



WORLD BANK GROUP

**Multi-State Performance Based
Operation to Support
Strengthening of State Fiscal
Performance**

Discussion with Nigeria Governors Forum

June 2017

The fiscal sustainability of States is a major challenge, but the FSP and OGP reforms present significant opportunities

Challenges

- **2015-16 State fiscal crisis following decline in oil-related transfers:** Budget cuts - especially capex; Inability to meet statutory obligations; Arrears accumulation. Public debt reached 109 percent of total revenue in 2015 -> led to two financial bailouts
- **Underlying fiscal management weaknesses at the State level:** Lack of fiscal transparency and accountability; low IGR mobilization; recurrent spending growth and weak adherence to debt mgmt. guidelines/rules

Reform opportunities

22-point Fiscal Sustainability Plan (FSP) reform agenda agreed to by the States in 2016

- Aims to address the weaknesses on State fiscal transparency, revenue, expenditure and debt mgmt.
- Implementation and monitoring of the FSP in 2017 - ongoing by FMoF
- Nigeria Governors Forum found that States are very supportive of FSP reforms, but implementation incomplete (capacity, funding, political will), high demand for TA to implement FSP

The Open Government Partnership (OGP) commitments

- OGP strengthens the fiscal transparency and accountability component of the FSP
- The Federal Government joined OGP in July 2016; Steering Committee has been established; 14 commitments to be implemented Jan 2017 to Dec 2019 identified
- States agreed to commit to the OGP at the National OGP Retreat in Kaduna on Oct. 24, 2016

What will it take to turn these opportunities into successful, sustainable reforms?

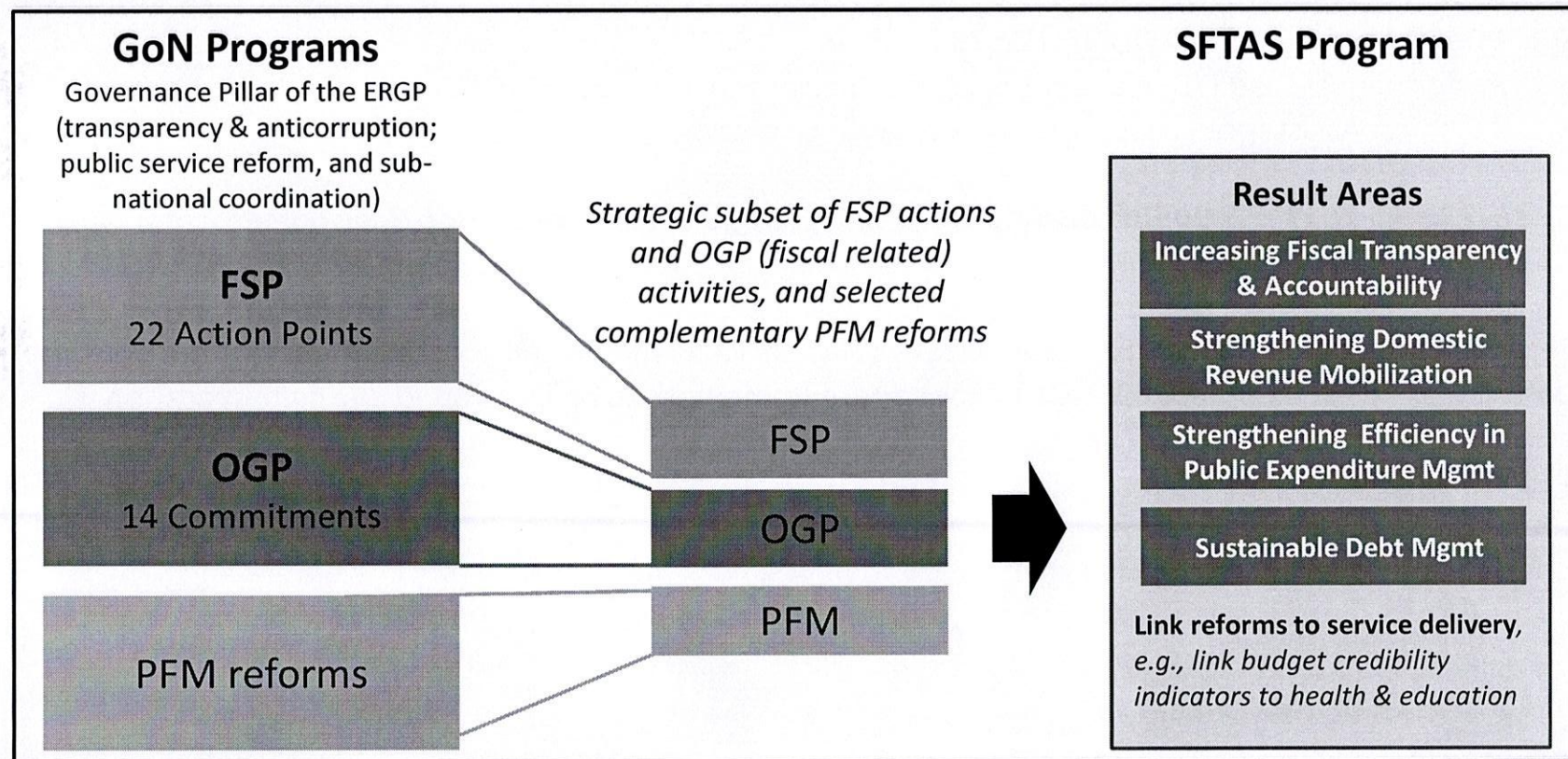
- *Capacity building and technical support*
- *Funding*
- *Financial incentives (beyond the timeframe of the 2nd financial bailout)*

The proposed Program aims to support and incentivize States to implement the most impactful FSP & OGP reforms

PROGRAM DEVELOPMENT OBJECTIVE: *Strengthen Fiscal Transparency, Accountability & Sustainability (SFTAS) in Nigerian States*

SCOPE of the PROGRAM: FSP and OGP plus complementary PFM reforms - supporting reform programs that have been committed to by the FG and States helps ensure there is strong ownership and buy-in.

ELIGIBILITY: Open to ALL States to participate as FSP and OGP reforms are relevant to all.



The proposed operation is a Multi-state Program for Results

FINANCING INSTRUMENT: Program-for-Results

- Supports Government's own Program and strengthens it through institutional capacity development
- Builds on government's own financial management, procurement, and environmental and social management systems (with possibility to strengthen these)
- Disburses against achievement of agreed and verified program results

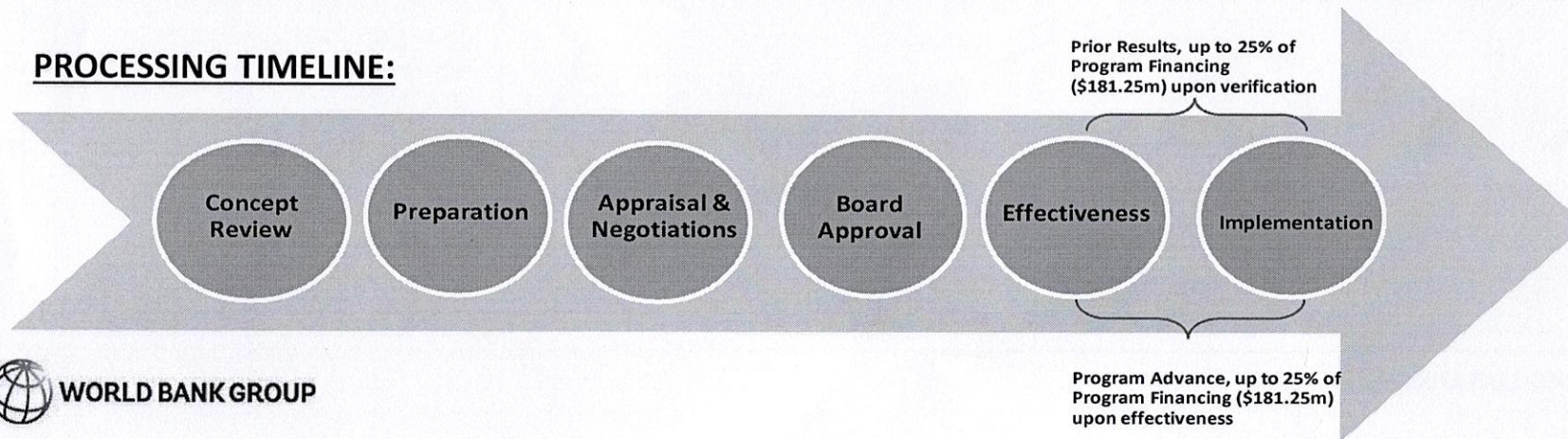
PROPOSED FINANCING AMOUNT: US\$750 million

- Performance-Based (Disbursement Linked Indicators): tentative US\$725 million
- Technical Assistance (Traditional Investment): tentative US\$25 million

TIMEFRAME: 2017 – 2020 (including prior results, program implementation & disbursements). Aligned to ERGP timeline. Need to deliver on critical reforms in the shortest possible time

PROGRAM OF EXPENDITURES: States' MTEFs could serve as the overall program of expenditures in line with the program boundary. Detailed expenditure framework to be developed during preparation

PROCESSING TIMELINE:



Draft Result Areas and DLIs – for discussion

Disbursement Linked Indicator	GoN Program
<i>Project Development Objective: Strengthen State Fiscal Transparency, Accountability & Sustainability in Nigerian States</i>	
<i>RA 1: Increasing Fiscal Transparency and Accountability</i>	
Global DLI I Annual state budget published online by end January of the budget year AND Annual audited financial statements submitted to Assembly and published online within 6 months of year end	FSP, OGP, PEFA
DLI 1: Budget and financial reporting transparency: 1.1 Annual state budget prepared under standard Chart of Accounts and accompanied by Citizen's budget 1.2 In-year quarterly budget implementation reports published online 1.3 Annual audited financial statements prepared in accordance with IPSAS	FSP and PEFA
DLI 2: Openness of budget process: Citizens' inputs from public consultations are reflected in the pre-budget statements	OGP
DLI 3: Budget credibility: Expenditure outturn deviation for total budget and for health and education sector spending reduces to less than 15% (PEFA threshold)	PEFA
<i>RA 2: Strengthening Domestic Revenue Mobilization</i>	
DLI 4: Improved State Internally Generated Revenue performance, including PAYE (PIT) 4.1 Strengthened FIRS and SIRS collaboration to collect VAT and PAYE 4.2 Increase in IGR collection	FSP
DLI 5: Establishment of a functional Treasury Single Account (TSA) system at State level	FSP
<i>RA 3: Strengthening Efficiency in Public Expenditure Management</i>	
DLI 6: Personnel spending: Use of biometric and Bank Verification Number (BVN) to reduce payroll fraud	FSP
DLI 7: Improved public procurement systems and practices: E-Procurement and Open Contracting (OGP Commitment 2)	OGP
DLI 8: Establishment and operationalization of risk-based, ex-post internal (continuous) audit function	FSP and PEFA
DLI 9: Increase in actual capex/total expenditure ratio	FSP
<i>RA 4: Sustainable Debt Management</i>	
DLI 10: Full compliance with the FRA on commercial bank borrowing process and requirements to submit debt profile reports to DMO	FSP
DLI 11: Introduction of commitment control and arrears monitoring as part of financial management system to reduce ex-ante accumulation of arrears of payments to contractors	PEFA
DLI 12: Adherence with solvency and liquidity debt thresholds: 1) Total liabilities do not exceed 250% of gross FAAC allocation for the preceding 12 months; and 2) Monthly debt service (principal and interest) deduction does not exceed 40% of gross FAAC allocation for the preceding 12 months	FSP