Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 03-Sep-2017 | Report No: PIDISDSC22929

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Nigeria	P163540		Nigeria: Fiscal Governance and Institutions Project (P163540)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Apr 02, 2018	Sep 20, 2018	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Federal Republic of Nigeria	Federal Ministry of Finance	

Proposed Development Objective(s)

The project development objective (PDO) is to improve fiscal management and accountability of selected federal government entities, and national statistics for policy making.

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	200.00
Total Project Cost	**200.00**

Environmental Assessment Category	Concept Review Decision
C-Not Required	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **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. As a result, together with political uncertainties such as the President's recurrent medical leaves, the country remains unstable.

2. **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** (see Table 1 below). 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$32.6 billion in 2016 - had significant spillover effects on non-oil sectors, especially industry and services. The reduction in forex (FX) supply was compounded by the Central Bank's introduction of several foreign exchange allocation/utilization rules in order to maintain the interbank exchange rate at around N305 per US$. Subsequently, imports declined even faster than exports, yielding an estimated current account surplus of 0.6 percent of GDP in 2016.

3. **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. 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. 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.

4. **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 (to a World Bank estimate of 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$

[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.

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 increase, creating fiscal space for public expenditure. But given that the expected economic recovery hinges on the oil sector, fiscal sector outcomes will be subject to considerable uncertainty.

5. **The FGN launched on March 7, 2017 the national Economic Recovery and Growth Plan (ERGP) for the period 2017-2020** (see Figure 1 below). 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. Effective governance is identified in the plan as a critical crosscutting foundation to the key execution priorities and for the effective delivery of the ERGP.

Sectoral and Institutional Context

6. **Governance is officially acknowledged as a significant challenge to government effectiveness**, **including in its ability to restore growth and promote development**. Anti-corruption, transparency and government accountability to citizens rank high on the agenda of the incumbent President. Despite governance reforms at federal and state level since 1999, Nigeria fares badly in most governance international benchmarks: in 2016, Nigeria was ranked 136 out of 175 countries by the Transparency International Corruption Perception Index, a ranking unchanged since 2014; it is ranked 169 among 190 countries under the 2017 Doing Business Index; Nigeria's rating under the Worldwide Governance Indicator has not improved for the past ten years and even deteriorated on control of corruption while improving lately on voice and accountability; under the Ibrahim Index of African governance, Nigeria's ranking has remained unchanged for the past ten years as well, below African average; and, according to the Open Budget Index (OBI), which ranks Nigeria in the bottom quartile on fiscal transparency, no significant improvements have happened from 2008 to 2016. Public trust in Government is at low ebb: according to the Afrobarometer, at the end of 2014 more than half of the citizens believed that elected officials were corrupt and two thirds were dissatisfied with democracy.

7. **Paradoxically, the Nigerian governance and institutional framework stands out by its wealth of accountability institutions and mechanisms**. At federal level, the Nigerian institutional set up consists in a comparatively wide range of checks and balances, with potential but until recently ineffective to prevent the undermining of fiduciary systems and sound budget management. Nevertheless, some of these accountability institutions increasingly asserted themselves and could be critical change agents for governance reforms.

8. **Since 2015, the Nigerian Government has introduced a number of governance reforms which remain to be fully operationalized**: 1) it is strengthening the anti-corruption institutional and legal framework (including on the management of recovered proceeds of fraud and corruption); 2) it is committed to transparency and social accountability under the banner of Open Government (Nigeria has become a member of the Open Government Initiative in July 2016 and committed since then a number of tangible reforms as part of its National Action Plan); 3) it is strengthening fiscal discipline and accountability through public financial management (PFM) reforms; and 4) it is attempting to improve service delivery through the adoption of a civil service reform strategy.

9. **Public Financial Management (PFM)**. A platform for robust PFM systems in the FGN has been built over the past few years,[2] but further consolidation is required, as follows:

- *The Federation Account,[3] which is a critical component of fiscal federalism, suffers from opacity.*
- *A uniform and harmonized classification system for budgeting, accounting and reporting,* consistent with Government Finance Statistics (GFS) 2001 and the Classification of Functions of Government (COFOG), has been adopted and implemented through the Government Integrated Financial Management Information System (GIFMIS) Chart of Accounts since 2012.
- *Sound fiscal management will require that critical functions, such as the determination of the fiscal framework, prioritization of sector strategies and allocation of resources, be closely coordinated and integrated*.
- *Macro-fiscal forecasting instruments* have been developed by the FMBNP, such as a Medium Term Expenditure Framework (MTEF) and the recent rollout of Medium Term Sector Strategies (MTSSs) under the MTEF ceilings
- *The establishment of a Treasury Single Account (TSA) and associated institutional arrangements* has helped the FGN to better manage its cash resources through aggregation of most government's cash balances into the federal Consolidated Revenue Fund (CRF) account at the Central Bank of Nigeria (CBN
- *The GIFMIS is developed, but the usage of most of its modules is suboptimal and inconsistent.*
- *The Integrated Personnel and Payroll System (IPPIS)* is used to run the payroll for some 380,000 employees in 464 MDAs, against the target of around 1.2 million employees.
- *Significant progress has been made in public procurement reforms following the enactment of the Public Procurement Act 2007 and establishment of the regulatory agency – Bureau of Public Procurement (BPP).*
- *In line with the FGN adoption of open contracting and electronic government procurement (e-GP),* the BPP has held a series of sensitizations with various stakeholder including MDAs, private sector and civil societies organizations on the new e-GP system.
- *The annual FGN Financial Statements* for 2016, prepared by the OAGF, were submitted to the OAuGF in a timely manner for the first time this year - within six months after fiscal-year end, as mandated under the law.

10. **Tax administration.** High dependence on revenues from the oil and gas sector make fiscal stability highly vulnerable to oil price shocks, underscoring the need to step up non-oil revenue mobilization. Since 2014, non-oil revenues and value added tax (VAT) have stagnated: in 2016, only 56 percent and 55 percent of appropriated non-oil taxes and VAT respectively, were collected. As at the end of 2016, the tax to GDP ratio stands at 6 percent which is one of the lowest in the world. Lately, the FGN has realized the non-sustainability of this arrangement and is determined to diversify its sources of revenue. In terms of tax administration, some of the initiatives identified as critical include improving tax compliance, broadening the tax net, employing appropriate technology and modern techniques, and tightening the tax code, all of which require strengthening of the Federal Inland Revenue Service (FIRS) capacity and systems.

[2] The Bank supported some of these efforts under the Economic Reform and Governance Project (ERGP) implemented between 2005 and 2014.
[3] The Federation Account accrues revenue from oil and gas, corporate income tax, customs and excise taxes. The revenue is shared between the different levels of government based on a formula periodically determined by the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) and approved by the National Assembly.

11. **Fiscal oversight of parastatals and state enterprises**. Nigeria has a large federal-level state-owned enterprises (SOE) and parastatal sector. SOEs operate in all key sectors, from oil to power, transportation to information technology, agriculture, financial services and industry. Parastatals include regulatory agencies, the CBN, the FIRS, and a range of bodies with public mandates. They enjoy full operational and financial autonomy, are often governed by their own act, and generate their own revenues. The Fiscal Responsibility Act (FRA) of 2007 identifies 37 such entities. Pursuant to the FRA, the FMF has formally designated an additional 92 entities. The total number of parastatals is widely assumed to be higher. Per data compiled by the IMF, the SOEs and parastatals' aggregate budgeted expenditures for 2015 were in the region of NGN 4.5 trillion, which is more than the equivalent amount for the central government itself. Moreover, the FGN holds significant stakes in corporations, including the power generation and distribution companies which were privatized in 2013.

12. **External auditing.** The legal framework under which the OAuGF exercises its mandate is outdated and restrictive, and is currently under review.[4] Since 1999, the National Assembly has not reviewed the audit report tabled by the OAuGF, which recently decided to disclose them publicly; accordingly, the 2013 and 2014 audit reports on the annual accounts of the FGN are posted on the OAuGF's website. The OAuGF's own performance, as measured by AFROSAI-E's ICBF,[5] still requires significant improvement. Accordingly, the Auditor General is committed to the following actions (to be formalized in its strategic development plan for 2017-2022): 1) the timely completion of the audit report on the FGN annual accounts; 2) the conduct of a range of performance audits (including on the TSA); 3) the auditing of security expenditure; 4) the strengthening of quality assurance; 4) the building of its capacity on accrual accounting; and 5) stakeholders' engagement including the dissemination of simplified audit reports for public consumption on a timely basis.

13. **Anti-corruption.** The anti-corruption legal framework rests essentially on the criminal justice system and more specifically on the Corrupt Practices and other related Offences Act, 2000. Additional pieces of legislation address conflict of interest, promote transparency (asset disclosure and freedom of information) and strengthen the governance of extractive industries (Nigeria Extractive Industries Transparency Initiative (NEITI) Act). A recent peer review of the implementation of the UN Convention Against Corruption (UNCAC) adopted by Nigeria points that its legal and institutional anti-corruption frameworks are robust enough, while in demand of strengthening on critical dimensions such as data collection, criminal immunities, protection of witnesses, and the independence of anti-corruption agencies from the executive. The Nigerian anti-corruption institutional framework comprises multiple agencies at the federal level, loosely coordinated by the President's office (within the Inter-agency task team on anti-corruption).

14. **Open Government Partnership (OGP).** Since joining the OGP initiative in July 2016, the FGN has made a range of tangible commitments to government transparency and accountability as part of its National Action Plan 2017-2019. The OGP agenda is coordinated by the Federal Ministry of Justice, even though the OGP Secretariat is not funded by the federal budget as yet, which hampers its coordinating capacity. A National OGP Steering Committee (NSC) has been created with membership from civil society, private sector institutions and government agencies (40+ total). The NSC is co-chaired by the Media Rights Agenda and the Ministry of Justice.

[4] The Audit Act dates back to 1958 and several audit bills have been tabled to, but not approved by, the National Assembly so far. The 1999 Constitution grants the OAuGF the power to audit "the Accountant-General's financial statement", but limits its jurisdiction over parastatals to "*periodic checks*" and to "*comment on their annual accounts*" including the reports of their private external auditors, which must be chosen on a list established by the OAuGF. In practice, however, many audit reports of parastatals and SOEs are not submitted to the OAuGF for comment.

[5] Institutional Capacity Building Framework (ICBF) adopted by the African Organization of Supreme Audit Institutions (AFROSAI-E).

15. **Governance reforms across the federal government** are promoted and coordinated by the Bureau of Public Services Reforms (BPSR) established in 2004. The BPSR has prepared a National Strategy for Public Sector Reform in support of the implementation of the ERGP which is being submitted for approval to the Federal Executive Council. The BPSR commissions surveys on public perception of the government, monitors progress of governance reforms (a compendium of public service reforms since 2015 is about to be released), and drafts reform guides, such as a manager's guide on How to Manage and Reform Public Agencies and Parastatals, with support from the EU, DFID and the World Bank. It advises the government on the rationalization of its structures and it conducts institutional assessments of public entities, including in support of World Bank-financed operations.

16. **Civil Society Organizations** are exercising a fair level of scrutiny on fiscal governance and institutions, including by rating their effectiveness and compliance with legal requirements. They have started to partner with FGN organizations for that purpose, e.g. in 2015 the Fiscal Responsibility Commission and the Center for Social Justice have jointly released a Fiscal Responsibility Index which benchmarks MDAs based on 55 performance criteria categorized into 5 main categories: 1) policy-based budgeting; 2) budget comprehensiveness and transparency; 3) budget credibility; 4) budget implementation, monitoring and evaluation; and 5) accounting, reporting and auditing. CSOs also provide simplified and pointed information to the public on budget matters (e.g. BudgIT supports the drafting of a federal Citizens' Budget), and they often resort (sometimes successfully) to litigation to remind the government to its legal obligations (e.g. on information disclosure under the Freedom of Information Act). CSOs also actively support the implementation of the government agenda on OGP including by providing technical assistance to public entities on disclosure of information (e.g. the Private Public Development Centre on open contracting).

17. **Statistical evidence-based policy making.** The country's National Statistical System is complex, with multiple actors involved in the production of demographic, social and economic statistics. At the federal level, the National Bureau of Statistics (NBS) is the apex organization since 2007, responsible for producing major economic and social statistics, and coordination of the whole statistical system. Other important players include the CBN and the National Population Commission (NPopC), responsible for population and demographic statistics, including population census. Also, several line ministries are responsible for the compilation and dissemination of statistics in their areas of business, in addition to State-level entities. To be effective, such system needs a strong coordination mechanism, a role which NBS is called to play.

18. **The proposed project will support the FGN with operationalization of its key initiatives to improve fiscal governance and national statistics, consistent with the ERGP's Governance foundation and fiscal policy reforms under the Restoring Growth pillar**. As described above, various FGN leading agencies have embarked on worthwhile initiatives to strengthen fiscal governance and institutions, but binding constraints remain. The project will leverage the initial progress made by these reform champions, helping close implementation gaps to attain and sustain the intended results, at a critical time for Nigeria to achieve fiscal stability with an improved governance environment.

Relationship to CPF

19. **The proposed Fiscal Governance and Institutions Project 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) of September 2016. The CPS is 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. The PLR endorsed the inclusion of an additional foundational cluster - Restoring Macroeconomic Resilience Cluster (CPS Cluster 4) – for the remainder of the extended CPS period.

20. **The project objectives and activities directly support the CPS pillar of strengthening governance and public sector management.** The CPS seeks to strike the right balance between actions to strengthen the enabling environment (which this project will support) and direct interventions (which are the core of this project), recognizing that all activities need to be assessed from a governance perspective. It also seeks to enhance the role that citizens can and should play in shaping the reform agenda, which ties in with the Nigeria's OGP commitments to be supported by the project.

21. **The project will also contribute to the CPS by strengthening the enabling environment and cross-cutting systems for the FGN's effective implementation of investment projects, including those funded by the Bank.** By strengthening fiduciary systems and practices, transparency, accountability, and the availability and use of statistical information across the federal government, it will help enhance the effectiveness, fiduciary integrity, oversight and accountability of Bank-financed project implementing agencies across the portfolio.

22. **The proposed project contributes to the twin goals of the World Bank Group** by supporting the drive to ending extreme poverty and promoting shared prosperity across the Federation. The key elements of the proposed project – fiscal management, transparency, accountability, and evidence-based policy making - are in sync with the core foundational attributes of the Bank's twin goals. Moreover, the project will help directly to operationalize the IDA 18 Special Theme on Governance and Institutions.

C. Proposed Development Objective(s)

23. The project development objective (PDO) is to improve fiscal management and accountability of selected federal government entities, and national statistics for policy making.

Key Results (From PCN)

24. **Progress towards the achievement of the PDO will be measured through the following indicators:**

1. Federal-level civil servants' records managed through the integrated HR-payroll systems (percentage)
2. Budgeted revenues from SOEs and parastatals collected (percentage)
3. MDAs with operational e-GP systems compliant with open contracting standards (number)
4. Completed performance audits made publicly available (number)
5. Completed national economic and social surveys published in a timely manner (in number of weeks/months from completion).

D. Concept Description

25. **Hybrid Investment Project Financing (IPF) with input and results-based disbursement elements**. While financing key technical assistance (TA), information and communication technology (ICT), and capacity building investments, the project will also support the FGN's capacity to achieve results and incentivize their achievement through Disbursement Linked Indicators (DLIs). The result-based financing component will ensure that inputs financed by the project will have an impact on targeted outputs and outcomes, making the project more effective down the results chain.

26. **Programmatic approach**. The proposed project will form part of a programmatic approach to the Bank's support to strengthening governance and institutions in Nigeria. This project is focused on a select group of activities that are mutually reinforcing and can help the FGN to both achieve "quick wins" and strengthen the policy and implementation framework needed to deliver on its ERGP and OGP plans. It is recognized that consolidating governance and institutions will require a broader effort, with the involvement of other functions and organizations in a longer term perspective. The project will set the foundations for future Bank engagement in governance reforms at the federal level, as well as serve as the point of reference for alignment of Bank governance and capacity building interventions in specific sectors.

27. **New approach to capacity building**. It is known that Development Partners' support to capacity building in Africa has relied considerably on international technical assistance and costly individual training abroad that often reach a limited number of civil servants, raising concerns about the sustainability of this type of interventions. Nigeria is no exception. As one of the first projects to implement the Bank's Africa Region new strategic approach to capacity building, this operation will focus its capacity building activities in strengthening the local institutions mandated with developing and sustaining the public sector skills associated with fiscal governance and national statistics, such as the Treasury Academy, the Public Procurement programs with three universities, and partnerships between the implementing entities and relevant management development institutes, such as the Public Services Institutes (Abuja) and the Administrative Staff College (Lagos).

28. **Use of analytical foundations and lessons learned from previous operations for a different approach to institutional development**. As described earlier, the project is based on key fiscal governance elements of the Government's ERGP and OGP plans, and the associated programs of the participating implementing entities. The technical project design is also informed by a wealth of analytical work in PFM, procurement, PIM, tax administration, and others, conducted primarily by the Bank and the International Monetary Fund (IMF). The project design and implementation arrangements will also take into consideration the lessons learned from prior Bank engagements in the subject field, resulting in the incorporation of incentives for results-driven implementation, a clear results framework with solid monitoring mechanisms, an implementation approach built upon coordination and cooperation among project leaders (and among Development Partners), a new approach to capacity building, and stronger project coordination and fiduciary arrangements.

29. **Links with other World Bank operations**. The project is being prepared concurrently and in close coordination with the State Fiscal Transparency, Accountability and Sustainability (SFTAS) Program for Results (PforR). The project will help put in place an enabling policy and process framework that will strengthen fiscal governance at the federal level, which in turn will provide a stronger foundation for the engagement at the State level. Even though States are autonomous, they often look to learn from the experience of the FGN in the design and implementation of fiscal governance initiatives like those supported by this project and the PforR. In this context, the Bank engagement in both operations will foster mechanisms for knowledge exchange, cost-effective development of "common goods", and synergies in capacity building, as follows:

FGI Project Component	Synergies with SFTAS PforR
PFM	• Monitoring the consolidated debt of each tier of government, per the Fiscal Responsibility Act (FRA) • Good practices in FRA domestication and implementation • Transparency of the Federation Account transactions • Good practices in TSA, commitment control and payroll management implementation • Good practices in operation of public procurement systems • Good tax administration standards, practices and enabling systems. Data sharing.

Transparency and Accountability	• Good practices in OGP commitment implementation, including budget transparency, open contracting, and FOIA compliance (also relevant to the Bank-financed Kaduna PforR)
Cross-cutting	• Capacity building programs in partnership with local institutes

30. At a broader Bank engagement level, the project will help strengthen critical country systems in financial management, procurement, transparency, integrity, and accountability. It will also serve as the anchor for a coordinated portfolio-wide new approach to Bank-supported capacity building in Nigeria. Accordingly, it is envisaged that the project will have an overarching impact in strengthening the enabling environment for the implementation of Bank-financed operations in the federal government. More specifically, the institutional accountability reviews to be pioneered under this project (see Subcomponent 2.4 below) can be piloted in entities implementing Bank operations. Similarly, particular links have been established between strengthening budget planning, formulation and monitoring (see Subcomponent 1.1 below) and the associated reforms supported by the Bank in the Ministry of Health's Department of Planning Research and Statistics (DPRS), and between SOE financial oversight (see Subcomponent 1.5 below) and the reforms supported by the Bank in the power sector SOEs.

31. **Complementarity and coordination with Development Partners**. The project design is informed by discussions held with the IMF, European Commission (EC), and the United Kingdom's Department for International Development (DfID). Consequently, the proposed activities will help to operationalize, scale up or complement relevant TA provided by these partners to the FGN. In the context of project preparation, the Bank will be reconvening the Governance Thematic Group, with the objective of ensuring a more systematic flow of information and concerted approach to governance reforms, exploiting synergies around common goals and preventing duplications. The Thematic Group will also establish a more coordinated policy and implementation dialogue with the relevant authorities of the FGN.

Project Components

Component 1: Improving Public Financial Management and Monitoring

32. The project will finance ICT, TA and targeted capacity building activities to enhance budget planning, cash management, expenditure controls, and fiscal reporting, as well as revenue mobilization through better tax administration and oversight of SOEs and parastatals. The component has five sub-components:

33. **Sub-component 1.1: Strengthening Budget Planning and Fiscal Monitoring.** The project will help the FMBNP to improve the budget planning processes, enhance the reliability of the budget forecasts, and strengthen the linkage of the budget with the FNG policy priorities. Under this sub-component, the project will: support the implementation and use of macro-fiscal forecasting tools, including Business Intelligence; prepare expenditure reviews, monitoring and evaluation of budget programs; polish and scale up the preparation of MTSSs; update the budget preparation and submission processes; enhance public investment planning and management; and build the capacity to use improved national statistics (see Component 3 below) to inform all of the above.

34. In coordination with the IMF, the Bank will support reviewing the existing legal framework for budget preparation, presentation and approval of annual budget identifying required legal and procedural arrangements towards its timely approval, re-definition of roles and responsibilities of budget-related entities (mainly FMF and FMBNP) to better respond to the updated dynamics and requirements under the ZBB initiative, and updating budget preparation guidelines and calendar.

35. The project will also support three key monitoring functions: FMBNP with the operationalization of mechanisms to monitor the FGN's ERGP implementation, including through the use of quality statistical data; the FRC with Fiscal Responsibility Act compliance monitoring, including the debt of each tier of government; and the FMF's International

Economic Relations Department (IERD) with instruments to monitor execution of projects funded by Development Partners, and strengthen its capability to identify and cooperatively solve bottlenecks on a timely basis.

36. **Sub-component 1.2: Consolidating Budget Execution, Expenditure Controls and Reporting Systems.** The project will help the OAGF to strengthen budget execution expenditure controls, including payroll management and financial reporting systems. Under this sub-component, the project will: establish a transparent accounting and reporting system for the Federation Account; consolidate the TSA architecture including for self- accounting MDAs; roll out budget commitment control, cash planning, and asset management functionalities of GIFMIS to remaining budgetary MDAs; enhance IPPIS through the integration and implementation of HRMIS and related systems (biometrics and Bank Verification Numbers); improve IT security of GIFMIS and IPPIS; replace the servers for GIFMIS and IPPIS; enhance network connectivity and primary and secondary data centre operations, including disaster recovery; develop interfaces of GIFMIS with IPPIS, e-GP, FIRS, Debt Recording and Management System (DRMS), and National Identity Management System; develop Business Intelligence tools and related implementation services for data warehousing and enhanced analytical reporting; and conduct change management activities.

37. The project will also support the OAGF in the enhancement of the operational capacity of the Federal Treasury Academy, as central hub for in-country training of treasury staff and auditors.

38. **Sub-component 1.3: Enhancing public procurement capabilities and transparency.** The project will help the BPP to improve efficiency, accountability and transparency of government procurement processes through the implementation of e-procurement and open contracting, and strengthening of public procurement training institutions in the country.

39. The project will support the implementation and roll out of the e-GP system in seven key high spending MDAs. The e-GP system will have interfaces with the GIFMIS, company registration and the tax administration systems, and will be integrated with the open contracting system and geo-tagging.

40. The project will strengthen the BPP's in-house capacity to measure the impact of procurement reform implementation and timely adjust course, using mechanisms such as perception surveys and technical audits of representative samples of contracts. The project will also help consolidate the procurement training centers in the three participating universities, as well as the Administrative Staff College of Nigeria in Badagry, through curriculum and methodological updates (including the relevant aspects of the Bank's New Procurement Framework of the World Bank, allowing for in-country training for Bank-funded project staff). It is envisaged that the three universities will be accredited by the National University Commission (NUC) to offer public procurement as a course at degree level.

41. **Sub-component 1.4: Improving tax administration.** The project will help the FIRS to develop effective structures and build targeted capacity for effective and sustained revenue generation, with a focus on: (a) implementation of the compliance improvement strategy and operational plan targeted at large taxpayers, currently under preparation with IMF TA, (b) expanding the compliance improvement strategy, including operational policies and plans for the medium (corporate) taxpayers which constitute the largest segment of taxpayers; (c) rollout of key modules of the Integrated Tax Administration System (ITAS), including automated tools for improved data matching; (d) initiatives (such as e-service) to reduce taxpayers' cost of compliance; (e) development of a robust audit training program, including sector-specific audit, based on FIRS practitioners' ability to pass on the skills and knowledge acquired to a larger body of officials in the FIRS; and (f) consolidation of its internal research and analysis capabilities.

42. **Sub-component 1.5: Enhancing the FGN's financial oversight of SOEs and parastatals.** A key stated priority of the Minister of Finance is to improve non-oil revenue generation and fiscal stability through stronger oversight of SOEs

and parastatals, ensuring that their operating surpluses are properly calculated and the portion mandated by the Fiscal Responsibility Act is transferred promptly to the Consolidated Revenue Fund. The project will support the OAGF's Department of Revenue and Investment and the Federal Responsibility Commission (FRC) to address functional problems undermining the federal government's ability to perform ownership functions and exercise adequate financial control over the SOE and parastatal sector, namely: (a) weak corporate governance in the respective entities; (b) lack of a comprehensive census of SOEs and parastatals; (c) noncompliance with the requirement to submit the annual financial statements and statutory audit reports; (d) weak institutional capacity to review the financial information obtained, monitor performance, and take appropriate action on that basis; and (e) lack of reporting to the Nigerian public about the situation of the SOEs and parastatals.

43. The project will support the preparation and dissemination of a corporate governance code for all SOEs; an in-depth review of existing corporate governance practices among the power sector SOEs using a scorecard methodology;[6] and enhance the regulatory capacity for (i) monitoring compliance with the code of corporate governance and other requirements, and (ii) evaluating the performance of SOE board members. To help increase the OAGF's capacity to forecast and collect remittances to FGN (based on the recent treasury circular on reporting on operating surplus to be remitted to the budget) and the transparency of associated information, the project will finance the development and implementation of: a template for periodic aggregate reporting on the situation of the SOE and parastatal sector and the revenues collected; a stocktaking exercise aimed at identifying and classifying all SOEs and parastatals based on relevant criteria; the preparation of a detailed census on the availability of financial statements and related audits, a diagnostic on the reasons limiting FGN's access to SOEs and parastatals' annual financial statements, and a strategy to improve such access; the development of a comprehensive database of SOE and parastatal key financial indicators; preparation of a technical manual on SOE and parastatal monitoring; and technical training on financial analysis.

Component 2: Improving Transparency and Accountability

44. The project will finance ICT, TA and targeted capacity building activities to support the Open Government agenda, strengthen the anti-corruption framework, as well as external auditing and scrutiny on the performance of federal agencies.

45. **Sub-component 2.1: Implementing Open Government.** The project will support the implementation of the following commitments of the FGN: the establishment of a Public Central Register of Beneficial Owners of companies; compliance with the Freedom of Information Act (FOIA) by federal agencies; and venues for citizens' participation in budget preparation and oversight. Through and in coordination with the PFM component described above, the project will also support the public disclosure of budget documents and the rolling out of Open Contracting.

46. **Subcomponent 2.2: Strengthening the anti-corruption framework***.* The project will support: the enhancement of investigative and prosecuting capacity (including forensic capabilities) of the Economic and Financial Crimes Commission (EFCC); the strengthening of the management of forfeited assets (under the Proceeds of Crime Act); and the enhancement of corruption risk management across government entities by incorporating corruption risk assessments by the Technical Unit on Governance and Anti-Corruption Reforms (TUGAR) in external audits and institutional reviews.

[6] The Bank has a large portfolio of IPF operations in the power sector, involving all key companies across the value chain (i.e., generation, transmission and distribution companies). These electricity companies, in which the FGN retains significant stakes (from 40% to full ownership) have been incurring large losses for several years and are currently insolvent. The Bank's sector operations support the government's goal of restoring the sector's financial viability. The transversal oversight activities to be supported by this project will also reinforce this sector-specific goal by (i) improving the corporate governance of these entities and (ii) increasing the FGN's ability to exercise its rights as shareholder, including to obtain adequate information of these entities' finances.

47. **Subcomponent 2.3: Enhancing independent audits**. The project will help build capacity building in the Office of the Auditor General of the Federation (OAuGF) for the conduct of risk-based periodic checks of parastatals and the monitoring of their compliance with external auditing legal requirements, the timely conduct of its annual audit reports of FGN accounts, the conduct of performance audits, and the underlying management of information and quality assurance.

48. **Subcomponent 2.4: Institutional accountability**. The project will support the conduct of joint institutional assessments of federal agencies to be coordinated by the Bureau of Public Service Reforms (BPSR) and associating other oversight agencies such as the BPP, OaUGF and TUGAR. These integrated assessments will identify and prepare action plans to address ineffective organizational arrangements, inefficient processes, internal control weaknesses, and constraints for delivery of services. The project will also support the preparation and rollout through a partnership between BPSR and the Public Services Institutes of Nigeria, of an onboarding program for new executive officers and Board of Director members of federal agencies. The program, consistent with the Bank's new strategic approach for capacity building in the Africa region, will be delivered by seasoned public service practitioners, to ensure its alignment with real life problem-solving scenarios.

Component 3: Improving Statistical Evidence-based Policy Making

49. The project will finance ICT, TA and targeted capacity building activities to help the NBS build its capacity on survey management, data quality control, utilization of advanced survey technologies, analysis, reporting, dissemination, and data archiving. Moreover, the project will foster a cooperative approach with the FMBNP (see Subcomponent 1.1 above) to strengthen capacity for statistical data analysis and utilization in national planning, macro forecasting, capital investment planning, and monitoring and evaluation.

50. **Sub-component 3.1: Improvement of Economic Statistics.** On collection of economic statistics, activities would include an agriculture census, a business census, and follow-up annual agricultural and business surveys based on the result of the new censuses. Bank support will also include preparatory activities for the next GDP rebasing – based on the new source data on the business and agricultural sectors, as well as the new household survey – and the adoption of the 2008 System of National Accounts.

51. **Sub-component 3.2: Improvement of Social Statistics.** On social statistics, the project will develop an efficient and flexible system of household surveys able to generate timely and reliable information on poverty. Activities supported under this component will include the implementation of one round of the HNLSS survey, which NBS is planning to implement with a methodological approach in accordance with good international practices. In order to keep up with the increasing demand for poverty data, HNLSS will be implemented every three years (the two next rounds being planned for respectively 2017-18 and 2021-22; 2021-22 round will be supported by this component). In addition, the component will support the implementation of the 2020-21 GHS Wave 5. In between, NBS will carry out other planned household surveys, to collect additional non-consumption information that can be used to provide indications of poverty trends at the national level, using modern statistical methods. NBS will also work on standardizing units of measurement before the fieldwork commences to ensure uniformity across states.

52. **Sub-component 3.3: Improvement of Data Dissemination and Archiving.** NBS will also be supported in improving the dissemination of indicators and micro data demanded by users with the ultimate objective of achieving full Open Data standards.

Component 4: Project Coordination

53. The project will finance ICT and TA dedicated to project management, coordinating and monitoring functions,

including facilitating the operation of the project steering committee at ministerial and heads of agencies level and the project technical committee formed of the technical leaders for each component. The implementation of special fiduciary arrangements and verification of DLI results will also be supported under this component.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

B. Borrower's Institutional Capacity for Safeguard Policies

Not applicable, as project is rated 'C' for environmental assessment category.

C. Environmental and Social Safeguards Specialists on the Team

Amos Abu, Environmental Safeguards Specialist
Michael Gboyega Ilesanmi, Social Safeguards Specialist
Edda Mwakaselo Ivan Smith, Social Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Feb 20, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Not applicable, as project is rated 'C' for environmental assessment category.

CONTACT POINT

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APPROVAL

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