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**Lesson Learning From SLGP Ekiti: Review of the Service
Delivery Improvement Pilot, the SEEDS Process and the Debt
Management Unit**

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Abbreviations/Acronyms

CSO	Civil Society Organisation
CSR	Civil Society Reform
DFID	Department for International Development
DFID SC	DFID State Coordinator
DMO	Federal Debt Management Office
DMU	Debt Management Unit
DoC	Drivers of Change
IBPs	Issue Based Projects
LEEDS	Local Economic Development Strategy
LGA	Local Government Area Councils
NEEDS	National Economic Development Strategy
NGO	Non Governmental Organisation
PFM	Public Financial Management
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
SDIP 1	Service Delivery Improvement Pilot 1
SDIPs	Service Delivery Improvement Pilots
SEEDS	State Economic Development Strategy
SLGP	State and Local Government Programme
SRT	State Reform Treaty
SSU	SEEDS Support Unit
SWC	State Water Corporation
WDR	World Development Report
W&S	Water and Sanitation

1.0 INTRODUCTION

SLGP has operated in Ekiti for three years. That work offers substantial opportunities for lesson learning by DFID and the wider donor community. This report covers three initiatives that have been the pillars of the programme for the last 18 months. These are:

- The Service Delivery Improvement Pilot 1 (SDIP 1), the Erekesan Market Water and Sanitation Project
- The Ekiti State Economic Empowerment Development Strategy (SEEDS)
- And the Debt Management Unit, DMU.

This report will first set the scene by describing the changes to the SLGP and DFID strategy for state level work. This section also describes changes to political context in Ekiti. Each of these initiatives is then described addressing the factors that have enabled or disabled success in that particular set of circumstances. The analysis of each sub-programme also attempts to draw lessons for the wider SLGP and DFID programmes at state level.

1.1 The Changing SLGP Context Nationally and in Ekiti State

The SLGP programme was the centre-piece of DFID's reform programme in the four focus states. The focus state programme was in turn one of three main elements of DFIDN's 2000 CAP. SLGP was initiated in late 2000.

The **goal** of the programme is effective pro-poor state and local government in Nigeria, which enables people to realise their rights. The **purpose** is to enhance the capacity and effectiveness of state and local government in chosen states to formulate policy, manage resources and support service delivery in the interests of poor people and to forward this process in other states by the dissemination of lessons learned and the influencing of other donor initiatives.

The original logframe had seven outputs. They centred on more open and accountable government; a better performing public service, the efficient allocation of the state resources and enabling [but not necessarily funding] pro-poor service delivery. Lessons learned were to be transmitted to other state governments, federal government and donors.

The programme adopted a process approach to implementation that aimed to maximize ownership and support for reform by building on partners' own understanding of issues. The SLGP role was primarily that of a facilitator with partners leading planning and choosing interventions through State Reform Teams (SRTs). The SRT structure was supposed to bring in a range of actors that went beyond public servants, to include CSO and private sector stakeholders and with inputs from the political class.

Starting with the Inception Review of Benue and Jigawa states in July 2002 this approach began to be questioned. The report noted some achievements but progress was patchy in general. The review questioned the critical underlying assumption that DFID had chosen pro-poor reformist states. The process approach was not working in a situation where the client did not have the same view of reform as SLGP: the review recommended a more directive approach in which SLGP engaged more fully along with the SRTs in developing reform plans.

That review recommended a tighter focus of reform efforts with concentration on Civil Service Reform (CSR) and Public Financial Management (PFM). SLGP had already decided to focus efforts at state and not LGA level and the review supported this approach. SLGP also needed to better communicate the message that reform would impact on poverty.

In parallel, DFID Nigeria was using its Drivers of Change process to analyse and re-think its approach to working in Nigeria. That analysis pointed to three deep-rooted quasi-structural constraints to change. The power of these forces meant that the previous emphasis on supporting champions of change and building capacity could have only a marginal impact. Capacity is an issue but even those organizations with capacity can achieve little if the institutional environment in which they operate is not transformed. Central to the new approach were to be Issues-Based Projects (IBPs) that would support coalitions to bring change in tangible ways.

This new thinking was in line with SLGP's move to supporting Service Delivery Improvement Pilots (SDIPs) that would demonstrate how reform could make a tangible difference. According to the January 2003 SLGP report the abstract nature of the reform programme was not winning hearts and minds and that state partners were looking for more tangible gains.

The Second Inception Mission of late 2003 and the Joint Inception Review delivered messages consistent with DoC and the earlier inception mission. The newly initiated service delivery pilot in Ekiti was warmly supported and was felt to have "*potential to generate social transformation and local economic development*". That review process also supported the emerging state PRSP process, SEEDS.

It was becoming clear that the SEEDS process would also be used for a rationalization of the focal state approach: support to states would be dependent on the SEEDS process and the DFID focal states would go into the selection pot along with other states. But the criteria for choosing SEEDS states would not favour an extended engagement with Ekiti with its small population and lack of influence. The length and depth of DFID and SLGP engagement with Ekiti was clearly under question.

By January 2003 the problems facing SLGP in Ekiti were stated baldly in the quarterly report. "*after eighteen months of work in Ekiti an action plan for reform which is understood and supported by a range of key government stakeholders is still some way off*". At the end of 2002 the PFM work had ground to a halt: the interventions were felt to be sensitive with an election approaching in May 2003. That election brought a new governor to power. His predecessor delivered an uncomplimentary assessment of DFID to the new governor. In his early contacts the new governor was forthright in his demands for more action and less paperwork. These demands led directly to SDIP 1: The Erkesan market water and sanitation project.

The advisory team surrounded the governor realized the need to have a strategy that would provide focus to the governor's action emphasis. These efforts at strategic planning were supported by DFID. In time this work coalesced with the emerging SEEDS process that the National Planning Commission was promoting with broad-based donor support with SLGP leading for DFID.

The state of Ekiti's finances, in particular the heavy borrowing prior to the election, was a major source of worry to the governor and his new team. This was an element of PFM whose need was recognized by all sides. SLGP extended its support to the creation of a Debt Management Unit in the state and the preparation of a Debt Management Strategy.

Thus an SLGP programme in Ekiti was taking shape within months of the accession of the new regime that had, at least on the surface, the political support that previous work had lacked. The key elements were the service delivery pilots, support to SEEDS and debt management. These programmes had potential for synergy. And critically the disbandment of the SRT, that had become a blockage rather than a facilitator of change, opened up the possibility of new avenues of engagement particularly with the political appointees surrounding the governor.

2.0 SERVICE DELIVERY IMPROVEMENT PILOT 1: EREKESAN MARKET WATER AND SANITATION PROJECT

2.1 The Background to SDIP 1

The new governor came to power demanding action. DFID received a list of six projects to choose from and on which progress should be visible within 100 days. PATHS took on a scheme that combined a Drug Revolving Fund and health Rangers; SLGP chose the market Water and Sanitation (W&S) project.

Water and politics are closely linked in Ado-Ekiti where shortages are severe in the dry season, despite the abundance of wet season rainfall and some limited reservoir capacity. The present governor exploited a well of dissatisfaction in his election campaign even going so far as to distribute free water in the months prior to the campaign. In a Focus Group Discussion for this review market traders were adamant that it was the water issue that had brought them out to vote.

Supplying water to the market is clearly a high profile way to be seen to be delivering on promises. And the governor was also unconvinced by the state and LGA bodies that were supposed to deliver: his aim was not to strengthen these but to show that he could deliver and they would not be allowed to get in the way. There is also a strong cultural presumption that free water is a right. This is somewhat at odds with the sale of water that is fairly commonplace, but for a government agency to sell water would be a significant departure.

The water project was perceived by all from the DFID/SLGP side to offer the greatest potential for governance gains. It would be highly visible, had political support and the market traders were felt to be a potent demand side force. The widespread enthusiasm, for the project extended to the DFID State Coordinator (DFID SC), the DFID Senior Governance Adviser, the SLGP Project Coordinator and the Ekiti SLGP Programme Manager (SLGP PM). At some point in these initial discussions a rough budget ceiling of 100,000 was set.

The critical point is the imperative to move fast and the ramifications this had for how SLGP implemented SDIP 1.

It is important to remember that SLGP has handed over the system to the Ado-Ekiti LGA in July 2004: the project has limited leverage to enforce any recommendations. But as the prime mover and original funder it still has considerable moral force so suggestions are likely to be considered.

2.2 Theories of change underlying the SDIPs

The DoC analysis gives a cogent explanation of why the previous DFID/SLGP approach achieved only limited progress to governance reform. The Issues-Based Approach is the primary response to the failings of past approach and will inform all of DFID Nigeria's programmes. However the DoC analysis is less clear as to the mechanisms by which the implementation of a project will bring change to rules and norms. We know that coalitions will work with visible and tangible projects but how that will work through the system and bring wider reform is the subject of the current design of the Demanding Change Programme.

Improved service delivery is an output of SLGP but not one it delivers by itself. At least in its original construction the project would highlight the need for improved pro-poor service delivery but the PFM and CSR work would be the crucial elements that enabled it to happen. Thus the theory of how an SDIP will make an impact on the big governance issues is important.

The Ekiti water project was amongst SLGP's earliest SDIP. Over the period when the SDIP approach was first mooted (around January 2003) until the new Programme Memorandum in mid 2004 SLGP has also been developing the theory of how tangible projects will have a wider impact on institutions. The critical point is that when the Ekiti project was initiated in August 2003 there was no unified theory; indeed in the course of this review key players advanced a number of propositions.

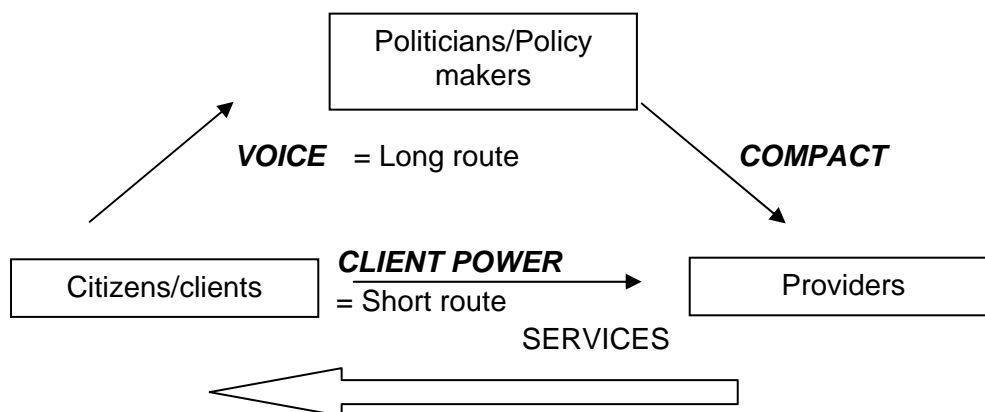
The Trojan horse approach posits that projects will provide an entry point to deal with the more painful reform issues. So for instance the host organisation will be forced to examine its financial management systems to enable it to manage the project effectively (and perhaps as a condition of the assistance). One small project would not create the space needed to make significant reforms across an organisation. Rather a project should have 'critical mass' so that the hosts could not resist the conditions; or a number of SDIPs with the same host would coalesce to force open the system.

Another view was that the pilots would demonstrate alternative ways to deliver services. And the success of the alternatives would build momentum for change in the host organisation and elsewhere. So for instance a public private partnership (PPP) would eventually lead to a re-examination of the role of government agencies and thus into dialogue about issues such as the numbers and skills of public servants needed to fulfil that role. In other words a dialogue around public service reform could be created.

In another view the principal aim is to build political support for reform. This is related to the demonstration effect: but there is also a sense that getting behind projects that key politicians (i.e. the governors) support will develop the credibility of DFID/SLGP as a partner and so enable dialogue on more painful issues.

These are not mutually exclusive theories. Indeed elements of all could emerge in the same discussion. The important point is that each theory has sets of assumptions that require a different approach to implementation. The fit of the underpinning theories and the implementation strategy for SDIP 1 will be a theme of this discussion. .

The 2004 WDR report on Making Services work for the poor has been an important reference point for designing the management of the water scheme itself. In particular the 'short route' to accountability, as diagrammed below, has influenced thinking.



Management arrangements that enable clients to exercise direct influence are particularly important in the political setting of Nigeria. Politicians routinely manage public services to reward groups that can help them retain power rather than deliver the best service to those who need it most. The WDR discusses the issue of user fees. It concludes that they are not universally applicable and transfers to the poor would ideally ameliorate their negative impact. But where the service will not be provided adequately without fees they are a necessary evil; they also allow consumers to influence the quality of service delivery.

Work by IDS argues that for client power to be effective it must be institutionalized through the establishment of accessible mechanisms by which citizens can demand accountability on a regular basis. It also argues that the effectiveness by which citizens exercise influence depends on their point of contact with the provider. Frontline workers have little incentive to respond to clients' complaints – to exercise real influence clients must exert influence upon senior managers.

Whilst arguing the case for short-route accountability the WDR contends that donors should try to strengthen, and at least avoid weakening, the compact between service provider and politicians/policy makers. The long-term strengthening of voice is also important. The provision of performance information and the sharing with the media and civil society enables client power and facilitates the expression of voice.

The WDR highlights another characteristic of the Nigerian political environment relevant to the water project. Where information deficiencies severely limit voters' ability to choose on the basis of performance, politicians have little incentive to work on gradual but sustainable improvements to services. Rather the pull is to build high profile schemes that demonstrate that action has been taken and money spent taken regardless of whether this will be of lasting benefit.

2.3 The demand for water and the scope of the scheme

The initial design was based on a survey undertaken by non-engineering SLGP personnel. That survey estimated the size of the market population and the extent of the rehabilitation of the toilets required. It did not specify the storage or pumping capacity required: the assumption was that the contractors would estimate the size of tanks required based on population. It also specifies the drilling of one borehole.

Quantity surveyors then produced the technical information on which the bids would be based. This document did specify a total of 100,000 litre ground and raised storage capacity be built. One borehole to a specific depth was to be drilled and four outlet tanks installed and connected to the overhead tank. This report provided further specification of the extent of the toilet renovation.

These original estimates of demand and supply now appear to be based on flawed assumptions and calculations. On the supply side the output from the original borehole was less than one tenth of the storage capacity installed. Another three have been added, one at a time. A single contract for all would have saved money. These four boreholes will fill less than half the storage capacity of the system.

The demand for water in Ado-Ekiti varies seasonally; in particular rainwater harvesting is common. Thus only with the passage of a full year can the scale of demand be estimated accurately: the discussion here is based on incomplete facts. That said, the last estimate of usage available to this review was done a month after the rainy season had ended: and three of the five distribution tanks still contain the water fed into them when the system was inaugurated 2 months previously. The usage of toilets is more promising.

The prevailing view has been that the water will be the commercially viable part of the scheme; the toilets are seen as an appropriate service but will require cross-subsidy. In fact the following factors now make the scale of the storage capacity (and perhaps even the much smaller output of the boreholes) excessive.

- The water in the system meets purity standards. But it is said to be hard and unpalatable; the hardness also reduces its suitability for washing.

- Assumptions of per capita consumption do not seem to have taken into account that most of the market population do not live there. A survey for this review showed that most market traders simply would want water to drink. The high-end population estimate is five thousand implying each would need to consume 20 litres per day to utilise the capacity. Even in tropical Ekiti such a thirst is unlikely.
- Alternative supplies are more extensive and available for longer than assumed. There are said to be 11 wells near the market that do not dry up completely. The water in these is unpalatable also, but certainly meets demand for washing food for sale: not many will pay for water for this purpose. Water is still supplied free at least once a week by the State Water Corporation. And so-called 'pure' water (admittedly often far from the case) is on sale and its taste is acceptable.

Adding to the confusion have been differing views on what the scheme should deliver. Some say the governor's original request was for the toilets to be renovated and any excess water made available: but the request was not made in writing so it is not clear exactly what was asked for. The choice to provide water storage and delivery capacity of such a scale was that of DFID and SLGP. This decision was supported by a proposal to install fire hydrants. The plan to protect against fire was not taken to conclusion; and it is unclear how it would have fitted with the intention to allow a private operator to sell as much water as he could.

But most critically the haste conveyed by the governor prevented a full survey of demand and the extent of existing supply. A survey of potential users was done but long after decisions had been made on the scale of provision. In any case a sample size of twelve respondents would have been small to base such an investment on. That survey indicated limited interest in toilets and concluded that this would not have been a priority of the traders. It indicates a high level of interest in water supply, including a willingness to pay, but does not assess likely consumption levels. Had such an assessment been done prior to construction, a smaller investment would have been the likely outcome.

2.4 Design and implementation of the engineering works

The project made a deliberate decision not to commission an engineering design: the scheme was felt to be too small to warrant this. Instead bids were invited and those considered serious were invited to a briefing meeting. At this the scale of provision required was explained and the tender document and design technical information distributed. The intention was to draw on the contractor's own expertise to design the system and so speed up the process, cut costs and provide a basis for competition between the bidders that went beyond price to engineering expertise.

A team was set up to scrutinise the bids with clear criteria for scoring. Membership was wide and included the state and local government, representatives of the traditional leader and of the traders and SLGP and DFID. There is no doubt that the process set new standards in Ekiti for transparency in contract award: even the losing bidders congratulated SLGP on the fairness of the process. This approach did succeed in speeding up the process and in ensuring that the contractors had some measure of expertise.

However, starting with the bid meeting some limitations of this approach begins to emerge. The minutes of the meeting reveal some fairly basic questions on the specification of materials to be used. This imprecision meant that the playing field was not level as differences in price could arise from differences in materials. The quality of products to be used was one of the criteria.

But the greater impact of the lack of detailed specifications arose during construction. A consulting engineer was brought in before completion to review the technical quality of the work. He identified a number of faults with the standard of the work such as the bore and quality of the pipes and the fact they were being laid in drains. He also identified the shallowness of the original borehole (but drill deeper would still not have supplied sufficient water). He also questioned the technical competence of some of the team employed by DFID to undertake supervision of the works although he commended their enthusiasm.

These flaws have been rectified. They are certainly less critical than the decisions about the scale of provision. And in environment where contractors often don't expect to deliver on government contracts at all the fact that the engineering works deliver the water is a noteworthy success. The fact that supervision took place and that SLGP insisted on a thorough certification process was equally groundbreaking.

But the cost in time and stress to the SLGP PM has been high. And that has meant that less effort could be applied to developing the management and monitoring of water supply. If the cost of the time of the SLGP staff is factored into a calculation along with the cost of rectifying the design flaws it pretty certain that hiring an engineer would have saved money.

2.5 The management and monitoring arrangement for operating the scheme

The haste to deliver the scheme in 100 days meant there was no time to identify the host organisation before embarking on the scheme. In any case the governor was sceptical about capability of the organs of government. In the case of the health scheme he had his own alternative; it is not clear how he expected the water scheme to be run.

DFID/SLGP thought the State Water Corporation (SWC) would be most suitable home. But they refused to play ball. There is a perception amongst many interviewed that the project was on too small a scale for the SWC to feel it was worth the interference that would accompany it. However, the SWC have their own plans to address the water shortages in the state and this scheme was not part of those plans. Whatever the real reason, they could make a rational case for rejecting the lead role.

The obvious alternative was the Ado-Ekiti Local Government. LGAs do share constitutional water provision responsibilities although in practice it is usually a state function. The LGA is also the owner of the market, so in theory at least should provide toilets. However there was little confidence that the LGA had either the competence or the will to make the scheme a success. And the difficulties were compounded by the political turmoil around LGAs and their chairmen in late 2003: the governor sacked them all.

But by early to mid 2004 the need to find a home was pressing. Worries were emerging in SLGP about the liability that went with ownership of such a scheme. And the long-term future of SLGP/DFID in Ekiti was increasingly under question. So with some reluctance SLGP handed over ownership of the scheme to the LGA in July. At the same time they advanced a number of arrangements to make the scheme a success.

The plan had always been to have private sector involvement. Paying a contractor for the volume of service delivered was considered too complicated and open to fraud. The simpler alternative was to award a license against a fee: but to fix the charges for the operator at a level considered appropriate rate for a social service. In addition SLGP would set up a body representing users to monitor the operator's level of service.

This is very much in line with the WDR recommendations on short-route accountability. But there have been a number of problems in execution. The first licensed operator was sacked when it became apparent that he was not serious: in checking this problem the diligence of SLGP staff and the decisiveness of the management was exemplary. The new operator shows signs of wanting to make a success of his contract.

The role and capacity of the advisory board is more problematic. The board grew out of the tender board process: its members were chosen not elected. It includes representatives of the traditional ruler, leader of the traders and the market leader: these are people of influence. But this review process included a meeting with the board: at this it was apparent they had limited understand that they represent the interests of the users and should themselves be accountable. Rather some seemed to regard themselves as individuals chosen to go on a board. When asked how they would monitor the service no reference was made to gathering the views of users. Earlier requests for payment were repeated at this meeting. This situation may have been exacerbated by the use of the term board, a common structure in the management of Nigerian parastatals.

The board was also unclear about how their role linked with that of other parties: the induction workshop they have received has had limited effect. The board has had few opportunities to participate in decision-making. An earlier induction and then involvement in processes such as monitoring the engineering works, monitoring and sanctioning the operator would have built their capacity and helped them understand their function.

For the board to act as representatives of the clients the latter would have to some understanding of who is responsible for what. This review conducted a survey of fifty traders in the market. More than half thought the water system belonged to the state government and most of the rest thought it belonged to DFID. This is hardly surprising given that the branding on the tanks gives prominence to the State Government with the acronym of the AELG (and it's not clear that this is universally understood) in smaller letters behind that of SLGP. No one knew about the board.



SLGP contracted a local NGO to promote health awareness in the market. They duly produced some flyers about sanitation and put on some shows. But neither the management arrangements, including the price of water and toilets, nor the accountability process was touched on. For the short-route to work people must know who to complain to and understand what they are supposed to do.

The advisory board's role has moved beyond monitoring and enforcing sanctions to be the co-manager of the facility. A joint bank account is being set-up into which the license fee will be paid. The LGA and the Advisory Board will be joint signatories but the committee has the lead responsibility. The LGA is left with almost no role even though it is the actual owner.

It is understandable that SLGP tried to circumvent the weaknesses of the LGA by giving the advisory board more control. Their shrinking horizons in the state meant that getting the system to deliver water had become the priority over reforming the LGA. But we have effectively replaced an incompetent and largely unaccountable LGA with an equally unaccountable committee of dubious competence. It will also be interesting to see how long these arrangements stand up to the prevailing political norms once SLGP departs. Can we really expect a committee that is unelected and has no legal standing to resist pressure from an LGA which is the owner and that does have legal standing?

This approach cannot be said to have undermined the compact between politician and service provider, as there was none. Nor has it undermined voice – there existed little trust and communication anyway. But the rush with which the project has been finished and the focus on solving technical problems issues has meant that the management arrangements received insufficient attention. To make the system works SLGP needs to train the board better so they understand their role. In particular a mechanism to make the board accountable to the users, or at least by which they listen to them, must be found.

2.6 Sustainability and Replicability

This system needs to be well managed and to make a profit it is to survive. The problems with the management arrangements are outlined above. But in any case a licensed operator making a healthy profit could overcome problems. That was the fundamental part of the design in the first place and could still hold good. But profits depend on a healthy demand.

Contrary to expectations the revenue from the toilets exceeded water sales in October. There is a chance we could raise this further. Many people in the market will want to use toilets not least for the sake of privacy. But the sanitation benefits of any individual using a toilet are largely lost if a significant numbers don't. The health awareness campaign of EDFO has doubtless helped (though they haven't evaluated if the message got through so we don't know for sure). But going a step further so that the market trader's police against defecation outside the toilets would improve sanitation and make the toilets more profitable (and even make a lower charge possible). A section leader structure exists that could be built on drawing in the advisory committee to coordinate.



The water sales currently present a bleaker picture. Since the fieldwork for this review was conducted the LGA have indicated that they will consider treating the water to make it more palatable. That may well change the picture markedly and other action should await a decision on this. The operator has also asked that SLGP relocate three of the distribution tanks to places within the market where demand would be higher. But even if SLGP were still engaged it would be time to impose some commercial discipline: if this is going to increase profits then he should he find the resources to pay for it. And if he can't do so then it's probably not worth doing anyway.

Lifting the restriction on wholesaling would be another matter. The ban was imposed because the scheme is a social service to market traders and users: wholesaling could mean that others get the water meant for them. But the operator could be allowed to sell the water that is surplus to requirements. His contract would have to be changed to stipulate that if water for the market and toilets is not available then he will be penalised. And the penalties would have to be at a level that makes it unattractive for him to oversell.

Such conditions are necessary as the price cap in the market makes wholesaling an attractive proposition. Wholesale water can be bought in Ado at N0.60/litre; the price for a jerry can in the market is N0.44/litre. The difference in revenue on the 50,000 litres the system will deliver is only N8,000; and wholesaling will deliver a more assured revenue stream with fewer management and staff costs. This illustrates the complexity of delivering a social service through a market mechanism.

In addition, a busy market is not the best location from which to sell water to tankers. However, if wholesaling will make the difference between a financially viable scheme that makes full use of the investment and one that fails because it doesn't make a profit it has to be considered.

The business plan of June 2004 predicted revenue for year one of between N18,500,000 and N10,500,000. At these levels it was reasonable to expect that the operator would maintain the system himself (he would be mad not to if making such sums). Time has tempered these expectations. Although the license agreement implies the operator will maintain the system the assumption now seems to be that major repairs will be funded from the license fee revenue.

Presently there is no agreement on how revenue will be used; earlier assumptions were that the funds would be used for other good works in the community. Given that the advisory committee are interested in taking their allowances from this source it is important that this is firmed up as soon as possible. And if the scheme does start to make a significant profit the operator should take on the maintenance and the repair role

With some adjustments it is likely the license approach will work and prove to be something that other councils, wishing to use their resources wisely, should want to copy. However they might also want to understand the financial underpinnings of the whole scheme. Excluding payments to consultants, training and publicity (which another implementer might decide to minimise but couldn't completely exclude) the scheme cost 78,227 GBP. If the current license fee is realistic, at 1250 GBP this implies a payback period of 63 years. It is hard to imagine a long queue of Nigerian entrepreneurs struggling to get into this business; even a spendthrift LGA might balk at such a figure.

The low profitability can largely be attributed to an over-engineered design that was in turn based on flawed assumptions of demand. But SLGP's management systems also contributed.

2.7 Planning and budgeting the installation of the system

SLGP works with a system of 6-monthly plans and budgets. The programme does not require a budget for a particular initiative and given that this scheme has extended over three planning period no comprehensive budget has been made. A rough budget ceiling was set but this has been exceeded. In any case, setting a budget ceiling without a plan, a design or expenditure estimates is rarely recommended as the best way to keep a lid on expenditure.

The rush to execute meant that SLGP Ekiti did not prepare an engineering design or an overall plan. Responsibilities and targets dates were not set out in detail. Neither did the programme hire a staff member or even a long-term consultant to take overall control of either the engineering or governance arrangements. This has led to a large number of consultancy inputs – this review has counted 15 – many of which are of a high standard. But consultancy inputs have to be organised, digested and acted on: the existing staff numbers in SLGP Ekiti simply did not allow this. This lesson has been learned and subsequent Ekiti SDIP's have a consultant dedicated to their execution.

2.8 The Approach to Implementation and How That Affects Achieving the Wider Governance Gains

It is clearly too early to say with any confidence whether significant improvements to PFM or reform of the public service are obtainable through such an SDIP. But it is possible to speculate on whether the management of the scheme has been appropriate to support the theories of change proposed.

The biggest success has been in obtaining support for reform, or at least a plan to undertake reforms, at state level. There is no doubt that installing water in the market has made the governor more receptive to SLGP's support to develop a SEEDS. Support to NEEDS and SEEDS institutional reforms are stated in the new SLGP Programme Memorandum as the rationale for IBPs. A plan does not constitute reform but it is a big step on the way. The route to the big governance gains may be an indirect one through SEDDS: in which case the financial cost of SDIP 1 would be small one.

However, it is worth reflecting on the WDR's concern about politicians and high profile projects. It would be a step in the wrong direction if SLGP had encouraged an ad-hoc and unsustainable approach to service delivery. Market traders told this review that there were numerous locations in Ado-Ekiti where demand for water is so high that residents would pay. Such a location would not have the visibility of the market and so negotiations with the governor about the location would have been needed. But locating the scheme where there is a clear felt need and working with a mandated authority to ensure some sort of integration from the start could have given political support and demonstration gains.

The licensing of the scheme once built may well be a success and so be replicated. But doubts about profitability reduce for now the potential to demonstrate that a successful way to deliver services. The scope to encourage government to reassess its role and thus the scope of the public service is similarly curtailed. The ultimate step in public private partnerships would be for an operator to build and operate such a scheme, as this would reduce the need for government to borrow to fund capital investment. The Erkesan market scheme looks unlikely to be a model.

If DFID/SLGP wishes to set an example with an SDIP it must first ensure that the scheme is technically and financially viable. And it must prepare tight budgets and manage to keep costs as low as possible. It must also get the management arrangements sorted out as early as possible so they have time to bed in before SLGP departs or hands over the scheme and loses its influence.

If an SDIP is to be used as an entry point to, the financial management system of the host then the project must be integrated with their systems. In SDIP 1 the project has been externalised even to the point of setting up a separate bank account. This is exactly how a host agency would want to manage a project when it wants to keep on doing its other business as usual.

The chief lesson from SDIP 1 is the need to clarify how we expect the project to bring change and to estimate its likely extent. We need to prepare realistic budgets so we can assess whether the change to be wrought is worth the investment. And once the theory of change is clear to design implementation strategies that will maximise change by that route.

Initially SDIP 1 seemed like a pretty straightforward project to implement. The reality was different. Managing contracts in Nigeria is rarely easy. The role of water supplier comes with significant responsibilities: if consumers were to get cholera from DFID/SLGP water the negative publicity would surely undo any good. SLGP should work with as technically simple projects as possible: the programme was not designed and has not been staffed to implement complex engineering projects. The simpler the project and the surer we are that it is technically feasible the more space and certainty we will have that we can work on the governance issues that are the aim in the first place.

The last major lesson is a commonplace one: we need to be sure that we have the time-scales right. The simple fact is that it was clear from fairly early on that SLGP would not be around long enough to make those bigger gains from SDIP 1. This was the cause of the decisions that were in tension with the aim of obtaining institutional change. We need to be there long enough not just to finish the physical works but also to ensure we can bed in any changes that are made.

3.0 SEEDS IN EKITI

3.1 Background and context to the Ekiti SEEDS

The National Economic Empowerment and Development Strategy (NEEDS) is Nigeria's homegrown equivalent of a PRSP. NEEDS is a major departure from previous programmes that tended to see the solutions to poverty purely in terms of projects. The NEEDS document addresses macro-economic policy, sets the parameters for public spending, and addresses the changes in values needed to transform Nigeria. Produced by a group of reformers at Federal level it has clear presidential support. Donors stand ready to commit considerable resources to support NEEDS.

But in Nigeria more than half of government expenditure takes place at state and local government level. The states, although they derive most of their income from the Federation account, have a considerable level of fiscal leeway and in the past have borrowed and spent irresponsibly. The impact of a well-implemented strategy at federal level would be severely diminished if states continued with business as usual.

Thus the reformers in the NPC and the donors had common interest in pursuing economic and reform strategies at state level. In the case of donors such as DFID, SEEDS may well represent the reform plan that they have been searching for in their work at state level. SEEDS is not intended merely as a plan for how the government spends its money: the SLGP PC described SEEDS as a way of governing. Indeed the SEEDS manual issued by the NPC (but drafted largely by SLGP) represents a fairly comprehensive guide to good governance.

An ODI review drew on IMF and World Bank documents to state a number of principles on which the PRSP approach is based. These provide a useful framework to review how the Ekiti SEEDS process has been implemented.

- *Participatory*, with all relevant stakeholders participating in formulation and implementation
- *Country-driven* [locally driven in Ekiti's case], representing a consensual view of what actions should be taken
- *Results oriented*, with targets for poverty reduction that are tangible and monitorable
- *Long-term*, focussing on reforming institution and building capacity, as well as short-term goals

It is important to remember that states within a federal structure don't have all the policy levers that a national government possesses so a SEEDS cannot be as comprehensive as a PRSP. It can't address macro-economic policy for instance. But the first two principles relate to process and would be equally relevant at national or state level. The results orientation is a subject of specific guidance in the NPC SEEDS manual. And the aim of reforming institutions is implied in the sub-text of The Ekiti SEEDS title: *A pact of good governance and poverty reduction*.

But first we have to understand the origins of the strategy making process that led into SEEDS in Ekiti. This has been crucial, particularly to the degree of local ownership.

3.2 State government strategic planning in Ekiti

In common with almost all his peers the Ekiti governor came to power with few clearly defined policies. The basis of political competition has little to do policies or the track record of the individual. However, many in Ekiti believe the present governor has an instinctive feel for the mood of the people and that his action orientation could be harnessed to achieve good.

He was also surrounded by a Government Advisory Council that realised the new government needed a strategy or its efforts would be too diffuse to have impact. The previous regime had also bequeathed a very shaky financial situation: the parlous state of the books highlighted the need for a tightly focussed programme. The Ekiti state government initiated a strategy process well before the NPC started to roll out the SEEDS concept. And SLGP was a close supporter of this initiative achieving in the process a close relationship with the prime mover within the GAC. But the output failed to achieve the degree of prioritisation needed.

SLGP then supported consultants to focus this down. They worked mainly with bureaucrats and did succeed in reducing the array of actions and targets. However, this approach was felt to ignore the need for political buy-in. In any case SEEDS was emerging as the new game in town, both for SLGP and the state government. But it is clear that the engagement in the original process (and the SDIP 1) gave SLGP Ekiti credibility as a collaborator.

By February 2004 the NPC was introducing SEEDS to the states. It was clear from the beginning that SEEDS would be a gateway to enhanced donor support; even additional FGN funding might be found for performing states. The degree to which governors and their advisers understood this would be a competitive process with only one winner per zone is less certain.

There is even less certainty that the benchmarks that states were to address to were widely understood; by the time of this review not many interviewed had heard of these. The benchmarks and the competitive element mark the SEEDS process out as a new form of conditionality in Nigeria. But in this case one imposed by the Federal Government rather than the usual figure of blame, the donors (although they supported it).

An additional important factor has been the hurry to get the SEEDS documents written. The reformers in the NPC recognised that there was a small window of opportunity in the second presidential term to make and cement reforms. Once the struggle begins in earnest for the next set of presidential and gubernatorial elections little real progress can be expected.

3.3 Participation in the Ekiti SEEDS process

Internationally, participation of *all relevant stakeholders* has been an ideal that has been difficult to obtain. IDS have assessed participation in PRSPs in sub-Saharan Africa. Participation has generally been limited to consultation and the practises adopted have often been flawed. In particular the weak provision of information has limited effectiveness. Without Participatory Poverty Assessments, the aim of exposing decision-makers to the realities of poverty on the ground has been difficult to achieve. But in some cases the inclusion of CSOs has led to greater attention to issues of exclusion and to the impoverishing effects of poor governance and corruption.

But many CSOs themselves have little understanding of these issues and have little capacity for policy analysis and advocacy. One of the mooted positive outcomes would be the galvanising of CSOs to take this role seriously. This end requires an ongoing engagement so that the structures do not atrophy when the PRSP is approved. For participatory processes to deliver their full benefits they need to continue into monitoring of implementation.

A common worry about PRSPs is their potential to undermine existing political processes. Governors have been elected with a mandate – should that not be sufficient on which to base state plans? And policy and budget scrutiny processes exist, at least in theory, particularly through the House of Assembly and its specialist committees.

We shall address these issues as we examine the strengths and weaknesses of participation at the five principal steps on the way to the Ekiti SEEDS:

- The grass-roots consultation exercise held in the six senatorial districts
- The decision on focal sectors and the weightings of each in the budget
- The Lokoja workshop at which the selected sectors developed their own plans and submitted these to peer review
- The Akure workshop at which the plans were costed and adjusted
- The ‘political buy-in’ sessions at which the draft plan was reviewed by commissioners and house members

The first of these has been the most affected by flawed process. There is an established view in Ekiti that the workshops revealed a remarkable overlap between the governor's priorities and those of his people. In fact given that these workshops consisted of a series of lectures by government appointees with limited question and answer sessions it would be remarkable if such a confluence of ideas were not the outcome. Given the limited nature of political debate that exists some might argue that this process has been at worst neutral. However, GAC members now feel that this has given them an additional mandate. Asked to build HIV/AIDS and gender considerations into SEEDS they claim this was not the wish of the people as revealed at the consultations. The people may indeed have rejected these as areas of emphasis; but they didn't really get the chance to debate either way.

The SEEDS manual is clear that consultation needs to be themed and work with specific interest groups. It needs to be sufficiently in-depth to add value to the analysis. This was clearly not the case in Ekiti. There are several possible causes. One is the haste with which consultations were organised; the second is the availability of personnel who could design and conduct a meaningful process. There is also the temptation for government to use events, which donors conveniently pay for, to push their line and seek political gain. The advice of the SEEDS manual is to skip consultations if they cannot be done properly. This would have saved time and money and avoided blurring responsibility.

The governor himself took the decision about focal sectors and budget weightings. Some might argue that is an example of autocratic rather than participative decision-making. But it does recognise political realities and the fact that he has a mandate. And ensuring his involvement at a key stage will have been a critical factor if the Ekiti SEEDS is implemented.

The participation at the strategy development workshops indicates the momentum the process had gained. Three Permanent Secretaries and four Directors participated along with a spread of civil society, the private sector and house of assembly members. This review interviewed a range of participants amongst whom there was widespread praise for process and content of the Lokoja discussions. For most it was the first chance to contribute to a plan for the state regardless of whether their position might normally have justified a role in strategy making. Many felt that even making a plan was a noteworthy departure. The identification of cross-sectoral linkages and the understanding of the constraints on budget that others efforts warranted were particular features.

The health sector did not participate in Lokoja: they developed their strategy in Ado-Ekiti at a separate workshop and took this direct to the costing seminar. In doing so they had the advantage of greater access to the information on which to base their plans. For the other sectors consultants had gathered information in very rapid exercise acting on ToRs issued by SLGP and the GAC (the NPC at an early briefing session had made it clear that the lack of information should not hold up the planning process). Only those making a plan can really know what information they need: however competent a job the consultants did it could not replace that involvement

In some ways a fusion of the two processes would have been ideal. An additional constraint on the effectiveness of the Lokoja workshop was the availability of facilitators to backstop all the sectors. In an alternative process each sector could develop its own plan individually before coming together for a peer review process. This would enable the limited skilled facilitator availability to be shared widely. And those making the plan could have gathered some of the required data themselves, or at least decided what was needed, so making this more of a learning experience for the participants. But quite simply the time available did not allow such a process.

The Akure costing workshop made some significant changes. For most participants the fact these decisions were made in a separate forum is not an issue: they accept that budget realities will eventually dictate. In the health sector there is some concern that the separation has resulted in a reduced focus on primary health care. The original health plan also acknowledged that they did not have to information on which to base some targets and in effect they set themselves a target of making targets for some areas. There is some feeling that this realism has been over-ruled. Ideally the whole process would have been integrated such that senior decision-makers were forced to be transparent about the reasons for cuts and changes.

The political buy-in process has been critical. It started with the inclusion of house chairmen at Lokoja and continued to sessions in which the plan was presented to commissioners and the House of Assembly. Far from undermining existing political processes the Ekiti SEEDS process has arguably enhanced them. The reality is that state houses of assembly are widely perceived as toothless tigers that the governors routinely buy-off. The assembly member interviewed for this review was firmly of the opinion that this year's budget would receive greater support in the house (and presumably need less buying off) as they had played a role in formulating it.

In sum, participation has been a strong feature of the Ekiti process, particularly at senior civil servant and political level. Even the grass-roots process could be something to build on in future with time to design and build support for a more analytical process. Some other states are said to hire consultants to write their strategy, preferring to ensure a high quality product that they believe will be a surer route to additional donor funds. The next section reflects on what this process has meant for local ownership and the one after discusses that potential tension between process and quality of product.

3.4 Local ownership

Growing from a locally initiated process the Ekiti SEEDS had a head start in this dimension. A sub-section, of the GAC, the SPIC, has provided a strong lead for the whole process. This is a political body chaired by the Deputy Governor and with strong links to the governor. The potential losers from this political leadership of the formal budget process are the normal bureaucratic custodians, the State Ministry of Finance and the State Planning Commission.

The former are said to have shown initial resistance to a budget process that departed from the time honoured one of last year figures plus a percentage. But the Ministry of Finance's role has been to budget for recurrent expenditure: the Ekiti SEEDS has dealt only with the capital budget so they don't lose influence.

An early decision was taken by SLGP that the SPC did not have the capacity or the will to push through an innovative process. The SPC were sidelined. However, the potential downside is that the SPC is supposed to monitor implementation; they would be the obvious leaders of a review process. However, most would agree that this decision was necessary to get Ekiti's SEEDS completed on time. There is clearly some resentment at being cut out of the process but PS was a member of the SPIC and so should provide a bridge to monitoring and review processes.

In many ways SLGP has managed well the precarious tightrope between ownership and moving the process along at the speed demanded by the centre. However, towards the end a few tactical errors crept in. SLGP set up a SEEDS support unit (SSU) to assist the Special Adviser on Planning. The head of the unit was chosen through a transparent process but the link to the GAC diminished with the change in Special Adviser. The unit was housed in SLGP offices and it is clear that as the pressure increased to produce a document the reporting line became almost exclusively to the SLGP PM.

The unit hired an editor to finish off the document. It would have been difficult for any individual that had not been part of the process to do this work satisfactorily: responsibilities for drafting should have been assigned before Lokoja and involved the SPIC. In this case the editor had little experience of policy or strategy although he clearly has good journalism credentials. The problems with this post were compounded by the fact that the government side did not play a role in setting the ToRs, in choosing the person or in monitoring his work. The editor's final draft gave undue prominence to the role that SLGP and its consultants played: this was removed but not before it had caused offence. Finally SLGP issued the order to print¹ without checking with the government that this was the version they wanted, though it is clear that GAC adviser did have sight of it. Unfortunately that final printing was of a very poor standard.

At the time of this review, actors from the government side, both bureaucrats and political advisers, were claiming that SLGP had taken over the process to the detriment of their sense of ownership. Doubtless there is a large dose of donor-host government politicking in this dispute: the opportunity to make capital when local ownership had become such a mantra was too good to be missed. But members of the SPC and of the GAC do claim they did not see the document between the costing workshop and its printing: this is clearly not the best way to engender ownership even if time is at a premium.

However we should not exaggerate the effect of these incidents on ownership: they are likely to be passing storms. Local ownership has already passed a major test in the construction of this year's capital budget: all concerned claim this is based on the SEEDS plan.

¹ This review is based on the version that SLGP authorized. That version will be edited and re-printed. Thus the comments in the next two sections may not all apply to the final document.

The big test of whether the Ekiti governing class really believes in all that SEEDS is supposed to represent will come with the benchmarks. Those that relate to publicising and policy will be reasonably painless to meet. However, as a package they would require radical changes to the ways most state governments conduct budget management and procurement. To implement phase 2 will require a fully functioning PFM system².

Most of those involved in Ekiti's SEEDS have no understanding of the benchmark process; it is clear also that the governors did not realise the implications of the benchmarks when they embarked on the SEEDS process. A GAC member reported to this review that the first phase of benchmarks would be relatively easy for Ekiti to implement and the governor was committed. But the second phase would be more difficult particularly with an election getting nearer. It is easy to imagine enthusiasm for SEEDS waning as the reforms begin to bite. For those states that haven't won the competition for donor funds the pain may be too much to bear. However it is noteworthy that the prime motivation for a LEEDS process in Ekiti is to impose these kinds of constraints on LGA chairmen.

3.5 Results orientation

The SEEDS manual is very clear that setting the right targets in the right language is fundamental to making a SEEDS plan effective. It is very clear on what constitutes a target and what doesn't. Building schools is not an appropriate *target*; an increase in the number of children completing primary education is. Increasing school enrolment may be obtained by a number of strategies, including, but not limited to, school building. Setting a target rather than an activity means that rational choices can be made between different strategies; and effectiveness of actions can be evaluated in the future. The manual is also clear on the need to specify targets with quantity and time.

Government personnel from all SEEDS states received training based on this manual. In Ekiti the penny has dropped in some sectors but not in others. Education has targets: numbers enrolled, including in village schools; numbers succeeding at primary school; adult literacy rates. Health is a mixture. Their targets include HIV/AIDS incidence, maternal mortality rates and immunisation rates (although that might be seen as an activity). But they also include building operating theatres and upgrading laboratories rather than surviving patients and detection rates for infection. For agriculture the targets are almost exclusively inputs and activities.

The lack of firm targets was noticed after Lokoja and a large part of the Akure costing workshop was devoted to firming these up, with only partial success. However, a scan of DFID logframes would doubtless yield a number of activities masquerading as outputs: the difference between an input and an output is notoriously difficult to understand. The one-week SEEDS week workshop trained only a small percentage of those involved. And it is not clear whether the facilitators at Lokoja all understood the difference either. So this result is not surprising in a first attempt.

² Personal communication with Patrick Okonji, Financial Management Specialist who works on this area for DFID.

The quality of facilitation of the process is open to question. SLGP has supported twelve states; the process has been available to all thirty-six states. As far as skills in PRSPs, the starting point was about zero. The problem is exacerbated in Ekiti by the insistence that indigenes are preferred where possible for consultancy posts. This has been a remarkably ambitious attempt to roll out a new process across the country and the lack of skills and experience occasionally shows through.

There is also something of a wish-list feel about the goals and targets as stated in the Ekiti SEEDS. The fault this time may lie with an overly rigid interpretation of the SEEDS manual. The Lokoja process analysed context in which the sectors operate. But a summary of this analysis is not included in the document, thus the rationale for particular Goals and Targets is not clear. It is unfortunate that the editor decided to drop what information he had, as contents template in the SEEDS manual does not prescribe a contextual analysis for each sector.

It must also be said the analysis of the context of Ekiti state is not exactly rigorous. For instance the rationale for the choice of sectors is not linked to an analysis of poverty or the barriers to growth. The contextual analysis reads more like a Public Relations statement. In fact it seems that the document is caught between the need for a through analysis of issues and the wish to use it to attract investment. It would have been wise to address the two aims in separate documents.

On the final issue of specificity, the plan is for three years but it is not clear what period the budget covers. To budget in any detail for the next three years would be to ignore the uncertainties of revenue allocation from federal government amongst many unpredictable factors. But more clarity on what these figures mean is needed.

3.6 Long-term focus on institutional reform and capacity

The emphasis on institutional reform is a more critical factor than the planning horizon. A critical factor that could affect this focus is what was communicated as the aim of exercise. In this case there was almost unanimous agreement that the principal aim is a balanced budget for Ekiti state.

Ekiti, in common with many states state has borrowed recklessly in the past. But that does not mean that borrowing to finance capital projects whose need and rate of return has been carefully evaluated is necessarily a bad strategy. Given that the British government borrows for precisely these reasons this would be a strange line for DFID to push. But perhaps Ekiti does need a period of stability; but it would be a shame if that emphasis had crowded out others.

The list of recent government actions under Public finance/public sector might indicate that the implications of reform have not been grasped. They include actions such a beautification of Ado-Ekiti, the completion of a mini-cultural centre and genset for the Ministry of Finance. But these may also be a cunning way of disguising important, but less potentially less popular actions. These include increasing Internally Generated Revenue (tax collection in other words) and establishment of a due process office.

In fact the Public Finance/Public Sector targets and strategies do include proposals for a number of important institutional reforms. These include monitoring that budget compliance, re-structuring the civil service including merging ministries and some privatisation. All transactions should be open to the House of Assembly; the original statement was open to the general public but this a step forward in transparency. Measures to stimulate the private sector, such as tax breaks, are included. If implemented these would be radical steps.

But a note of caution is sounded by the scope of budget for the Ekiti SEEDS. This only addresses the capital element of state budgeting. The fact that there is no plan to realign the recurrent budget to the SEEDS priorities may well indicate that the difficult issues of reforming the role and size of the civil service are as yet off limits.

3.7 Conclusions

The Ekiti SEEDS process is something of a success story in terms of local ownership and participation. This is especially true given the starting point. Other states may produce plans of higher quality but in Ekiti the degree of ownership could mean that at least their plan is taken seriously. It is certainly something to build on: but the absence of a plan to do so may be the biggest flaw.

Long-range strategic plans have fallen out of favour in the business world. The world is just too uncertain a place for detailed plans to hold over a long period. There is also a view³ that long horizons and detailed programming are antithetical to learning and real strategy making. Ekiti has made a gallant first stab at a strategy but none of those interviewed for this review had any notion that the process went beyond the completion of this document.

It is only if SEEDS leads onto a process such as a Medium Term Expenditure Framework that learning about what works and what doesn't will be enabled. That learning should lead into a review of budget allocations between sectors and between targets and strategies within sectors. A set plan that was adhered to slavishly for three years might be as dangerous as no plan at all.

The other big uncertainty is the effect of the benchmarking process on ownership and willingness to implement. To some extent the SEEDS process flies in the face of Drivers of Change wisdom: can the simple act of making a plan overcome those deep-rooted constraints and institutional barriers? The new SLGP Project Memorandum insists that there must be linkages between SDIPs and SEEDS if either is to have significant or long-lasting impact. Those links in Ekiti have enabled SLGP to play a role in making the plan. But it must be a moot question whether the impact of one or more SDIPs can influence the implementation of the painful reforms that SEEDS implies.

³ Henry Mintzberg is the chief proponents of this view, his articles and about strategic planning have been hugely influential. He propounds the view that plans as made by planners are junk. That the real value added is to be gained from strategic thinking. This is all about bringing marketers, product developers, and finance people together to create an integrated perspective of where the organization should be heading. The essence of strategy making is the process of learning as we act. Mintzberg, H 1994 *The Fall and Rise of Strategic Planning*. Harvard Business Review

4.0 THE DEBT MANAGEMENT UNIT

4.1 Background and context

The Debt Management Unit represents a rare case of almost complete coincidence of interests between Federal and State governments. And between donor pushing reform and state unclear what it might mean in practise.

One of the new governor's first actions, even before his inauguration, was to open up discussions with DFID in Abuja about the debt issue. DFID in Abuja had already leant considerable support to the Federal Debt Management Office (DMO). The DFID Economic Adviser was concerned about the effects of 'fiscal federalism' as was the government itself. They had common cause to support Ekiti in its efforts to get the full picture of the extent of its debt and then manage the re-payment. The previous Ekiti administration had repulsed SLGP's full-frontal assault on the PFM issue. Setting up a DMU, the first one in a Nigerian state, was important in itself. It seemed also to offer an entry point to wider reform of public finances.

This review examines the extent to which the immediate aim of building a process and capacity to manage Ekiti's debts has been achieved. And it will examine the secondary aim of providing an entry point to a wider process of reform of Public Financial Management.

4.2 Successes in managing Ekiti's debt

To the uninitiated the fact that Nigerian states can be so ignorant about how much money they owe is quite remarkable. A principal cause of this uncertainty is that money borrowed from foreign lenders has been guaranteed by the Federal Government. As the controller of Nigeria's foreign currency reserves FGN reserves the right to control repayments. But in controlling this flow FGN has rolled up the amounts borrowed and repaid and is unable to say with any precision how much any one state owes. Presumably individuals in past governments found this opaqueness convenient.

This lack of transparency continues through the system. Thus a governor may borrow from foreign lenders but his citizens would not be aware from the state's accounts as repayments are deducted at source from the federal allocation. The borrowing thus shows as the state having less income rather than having additional expenses. The interest rate on some of the borrowing by the previous Ekiti regime indicates someone had an interest in giving the banks back extra money. Under previous financial regimes the money owed to contractors, and the arrears on pension payments, did not show in the accounts as debt.

Ekiti was carved out of the old Ondo state. That state had its own debts to be shared between the two states. However, the euphoria of independence must have overcome caution because in the divorce proceedings as Ekiti state has taken on a large portion what should have been Ondo's debt. For instance a number of dams that supply water to Ondo users are located in Ekiti; that accident of location has been used to allocate the debt to Ekiti.

A number of successes have been gained from understanding the debt position. The government has negotiated with the Ondo government reallocation of the shared debt. This will result in a saving of over \$1.5M to Ekiti. The government has also negotiated a deal with a bank to pay off the local debt that was borrowed at high rates. The new debt will be repaid at a more favourable rate.

The Debt Management Unit has been established, equipped and staffed. The staff have received basic training in spreadsheets. The resistance to overcoming the proper recording of debt has been overcome. A procedure to gather information on contractor debt has been established with line ministries. In theory all this will mean that within seven days of the end of any month the governor and his team will know how much the state owes.

SLGP also intends to assist the state develop a Debt Management Strategy. According to the lead consultant this will include a plan for repayment, a link between fiscal and debt policies, the integration of internal and external debt and the linking of the state's budget to the level of debt and servicing costs.

4.3 Past and future challenges in managing Ekiti's debt

A trial run of the system, supervised by the SLGP consultants, had produced a one-off set of figures a few months previously. But by the end of this review the DMU had not actually started to produce the figures on a regular basis without support. There is some debate about the cause of the delays. Staff in the DMU and in the Ministry of Finance acknowledge the high quality of support they receive from the SLGP consultants. But they say that the timing of inputs has been dictated by the availability of the lead consultant. And that has slowed progress.

There is probably an element of truth in this as the consultant is busy with a number of other SLGP assignments. But he has clearly managed a difficult relationship well: it has been a wise policy for SLGP to arrange inputs around someone who has gained this level of confidence. And the ability to absorb the consultancy support has arguably been a more important factor in slowing down work.

There were internal government arguments about where to site the DMU. The SLGP consultants are confident that the State Finances Department makes more sense than the Accountant General's Office. Redeploying would have been quicker than recruiting staff but the temptation to award new jobs seems to have overruled this logic. In addition, the staff of the DMU were supposed to be trained at the DMO in Abuja but staff transfer there made this impossible. SLGP will programme another input in January so that the unit does start to produce the figures on a regular basis.

Untangling the past repayments to allow the asset/liability sharing formula between the states to be enacted is likely to be more problematical. The states haven't kept records and it seems unlikely that the DMO has the records that would enable them to re-assign past payments. But they stand ready to enact the formula for future payments; that only awaits the letter from the two states. Given who stands to gain the ball is in Ekiti's court to make sure they and their neighbours write this letter.

4.4 Making the link to Public Financial Management System and Replicating in Other States

These were relatively painless reforms. An early act of many governments around the world is to publicise what a mess their predecessors have made of managing the money. In this case the governor had good cause for alarm about the level of debt his administration was saddled with. The only cost of better debt management to this administration would come from the need for more transparency in future borrowing. And that might not even be seen as a cost.

The enthusiasm for the DMU is therefore not necessarily a good predictor of willingness to implement other PFM reforms. However this initiative has dispelled some suspicions about SLGP's motives. One well-informed respondent claimed there had previously been much suspicion about why a donor was so interested in how the state managed its finances.

The most attractive next public finance move for the government would be to increase IGR. A cautious donor would shy away from helping an unaccountable government without a realistic plan take more money from its citizen's pockets. But in SEEDS the government now has a plan and it should answer for the implementation of this. Paying tax is said to stimulate the citizen's interest in government performance so this would be the obvious next step if accompanied by measures to improve accountability.

But in many ways SEEDS has overtaken events, and the benchmarks represent a return to the full-frontal assault. The support to the DMU has significantly added to the confidence the state has in SLGP. That would make it a more acceptable partner if the state wishes to develop a PFM that will enable it to meet the benchmarks. But that decision will be more linked to the incentives to implement SEEDS than to any other SLGP action.

Ekiti was receptive to a DMU in a certain set of circumstance. These might not be replicated that widely. Not all states have miscalculated the debt on parting from another. A second-term governor, or one that had already borrowed heavily in his first term, might not be so receptive to a system that would expose the details of those transitions. And this administration came into power when finances were tight and a plan was needed. With higher oil price and greater revenue flowing from the centre the same level of incentive no longer exists.