring and evaluating the spending of debt-relief savings in MDG-related sectors, such as health, education, power, water, roads, and agriculture⁶. As noted above, a one-stop investment centre was introduced to attract foreign direct investment. The government continued its civil-service reform programmes by restructuring ministries and state-owned enterprises. The civil-service reforms have succeeded in eliminating around 60 000 "ghost-workers" and other workers, resulting in extra savings of nearly 1 per cent of non-oil GDP.

Following the recent banking-sector reform (the consolidation exercise), the Nigerian banking sector has become stronger and sounder. Indeed, 20 out of the 25 Nigerian banks were in the top 100 banks in Africa in 2006⁷, and 17 Nigerian banks were in the top 1 000 banks in the world, as opposed to none in 2005. Banking dominates capitalisation in the Nigerian Stock Exchange (NSE), and it is responsible for the recent

5. Three of the 18 PHCN companies were scheduled for privatisation in the first quarter of 2007.

6. Quarterly reports of spending in these sectors are being produced.

phenomenal growth of the NSE. Total bank assets increased by 104 per cent in 2006, while the ratio of non-performing credits declined to 9.5 per cent in 2006 from 19.8 per cent in 2005. The monetary authorities also introduced a fast-track programme for the registration of microfinance banks and *bureaux de change*, and a comprehensive roadmap for the development of the entire financial system is to be launched in the first half of 2007.

The Nigerian government has, over the years, introduced a number of financial assistance schemes for small and medium-sized enterprises (SMEs), including the Small and Medium Industries Equity Investment Scheme (SMIEIS). These programmes, however, yielded limited success for a variety of reasons, including the failure to remedy other deficiencies in the business environment, most notably inadequate infrastructure and corruption. In the past two years, however, a number of policy actions were taken to restructure the SMIEIS. First, the coverage of the scheme has been expanded to include all business activities except general commerce and financial services. This means that non-industrial enterprises in sectors such as agriculture, housing, transport and utilities can be funded by the scheme. Subsequently, the name of the scheme was changed to SMEEIS (Small and Medium Enterprises Equity Investment Scheme) to reflect the expanded focus. Second, the upper limit of banks' equity investment in a single enterprise was raised to 500 million naira, from 200 million naira previously.

Despite this ambitious set of structural reforms and some improvements, progress has been uneven. Nigeria's ranking in the 2007 Doing Business Indicators improved only slightly from 109th to 108th. The extent of the government's commitment remains uncertain, and will be tested by the upcoming elections.

The overall official unemployment rate declined from 18 per cent in the 1990s to 5.3 per cent in 2006. However, the aggregate unemployment figure masks

considerable variation according to age and regional categories. For instance, in 2006, youth unemployment was 14 per cent and the urban unemployment rate was 20 per cent. The South-South geopolitical region has the highest rate of unemployment, at nearly 24 per cent. Under-employment is also a serious problem in Nigeria. Total underemployment in 2006 stood at 20.2 per cent; while the figures for rural areas and the South-South region were 20.5 per cent and 26.2 per cent, respectively.

Access to Drinking Water and Sanitation

Nigeria is endowed with surface water resources including rivers, streams, lakes, and wetlands which provide a source of drinking water for a large proportion of the population in areas with limited public water-supply facilities. Rainfall, which constitutes a significant source of freshwater, is highly variable across the different regions of the country, ranging from about 250 mm in the extreme north to over 500 mm in the south. The urban and peri-urban populations, however, rely heavily on underground water resources.

Nigeria has a policy on national water resources called the Master Plan: this provides a framework for integrated water-resources planning, development, and management for the period 1995-2020. The first review of the plan was carried out in 2006.

Nigeria shares three major river/lake systems with neighbouring countries, requiring bilateral and multilateral co-operation through regional bodies such as the Niger Basin Authority (NBA) and the Lake Chad Basin Commission (LCBC). The Federal Ministry of Water Resources represents Nigeria in these international bodies. Recently, the NBA held an extraordinary session in Abuja to consider a regional report on the River Niger. Similarly, efforts were taken by the LCBC to halt the disastrous reduction of the water surface of Lake Chad, from 25 000 square kilometres in 1964 to less than 2 000 square kilometres at present. One such initiative involved the transfer of

7. 4 Nigerian banks were in fact in the top 10 banks in Africa, and 17 were in the top 40.

water from River Ubangi in the Democratic Republic of Congo to Lake Chad.

The agency charged with the overall responsibility for water supply and sanitation in Nigeria is the Federal Ministry of Water Resources. A number of projects were completed recently, and new ones are being planned. Between 2000 and 2005, the government completed the development of 1 519 motorised boreholes and 3 552 hand-pump boreholes to cater for the water needs of 24.5 million people. In 2004, the Federal Ministry of Water Resources procured and distributed water-related equipment to states and local governments. In 2004, contracts worth 10 billion naira were awarded for the drilling of 3 250 additional motorised boreholes and 1 579 hand-pump boreholes. New ongoing projects included 482 primary hydrological stations, 50 groundwater monitoring boreholes and hydrological mapping for effective water-resource administration, and 42 small- and medium-scale dams.

Water pricing in Nigeria differs across the country, but in all situations, water is generally subsidised. In urban and peri-urban areas, water charges are based either on the volume of water consumed or on a flat rate. In most rural areas, however, water is often supplied to the population free of charge. Water scarcity is a common phenomenon in many towns and cities in Nigeria, and this compels people to buy water from private water vendors. The proportion of unaccounted-for water varies across different regions, with the national average being estimated at around 40 per cent.

Public spending on water supply increased substantially from a mere 7.3 billion naira in 1999 to 80 billion naira in 2006. Priority was accorded to the completion of the Gurara Water Project for Abuja – the federal capital – and its environs. Huge investments were also proposed for the construction of dams in various parts of the country, including the Owiwi Dam, Shagari Dam, Ile-Ife Dam, Jada Multipurpose Dam, Kashimbila Dam Project, and the Galma Multipurpose Dam. Similarly, significant funds are being provided for various irrigation and water-supply projects nationwide.

Nigeria's water infrastructure has suffered from years of poor maintenance, and the lack of sanitation also constitutes a serious public-health problem. The government launched a National Water Supply and Sanitation Policy aimed at addressing these problems through: the completion of hydrogeological mapping of the country and the establishment of water-quality laboratories; intensifying the rehabilitation and reactivation of the River Basin Development Authorities (RBDAs) and existing urban water-development schemes; encouraging private-sector participation in the development and supply of water; and expanding and improving rural water-supply systems.

The international development agencies play a key role in Nigeria's water sector. Some of the principal participants include the United Kingdom's Department for International Development (DFID), the United Nations, the African Development Bank (AfDB), the World Bank, Japan International Cooperation Agency (JICA), the government of China, and the European Commission (EC). The AfDB is assisting the Federal Ministry of Water Resources to prepare a national Rural Water Supply and Sanitation (RWSS) programme. The World Bank assisted the Small Towns Water Supply and Sanitation Programme (STWSSP), which is a comprehensive initiative for improving water supply and sanitation in more than 4 000 small towns in Nigeria. This initiative focuses on community ownership and management of water supply and sanitation facilities. The World Bank also assisted the National Urban Water Sector Reform Project, aimed at increasing access to piped-water networks in urban areas. This project has four main components: system rehabilitation and expansion; public-private partnership; capacity building and project management; and policy reform and institutional development. Furthermore, the World Bank assisted in the development of National Guidelines for Regulating Water Supply and Sanitation, and in analytical studies on dam safety.

With respect to access to water supply, the proportion of the population with access to potable water rose from 30 per cent in 1999 to 65 per cent in 2006. A breakdown of the 2006 figure shows that 67 per cent coverage had been achieved for state capitals,

60 per cent for urban areas, 50 per cent for semi-urban areas, and 55 per cent for rural areas. In terms of access to sanitation, around 40 per cent of the population had access to basic sanitation in 2006, which is up from 34.2 per cent in 1990. The Millennium Development Goals (MDGs) target for Nigeria is to increase access to clean water to 68 per cent of the population, and also to increase access to basic sanitation to 70 per cent by 2015. On current trends, Nigeria is likely to meet the target on access to water supply, but not the target on sanitation.

A number of obstacles militate against the efficient exploitation of Nigeria's water resources. One such obstacle is the lack of co-ordination between the various agencies involved in the management, quality control, and monitoring of water projects. There is also the problem of lack of adequate project preparation, which has led to project abandonment and failure. Related to this is the problem of a poor maintenance culture, as well as corruption and economic mismanagement. Another important problem is the lack of adequate funding of water resources development. Although the amounts devoted to water resources development have increased in recent years, these are inadequate relative to the other sectors of the economy and also relative to the amounts required to enable the country make good progress towards achieving the water-related MDG.

Political Context and Human Resources Development

Political developments in 2006 included: the impeachment of four state governors; attempts at constitutional review to change the tenure of elected officials; a bitter feud between the President and the Vice-President; the registration of new political parties; and party conventions to elect candidates for the 2007 general elections. Many of these developments resulted in a number of legal battles. The impeachment process of the state governors was so seriously flawed that the Supreme Court of Nigeria suspended all the Chief Judges of the affected states. The apex court also reversed the impeachment of the Oyo State Governor

and ordered his reinstatement. Similarly, an Appeals Court annulled the impeachment of the Anambra State Governor.

The bitter rivalry between the President and the Vice-President led to open accusations and counter-accusations. The animosity intensified when the Vice-President helped to thwart a constitutional review which would have allowed the President to run for a third term in office – referred to as a “third term” project. Following a report from the Economic and Financial Crimes Commission (EFCC), the Vice-President was charged with misappropriation of resources of the Petroleum Technology Development Fund (PTDF). A high court, however, quashed the charges on the grounds that the EFCC report was flawed. The feud between Nigeria's top two officials intensified in December 2006 with a legal battle over whether the Vice-President can remain in office after having joined a party (Action Congress) other than the one under which he was elected (People's Democratic Party).

In addition, there were inter- and intra-party squabbles arising from the selection of the candidates for the 2007 elections. Many of the candidates emerged through so-called consensus rather than election, and in some cases the process was manipulated to exclude people who opposed the “third term” agenda. All of these conflicts could cast doubts on the legitimacy of the 2007 polls. There were also concerns about the risk of technical flaws in the electronic voting process of the Independent National Electoral Commission (INEC), and widespread allegations of voter-card fraud and other irregularities.

In spite of all these concerns, however, the INEC has reiterated its determination to conduct free and fair elections and to oversee a successful transfer of power in 2007. For President Obasanjo, in particular, a smooth transition would earn him a unique place in the annals of Nigerian history as being not only the first leader to transfer power from a military to a democratically elected government in 1979, but also the first to oversee a successful democratic transition. It will be a rare feat, not only in Nigeria, but also in Africa as a whole.



Nigeria has made some progress in the fight against corruption, as evidenced by the work of both the Independent Corrupt Practices and other related offences Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC). In the past two years, the EFCC has recovered more than \$5 billion; it has also successfully prosecuted 82 people, including high-profile public figures such as a former chief of police, government ministers, and an impeached state governor. In February 2007, the EFCC published the names of 135 politicians, including 82 opposition candidates and 53 from the ruling party, considered unfit to hold public office because of corruption. Nigeria's progress has been recognised in the Transparency International's 2006 Corruption Perceptions Index rankings, where Nigeria ranked 142nd out of 163 countries, which is considerably better than in previous years when Nigeria was at or near the bottom, as in 2005 when it was ranked 155th out of 158 countries.

Nigeria's progress on social and human development indicators is rather mixed, and more needs to be done in all areas to achieve many of the MDGs on these indicators. For example, in 2006, Nigeria's place in the Human Development Index (HDI)⁸ ranking of the United Nations Human Development Report fell one place, to 159th out of 177 countries. Nigeria's HDI is below the average for sub-Saharan African countries.

Infant mortality (per 1 000 live births) declined to 101 in 2005, from 140 in the 1970s. Similarly, the under-five mortality rate (per 1 000 live births) declined from 265 to 197 during the same period. In 2006, the government conducted a core welfare indicator survey which showed that 55.1 per cent of the population had access to medical services, with a much higher access rate found in urban areas (70.9 per cent) than in rural areas (47.8 per cent). The survey also revealed that 67 per cent expressed satisfaction with medical services. Here again, the rate was higher for urban communities (75.1 per cent) than for rural (62.7 per cent).

The government has made significant progress towards addressing the HIV/AIDS pandemic. The HIV/AIDS prevalence rate declined to 4.4 per cent in 2006, down from 5.8 per cent in the preceding year. The targets for 2007 are to reduce the prevalence and incidence rates by 50 per cent of both sexual transmission and mother-to-child transmission of HIV, to ensure 100 per cent access to antiretroviral drugs, and to ensure that at least 30 per cent of health institutions in the country are able to offer effective care for, and control of, HIV/AIDS. The National Action Committee on AIDS (NACA) has continued with its strategic focus on treatment as well as prevention through advocacy, and information and education campaigns.

The government has also started to address some of the problems that have bedevilled the education system by increasing spending on education. Universal Basic Education (UBE), aimed at providing free education for all pupils at the primary and junior-secondary school levels, was expected to raise the primary-school enrolment rates. The total gross primary-school enrolment rate increased from 98 per cent in 2000 to 120 per cent in 2005, whilst the total secondary-school enrolment rate rose marginally, from 34 to 36 per cent, during the same period. Although school enrolment ratios have recently increased for both boys and girls, there is a considerable gender gap at all levels. For instance, the primary-school enrolment rate in 2004 was 132 per cent for boys, as opposed to 107 per cent for girls. The secondary-school enrolment rate was 40 and 32 per cent for boys and girls, respectively.

A 2006 government survey data also revealed a wide disparity between the male adult literacy rate (74.6 per cent) and the female adult literacy rate (56.8 per cent). Thus, on current trends, Nigeria may not be able to achieve the gender-related MDG. Nigeria's Gender-related Development Index (GDI), which captures inequalities in achievement between men and women, is 0.443, which ranks Nigeria 82nd out of 136 countries.

8. The HDI is a composite measure of three elements of human development: life expectancy (capturing a health profile), education (measured by school enrolment and adult literacy), and standard of living (proxied by purchasing power parity income).

Nigeria has made great strides in reducing poverty levels. According to a recent survey, the proportion of people living below the poverty line declined from 70 per cent in 2000 to 54.4 per cent in 2006. Rural areas bear the brunt of poverty, with the poverty rate in excess of 63 per cent. Nevertheless, income inequality is higher in urban areas than in rural areas; the Gini coefficients for urban and rural areas in Nigeria are 0.554 and 0.529, respectively. According to the government core welfare indicator survey, 32 per cent of households in Nigeria perceived their economic situation as being worse in 2006 than in the previous year, whilst over 39 per cent felt

that their economic situation had improved. A slightly higher proportion of rural households (41.7 per cent) than households in urban areas (34.5 per cent) perceived their economic situation in 2006 as being better than in the preceding year.

Crime and insecurity in Nigeria continue to pose serious threats to the business climate and individual well-being. However, results from the 2006 survey showed some indications of moderate progress, with 47 per cent of households reporting an improvement in security, against 20 per cent reporting a deterioration.