

RECEIVED

Date.....

Sign.....

NIG. GOVERNORS' FORUM

A I D E - M É M O I R E

FEDERAL REPUBLIC OF NIGERIA

Identification Mission

Nigeria States Fiscal Transparency, Accountability and Sustainability Program for Results

(June 5 – 14, 2017)

I. MISSION OBJECTIVES AND ACKNOWLEDGEMENT

1. A World Bank team¹ carried out an identification Mission between June 5 and 14, 2017 (following earlier consultation meetings held with stakeholders during the period April – May, 2017), to advance the preparation of the Nigeria States Fiscal Transparency, Accountability and Sustainability (SFTAS) Program for Results (PforR).

2. The specific objectives of the Mission were to work with a Government team led by the Federal Ministry of Finance (FMoF) to: (i) define the Program scope and Program development objectives; (ii) further explore the readiness of state-level actors for the implementation of the subject PforR; (iii) identify priority areas of support based on the findings of the readiness of States; and (iv) agree on the preparation steps and overall processing timeline.

3. The Mission held meetings with officials from the FMoF, Federal Ministry of Justice (Steering Committee of the Nigeria Open Governance Partnership (OGP) Secretariat), Federal Inland Revenue Service (FIRS), Nigeria Governors' Forum (NGF), and the United Kingdom's Department for International Development. The list of officials met during the Mission is attached as Annex 1.

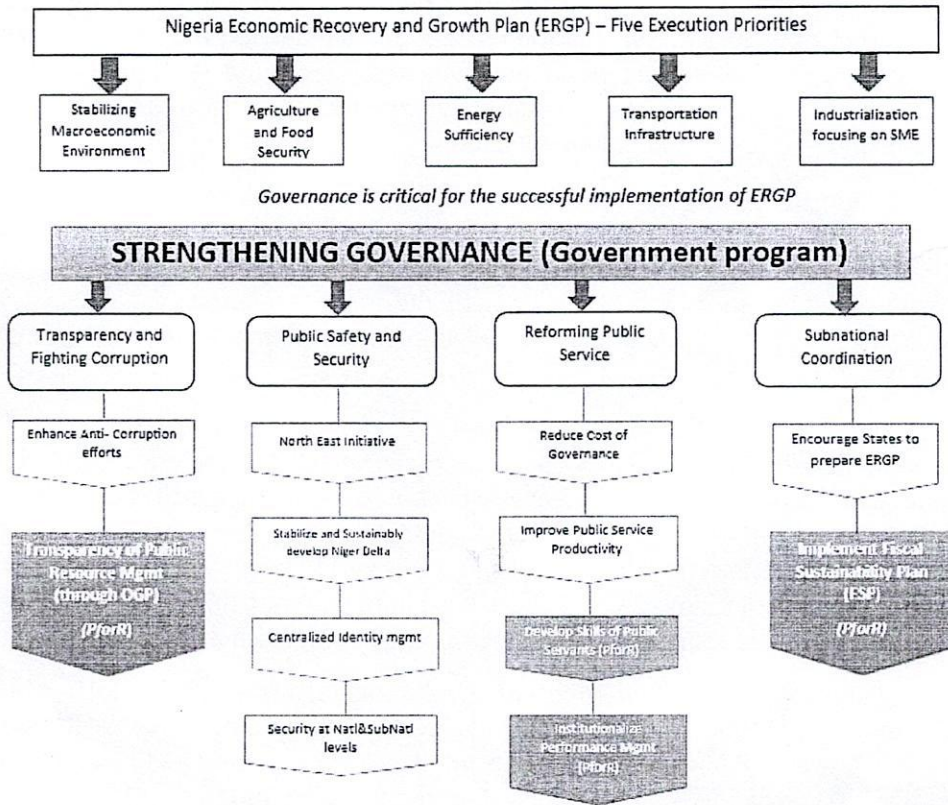
4. The Mission wishes to extend its appreciation for the assistance, cooperation and courtesy extended to it by all the officials met and, in particular, to Mrs. Kemi Adeosun, Honorable Minister of Finance, as well as for submitting a formal request (dated June 13, 2017) for a World Bank credit facility in the amount of US\$750 million. This Aide Memoire sets out the World Bank Mission's objectives, findings, understandings, and agreements reached with government counterparts, as well as next steps, which were discussed at the wrap-up meeting held on June 14, 2017, chaired by the FMoF's Director, International Economic Relation Department (IERD), Mr. Aliyu Ahmed.

¹ The World Bank team included Hisham Ahmed Waly (Practice Manager), Ismaila B. Ceesay (Lead Financial Management Specialist & Task Team Leader), Rama Krishnan Venkateswaran (Lead Financial Management Specialist & co-Task Team Leader), Yue Man Lee (Senior Economist & co-Task Team Leader), Bayo Awosemusi (Lead Procurement Specialist), Aleksandar Kocevski (Operations Officer), Akinrimola Akineyele (Senior Financial Management Specialist), Adebayo Adeniyi (Senior Procurement Specialist), Ikechukwu Nweje (Senior Public Sector Specialist), Roland Lomme (Senior Governance Specialist), Amos Abu (Senior Environmental Specialist), Gloria Joseph-Raji (Senior Economist), and Magdalene Oduor (Team Assistant).

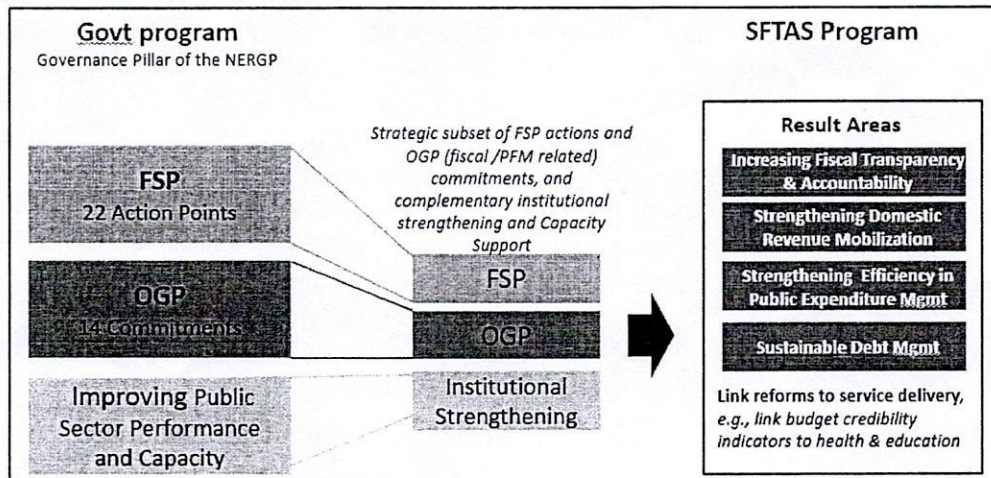
II. DESCRIPTION OF THE PROPOSED NIGERIA SFTAS PforR

5. **Objective, Financing Instrument and Proposed Amount.** The proposed multi-state Program is a hybrid operation comprised of a performance-based component (Disbursement-linked Indicators (DLIs) and a technical assistance/capacity building component. The Bank financing for the proposed Program is expected to be US\$750 million International Development Association (IDA) Credit, per the Government letter of request submitted on June 13, 2017. The IDA Credit will be distributed between the PforR component (estimated to be US\$725 million) and the technical assistance/capacity building component, under an Investment Project Financing (IPF) umbrella (estimated to be US\$25 million). Consistent with the overarching objectives of the Nigeria Economic Recovery and Growth Plan (NERGP), *the Program development objective (PDO) of the proposed operation is to strengthen fiscal transparency, accountability and sustainability in Nigerian states.*

The Program of intervention seeks to support and incentivize States to implement critical Financial Sustainability Plan (FSP), OGP and institutional strengthening reforms. By supporting reform programs that have already been committed to by the Federal Government of Nigeria (FGN) and all States, this will help ensure strong and sustainable ownership and support key stakeholders. The Program will, thus, be a sub-set of the overall FGN program and will include about twelve critical reform actions out of the 22 reform actions in the FSP, as well as about two medium term key national commitments (to be ascribed also to the States) from a total of 14 national OGP commitments, agreed upon by the FGN. The Program will also support institutional strengthening, through improving public sector capacity and performance. 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, within the perverse concomitant underplay of weak transparency and accountability in the management of public resources. As such, the Program will be open to all 36 States to participate (subject to meeting the eligibility criteria that are to be defined during preparation), as FSP, OGP and institutional reforms are relevant to all. The FGN program *within the overall ERGP* that is supported under the Bank-financed PforR is as highlighted in the diagram below.



6. Equally, the overall Program boundaries, discussed and agreed upon during the Mission, are illustrated in the chart below.



7. **Key Result Areas.** The proposed Program will contribute to four key result areas (KRAs), which include the following key results that will serve as the measurement barometers towards the achievement of the PDO:

- **KRA#1: Increasing Fiscal Transparency and Accountability:** Under this results area, the PforR will support States' government reform efforts to: (1) increase the quality

(compliance with international standards), the timeliness and transparency of the annual budget, quarterly budget implementation reports, and annual audited financial statements; (2) increase citizens' participation in the budget process; and (3) improve the budget credibility by reducing deviation in total state expenditure outturn and spending in key service delivery sectors of health and education.

- **KRA#2: Strengthening Domestic Revenue Mobilization:** Under this results area, the PforR will support States' government reform efforts to: (1) improve state internally generated revenue (IGR) collection, through improving PAYE collection and collecting taxes from the large informal sector through the implementation of a presumptive tax regime; and (2) reduce revenue leakages by implementing the Treasury Single Account (TSA) at the State level.
- **KRA#3: Strengthening Efficiency in Public Expenditure Management:** Under this results area, the PforR will support States' government reform efforts to: (1) use of biometric and bank verification number (BVN) to reduce payroll fraud and contain personnel costs; (2) improve public procurement through the introduction of e-procurement systems and open contracting; (3) establish a risk-based, ex-post internal audit function; and (4) increase the share of capital expenditure in total expenditure. The implementation of the TSA will also support this results area by improving cash management.
- **KRA#4: Sustainable Debt Management:** Under this results area, the PforR will support States' government reform efforts to: (1) ensure full compliance with the Fiscal Responsibility Act (FRA) on commercial bank borrowing process and Debt Management Office (DMO) reporting requirements; (2) reduce accumulation of new arrears to contractors through commitment controls and management of budget releases; and (3) adhere to solvency and liquidity debt thresholds.

8. **Disbursements.** The World Bank funding under the SFTAS will be disbursed against agreed DLIs, that will involve a mixture of output and outcome level indicators. The outputs will involve implementation of financial, governance and policy measures that are key for ensuring successful achievement of the defined PDO. The outcome indicators will involve indicators that will measure the improved efficiency in the public resource mobilization and management, as well as transparency and accountability in the use of public funds. A set of 'prior results' will be identified and agreed during the preparation process, which will allow the World Bank to disburse some of the SFTAS funds (a maximum of 25 percent for prior results). Advances equivalent to a maximum of 25 percent of the Program funding envelope will also be provided as soon as the Program is approved and ratified by the Government, thus making it possible for the Bank to disburse a total amount of about US\$362.5 million, based on an overall program financing of \$750 million, upon Program effectiveness. The list of **indicative DLIs** is included in Annex 2.

9. **Institutional and Implementation Arrangements.** A number of institutions are currently involved in the implementation and monitoring of the FSP and OGP, including: (1) FMoF, which has assigned two of the Minister's Special Advisors, as well as the Home Finance Department (HFD) of the FMoF to focus on FSP, and has contracted a number of external auditors to assess the status of FSP implementation, starting February, 2017; (2) DMO, which is monitoring the debt position of states and adherence to the liquidity and solvency thresholds through the submission of states' debt profile reports on a quarterly basis; (3) FIRS, which is working to implement joint actions with SIRS in the revenue area of the FSP; (4) NGF, which is an association of all State

FRAMEWORK FOR STATE GOVERNMENT PFM PERFORMANCE SELF-ASSESSMENT

Item	Prior Year Actual (2015)	Original Budget (2016)	Actual (2016)	Original Budget (2017)
Revenue and Expenditure Overview				
Recurrent Revenue				
Statutory Allocation				
Net Derivation				
VAT				
Other Federation Account Receipts				
IGR				
Other Recurrent Revenue				
Capital Receipts				
Total Revenue				
Aggregate Expenditure				
Personnel				
Overhead				
Capital Expenditure				
Sector Expenditure				
Total Education Sector Expenditure				
Total Health Sector Expenditure				
Total Agriculture Sector Expenditure				
Total Infrastructure Sector Expenditure				
Other Social Sector Expenditure				
Other Economic Sector Expenditure				
Governance Sector Expenditure				
Judicial Sector Expenditure				
Macroeconomic Indicator				
Inflation				
Debt Statistics				
Debt Deductions from FAAC Allocations				
Total Liabilities at end of Financial Year				
Stock of Expenditure Arrears at end of Financial Year				

Stock Arrears