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FAST TRACK BRIEF

About IEG-IFC

IFC's Independent Evaluation Group (IEG-IFC) independently evaluates IFC's investment and advisory services operations and reports its findings to IFC's management and Board of Directors. IEG-IFC is a resource for helping staff understand what IFC has learned and how IFC can do better business in the future.

About *Fast Track Briefs*

Fast Track Briefs help inform the World Bank Group (WBG) managers and staff about new evaluation findings and recommendations. The views expressed here are those of IEG and should not be attributed to the WBG or its affiliated organizations. The findings here do not support any general inferences beyond the scope of the evaluation, including any inferences about the WBG's past, current or prospective overall performance.

Online access

http://www.ifc.org/IEG

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IFC in Nigeria

An Independent Country Impact Review

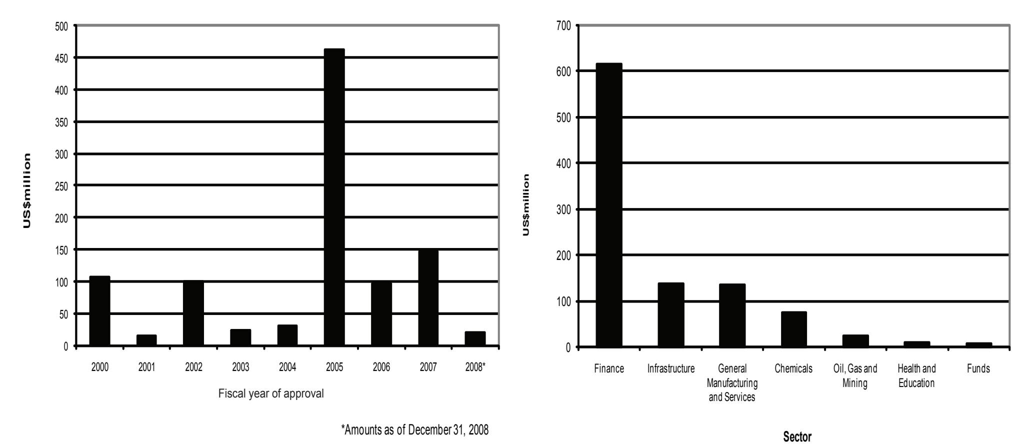
IEG's Country Impact Review (the Report) examines if, from July 1998 through December 2007, IFC (i) successfully defined a relevant and appropriate strategy for helping Nigeria tackle its most pressing needs; (ii) provided investment and advisory services that were reflective of IFC's strategy; and (iii) achieved positive development results.

The report's main findings are:

- IFC's strategies in Nigeria reflected the characteristics of IFC's process for development of country strategies jointly with the World Bank. These characteristics include: (i) poor integration with IFC's main strategy and budget process; (ii) loosely formulated country objectives and priorities in terms of sectors and products; and (iii) little or no resource allocation. As a result, IFC's strategies for Nigeria have not fulfilled their purpose of setting priorities, defining targets, and securing the human, organizational, and other resources required.

- IFC investments in Nigeria were heavily concentrated in the financial sector, accounting for 66 percent of commitments. IFC recognized the critical importance of infrastructure development for doing business in Nigeria, repeatedly emphasized infrastructure as a strategic priority for IFC, and

Figure 1: Investments: Original commitments by year and by sector



Source: International Finance Corporation and Independent Evaluation Group

The Nigeria Country Impact Review was discussed at a Committee on Development Effectiveness Subcommittee meeting on September 15, 2008

made some progress in infrastructure reforms and some early attempts to assist the government in infrastructure privatization, but IFC failed to sustain its efforts to develop a program in the sector. IFC had limited or no presence in other areas identified as strategic priorities such as agribusiness, oil and gas, and manufacturing.

- IFC achieved significant results in the financial sector, initially by providing long-term financing, and later as a source of risk mitigation through trade-finance guarantees. Eighty-two percent of IFC funded projects in Nigeria's financial sector were rated satisfactory or better, for development and investment outcomes compared to 61 percent success rate for IFC's financial sector projects worldwide. The high success rate in Nigeria can be attributed in part to the relatively low risk profile of IFC's investments due to: (i) progress in financial sector reforms; (ii) a high degree of repeat business with good quality sponsors; and (iii) the high share of short-term products, e.g. trade finance. However, of particular concern is the environment and social effects rating of financial sector projects—only 10 percent were rated satisfactory. IFC's support for the introduction of mobile phones in Nigeria also had a significant impact.

- In advisory services, only 42 percent achieved satisfactory impact achievement ratings (much lower than the average rating of 71 percent for all IFC advisory projects in Sub-Saharan Africa). The low rating was a result of two factors: (i) poor client uptake; and (ii) transition in the IFC delivery platform. In spite of the difficulties experienced, some advisory service projects in Nigeria demonstrated discernible positive impacts, strengthening institutions that provide capacity building to small and medium enterprises; and the development of the Nigerian bond market. Common success factors such as strong client demand and sector focus reflected in the deployment of a range of instruments and sustained engagement over time.

IEG's report recommends that IFC: (i) diversify its areas of intervention to help generate trickle-down effects of oil-driven growth through a more strategic and effective deployment of advisory services and closer cooperation with the World Bank in business climate reforms; (ii) improve the internal process for developing country strategies and for large countries like Nigeria, ensure a stronger country focus by formulating clear objectives in terms of expected development impacts, and by better linking objectives to organizational resources; and (iii) ensure that proper priority and resources are given to the supervision of environmental, and social effects of IFC projects.

Challenges and opportunities for IFC in Nigeria

Within Sub-Saharan Africa, Nigeria's population is the largest and its GDP is second only to South Africa. In recent years, Nigeria's economy has grown at a fast pace, with average annual real GDP growth of 8.1 percent over the 2003–06 period, more than double that of the late 1990's when GDP grew at about 2.6 percent. However, in spite of these positive developments, social and economic conditions have not improved for the majority of Nigeria's 144 million people.

Private investment in the non-oil sector has been constrained by a persistently unappealing business climate marked by deficient infrastructure, a lack of access to finance, corruption, economic instability, a deficient legal framework, and administrative barriers to business. These constraints represent both challenges and opportunities for IFC to contribute to the development of Nigeria. Given the country's size, and extent of development challenges, success in Nigeria is important to Sub-Saharan Africa as a whole.

IFC's strategy and portfolio in Nigeria

Since 2001, IFC's strategic objectives in Nigeria have grown in number and been defined more broadly, causing the strategy to lose focus. Country strategy documents mainly described IFC's previous interventions and listed a growing number of strategic objectives in terms of priority products and sectors. This approach ensured that essentially any potential project would "fit" within the parameters of the board-approved strategy. As a result, management exercised fairly broad discretion in implementing investment and advisory services operations.

IFC's Nigeria strategies reflected characteristics of IFC's process for development of joint country strategies jointly with the World Bank. These characteristics included: (i) poor integration with IFC's main strategy and budget process, resulting in little ownership of country strategies by management and staff; (ii) a predominant sector focus, with country objectives and priorities loosely formulated in terms of sectors and products—only indirectly did IFC's country objectives in Nigeria relate to projected development impacts; and (iii) little or no resource allocation, so the country program could only emerge through the implementation of sector and regional strategies. As a result, IFC's strategies for Nigeria did not focus on IFC's operations, define targets, specify time horizons, or establish the human, organizational, and other resources required. A focused, programmatic, and well-articulated country strategy is becoming increasingly necessary in light of (i) the size of IFC's operations in the country and their impact on IFC's effectiveness in Africa; (ii) recent improvements in the business environment; and (iii) IFC's growing country experience and knowledge.

IFC's investment portfolio in Nigeria is its largest in Africa and its eleventh largest worldwide. IFC's investments were heavily concentrated in the financial sector, accounting for 66 percent of commitments (see figure 1). IFC engaged in much repeat business in the financial sector, using a similar product-sponsor mix to capitalize on its early successes. More recently, IFC has funded or considered funding for other real sector projects (that now account for about 24 percent of its commitments), including projects in the petrochemical, cement, and health sectors.

IFC's development effectiveness in Nigeria

Over the review period, 81 percent of IFC's evaluated investment projects in Nigeria were rated satisfactory or above for development and investment outcomes (higher than the 58 percent achieved by IFC's projects worldwide). Ratings for financial sector projects in Nigeria were 82 percent satisfactory or better (figure 2), compared to 61 percent for all IFC financial sector projects (figure 3), 44 percent for financial markets projects in Africa, and 43 percent for financial sector projects in resource-rich countries. IFC's main contribution was long-term financing and assistance to improve the corporate governance practices of Nigerian financial institutions. Additionally, IFC achieved development impacts in telecommunications, but had limited or no presence, and therefore no impact, in the infrastructure, agribusiness, and manufacturing sectors despite their having been identified as strategic priorities. Of particular concern has been the poor environmental and social rating for the evaluated financial sector projects—less than 10 percent of which achieved a rating of satisfactory or better.

Despite infrastructure development's critical importance for doing business in Nigeria, IFC's repeated emphasis on infrastructure as a strategic priority, and early attempts by IFC to assist the government in infrastructure privatization, IFC did not sustain its efforts and did not develop a program in the sector. IEG's concurrent Country Assistance Evaluation (CAE) of World Bank operations in Nigeria, arrived at similar findings about the World Bank's performance in infrastructure. The CAE found that the World Bank's efforts were not commensurate with the scale and importance of infrastructure problems in Nigeria and that infrastructure, particularly power, is an area where the World Bank Group (WBG) could have worked more closely to develop an approach to infrastructure development and to have a stronger development impact.

Impact achievement was rated satisfactory or better for 42 percent of advisory services operations in Nigeria (much lower than the average rating of 71 percent for all IFC advisory service projects in Sub-Saharan Africa). The low rating resulted mainly from two factors: (i) poor client uptake; and (ii) the transition in IFC's delivery platform. The poor client uptake is a direct consequence of advisory service projects' supply-driven design. IFC's introduction of a new advisory services delivery platform in 2005 temporarily disrupted the delivery of advisory services. As a result, IFC scored poorly in the area of client satisfaction, particularly with regard to client perception of the quality of IFC's advisory services. Nonetheless, IFC achieved tangible impacts through its advisory services operations in strengthening institutions that provide capacity building to small and medium enterprises and in the development of the Nigerian bond market.

Figure 2: Nigeria financial sector - Development and investment outcomes by number

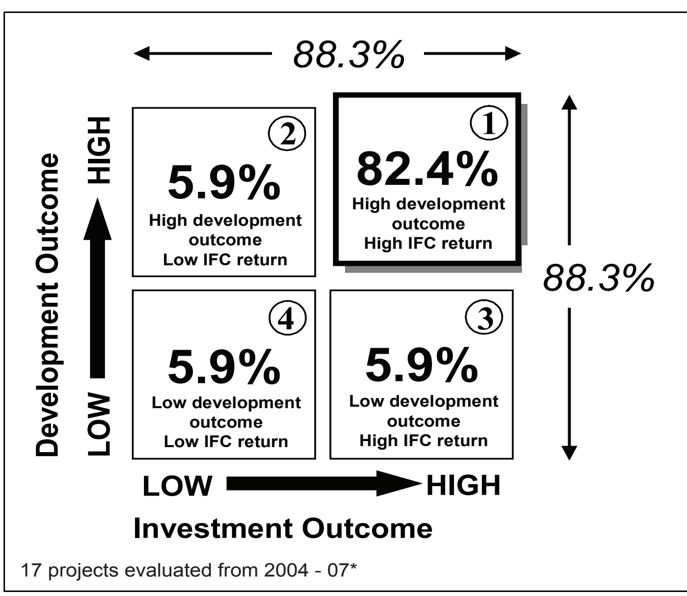
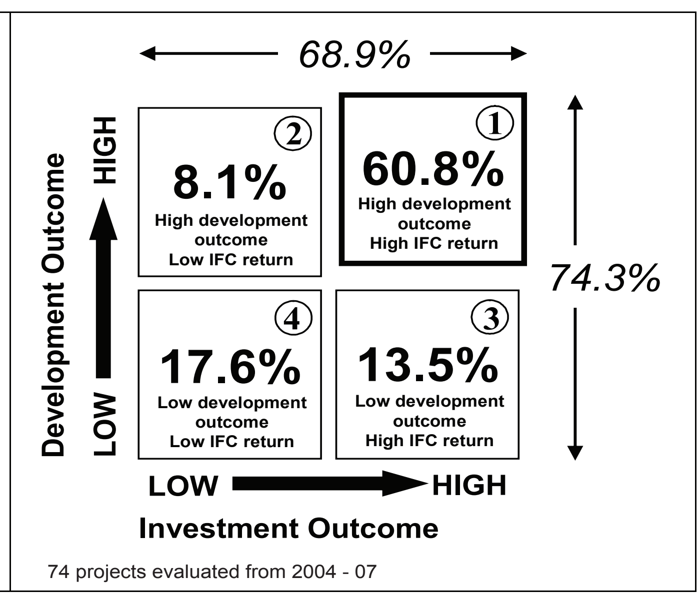


Figure 3: IFC's financial sector - Development and investment outcomes by number



* Includes all financial sector projects approved in Nigeria from 1999 - 2006

Source: Independent Evaluation Group

CONCLUSIONS AND RECOMMENDATIONS

To enhance its development effectiveness IFC should:

- Diversify its areas of intervention in Nigeria to: (i) help address development challenges related to poor infrastructure (in particular power and roads) and excessive dependence on the oil sector; (ii) contribute to the trickle-down effects of oil-driven growth; and (iii) expand viable IFC private sector activities beyond the present narrow confines of operations in terms of sectors. This would involve: (i) more strategic and effective deployment of advisory services, particularly in infrastructure and related areas; and (ii) close cooperation with the World Bank to help improve the business environment;
- Improve the process of developing country assistance strategies for key countries such as Nigeria by: (i) strengthening the country focus of IFC's strategy process including enhanced coordination with the World Bank; (ii) formulating country objectives in terms of expected development impacts; and (iii) linking objectives with the allocation of organizational resources; and
- Ensure that proper priority and resources are given to supervision of environmental, and social effects in Nigeria. IFC should fully integrate environmental and social supervision into the portfolio management process, and ensure accountability.

Resources

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