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PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.:PIDC0122501

Program Name	States Transparency, Accountability and Sustainability Program for Results
Region	Africa
Country	Federal Republic of Nigeria
Sector	Governance
Financing Instrument	Program-for-Results
Program ID	P162009
{If Add. Fin.} **Parent Program ID**	N/A
Borrower(s)	Federal Republic of Nigeria
Implementing Agency	Federal Ministry of Finance
Date PID Prepared	June 21, 2017
Estimated Date of Appraisal Completion	January 22, 2018
Estimated Date of Board Approval	March 27, 2018
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	N/A

I. Introduction and Context

A. Country Context

The 2015 elections marked, for the first time in Nigeria's history, a peaceful democratic transfer of power between two political parties, in a fast deteriorating macroeconomic environment. The ruling party in the Federal Government of Nigeria (FGN), the All Progressive Congress, also won the 2015 state elections in 21 states out of 36, on the same platform. This was the first time that the opposition won the national elections since 1999. The new cabinet was sworn into office in November 2015, seven months after the elections concluded. The Buhari administration took office in a context of three major global economic transitions: The slowdown and rebalancing of the Chinese economy; lower commodity prices, especially the sharp drop in oil prices; and tightening financial conditions and risk aversion of international investors. These external shocks have all had a significant impact on the Nigerian economy.

Gross Domestic Product (GDP) growth fell from 6.3 percent in 2014 to 2.7 percent in 2015, and to a negative 1.6 percent in 2016, bringing Nigeria's first full-year of recession in 25 years. In 2016, global oil prices reached a 13-year low and oil production was crushed by vandalism and militant attacks in the Niger Delta, resulting in severe contraction of oil GDP. While oil sector represents only 8.4 percent of GDP, the lower foreign exchange earnings from oil exports - which more than halved from US$76.5 billion in 2014 to US$32.6 billion in 2016 - had significant spillover effects on non-oil sectors, especially industry and services, which are dependent on imports of inputs and raw materials. The reduction in forex (FX) supply was compounded by the Central Bank's introduction of several foreign exchange

allocation/utilization rules in order to maintain the interbank exchange rate at around N305 per US$. These measures include directing limited Central Bank of Nigeria (CBN) FX offerings on the interbank market to higher priority transactions; a ban on use of either export proceeds or FX markets for financing the importation of goods from 41 categories of items that are deemed of relatively low importance or which are seen as candidates for import substitution. Subsequently, imports declined even faster than exports, yielding an estimated current account surplus of 0.6 percent of GDP in 2016. The unmet demand from the interbank and Bureau de Change (BDC) channels increased demand for foreign exchange on the parallel market, leading to the parallel market rate rising, by February 2017, to more than N500 per US$, and creating round-tripping opportunities and distortions in the economy.

Table 1: Key Economic Indicators, 2014-2017

	2014	2015	2016 e	2017 f
Real GDP growth, at constant market prices	6.3	2.7	-1.6	1.2
Private consumption	0.6	1.4	-0.8	-1.3
Government consumption	-7.0	-11.9	-20.9	-4.6
Gross fixed capital investment	13.4	-1.3	-13.0	0.1
Exports, goods and services	24.1	-0.3	-5.2	10.6
Imports, goods and services	6.0	-26.9	-31.7	3.1
Real GDP growth, at constant factor prices	6.2	2.8	-1.5	1.2
Agriculture	4.3	3.7	4.1	4.7
Industry (including Oil)	6.8	-2.2	-8.5	2.6
Services	6.8	4.8	-0.8	-1.0
Inflation (CPI)	8.1	9.0	15.6	16.5
Current account balance (% of GDP)	0.2	-3.2	0.6	3.0
Fiscal balance (consolidated government, % of GDP)	-1.8	-3.5	-4.7	-5.0
Debt (consolidated government, % of GDP)	12.5	13.2	17.0	21.5
Poverty rate ($1.9/day PPP terms)	49.4	49.4	50.2	50.5
Poverty rate ($3.1/day PPP terms)	73.7	73.7	74.3	74.5

Source: NBS, World Bank and IMF staff projections.

On the demand side, public consumption and investment was particularly affected in 2016. Government revenues are dominated by oil - representing around three quarters of total revenue prior to 2015. This dependency was not adequately addressed during the boom years so that total government revenues, which were already low at 10.5 percent of GDP in 2014, declined to 5.2 percent of GDP in 2016. Unlike the previous crisis in 2008, there were insufficient buffers accumulated in the Excess Crude Account (ECA) to play a counter cyclical role. The collapse of oil revenues translated into significant revenue shortfalls at all tiers of government in 2016 (See Box 1). Although recurrent spending was rationalized (through efficiency measures but also by going into arrears on civil servants' salaries) and capital budgets under-executed, the fiscal deficit of the consolidated government widened from 3.5 percent in 2015 to 4.7 percent of GDP in 2016. While the consolidated public debt-to-GDP ratio remains low (17 percent of GDP), the

World Bank's estimate of the interest payments-to-revenue ratio for the FGN is as high as 59 percent for 2016. Rising inflation and policy uncertainty led to falling private consumption and investment. Increased lending from the Central Bank to the Government to finance the budget deficit led to broad money growth at 18.5 percent; this and the depreciation of the naira[1] contributed to inflation rising to an average of 15.6 in 2016. Together with rising unemployment, this hurt private consumption. The policy uncertainty around the exchange rate and foreign exchange convertibility concerns dampened private investment.

Box 1: Decline in Federation Account Revenues, Stagnation of Non-Oil Revenues and VAT

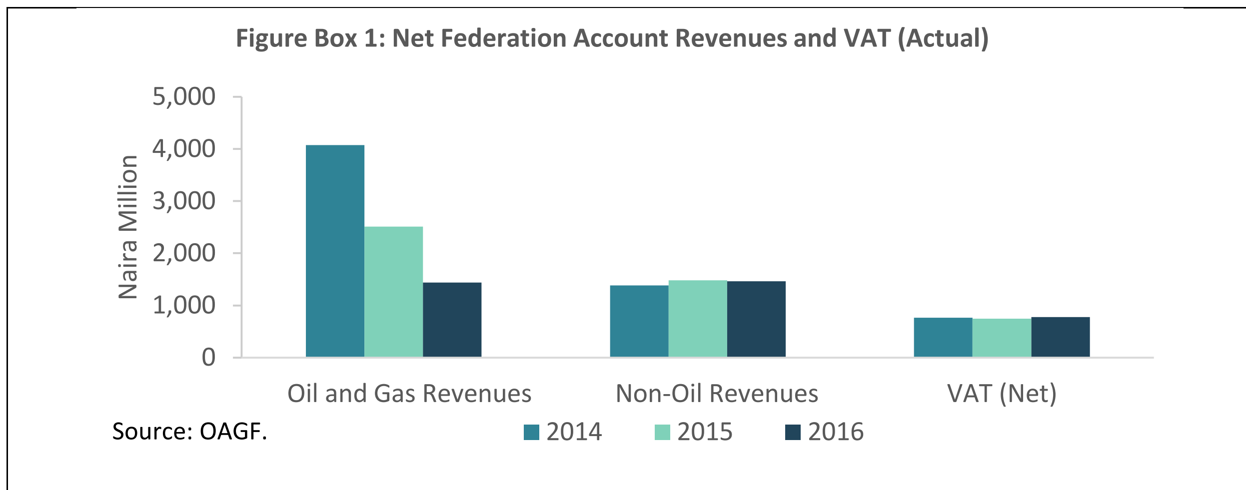
Net[2] revenue accruing to the Federation Account includes all oil and gas revenues and some non-oil revenues (customs revenue, corporate taxes, and solid minerals revenue); and is the main revenue stream for all tiers of Government. The revenues are distributed to the three tiers of government as follows: 52.68 percent accrues to the FGN (of which FGN retains 48.5 percent after transfers to special funds and the Federal Capital Territory (FCT)), 26.72 percent to the 36 state governments, and 20.6 percent to the local governments. In addition to the revenues accruing to the Federation Account, value-added tax (VAT) is also federally collected and then distributed to the Federal (15 percent of which 14 is retained), state (50 percent), and local (35 percent) governments.

Reflecting Nigeria's over-reliance on oil revenues, the net Federation Account revenue has decreased dramatically, from N5,462 billion in 2014 to N2,902 billion in 2016 (a decline of 47 percent in nominal terms). This sharp drop has entirely been driven by the decline in oil and gas revenues in response to (a) the decline in global oil prices (from US$53/bbl in 2015 to US$45.2/bbl in 2016); and (b) the lower oil production in 2016.

Collection of non-oil revenues and VAT stagnated throughout the recession period. The targets for non-oil revenues in 2016 had been increased ambitiously; but without any significant tax policy reforms, actual revenues did not increase, despite many efforts to strengthen tax administration. Only 56 percent of the budgeted amount of non-oil revenues was collected and only 55 percent of the budgeted VAT amount was collected.

[1] Other inflationary factors include higher electricity tariffs, increased prices of fuel due to subsidy removal, low food supplies at the beginning of the planting season

[2] From gross revenue items such as revenue collection agency fees, 13 percent derivation to oil producing states, JV cash calls, revenues in excess of specific targets and transfer to Excess Crude Account, and any subsidies are deducted to arrive at the net measure, which is then distributed according to the formulae described.



Economic growth is expected to recover slightly to above 1 percent in 2017, but this is subject to significant risks, leaving the fiscal sector outcomes uncertain. Economic recovery in 2017 depends mainly on the restoration of oil production (World Bank estimate: 2.1 mbpd) and supported by continued strong growth in agriculture. The recovery of non-oil industry and services will depend to a large extent on the sustained supply of foreign exchange to the markets. The CBN has used its FX reserves to significantly increase its supply of foreign exchange to the markets since the end of February and the parallel market rate has subsequently strengthened to N365/US$ (versus N305/US$ interbank rate). However, any new shock to the oil price or to output under the current policy regime will limit CBN's ability to keep up the foreign exchange supply. With higher oil prices and production and economic growth, revenues are expected to be higher creating fiscal space for public expenditure. But given that the expected economic recovery hinges on the oil sector, there is a high degree of fragility and risks in the economy and this means fiscal sector outcomes will be subject to considerable uncertainty.

The FGN launched, on March 7, 2017, the national Economic Recovery and Growth Plan (ERGP) for the period 2017-2020. The ERGP sets out the plan to restore macroeconomic stability in the short-term and the structural reforms, infrastructure investments and social sector programs to diversify the economy and set it on a path of sustained inclusive growth over the medium to long-term. The ERGP sets an ambitious target of reaching 7 percent growth in real GDP by 2020. To achieve the objectives of the ERGP, the key execution priorities are: (1) stabilizing the macroeconomic environment; (2) achieving agriculture and food security; (3) ensuring energy sufficiency (power and petroleum products); (4) improving transportation infrastructure; and (5) driving industrialization focusing on small and medium scale enterprises.

Successful implementation of the ERGP relies on adequate public and private financing of the plan and on strong coordination with the subnational government. The medium-term growth scenario presented in ERGP assumes full oil sector recovery, macroeconomic stabilization and full implementation of ERGP strategies, including fiscal stimulus, major infrastructure investment and other structural reforms. Many of the ERGP strategies, in particular strengthening fiscal transparency and sustainability, improving the business environment, governance and local service delivery, rely on state and local governments (SLGs) to implement and sustain reforms at the subnational level. This includes the implementation of the Fiscal Sustainability Plan (FSP) and Open Government Partnership (OGP) commitments. The Bank

estimates that without adjustments in monetary and exchange rate policies, substantive fiscal reforms at the federal and state levels of government and only partial implementation of infrastructure investments and structural reforms, real GDP growth would only recover to just above 2 percent by 2018 and remain at that level through to 2020[3].

B. Sectoral and Institutional Context of the Program

Nigeria's Federal System comprises of three tiers of government: Federal, 36 State governments and FCT, and 776 local governments. The **sub-national fiscal framework in Nigeria** consists of expenditure responsibilities and tax assignments, inter-governmental fiscal transfers (federation account revenue sharing according to specific formulae and mechanisms), and a fiscal policy framework that seeks to ensure overall macroeconomic stability. The expenditure responsibilities and tax assignments are established by the 1999 Constitution and other relevant legislation and policies. Inter-governmental fiscal transfers are based on revenue allocation formulae proposed by the Revenue Mobilization Allocation and Fiscal Commission. The FGN established a framework to control fiscal deficits and public sector borrowing through the Debt Management Office (DMO) Act of 2003, Fiscal Responsibility Law (2007), Investment and Securities Act (2007), and External and Domestic Borrowing Guidelines (2012, revised).

Subnational governments are responsible for over 40 percent of public expenditure and play a key role in service delivery. State and local governments together are responsible for an average of 43 percent of total public expenditure (2011-2016) (Figure 1) and the majority of spending in health and education. However, the majority of revenues, including oil and gas and major non-oil (corporate income tax, VAT, excises), are collected by the FGN into the federation account to be subsequently shared to different tiers of government as statutory transfers. Revenues collected *and* maintained by States - known as internally generated revenues (IGR) and is mostly personal income tax (through pay-as-you-earn (PAYE)) – represented only 4 percent of total public revenues in 2011 and only 10 percent of total revenues accruing to the States (excluding Lagos[4]). The States' vertical fiscal gap is large in the international context (Figure 2). As a comparison, in Peru, subnational governments are responsible for 40 percent of spending while collecting about 10 percent tax revenue, representing the largest vertical gap among the Organization for Economic Co-operation and Development countries[5].

[3] The IMF estimates in its baseline scenario GDP growth of 0.8 percent in 2017 and 1.9 percent in 2018-2020

[4] Lagos revenue structure is markedly different from the other 35 states as it raises significantly higher IGR. IGR represented 57 percent of total revenues to Lagos in 2011.

[5] 'Peru: Building a More Efficient and Equitable Fiscal Decentralization System', World Bank, 2017

Figure 1: Nigeria Govt. Expenditures, 2011-16

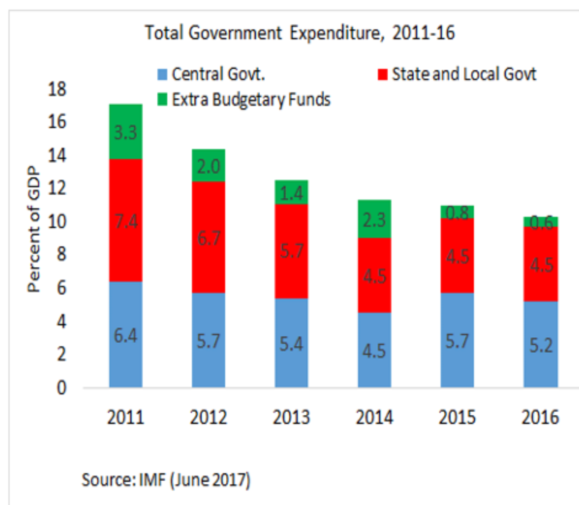
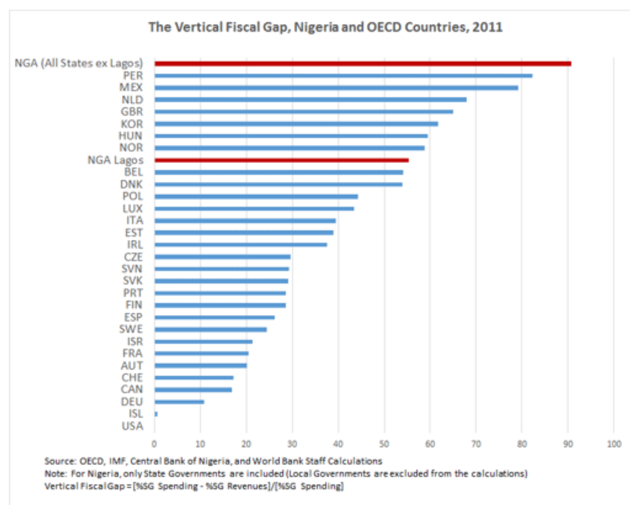


Figure 2: Vertical Fiscal Gap, 2011



The fiscal framework for State governments to support responsible and strong fiscal performance is not comprehensive and borrowing guidelines/rules were previously not adhered to. First, there are weak fiscal transparency and accountability mechanisms. Approved budgets are not publicly available or when they are, the format is inaccessible, and the contents less comprehensible. States are not required to account for actual expenditures[6], so budget implementation reports and annual audited financial statements have generally not been made available to the FGN or to the public on a timely basis (if at all). The absence of regular reliable and accurate financial reporting not only hinders evaluation of public expenditures but also monitoring of fiscal performance and risks. On the revenue side, the incentive to improve IGR collection has been little, given the relative size of statutory transfers, especially when national oil revenues were high, and when States have been able to borrow to finance spending. Consequently, apart from Lagos, the tax administration systems at the state level are weak with little investment being made into them. In terms of expenditures, there are no fiscal rules to limit the annual growth in personnel or recurrent spending or to ensure capital spending and other development spending is prioritized.

There are a number of formal rules on public sector borrowing, including: (1) no commercial bank borrowing without approval from the Federal Ministry of Finance; and (2) liquidity and solvency debt thresholds where States should only be able to borrow externally and from the domestic capital markets if their debt stock to revenue ratio is less than 50 percent *and* their debt service to revenue ratio is less than 40 percent. However, adherence and enforcement of these guidelines was weak, with many States borrowing from commercial banks without prior approval before 2015-16. In addition, there is an absence of rules and controls on arrears accumulation with the stock of domestic arrears larger than domestic commercial bank loans, domestic capital market debt and also external debt.

As a result, the fiscal performance of States (Figure 3), during 2011-2014, had weakened making them vulnerable to the macro-fiscal shocks of 2015-16.

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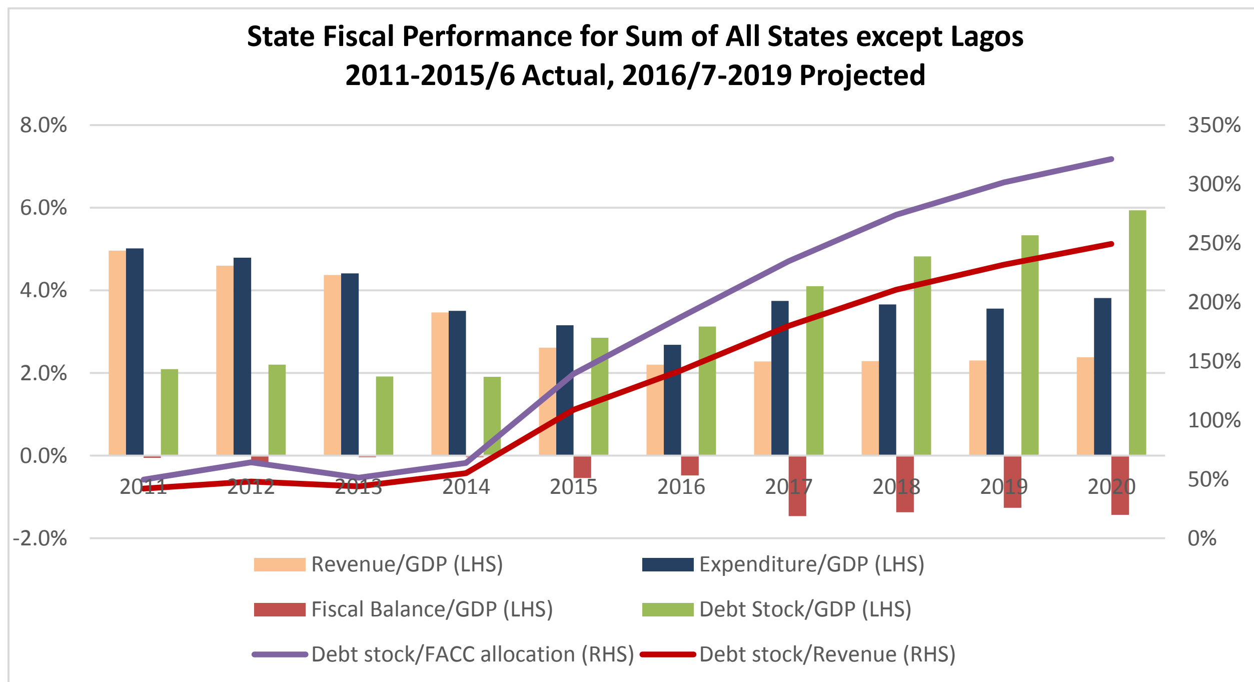
[6] CBN conducts half-yearly surveys with all States to collect revenue, expenditure and financing data. It is based on self-reporting by States and CBN is not able to systematically verify with state budget reports and financial statements if States choose not to publish them.

- Total revenues of all States (excluding Lagos) declined from 5 percent of national GDP to 3.5 percent as Federation account revenues (mostly oil) fell, while VAT and IGR stagnated at 0.4 and 0.5 percent of GDP. So although IGR as a share of total state revenues increased from 10 to 13 percent, this reflected decline in transfers from the federation account rather than improvement in IGR collection.
- In parallel, total expenditure also dropped from 5 percent to 3.5 percent of GDP. The drop was most severe in capital spending, while total recurrent spending only slightly declined and personnel spending increased in nominal terms and relative to GDP. The share of recurrent spending to total spending increased from 48 percent to 59 percent.
- During this period, States borrowed freely from commercial banks with loans growing by 42 percent between 2011-12 and 27 percent between 2012-13. Although the share of the debt to GDP ratio remained around 2 percent, with the decline in revenue, debt to revenue ratio increased from 42 percent in 2011 to 55 percent in 2014, breaching the formal debt threshold[7].

Figure 3: State Fiscal Performance



Source: State-by-State data from CBN bi-annual surveys of States and DMO and Bank staff calculations

Note: In 2016, IGR (and total revenue), expenditure and fiscal balance is projected. FAAC allocation and debt stock is actual. 2017-2019 are Bank projections

The drop in oil prices and production and reduction in statutory transfers led to a severe fiscal crisis among the States in 2015-16. Total federation account revenues dropped 27 percent during 2014-15 and then a further 28 percent during 2015-16. States' revenue to GDP ratio fell from 3.5 in 2014 to 2.2 by 2016. This led to spending cuts across the board, most severely on

[7] Data on debt service during the period 2011-2016 is not yet available (being requested from the authorities) to assess the liquidity threshold.

capital spending but States were also unable to meet statutory obligations and had accumulated significant salary arrears. From a zero fiscal balance, the fiscal deficit increased to 0.5 percent of GDP, even with the spending cuts. The debt stock increased from 1.9 to 2.9 percent of GDP in one year and the debt to revenue ratio doubled from 55 in 2014 to 109 in 2015 and further increased to142 percent in 2016. 32 states (and FCT) in 2015 and all but one state in 2016 breached the ISA 2007 requirement for the total debt stock not to exceed 50 percent of total revenue.

The fiscal crisis led to two financial bailouts by the FGN. The first financial bailout was approved in July 2015 with no conditions for accessing the funds to the States. It comprised of: (1) Restructuring of Commercial Bank loans into State bonds guaranteed by the FG with 23 states participating for a total of N576 bn. (State amount varied) in 2015; (2) Soft loans from CBN with 31 States availing of the facility for a total of N328 bn. (State amount varied) in 2015; and (3) Soft loans from CBN backed by excess crude account for capital expenditure with 33 states participating for a total of N330 bn. (N10 bn. each) in 2016. The States' fiscal situation continued to worsen in 2016, affected by the overall macroeconomic situation, necessitating a second bailout**, this time with the FSP (Fiscal Sustainability Plan) – see Supplemental Information C - as conditions for the support.** Financed by "special purpose" government bonds sold to the private sector and guaranteed by the FGN, a total of N510 bn. was released to 35 states in uniform monthly disbursements over 12 months (June 2016 to May 2017). The monthly disbursements to each state was supposed to be conditional on compliance with the pre-agreed FSP milestones[8]. While the second bailout disbursements only lasted for 12 months, to the end of May 2017, the intention was for States to continue and sustain the reforms contained in the FSP.

The success of the FSP also requires Federal Government to strengthen its role in the state fiscal framework, in particular through the monitoring and enforcement of formal rules on state borrowing, which had been historically lax. Since 2015, there has been a systematic process of quarterly monitoring by DMO of the States debt stock and control by the Central Bank of Nigeria (CBN) on borrowing activities from commercial banks. Using its prudential oversight responsibilities over commercial banks, the CBN has stopped further commercial bank lending to States without prior approval from the Federal Ministry of Finance.

In parallel to the FSP, the Government has committed to the Open Government Partnership which would help address the weak fiscal transparency and accountability mechanisms. A new reformist administration took office in May 2015 and was elected with a mandate to undertake long-standing policy and institutional reforms in Nigeria, focused, inter alia, on enhancing transparency, accountability and tackling corruption. In May 2016, President Buhari announced Nigeria's joining the OGP initiative after attending the International Anti-Corruption Summit in London, signaling the FGN's strong commitment to strengthening transparency and accountability. A Secretariat under the Ministry of Justice and a Steering Committee were established, comprising MDAs, civil society representatives and organized private sector and professional associations, which identified 14 national commitments at federal level, to be implemented from January 2017 to December 2019. Measures to be adopted will

[8] And a monthly FAAC allocation threshold falling below N500 billion. Total gross allocation is defined as follows: statutory allocation, distribution by NNPC, distribution from foreign excess crude saving account to SURE-P, exchange gain difference, and VAT to be distributed to beneficiaries including federal, state, local government, derivation funds, Nigeria Customs Service (NCS), Excess Crude Account, FIRS, and Excess revenue and subsidy account.

promote fiscal transparency, open procurement, open contracting, access to information, asset disclosure, citizen engagement and empowerment. These measures need to be replicated at the State Government level where a significant amount of public spending takes place.

As some of the underlying principles of OGP (at least seven out of the 14 commitments) can be applied to States in Nigeria, there are initiatives to pilot the principles. States agreed to commit to the OGP at the National OGP Retreat in Kaduna on October 24, 2016. Application of key OGP principles in States will enhance service delivery efficiency and effectiveness, reduce corruption through better accountability and transparency, and empower citizens better.

The need to strengthen fiscal performance and sustainability remain as the fiscal conditions are likely to remain challenging in the medium-term, as shown in Figure 3. Under baseline assumptions (2017-2019) of a steady economic recovery, federation account revenues will return to the 2014 levels by 2019. However, the pressure on state-level expenditure increases in that period will likely be higher because spending has been suppressed in 2015-16 and in order to maintain expenditure constant in real terms because of the high inflation expected. In a scenario where there is no financing constraint and spending returned to its pre-crisis levels, this would lead to an expansion of the fiscal deficit from 0.5 to 1.5 percent of GDP, an increase in gross borrowing, debt stock and debt service. The liquidity ratio of debt service to revenue will breach the threshold of 40 percent by 2019. States remain vulnerable and continue to represent a significant source of fiscal risks to the FGN and source of macroeconomic instability.

C. Relationship to CAS/CPF

The proposed States Fiscal Transparency, Accountability and Sustainability (SFTAS) Program for Results (PforR) is consistent with and aligned to the Bank's Country Partnership Strategy (CPS) for FY2014-2017, as revised with the Performance and Learning Review (PLR) No. 104616, that was discussed by the Bank's Board of Executive Directors on September 22, 2016. The CPS was originally anchored on the following three pillars: (i) promoting diversified growth and job creation by reforming the power sector, enhancing agricultural productivity, and increasing access to finance; (ii) improving the quality and efficiency of social service delivery at the state level to promote social inclusion; and (iii) strengthening governance and public sector management. With emerging new development priorities upon the coming into office of the Buhari Administration, coupled with the progressively weakening economy, the PLR thus endorsed the inclusion of an additional cross-cutting/foundational cluster - Restoring Macroeconomic Resilience Cluster (CPS Cluster 4) – for the remainder of the extended CPS period. This triggered, at the request of the Government, the critical need for additional World Bank Group support in re-prioritized areas, such as North-East recovery, diversifying the economy, enhancing climate resilience, and safeguarding social expenditures at a time of severe fiscal crunch, while improving the efficiency and effectiveness of those expenditures. The PLR has therefore integrated this additional support in the three original CPS clusters.

The proposed PforR contributes to the twin goals of the World Bank Group by supporting the drive to ending extreme poverty and promoting shared prosperity across the States in the Federation. The three key elements of the objectives of the proposed operation – fiscal transparency, accountability, and sustainability - are in sync with the core foundational attributes of the Bank's twin goals.

In addition, the PforR supports the Governance pillar of the ERGP (2017-2020). The ERGP

has the overall objective of promoting national prosperity and an efficient, dynamic and self-reliant economy to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity. This overall objective is not conceivably achievable in the absence of transparent, accountable, sustainable economic governance, which is recognized as the ERGP's foundational pillar. The proposed PforR operation strengthens the Governance pillar of the ERGP through a strategic set of activities relating to the following components of the pillar, viz. the Transparency and Accountability, Implementing the Fiscal Sustainability Plan, Improving Public Service Capacities and Institutionalizing Performance Management Practices.

D. Rationale for Bank Engagement and Choice of Financing Instrument

The Bank is uniquely placed to support Nigeria's efforts to strengthen State Governments. The Bank has considerable experience working both at the Federal and State Governments in Nigeria in areas relating to institutional development and Public Financial Management (PFM). In Nigeria, the Bank has been supporting similar Programs, such as the SOML and the 'Better Education Service Delivery for All' that provide the Bank with unique experience in the design and implementation of nation-wide Programs, and is able to bring in global experience, especially in large federal countries such as Brazil and India, on issues relating to sub-national fiscal and financial management. The proposed Program also enables the Bank to introduce a "wholesale" approach to Fiscal Management and Institutional Development within the Federal system, thereby laying the foundation for future nationwide engagements in sectors.

Program for Results is considered by both the Bank and the Borrower as the optimal financing instrument for the proposed SFTAS Program. The proposed Program is a subset of the Government program to strengthen governance and, thereby, implement the Governance pillar under the ERGP. The use of the PforR instrument helps the Bank to support the Government to strengthen its own program by making it results-focused and incentivizing institutional performance. It also recognizes the ongoing efforts of the Governments at the Federal and State Governments in Nigeria to implement various actions relating to the Program by financing prior results as well as this would enable the speedy implementation of the Program by helping to focus attention on results, instead of processes. By leveraging on Government's own program of economic governance and institutional reforms, the Program relies on Government systems for Program management, thereby providing the opportunity for strengthening the fiduciary and safeguards systems in the country.

II. Program Development Objective(s)

The Program Development Objective (PDO) is to strengthen the fiscal transparency, accountability and sustainability in Nigerian States. In pursuing reforms supportive of enhancing transparency, accountability and sustainability in the fiscal realm in Nigerian States, the Program will serve as a key reform re-orientation platform to ease the fiscal crunch arising from the impact of low oil revenues. Uneven fiscal transparency manifests itself in failures to building trust in government (both at the level of investors and citizens) and prevents the monitoring of fiscal sustainability risks. Weak accountability serves as a platform for corruption and misuse of public resources to thrive; and fiscal sustainability failures risk undermining the prospects for growth and service delivery

III. Program Description

The proposed Program is a hybrid with two components - a 'results-based' component and a 'technical assistance' component; the latter will be implemented using the guiding principles of an Investment Project Financing (IPF).

The Program for Results (PforR) will support the implementation of selected actions in the Fiscal Sustainability Plan (FSP) and the Open Government Partnership (OGP) through enhancing State Government capacities. The PforR Program will select a few impactful actions from among the 22 action points of the FSP – those that are considered the most critical and impactful for improving the financial management and fiscal performance of State Governments, as well as specific actions under Section 7 of the National Action Plan (NAP), which include specific actions for the roll out of the OGP in State Governments. The PforR Program will support State Governments in implementing those actions in the NAP that complement the FSP by enhancing the transparency and accountability of fiscal management from the demand-side. In addition, the Program will support strengthening the institutional development of public sector agencies involved in the implementation of the NAP commitments on OGP and the FSP through targeted Institutional Development and Capacity Building support.

Through the PforR, the Bank will introduce a performance based framework to incentivize State Government performance in the four key result areas. The PforR Program will introduce a performance framework to measure fiscal performance, transparency and accountability among State Governments and incentivize superior performance through a system of conditional grants to well-performing State Governments. The Performance Measurement framework will measure State Government performance in the four Key Result Areas of the Program through a set of Disbursement Linked Indicators (DLIs) that are drawn from the FSP and OGP and also include other critical areas relating to Public Financial Management (PFM). The Conditional Grants provided through the Program will provide discretionary resources for the recipient State Governments that they can be used to finance pre-defined activities included in their Medium Term Expenditure Plans.

Under the IPF, the Program will target the provision of capacity support to those States who are not the beneficiaries of similar support from other Bank or donor-financed programs in the specific areas of Program intervention. The design of the technical assistance (Capacity Support Program) will be based on the findings of the ongoing assessment of the implementation of the FSP currently being carried out by the FMoF. Support will also be provided to Federal Ministries and agencies that play a key role in strengthening the capacities of the State Governments in the above mentioned areas. Equally, support will also be provided to key State agencies and actors, such as the Ministries of Budget and Planning and Finance, Debt Management Office, etc. In addition, support will be provided to the Nigeria Governors Forum and the OGP Secretariat to put in place a program to provide targeted technical assistance and advisory support to State Governments to implement the State FSP Action plans and the OGP commitments, respectively.

IV. Initial Environmental and Social Screening

The initial safeguards assessment (environmental and social) concludes that the proposed SFTAS is not expected to have any adverse environmental and social impacts. The Program and the delineated Program boundary are not envisaged to lend themselves to significantly adverse environmental and social risks and impacts, as defined under OP/BP 9.0 and related guidance notes. The Program is not expected to finance any civil works and, thus, may not cause any significant adverse impacts that are sensitive, diverse or unprecedented on the environment

and/or affected people. The Program pursuits to cover reforms in PFM areas, so as to help widen the fiscal space to support development efforts of States and, hence, increase growth that can be more inclusive. That said, potential environmental social impacts (minor- category B types of impacts) that could result from the impacts of these reforms cannot be completely foreclosed at this point. The task team, as part of the required due diligence during preparation, would conduct an Environmental and Social Systems Assessment (ESSA). The social systems assessment would need to focus on the PforR Core Principle 1 - Responsiveness and accountability through stakeholder consultation, timely dissemination of program information, and responsive grievance redress measures; and Core Principle 2 - Due consideration is given to cultural appropriateness of, and equitable access to, program benefits giving special attention to rights and interests and to the needs or concerns of vulnerable groups. Vulnerable groups would include women and people with disabilities. In the context of this operation, the emphasis would be placed on mechanisms for information dissemination and access to how budgets are used. The ESSA would, therefore, assess the capacity and systems for providing all citizens with information in appropriate formats and locations. Where capacity is found wanting, mitigation measures and remedies would be recommended. The ESSA would be prepared, consulted upon and disclosed at World Bank InfoShop and in-country in Nigeria prior to appraisal.

V. Tentative Financing

Source:		($m.)
Borrower/Recipient		0.00
IBRD		0.00
IDA		750.00
Others (specify)		
	Total	750.00

VI. Contact Point

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Borrower/Client/Recipient

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