

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

January 30, 2015
Report No.: AB7696

Operation Name	Nigeria Edo State Fiscal Improvement and Service Delivery Operation
Region	AFRICA
Country	Nigeria
Sector	Subnational government administration (60%); Vocational training (20%); Other industry (20%)
Operation ID	P151480
Lending Instrument	Development Policy Financing
Borrower(s)	FEDERAL REPUBLIC OF NIGERIA
Implementing Agency	Edo State Government
Date PID Prepared	January 30, 2015
Estimated Date of Appraisal	January 26, 2015
Estimated Date of Board Approval	April 23, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Edo is one of 36 states in Nigeria's federal structure. Like the average Nigerian state, Edo has a population of approximately 4 million people¹. It is situated in the south-south geo-political zone of the country and is one of the nine oil-producing states, albeit a marginal one. Since 2008, the current administration in Edo has vigorously pursued an infrastructure-oriented growth and employment agenda. The World Bank has supported Edo with a number of different operations during this period². From 2012, the collaboration deepened with budget support in the form of a programmatic series of three development policy operations, each for the sum of US\$75 million. The Bank began to provide Edo with development policy support due to the progress Edo had made on its own in implementing its development strategy and its commitment to undertake policy and institutional reforms to support its development agenda. The first operation, which was approved in March 2012 and closed in June 2014, supported Edo's earlier development strategy articulated in the 2009 Edo Vision 2020, which identified high poverty, unemployment, flooding and dilapidated infrastructure as main development challenges. Edo also suffered from weak governance structures, particularly in the management of public finances. The state made appreciable reform gains under the first operation in the areas of building a stronger public financial management system, improving institutional arrangements for land registration and strengthening the delivery of technical and vocational education; and it remains committed to an

¹ Lagos and Kano states are the exceptions, each with populations of over 9 million. Most recently, Lagos state has been estimated to have a population of 16 – 21 million.

² This includes: NEWMAP, SEEFOR, and NDSA. Fadama III, CSDP, and HIV/AIDS have been operational in the state earlier than 2008.

agenda of progressive reforms in these and other areas. There was however a long interval between approval of the first operation and preparation of this one due to a delay in obtaining federal parliamentary approval for the 2011/12 national external borrowing plan. Thus, the original series of three has lapsed and this operation begins a new series of two operations. This operation supports Edo in its quest to further strengthen its management of public resources for improved service delivery; build a better investment climate with specific focus on land transactions; and strengthen the quality of its education system.

II. Operation Objectives

The program development objective (PDO) for this operation is to support Edo state in its bid to improve the management of its public resources; increase private sector access to land for investment and improve the quality of education. The program has four pillars, namely:

1. Ensuring fiscal sustainability; and
2. Improving budget institutions & practices
3. Improving access to land for investment; and
4. Improving the quality of education.

The prior actions and expected results under each of the pillars are the following:

- **Ensuring fiscal sustainability:** (a) the government deploys Unique Tax Identification Number (U-TIN) registration kits at EIRS and all tax offices across Edo state in order to aid the capture of all potential taxpayers in the biometric tax database; (b) a payroll verification audit of the two largest ministries (health and education) is completed to enable elimination of any ghost workers from the payroll of these sectors.

Results: The expected results of these measures for ensuring fiscal sustainability are a substantial growth in the number of taxpayers captured and uniquely identified in the state's biometric database; leading to growth in Edo's IGR; as well as sanitization of the state's payroll bill (expected to remain at 25-35 percent of total expenditure); thereby creating more fiscal space.

- **Improving budget institutions and practices:** (a) Issuance of circular by Edo state Head of Service to create a procurement cadre in the public service in preparation for professionalization of the procurement function in the MDAs; (b) Complete configuration and Operational Acceptance Testing (OAT) of the Oracle SIFMIS Hyperion Budget module; (c) Roll out the Procure-to-Pay (P2P) module of Oracle SIFMIS for processing of all MDA expenditure transactions; (d) Approval by the state executive council of the 2015 budgets of five key MDAs that are based on the sector strategic priorities articulated in the State Strategic Plan (SSP); (e) Submission of FY 2013 annual audited financial statements of the Edo State Government to State House of Assembly within 9 months of end-FY and publication of same on the state's open-data web portal.

Results: The expected results from the measures for improving budget institutions and practices include: (i) Public procurement capacity would be strengthened and procurement professionals in the public service would be able to implement modern

procurement procedures that can ensure good value for money; (ii) the credibility of the state's budget management process improves through integration of all processes and the incidence of expenditure arrears is significantly reduced; (iii) strategic allocation of the state's resources is significantly improved; (iv) the timeliness of submission of audit reports to the SHoA and their timely publication for enhanced transparency will be improved.

- **Improving the investment climate:** (a) Complete an Assessment of the impact of reducing land transaction charges on the volume of formalized land transactions and state internal revenue.

Results: It is expected that reforms for improving access to investment land supported by the DPO will result in a reduction in the fees for processing and transferring land titles; leading to a growth in the volume of formalized land transactions and consequently, growth in the state's internal revenue.

- **Improving the quality of education:** (a) Provision in Ministry of Education's 2015 approved budget of funding for TVET colleges based on their approved school improvement plans; and (b) Issuance by State Universal Basic Education Board (SUBEB) of guidelines and template for monitoring and reporting on teacher and pupil attendance by school-based management committees.

Results: At the end of the program period, it is expected that reforms for improving the quality of education supported by the DPO will result in (i) the establishment of collaborative mechanisms between TVET colleges and industry to ensure functionality and relevance of TVET education; and (ii) stronger accountability at the basic education level through better monitoring and reporting of teacher and pupil attendance at schools, especially in the rural areas.

The program of reform supported under this operation corresponds with areas of priority in Edo's Strategic Plan. In particular, the economic and fiscal strategy of the State Strategic Plan prioritizes efforts to increase internally generated revenue and diversify the revenue base of the state; efforts to strengthen expenditure control and value-for-money by implementing the provisions of Edo's Public Procurement Act at the State and local government levels; adoption of measures to improve budget implementation through strengthening the quality of project planning, timely passage of budgets, adequate funding of projects, and monitoring of project implementation; improvement in the efficiency of public spending through stronger accountability and transparency arrangements for the utilization of public funds. These are all areas of emphasis under the first and second pillars of the DPO. Furthermore, the SSP places emphasis on improvements to education, including Science Education as well as technical and vocational education as a means of strengthening the quality of its labor force. Similarly, it emphasizes the creation of an enabling environment for the private sector to play a greater role in the state economy and be the engine for job creation. These are the areas of focus of the third and fourth pillars of the DPO.

III. Rationale for Bank Involvement

The Bank began to support Edo with a DPO in 2012 due to the progress Edo had made on its own in implementing its development strategy and its commitment to undertake policy and institutional reforms to support its development agenda. The first operation, which was approved in March 2012 and closed in June 2014, supported Edo's earlier development strategy articulated in the 2009 Edo Vision 2020, which identified high poverty, unemployment, flooding and dilapidated infrastructure as main development challenges. Edo also suffered from weak governance structures, particularly in the management of public finances. In the last six years however, the state has made great strides in infrastructure renewal through large investments particularly in road, drainage and sewage system construction and rehabilitation, renovation and construction of schools and health facilities, electricity and water projects, and urban beautification. Supported by the earlier DPO, the state also recorded major progress with institutional and structural reform efforts like building a modern, automated and integrated financial management system, with the required in-built controls aimed at enhancing transparency, comprehensiveness, and accountability in the management of public finances in the State as well as improving commitment control; improving the timeliness of preparation of the State government's annual accounts as well as the external auditing of these accounts which continue to be progressively improved; adoption and now implementation of key legislation like the public procurement Act; development of streamlined procedures for registering landed property which has reportedly reduced the time it takes to process land Certificates of Occupancy; and enhancement of the governance framework for managing technical and vocational training (TVET) institutions in the state through the establishment TVET School-Based Management Committees.

There was however a long interval between approval of the first operation and preparation of this one due to a delay in obtaining federal parliamentary approval for the 2011/12 national external borrowing plan. Thus, the original programmatic series of three operations has lapsed and this operation begins a new series of two operations. This operation builds on the initial reform efforts of the earlier operation and it is expected that the choice of a reform leader like Edo for a DPO would have a demonstration effect on other states in Nigeria to adopt and nurture important reforms. Edo state remains committed to pursuing an agenda of progressive reforms particularly in the area of building a strong public financial management system for improved service delivery.

IV. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	75
Borrower/Recipient	0
IBRD	0
Others (specify)	
Total	75

V. Tranches *(if applicable)*

	(\$m.)
Single Tranche	75

VI. Institutional and Implementation Arrangements

The proposed Credit would be made to the Federal Republic of Nigeria, represented by the Federal Ministry of Finance. The credit proceeds would be transferred by the Federal Government to Edo state Government under the same terms and conditions used for IDA investment loans on-lent by the Federal Government to a state government. The establishment of such an on-lending agreement shall constitute a condition of Credit effectiveness. A program agreement between IDA and the Edo state Government, outlining the commitments and obligations of the Government of Edo state under the program, shall be negotiated and signed at the same time that the Financing Agreement for the Credit is negotiated and signed between IDA and the Federal Republic of Nigeria.

Progress according to the programmatic DPO will continue to be monitored closely according to result indicators specified in the Policy and Results Matrix in the Program Document. Monitoring and evaluation will be undertaken jointly by the Bank and state government teams. The Government has established a PFM reform steering committee that meets regularly to monitor progress in implementing the PFM reform program supported by the DPO and the Bank-assisted State Employment and Expenditure for Results (SEEFOR) operations. This committee operates under the oversight of the Chairman of the state Economic and Strategy Team as well as the state Commissioner for Budget, Planning & Economic Development. Furthermore, the SEEFOR steering committee monitors the implementation of the SEEFOR which nicely complements the DPO in two main areas. Implementation support missions will be conducted during the program period and progress towards the achievement of the targets and end of program outcomes will be monitored. Specific Ministries, Departments and Agencies are directly responsible for carrying out specific actions contained in the policy matrix as well as providing data on indicators for measuring progress towards end of program outcomes. However, this will be coordinated by the State Project Coordinating Unit. Also, a careful assessment of the implementation of the operation will be a central part of the preparation of the subsequent operation.

VII. Risks and Risk Mitigation

There are four key risks potentially associated with the program as follows: (a) political and governance (b) macroeconomic (c) fiduciary; and (d) country security risks. These risks and mitigating factors are discussed in the following paragraphs:

- **Political & Governance Risk:** The leadership of the current executive regime in Edo has been invaluable in steering the state along the path of reform including those supported by the DPO. Also, the majority of the state's parliamentarians are of the same political party (APC) with the executive leadership. This has helped to smooth the path of reform, especially reforms requiring parliamentary approval. Recent strains within the APC have seen up to four members of the party defect to the opposition party (PDP). While the APC still maintains a two-third majority of the state parliament and the leadership of the APC has stepped in to mediate in the party crisis resulting in noticeable calm in this regard, there is the risk that there could be more defections, resulting in a shift in parliamentary might to the opposition. Further, while the next governorship elections in Edo would not be until June 2016 and transition in November 2016; parliamentary elections are scheduled for March and April 2015. Thus, there has been a lot of pre-election political activity in the state as the ruling party struggles to maintain majority seats in both the state and national parliaments. This poses a risk of distracting attention from the DPO program. In practical terms however, we have not seen this happen as the coordination of the DPO program is led by a technocratic group of consultants and civil servants. Thus, this risk is mitigated. There is also a risk that the future leadership of the state may not be as reform-oriented as the current one and the pace of reforms may slow. It is however expected that the institutionalization of good PFM practices due to the PFM system reforms being supported by the DPO program would mitigate such governance risks as they would be difficult to reverse by successive governments. There is however the risk that political transition at the federal level, due to take place in May 2015, may slow the processing of this operation, especially if the elections are won by the main opposition party which may require some time to come up to speed with Bank operations in the country. The fact however that Edo state belongs to the main opposition party would serve as a mitigating factor for this risk to the extent that Edo would have stronger access at the federal level.
- **Macroeconomic Risk:** There are significant and imminent risks to Edo state's fiscal program arising from the sharp decline in world oil prices since mid-2014. There are also risks arising due to oil output shortfalls as was experienced in Nigeria in 2013 and up to early 2014 due to heightened oil theft. This is especially because oil revenue dominates the revenue profile of the Edo state. About 78 percent of Edo's fiscal revenues are due to federation account transfers; which in turn are about 70 percent due to oil and gas revenues. Oil prices have declined by up to 50 percent since mid-2014. Federation account transfers to Edo state in 2014 were however only 9 percent less than in 2013 largely due to the lag in crude oil sale collections. It is however expected that if prices continued to decline,

federation account revenues would be reduced much further. Projections are that there will be a rebound in prices, but they will still settle at a relatively lower average in the medium-term. The ECA which had been the buffer against these vagaries in oil price movements was significantly depleted in 2013. The government started to re-build the buffer in 2014 as oil output began to recover; however, further accretion has been hampered due to recent price developments but withdrawals continue to be made to settle petrol subsidy arrears. As of end-January, 2015, the ECA balance had been reduced to about US\$2.5 billion, from US\$4.1 billion in August 2014. Based on this, Nigeria's macroeconomic outlook and Edo state's fiscal outlook at this time are viewed as uncertain. Further, the continued stalling of the Petroleum Industry Bill (PIB) poses a risk to sustainable growth in oil output. In addition, Edo's fiscal program also runs the risk of being affected by policies outside the jurisdiction of the state government. This was the case in 2011 when the Federal Government through the amended Personal Income Tax Act reduced tax liabilities of low and medium income earners. Most recently, the amendment of the Pensions Act, increasing employer contribution from 7 1/2% to 10%, increased the pension liability of all employers of labor. Edo state is however implementing a credible program to expand its internal revenue base, by adding other taxes, and to optimize revenue from those new sources³; and this is a mitigating factor against these risks. Edo hopes to grow its internal revenue more sustainably from 2015. This is, indeed, one of the areas of focus under this operation.

- **Fiduciary Risk:** The Edo state financial management fiduciary risk assessment conducted in 2010 revealed weaknesses in the state PFM system that pose a risk to efficient use of public funds; which could include DPO funds. However, the first Edo state DPO, along with support under the SEEFOR project have helped the state move much further than where it was in terms of PFM as of 2010. As described in earlier sections of this document, among other measures, Edo has embraced the use of a modern, computerized budget and treasury management system across its budget process; ensuring that its expenditure management systems, including the implementation of a commitment control system, are progressively robust and all budget expenditures are transacted through this (Oracle-based) financial management system, with the required in-built controls. While implementation of many of these reforms is still on-going, Edo state is moving towards better PFM practices. The design of the second pillar of this operation was made to further help this goal and mitigate this risk.
- **Country Security Risk:** Reforms in Edo state or any other part of Nigeria could be negatively affected by a further deterioration in the security situation of the country. The instability associated with terrorism activities could engender a general slow-down of reform efforts as attention is focused on security issues and economic activity is curbed. As of date however, terrorist activity in the country has been limited to the northern parts. Risks

³ This was described in Section 4.2 of this document.

to the security of lives and property in the wake of possible post-election violence are considerable due to outbreaks of violence following previous elections. However, the recent by-elections held in Edo and Anambra in 2013 and Ekiti and Osun states in 2014 were relatively peaceful in comparison to the 2011 elections due to improvements in the conduct of the elections by the Independent National Electoral Commission (INEC).

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Although no empirical poverty and social impact analysis (PSIA) has been conducted in the context of this operation, it is expected that the policy and institutional reforms being supported will contribute positively towards the reduction of poverty in Edo state. Even without carrying out ex-ante, a formal empirical PSIA of all the major reforms to be supported under the operation, a theoretical assessment of the likely connections between the policy reforms being implemented and their expected impact on the poor indicates that overall; the reform program is expected to have beneficial effects on the poor in Edo State.

Reforms for improving the budget institutions and practices are aimed at improving the quality of spending in Edo State, which is expected to benefit especially the poor. As indicated earlier, a key element of the state's development strategy is employment creation and sustainable economic growth by tackling the state's main challenges which are high poverty levels, youth unemployment, and dilapidated infrastructure. The Government's strategy is to tackle these challenges by allocating more resources to the identified priority sectors of roads, and drainage, education, health, agriculture, and ICT. The PFM reforms being supported under the proposed DPO are aimed at improving the quality of public expenditure by ensuring that the budget is indeed aligned to these growth and employment creating priorities, and that all practices in the implementation, monitoring and evaluation of the budget are consistent with the principles of effectiveness, efficiency, and transparency. Therefore, once implemented, it can be expected that PFM reforms will have a positive impact on the poor.

Improved quality of education will empower the poor and vulnerable and put them in a better position to take advantage of various income earning opportunities. The reforms for improving the quality of education being supported by this operation are biased towards the poor and economically vulnerable. In particular, technical and vocational education are meant to improve the employability of those who do not have formal education, did not complete their formal education, or who have formal education qualifications but have still not been able to find employment because their qualifications are not in demand in the job market. The emphasis of the education component of the operation is ensuring that female TVET students and graduates specifically benefit from partnership arrangements between TVET colleges and the private sector

will positively impact on the economic prospects of girls and women who constitute a major vulnerable population segment in the state, as elsewhere.

Reforms for improving the investment climate with specific focus on land transactions are also expected to be beneficial to the poor in Edo State through increased opportunities for self-employment and wage employment. The reforms being supported under the proposed DPO are aimed at making it easier for potential investors to obtain legal titles to their landed property; as well as transfer or sell property to third parties. It is expected that these reforms will improve investment opportunities in Edo state which will translate into more employment opportunities – both self-employment and wage employment. In terms of self-employment, a boom in investments in the state will lead to the emergence of a middle class in Edo which will in turn lead to an increase in demand for goods and services provided by microenterprises, most of which are owned by the poor. At the same time, increased investment will create wage employment opportunities for the poor. For example, greater security of property rights will unlock the bottlenecks in accessing finance, not just for businesses, but for the general land owner since land is still the most common form of collateral in Nigeria. Currently, a huge percentage of Nigerians remain unbanked, and lack access to credit due to lack of collateral. Accesses to collateral will, therefore, bring more people into the financial market. Further, increased access to investment land will increase the availability of land for transaction and, therefore, make it more tradable, and in turn, bring down the exorbitant cost of land in Edo state

Environment Aspects

The policy and institutional reforms and related prior actions supported by the proposed DPO are not expected to have any significant direct impact on the environment. The improvements in policies and institutions for managing public resources, increasing access to investment land, and improving the quality of education as outlined in earlier sections of this document are not likely in themselves to have any direct impact on the environment; positive or negative. However, it is not inconceivable that indirectly, the budget support funding to be provided could be spent on activities that have the potential to damage the environment thus requiring appropriate mitigation to acceptable levels. In this regard, it is expected that the state government will apply the extensive experience acquired through years of implementing World Bank investment projects which require strict adherence to environmental safeguards. Edo State has demonstrated significant goodwill and capacity to enforce the extant environmental laws in the State and in complying with World Bank Safeguards Policies in the implementation of World Bank assisted investment projects (FADAMA III, NEWMAP, SEEFOR, and CSDP) in the state. Furthermore, due diligence conducted by the Bank on the national and Edo state policy and legal requirements relating to environment and social management indicates that there are adequate legal and institutional frameworks in Nigeria and Edo State for achieving good international practice relating to environmental and social sustainability and in fulfilling their national and international, including the World Bank, environmental and social obligations.

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