Report Number : ICRR0024376

## 1. Project Data

| | | |
|---|---|---|
| **Project ID**<br>P162009 | **Program Name**<br>NG: States Fiscal TAS PforR | |
| **Country**<br>Nigeria | **Practice Area(Lead)**<br>Governance | |
| **L/C/TF Number(s)**<br>IDA-62960,IDA-68100 | **Closing Date (Original)**<br>30-Dec-2022 | **Total Program Cost (USD)**<br>1,454,235,982.72 |
| **Bank Approval Date**<br>27-Jun-2018 | **Closing Date (Actual)**<br>30-Apr-2024 | |

| | IBRD/IDA (USD) | Grants (USD) |
|---|---|---|
| Original Commitment | 750,000,000.00 | 0.00 |
| Revised Commitment | 1,500,000,000.00 | 0.00 |
| Actual | 1,454,628,874.24 | 0.00 |

| Prepared by | Reviewed by | ICR Review Coordinator | Group |
|---|---|---|---|
| Gloria Carolina Gutierrez Tejada | Vandana Chandra | Donna Kaidou Jeffrey | IEGEC (Unit 1) |

## 2. Program Context and Development Objectives

### a. Objectives

According to the Financing Agreement (FA) dated February 12, 2019 (FA, p. 5) and the PforR Program Appraisal Document (PAD, p. 10), the original Program Development Objective (PDO) was: **To strengthen the fiscal transparency, accountability and sustainability in the participating states[1].**

The project was restructured seven times between 2020 and 2024 with one change in the PDO. The revised PDO was introduced in October 2020 to include the impact of COVID-19: **To strengthen the fiscal**

**transparency, accountability and sustainability in the participating states, including in the context of the COVID-19 response.**

For the purpose of this ICRR, the revised PDO has been parsed as follows:

- **PDO 1:** To strengthen fiscal transparency and accountability in the participating states.
- **PDO 2:** To strengthen sustainability in the participating states, including in the context of the COVID-19 response.

[1] Includes all 36 states and FCT (Federal Capital Territory).

### b. Were the program objectives/key associated outcome targets revised during implementation?

Yes

### Did the Board approve the revised objectives/key associated outcome targets?

Yes

### Date of Board Approval

27-Jun-2018

### c. Will a split evaluation be undertaken?

No

### d. Components

According to the PforR Program description in the PAD (p. 11), the Program had four (4) components described as Key Results Areas (KRAs).

**KRA 1: Increase Fiscal Transparency and Accountability.** The KRA aimed to support states to: (1) increase the quality (to international standards), timeliness and transparency of the budget, budget implementation reports, and audited financial statements; (2) increase citizens' participation in the budget process; and (3) improve budget credibility by reducing deviation in total state expenditure outturn.

**KRA 2: Strengthen Domestic Revenue Mobilization (DRM).** The KRA aimed to support states to: (1) increase Internally Generated Revenues (IGR) collection while providing more transparency and certainty to taxpayers; and (2) reduce revenue leakages by implementing the Treasury Single Account (TSA) at the state-level.

**KRA 3: Increase Efficiency in Public Expenditure.** The KRA aimed to support states to: (1) to reduce payroll fraud using biometric and/or bank verification number (BVN); and (2) improve the transparency and value for money of public procurement through the implementation of e-procurement systems in Ministries, Departments and Agencies (MDAs), including those delivering education and health public services, and open contracting standards.

**KRA 4: Strengthen Debt Sustainability.** The KRA aimed to support states to: (1) strengthen the legal framework for debt management and fiscal responsibility, improve state debt reporting and debt sustainability analyses; (2) reduce the stock of domestic expenditure arrears; and (3) strengthen debt sustainability ratios

## e. Comments on Program Cost, Financing, Borrower Contribution, and Dates

**Program expenditure:** The total program cost at appraisal was US$3.266 billion. It was composed of an estimated contribution of US$2.566 billion, equivalent to 79 percent of total cost from the state governments of Nigeria, and an estimated IDA funding of US$700 million (IDA-62960), equivalent to 21 percent of total cost (PAD, Table 4.2, p. 94). In October 2020 (restructuring No 2), the total program expenditure cost was updated to US$2.665 billion due to a decrease of US$601 million in the government's contribution to US$1.965 billion while IDA's financing remained unchanged. At restructuring No. 3 (December 2020), additional financing (AF) increased IDA's financing by US$750 million to US$1.450 billion, while the Government of Nigeria (GoN's) contribution decreased by US$750 million to US$1.215 billion, leaving the revised total PforR program cost unchanged (ICR, Table 2, p. 45). The other restructurings did not change the financing amounts. The actual total PforR program cost at closing was US$2.039 billion that resulted from an IDA disbursement of US$1.454 billion, equivalent to 108 percent of the original planned IDA financing, and a government's contribution of US$585 million, equivalent to 23 percent of the original planned contribution (ICR, Annex 3, p. 44 for GoN's contribution and ICR, Financing Table, p iii for IDA's.). Disbursement was 100 percent.

**Borrower contribution**: The state governments of Nigeria initially committed to US$2.566 billion and disbursed US$585 million (23 percent of original commitment and 28 percent of the actual total disbursed). According to the TTL, the main reason for the lower borrower contribution was a discrepancy between the original projections and actual data for recurrent expenditures in the Program Expenditure Framework (PEF) across estimated participating states and further adjustments in state budget projections due to COVID-19 which led to significantly lower revenues.

**Dates**: The PforR program was approved on June 27, 2018, and became effective on May 3, 2019. A Mid-Term Review (MTR) was conducted on November 30, 2021. The original closing date was December 30, 2022, but after four extensions, the PforR program closed on April 30, 2024, with a total duration of five years (ICR, p. iii).

**Restructurings**: The PforR program was restructured seven times including the third restructuring that involved AF of US$750 million, and one change in the PDO to incorporate the context of the COVID 19 pandemic. There were modifications to PforR program outcomes, outcome indicators, DLIs, DLI allocations, Disbursement Linked Results (DLRs), and associated targets. The KRAs remained unchanged. The changes made during the restructurings are reflected below.

***Restructuring No. 1*** (May 2020)

- PDO indicator 1 adjusted to reflect changes in the measurement methodology.
- PDO indicator 3 adjusted to reflect changes in Development Linked Indictor (DLI) 6.2.
- DLI 6.2 adjusted to: a) allow states an additional year to implement e-procurement (2020 and 2021, instead of 2019 and 2020); and b) remove the result related to the impact of e-procurement implementation in 2021; and c) lower the value of the DLI in 2019 (when e-procurement was not yet effective) and increase the value of the DLI in 2020 and 2021 (when e-procurement was expected to be effective).

- DLI 4.1 and DLI 7.1 wording adjusted to make explicit that the DLIs require having the laws/legal frameworks being in use/operational.
- DLI 6.1 wording adjusted for clarity, by changing procurement “board” to “regulatory agency.”

***Restructuring No. 2*** (October 2020)

- Change in the PDO statement to reflect the COVID-19 context.
- PDO 3.2 dropped: “Average time taken for procurement processes in states that implemented e-procurement in at least the MDAs,” due to delays in TA implementation caused by COVID-19 movement restrictions, but with measurement maintained at DLI level (DLI 6).
- New PDO indicator (PDO 5): “States with published approved credible COVID-19 responsive amended 2020 budgets which have realistic revenue projections and identified financing sources to fully finance the budget deficit,” based on new Disbursement Linked Indicators (DLI) 13.
- 2020 and 2021 DLRs and targets of some existing DLIs adjusted to reflect the impact of COVID-19 and the changed fiscal circumstances.
- PforR program boundary expanded with 4 new DLIs to support the implementation of the state-level fiscal measures in the National Economic Council (NEC) COVID-19 Plan. DLI 10: Enhanced transparency and accountability of funds in the COVID-19 response and resilient recovery phases; DLI 11: Provided structured tax relief in response to COVID-19 and strengthened tax administration (personal income tax and property taxation) to enhance non-oil tax collection in the resilient recovery phase; DLI 12: Strengthened procurement function for COVID or emergency situation and facilitated participation of SMEs in public procurement in the resilient recovery phase; and DLI 13: Established a fiscally sustainable response to COVID-19 through COVID-19 responsive budgets.
- Reallocations among existing DLIs to enable the disbursement of new DLIs.

***Restructuring No. 3*** (December 2020)

- DLI 5, DLI 11.3 and DLI 13 adjusted and with addition to further strengthen the results of the PforR program.
- US$750 million in AF to fill the expected financing gap created by adding the new COVID-19 DLIs.

***Restructuring No. 4*** (December 2021)

- PDO 3.1 dropped: “Average citizens” access to procurement information in states publishing contract award data online in OCDS format,” due to some delays in implementation, but with measurement maintained at DLI level (DLI 6 and newly introduced DLI 12).
- New PDO indicator 3: “Number of states that have completed biometrics or a BVN data to capture at least 90 percent of current civil servants and pensioners and used the biometrics or BVN data to identify and remove ghost workers off the payroll or address payroll fraud,” based on DLI 5.1. and 5.2.
- Closing date extended for achievement of DLIs 6.2, 10.3 and 11.3. and modification of DLI 12.2 to not make it conditional on achieving DLI 12.1. The ICR does not include the new closing date.
- SDR allocations adjusted across DLIs in the PforR component of the original financing OF and AF to reflect actual results to date and projections for future results.

***Restructuring No. 5*** (September 2022)

- DLI 11.3 adjusted to make it scalable with a basic target and a stretch target.
- SDR allocations adjusted across DLIs in the OF and AF to reflect actual results to date, recover the advance and update projections for future results and re-designation of SDR 11.8 million (about US$15 million) of remaining TA funds as PforR funds.
- Closing date extended through June 30, 2023.

***Restructuring No. 6*** (May 2023)

- Closing date extended through December 31, 2023.

***Restructuring No. 7*** (January 2024)

- SDR allocations adjusted across DLIs in the OF and AF to reflect actual results to date, recover the advance and update projections for future results.
- Closing date extended through April 30, 2024, to deepen implementation of the sustainability strategy.

## 3. Relevance

### a. Relevance of Objectives

#### Rationale

At appraisal in 2018, Nigeria's economy had begun to recover from a sharp decline in GDP growth caused by declining global oil prices and reduced oil production in Nigeria that led to a widening fiscal deficit. The goal of Nigeria's 2017-2020 Economic Recovery and Growth Plan (ERGP) was to restore macroeconomic stability, diversify the economy, and promote sustained inclusive growth by improving governance. This vision included fighting corruption, enhancing transparency in the use of public resources, and strengthening coordination at the subnational level.

**Alignment with Sector Strategy.** In response to the fiscal challenges, the Federal Government of Nigeria (FGN) had provided two financial assistance packages to the states in 2015 and 2016, developed a 22-point Fiscal Sustainability Plan (FSP), and introduced a package of governance reforms after Nigeria became a member of the Open Government Partnership (OGP) Initiative in 2016. However, the central government and 36 states experienced continued low revenue mobilization as well as weak fiscal transparency and accountability, reflected in persistent fiscal sustainability challenges, especially at the state level. While all states had made partial progress, implementation of the FSP by the states was incomplete.

**World Bank (WB) previous sector and country experience**. The objectives of the PforR were aligned with the World Bank's Country Partnership Strategy (CPS) for FY14-17 which was revised in a first Performance and Learning Review (PLR) in September 2016, and a second PLR in May 2018, that extended the CPS to FY19. The CPS recognized that strengthening governance and public-sector management were a development priority. The first PLR endorsed the inclusion of a Restoring Macroeconomic Resilience Cluster which triggered additional Bank support, including for improving the efficiency and effectiveness of public expenditures. The PDO remained relevant as an integral part of the new FY21-25 Country Partnership

Framework (CPF). The PDO was adjusted to reflect the impact of the COVID-19 context, and the PforR program was expanded with 4 new DLIs.

The WBG had considerable experience working with the federal and state governments in Nigeria on PFM and fiscal management. It was also able to bring in global experience from other large federal countries such as Brazil and India on issues related to subnational fiscal management.

**Country capacity and adequacy of PforR Instrument.** A PforR financing instrument was selected given its strong results orientation, monitoring and reporting framework, and built-in financial incentives to achieve results that reflected a change in transparency, accountability and sustainability in the context of the pandemic, and provided the needed funding for strengthening institutions for government's reforms.

The PforR financing instrument was also the appropriate choice for tackling system-wide governance challenges at the state-level. An investment project Financing (IPF) instrument was not deemed suitable because the focus of the PforR program was not on inputs and specific investments, but on outcomes, results and sector-wide reforms in a multi-state program, where states had different institutional contexts and reform paths.

The PforR program was designed with an IPF component for technical assistance (TA). The PforR component provided annual performance-based financing to eligible states, while the TA component supported capacity building in the participating states to achieve the DLRs. Disbursing an IPF-funded TA component allowed a closer working relationship between the WBG and the implementing agencies in ensuring that the states received support to achieve the PforR results.

The Development Policy Financing (DPF) instrument was less appropriate because the focus of this PforR, henceforth referred to as the PforR program, was on strengthening the implementation of two existing government programs and achieving outcomes-based results rather than new policy reforms.

The **relevance of objectives** is rated **High**.

### Rating
High

## b. Relevance of DLIs

### DLI 1
**DLI**
Improved financial reporting and budget reliability

**Rationale**
DLI 1 contributed to PDO 1 by supporting efforts to improve financial reporting and budget reliability by supporting specific actions: states publishing their budgets compliant with the National Chart of Accounts (NCOA), states publishing their annual financial statements (AFS) compliant with International Public Sector Accounting Standards (IPSAS); and states publishing timely quarterly budget implementation reports. This

was to be measured by 1.1) Quarterly budget implementation reports published; and 1.2) Deviation of total budgeted expenditure from the original approved budget.

The original disbursement allocated to this DLI was US$34.2 million, but this was modified to US$41.1 million after AF (ICR, Annex 5.5).

The PforR Program initially aimed for 1.1) quarterly budget implementation reports published on average within 4 weeks of quarter-end; and 1.2) deviation of total budgeted expenditure less than 15% (ICR, Annex 1).

While achieving the outcome of improved budget management and reliability would contribute to improved fiscal transparency and accountability in the participating states (PDO 1), the relevance of this DLI was weak as one of its two parts had an attribution issue. Timely publication of the budgetary reports (DLI 1.1) was relevant, measurable and impactful, and contributed to PDO 1 as well as good institution building practices which is central to a PforR. However, achieving an expenditure outturn deviation of less than 15 percent (DLI 1.2) was weakly relevant for PDO 1 due to attribution issues as in addition to revenues generated by state governments, the deviation of actual from budgeted expenditures also depended upon federal revenue transfers.

**Relevance of DLI1: Modest**.

**Rating**
Modest

## DLI 2

**DLI**
Increased openness and citizens' engagement in the budget process.

**Rationale**
DLI 2 contributed to PDO 1 by supporting states' efforts to include consultation with citizens in budget formulation, making it a formal and systematic process that assured feedback to citizens. This was to be measured by 2.1) Citizens' inputs from formal public consultations published online; and 2.2) Citizens' budget based on approved state budgets published online.

The original disbursement allocated to this DLI was US$12.9 million but this was modified to US$45.9 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for 2.1) Citizens' inputs from formal public consultations published online, along with the proposed FY2022 budget and citizens' budget based on approved FY2021 state budget published online by end April 2021 with functional online feedback mechanisms; and 2.2) Citizens' accountability report based on audited financial statements/reports published online for FY2020 no later than September 2021 (ICR, Annex 1).

Achieving this outcome would contribute to PDO 1 by improving both fiscal transparency and accountability in the participating states reflected in increased openness and citizens' engagement in the budget process. This DLI was relevant, impactful, and defined according to the SMART criteria.[1] It would incentivize critical actions along the results chain to achieve the PDO and trigger significantly improved institutional performance.

**Relevance of DLI 2: High**.

[1] The SMART criteria is a framework used to set specific, measurable, achievable, relevant and timely goals.

**Rating**
High

## DLI 3

**DLI**
Improved cash management and reduced revenue leakages through implementation of (TSA).

**Rationale**
DLI 3 contributed to PDO 2 by strengthening sustainability in the participating states through the implementation of a state TSA. The state TSA would be based on a formally approved cash management strategy, was functional and covered a minimum percentage of state government finances. The PforR program initially aimed at a state TSA that covered a minimum of 80 percent of state government finances (ICR, Annex 1).

The original disbursement allocated to this DLI was US$18 million, but this was modified to US$36 million after AF (ICR, Annex 5.5).

Achieving this outcome would contribute to PDO 2 by strengthening fiscal sustainability in the participating states reflected in having their own TSAs into which at least 80 percent of their revenues were channeled. This DLI was relevant, impactful, and challenging yet achievable. It would incentivize critical actions along the results chain to achieve the PDO and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI3: High**.

**Rating**
High

## DLI 4

**DLI**
States that increased internally generated revenue (IGR) collection by more than 20 percent annually (in nominal terms).

**Rationale**

DLI4 contributed to PDO 2 by strengthening sustainability in the participating states through efforts to support an increase in the state's revenue. This was to be measured by 4.1) Consolidated state revenue code covering all state IGR sources and stipulating that the state bureau of internal revenue was the sole agency responsible for state revenue collection and accounting approved by the state legislature and published; and 4.2) Annual nominal IGR growth rate meeting targets.

The original disbursement allocated to this DLI was US$46 million, but this was modified to US$68 million after AF (ICR, Annex 5.5).

The PforR program initially aimed at 4.1) Having the state implement a consolidated state revenue code covering all state IGR sources and stipulating that the state bureau of internal revenue was the sole agency responsible for state revenue collection and accounting. The code had to be approved by the state legislature and published (one-time payment for year in which DLR is first achieved, up to end of 2021); and 4.2) 2021-2020 annual nominal IGR growth rate meeting the target: Basic target: 20% - 39%; Stretch target: 40% or more (ICR, Annex 1).

Achieving this outcome would contribute to PDO 2 by strengthening fiscal sustainability in the participating states reflected in having a consolidated state revenue code and centralizing collection and management of state revenue. This DLI was relevant but not impactful IGR collection measured nominal increases which demonstrated progress, but the latter was not a measurement of a real revenue increase that would have allowed for a more robust assessment of the improvements. Therefore, this DLI is deemed not clearly defined according to the SMART criteria.

**Relevance of DLI4 is rated Modest**.

**Rating**
Modest

## DLI 5

**DLI**
Biometric registration and bank verification number (BVN) used to reduce payroll fraud.

**Rationale**
DLI5 contributed to PDO 1 and PDO 2 by strengthening transparency, accountability and sustainability in the participating states and supporting efforts to increase state revenue. This was to be measured by 5.1) Biometric capture of at least 60/75 percent of current civil servants and pensioners completed and linked to payroll and identified ghost workers taken off the payroll; and 5.2) Link BVN data to at least 60/75 percent of current civil servants and pensioners on the payroll and payroll fraud addressed.

The original disbursement allocated to this DLI was US$37.0 million, but this was modified to US$84.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for 5.1) Biometric capture of at least 95 percent of current civil servants and pensioners completed and linked to payroll and identified ghost workers taken off the payroll; and 5.2) Link BVN data to at least 95 percent of current civil servants and pensioners on the payroll and payroll fraud addressed (ICR, Annex 1). This DLI was relevant, impactful, and achievable. It would incentivize critical actions along the results chain and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI5: High**.

**Rating**
High

## DLI 6

**DLI**
Improved procurement practices for increased transparency and value for money.

**Rationale**
DLI 6 contributed to PDO 1 by strengthening transparency and accountability by supporting states' efforts to improve procurement processes. This was to be measured by 6.1) Existence of a public procurement legal framework and regulatory agency; and 6.2) Publishing contract award information above a monthly threshold in the Open Contracting Data Standard (OCDS) format on the state's website/online portal and implementing e-procurement in at least four MDAs.

The original disbursement allocated to this DLI was US$37.0 million, but this was modified to US$50.0 million after AF (ICR, Annex 5.5).

The public procurement legal framework had to conform with the UNCITRAL Model Law and provide for: 1) e-Procurement; 2) establishment of an independent procurement regulatory agency and 3) cover all MDAs receiving funds from the state budget (one-time payment for the year in which the DLR was first achieved). No later than June 30, 2022, the PforR program aimed to implement e-procurement in at least 4 MDAs (including Education, Health and Public Works); publish all contract award information in OCDS format on the online portal for the 4 MDAs and for those MDAs without e-procurement (ICR, Annex 1). This DLI was relevant, impactful, and achievable. It would incentivize critical actions along the results chain to achieve the PDO and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI 6: High**.

**Rating**
High

## DLI 7

**DLI**
Strengthened public debt management and fiscal responsibility framework.

**Rationale**

DLI 7 contributed to PDO 1 and PDO 2 by strengthening transparency, accountability and sustainability in the participating states by supporting efforts to improve debt management and fiscal sustainability. This was to be measured by 7.1) Approval of state-level public debt legislation; and 7.2) Quarterly state debt reports acceptable to the Debt Management Office (DMO) on average two months or less after the end of the quarter.

The original disbursement allocated to this DLI was US$51.0 million, but this was modified to US$43.5 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for 7.1) State implementing state-level debt legislation, which stipulates: 1) responsibilities for contracting state debt; 2) responsibilities for recording/reporting state debt; and 3) fiscal and debt rules/limits (one-time payment for year in which DLR is first achieved); and 7.2) Quarterly state debt reports accepted by the DMO on average two months or less after the end of the quarter in 2021 and annual state debt sustainability analysis and medium-term debt management strategy published by the end of December 2021 (ICR, Annex 1).

Achieving this outcome would contribute to PDO 2 by strengthening sustainability in the participating states reflected in establishing a public debt legal framework and debt rules / limits as well as debt reporting and annual sustainability analysis. This DLI was relevant, impactful, and very challenging yet achievable. It would incentivize critical actions along the results chain to achieve the PDO and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI7: High**.

### Rating
High

## DLI 8
### DLI
Improved clearance/reduction of stock of domestic expenditure arrears.

### Rationale
DLI8 contributed to PDO 2 by strengthening fiscal sustainability in the participating states by supporting efforts to improve the arrears clearance framework. This was to be measured by domestic arrears reported in an online publicly accessible database with a verification process in place, and an arrears clearance framework established and percentage decline in the verified stock of domestic arrears at end 2019 compared to end 2018 meeting the target.

The original disbursement allocated to this DLI was US$15.0 million, but this was modified to US$32.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for domestic arrears as of end 2020 and end 2021 reported in an online publicly-accessible database with a verification process in place, and percentage decline in the verified stock of domestic arrears at end of 2021 compared to end 2020 meeting targets and was consistent with the states' arrears clearance framework: a) Basic target: At least a 5 percent decline or maintain stock below 5 billion Naira; b) Stretch target: More than 20 percent decline (ICR, Annex 1).

Achieving this outcome would establish an arrears clearance framework and regular reporting of stock decline in the participating states, thus strengthening fiscal sustainability. This DLI was relevant, impactful, and very challenging yet realistic to achieve. It would incentivize critical actions along the results chain to achieve the PDO and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI8: High**.

**Rating**
High

## DLI 9

**DLI**
Improved debt sustainability

**Rationale**
DLI9 contributed to PDO2 by strengthening sustainability in the participating states by supporting efforts to improve debt sustainability. This was to be measured by targets on average monthly debt service deduction and targets on total debt stock as a share of total revenue.

The original disbursement allocated to this DLI was US$55.5 million, but this was modified to US$31.5 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for average monthly debt service deduction that was less than 40% of gross FAAC allocation for FY2021 and Total debt stock at end Dec 2021 as a share of total revenue for FY 2021 meeting the target: a) Basic target: less than 120%; b) Stretch target: less than 95% (ICR, Annex 1).

Achieving this outcome would contribute to PDO 2 by strengthening sustainability in the participating states reflected in establishing a debt service and debt stock rules/limits. However, this DLI had attribution challenges and was therefore not amenable to verification as the total annual revenue for the states was contingent on fiscal transfers from the federal government and the country's macroeconomic situation rather than on the state alone.

**Relevance of DLI 9 is rated Modest**.

**Rating**
Modest

## DLI 10

**DLI**

Enhanced transparency and accountability of funds in the COVID-19 response and resilient recovery phases.

**Rationale**

In October 2020, there was an expansion of the PforR program boundary with the inclusion of 4 new DLIs (10-13) to support the implementation of the state-level fiscal measures in the NEC COVID-19 Plan.

DLI10 contributed to PDO 1 by supporting efforts to improve transparency and accountability of funds in the COVID-19 response. This was to be measured by 10.1) Publication of audited financial statements of local governments of participating states; and 10.2) Publication of local governments budget execution reports on allocations and actual expenditures incurred for the COVID-19 response and financial and compliance audit reports covering the COVID-19 response and recovery PforR program expenditures in participating states.

The original disbursement allocated to this DLI was US$33.4 million, but this was modified to US$128.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for 10.1) No later than September 30, 2021, the FY 2020 audited financial statements of all local governments (LGs) in the participating state, including all allocations and actual receipts of state-local government joint account allocation committee (SLJAAC) transfers for each LG in the participating state, have been published on a state official website; and 10.2) The participating state has published: (a) on a monthly basis within one month after the end of each month, for five consecutive months starting August 2020, budget execution reports on budget allocations and actual expenditures incurred for the COVID-19 response and recovery programs using the National Chart of Accounts (NCOA) on the Open Treasury Portal; and (b) on a quarterly basis within two months at the end of each quarter, for three consecutive quarters starting with the third quarter of FY 2020, dedicated financial and compliance audit reports covering their COVID-19 response and recovery program expenditures.[1]

Achieving this outcome would contribute to PDO 1 by improving both the fiscal transparency and accountability of funds used in the COVID 19 response in the participating states. This DLI was impactful, though it could have been defined in a simpler manner.

**Relevance of DLI10: Substantial**.

[1] The incomplete sentence related to 10.3 is an error, according to the TTL (ICR, p. 34).

**Rating**

Substantial

## DLI 11

**DLI**

Provided structured tax relief in response to COVID-19 and strengthened tax administration (personal income tax and property taxation) to enhance non-oil tax collection in the resilient recovery phase.

**Rationale**

DLI11 contributed to PDO 2 by strengthening sustainability in the participating states supporting efforts to provide tax relief and enhance tax collection for the non-oil sector in response to COVID-19. This was to be measured by 11.1) Approval of a tax compliance relief program and issuance of its guidelines for implementation; 11.2) Prospective prohibition of the contracting of private consultants for the assessment and collection of personal income tax; and 11.3) Completion or update of a percentage of the property records of properties that had electricity connections in urban areas in the participating state.

The original disbursement allocated to this DLI was US$90.0 million, but this was modified to US$98.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for: 11.1) No later than July 31, 2020, a timebound tax compliance relief program for individual taxpayers and businesses was published on a state official website and through a press release. It had to be compliant with the criteria in the verification protocol and be approved by the State Board of Internal Revenue/State Commissioner of Finance. In addition, and no later than September 30, 2020, government guidelines for the implementation of the announced tax compliance relief program were issued by the Board of Internal Revenue/Ministry of Finance of the participating state to tax administration officials and agents; 11.2) No later than June 30, 2021, the participating state was prohibited, on a prospective basis, from the contracting of private consultants for the assessment and collection of personal income tax which was the sole responsibility of the state revenue agency. In addition, no such contracts were to be entered into or renewed during the period starting on September 1, 2020 through the date of issuance of such regulation; 11.3) No later than June 30, 2022, the property records for at least 20% (basic) or 50% (stretch) of properties that had electricity connections in 'urban areas' in the participating state were to be completed or updated per criteria in the verification protocol; stored in an electronic database; with said records to be valid as on September 1, 2020 or later; and the participating state had established institutional arrangements to use the property records to improve or start tax relief in response to COVID-19 (ICR, Annex 1).

Achieving this outcome would contribute to PDO 2 by strengthening sustainability in the participating states supporting efforts to formulate a tax relief program and guidelines to implement it. This DLI was relevant and contributed to achieving the PDO.

**Relevance of DLI11: Substantial**.

### Rating
Substantial

## DLI 12
### DLI
Strengthened procurement function for COVID-19 or emergency situation and facilitated participation of SMEs in public procurement in the resilient recovery phase.

### Rationale
DLI12 contributed to PDO 1 by strengthening transparency and accountability through improvements in the procurement guidelines and processes for COVID-19 and other emergency situations. This was measured by the following supporting efforts: 12.1) issue guidelines and adaptation of existing public procurement procedures for participation of SMEs in COVID-19 procurement contracts; and 12.2) publication of all procurement contracts to support the participating state's COVID-19 response. The original disbursement allocated to this DLI was US$90.0 million, but this was modified to US$42.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for: 12.1) No later than September 30, 2020, the Public Procurement Authority (PPA) of the participating state has issued guidelines compliant with the verification protocol, for (i) the procurement of goods and services for COVID-19 and other emergency situations; and (ii) the adaptation of existing public procurement procedures to support the increase in participation of SMEs (the "SME Guidelines"); and at least two training sessions for SMEs on the SME Guidelines have been held; 12.2) No later than June 30, 2021, the PPA has published on its official website, a list of all contracts executed to support the participating state's COVID-19 response in the fourth quarter of FY 2020 and the first quarter of FY 2021; and no later than September 30, 2021, the participating state has awarded at least 20 more contracts to SMEs in the period after September 30, 2020, as compared to the period January 1, 2020 to September 30, 2020 (ICR, Annex 1).

Achieving this outcome would contribute to PDO 1 by strengthening transparency and accountability of all contracts executed to support the participating states' COVID-19 response, as well as increase SME participation in procurement contracts. This DLI was relevant, impactful and achievable. It would incentivize critical actions along the results chain to achieve the PDO and trigger some improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI12: Substantial**.

**Rating**
Substantial

## DLI 13

**DLI**
Established a fiscally sustainable response to COVID-19 through COVID-19 responsive budgets.

**Rationale**
DLI13 contributed to PDO 2 by strengthening sustainability in the participating states through efforts to improve budget responsiveness to COVID 19 and other emergency situations. This was to be measured by supporting efforts to 13.1) Amend the State budget; 13.2) Execute at least 90 percent of the tagged COVID-19 response expenditures in the Amended 2020 State Budget; and 13.3) Execute most of the COVID-19 response expenditures in the Amended State Budget in 2020 and 2021.

The original disbursement allocated to this DLI was US$180.0 million, but this was modified to US$50.0 million after AF (ICR, Annex 5.5).

The PforR program initially aimed for 13.1) No later than July 31, 2020, an Amended 2020 State budget, which meets the criteria set out in the verification protocol, has been approved by the House of Assembly of the participating state, assented to by the governor, and published on a state official website; 13.2) The participating state has executed at least 90 percent of the tagged COVID-19 response expenditures in its amended 2020 State Budget per criteria set out in the verification protocol; and 13.3) The participating state has executed at least 90 percent of the tagged COVID-19 response expenditures in their 2021 State Budget, per criteria set out in the verification protocol (ICR, Annex 1).

Achieving this outcome would contribute to fiscal sustainability in the participating states. This DLI was relevant, impactful, and achievable. It would incentivize critical actions along the results chain to achieve the

PDO and trigger significantly improved institutional performance. It was defined according to the SMART criteria and had a clear link with the results framework.

**Relevance of DLI 13 is rated High**.

**Rating**
High

## OVERALL RELEVANCE RATING

**Rationale**

The relevance of the PDO was High at appraisal and at closing. The PforR instrument was appropriate as it provided opportunities to the WBG for influencing a large government program with a sharp focus on results. The PforR program centered on policies and systems foundational for achieving results under the revised Public Finance Management Reform Strategy (PFMRS) and was aligned with the CPF for Nigeria supporting core national programs to respond to COVID-19. The PDO statement was adjusted to reflect the impact of the COVID-19 context, and the PforR program was expanded with 4 new DLIs to support the implementation of the state-level fiscal measures in the NEC COVID-19 Plan.

The relevance ratings of the 13 DLIs were mostly High and Substantial (77% of DLIs) and Modest (23%). No DLI was rated Negligible. The DLIs covered some fundamental themes of the GoN's Fiscal Sustainability Plan, the governance reforms and the COVID-19 Plan centering on budget transparency, citizen accountability, revenue mobilization and debt sustainability, together with overarching DLIs pertaining to structural reforms such as the creation of the state TSAs for driving the government's reforms in the years beyond the PforR Program's lifetime. Most DLIs were relevant, impactful, and challenging but achievable. According to the ICR, the design of the 13 DLIs was done in a consultative manner through extensive discussions with all the states during PforR Program preparation (ICR, p. 15) and was founded on extensive analytic work. Most DLIs also incentivized critical actions along the results chain to achieve the PDO, triggered significantly improved institutional performance, were defined according to the SMART criteria, and had clear links with the results framework. The allocated amounts were adequately set. There were, however, minor shortcomings in the design of some DLIs (DLI 1, 4, 9, 10, 11 and 12) regarding attribution and complexity which complicated implementation. The relevance of DLIs is rated **Substantial**.

**Rating**
Substantial

## 4. Achievement of Objectives (Efficacy)

## OBJECTIVE 1

### Objective

Strengthened fiscal transparency and accountability in the participating states.

### Rationale

At appraisal, the states lacked basic fiscal transparency and accountability. Key budget documents and audited financial statements were mostly not published or published late. Citizens' engagement in the budget process was limited. Budgets were not credible as the budget deviation (difference between planned and actuals) was extremely high - between 30 to 55 percent.

The theory of change (TOC) underlying PDO 1 (matching KRA 1) would be achieved through activities that enabled the states to: (1) Increase the quality (to international standards), timeliness and transparency of the budget, budget implementation reports, and audited financial statements; (2) Increase citizens' participation in the budget process and use of results by civil society organizations (CSOs) to promote fiscal transparency and accountability; (3) Improve budget credibility by reducing deviation in total state expenditure outturn; and (4) Improvements in transparency and accountability of funds in the response to the COVID-19 pandemic and resilient recovery phases for all participating states.

**Key outputs (ICR, Annex 5.1)**

- Key state budget and financial documents published online: state budget, state audited financial statements, quarterly budget implementation reports (DLI 1), recovery expenditures and audit reports and financial statements of all LGs (DLI 10).
- Public consultations on the state budgets & accountability reports online (DLI 2).
- Enactment and implementation of the state audit law (DLI 10).

The achievement of PDO 1 is assessed through the PDO 1 indicator and several DLI Indicators supplemented with Intermediate Results Indicators (IRI) that are relevant for PDO 1/KRA 1 (Annex 5.6).

**Increased Fiscal Transparency and Accountability**

- **PDO Indicator 1.** Improvement in aggregated State Budget Transparency Survey score, defined as the aggregated scores for the first two indexes produced by the survey: 1) State Budget Document Availability Index; and 2) State Public Participation Index for Tier 1 and Tier 2 states,[1] between 2018 and 2021 for States participating in the PforR. **Baseline (2017)**: Median aggregate score for all: 28/100. Average for Tier 1: 43/100. Average for Tier 2: 13/100 (2019). Target (2021): Improvement in average 2021 score compared to 2018: Tier 1 States by 20% and Tier 2 States by 50% of their aggregated score. **Actual:** Tier 1 States: by -7%, Tier 2 States: by 230% (April 2023). Given that Tier 2 states were the ones most in need of incentivizing, since they were the "bottom" Tier on this survey of budget transparency, this improvement was significant. **Achievement of PDO indicator 1: Partially met.**

Other measures of fiscal transparency related to budget reporting:

- **DLI 1-related** (IRI 1.1)**.** Number of states preparing annual state budgets using the National Chart of Accounts (GFS compliant) and publishing online by end January of that FY. Baseline (2017): 13. Target (2021): 30. Actual: 36 (June 2021). **Achievement of IRI 1.1: Surpassed.**

- **DLI 1-related** (IRI 1.2). Number of states preparing annual audited financial statements in accordance with IPSAS (cash or accrual) standards and publishing online by July of the following FY. Baseline (2017): 9. Target (2021): 30. Actual: 36 (April 2023). **Achievement of IRI 1.2: Surpassed.**
- **DLI 1.1-related** (IRI 1.3). Number of states publishing in-year quarterly budget implementation reports online within four weeks from quarter-end. Baseline (2017): 9. Target (2021): 25. Actual: 30 (April 2023). **Achievement of DLI 1.1: Surpassed.**
- **DLI 1.2–related** (IRI 1.4)**.** Number of states with expenditure outturn deviation (from original approved budget) less than 15 percent (PEFA threshold)**. Baseline (2017):** 12. Target (2021): 4. Actual: 15 (April 2023). **Achievement of DLI 1.2: Not achieved.**

Measures of fiscal transparency related to female/citizens' participation

- **DLI 2.1-related** (IRI 1.6). Female participation in the budget consultation process. Baseline (2017): 20%. Target (2021): 40%. Actual: 20% (April 2023). **Achievement of DLI 2.1: Not achieved).**
- **DLI 2.2–related** (IRI 1.7). States with citizens' budget, based on the states' approved annual budget, published online by April of that FY and with functional online feedback mechanisms. Baseline (2017): 5. Target (2021): 20. Actual: 28 (April 2023). **Achievement of DLI 2.2: Surpassed.**

Measures of fiscal transparency related to state and local governments

- **DLI 10.1-related** (IRI 1.9). Number of states that have published online audited financial statements of all local governments in their state for FY2018, FY2019 and FY2020 with the inclusion of state-local government joint account allocation committee transfers for FY 2019 and FY2020. Baseline (2017): 0. Target (2021): 30. Actual: 32 (December 2021). **Achievement of DLI 10.1: Surpassed.**
- **DLI 10.3-related** (IRI 1.10). Number of States that have implemented operational and financial autonomy to the Offices of Auditors-General at the state and local government levels in the state. Baseline (2017): 10. Target (2021): 30. Actual: 24 (December 2021). **Achievement of DLI 10.3: Partially achieved.**
- Measures of fiscal transparency related to COVID-19 **DLI 10.2–related** (IRI 1.11). Number of States that have published COVID-19 response and recovery expenditures and audit reports. Baseline (2017): 0. Target (2021): 30. Actual: 15 (August 2020). **Achievement of DLI 10.2: Partially achieved.**

The overall efficacy rating for PDO 1 (KRA 1) is **Substantial**. Although the **PDO Indicator 1 indicator was only partially achieved, it showed strong progress in all the tier 2 states that surpassed the targets.** Fiscal transparency related to improvements in financial reporting and budget reliability was strongly achieved by most states (30 states out of a total of 36) according to three different indicators with promise of being sustained after PforR program closure. Good progress was also made in citizen's engagement in budget preparation and reporting (28 out of 36 states) although female engagement was low. Most states (30 out of 36) also made strong progress in publishing online audited financial statements of all local government accounts. The PforR program did less well in achieving fiscal transparency in the following areas: the target for the number of states with expenditure outturn deviation (from original approved budget) of less than 15 percent was missed; however, this indicator had attributional issues as states' revenues largely depend on transfers from the federal government. The target for female participation in the budget consultation process was totally missed. The ICR notes that this indicator was not monitored (para 37). Only 80 percent of the target for the number of states that implemented operational and financial autonomy to the Offices of Auditors-General at the state and local government levels in the state was achieved. There were also missed targets related to the transparency and accountability of funds in the COVID-19 response and recovery phases for all participating states. Only 50 percent of the states (15 instead of 30) published COVID-19 response and recovery expenditures and audit reports – the ICR states that this was partly due to the complexity of the indicator.

**The overall efficacy rating for PDO 1 is: Substantial.**

[1] Tier 1 states refer to the 18 states who performed above the median score in the 2018 Survey; and Tier 1 states refer to the 18 states who performed below.

**Rating**
Substantial

## OBJECTIVE 2

**Objective**
Strengthen sustainability in the participating states, including in the context of the COVID-19 response.

**Rationale**
While the PDO did not specifically define sustainability, the PforR program sought to strengthen sustainability through three channels: increase internally generated revenue or IGR (KRA 2), increase efficiency in public expenditure (KRA 3), and strengthen debt sustainability (KRA 4).

**Strengthened internally generated revenue (IGR) - KRA 2**

In 2017, IGR represented 30 percent of total state revenues, and taxpayers faced uncertainty as only 6 states had a consolidated IGR tax code. Many states were able to increase IGR significantly in response to the reduction in statutory transfers from the federal consolidated fund by reducing IGR leakages through the implementation of a state-level TSA, and intensifying efforts in IGR collection.

The TOC underlying PDO 2 was that by supporting states to (1) increase IGR collection while providing more transparency and certainty to taxpayers; and (2) reduce revenue leakages by implementing centralized TSA at the state-level, fiscal sustainability would be enhanced.

The key outputs to achieve these outcomes were (Annex 5.1):

- Functional state-level TSA (DLI 3).
- Consolidated tax code covering all state IGR sources approved and published (DLI 4).
- Announced and implemented tax compliance relief program for taxpayers and businesses (DLI 11).
- End the practice of contracting out Personal Income Tax (PIT) assessment and collection to private consultants (DLI 11).
- Updated property records of at least 50% of all properties in urban areas (DLI 11).

The achievement of PDO 2 through a strengthened IGR (KRA 2) is assessed by a combination of the PDO 2 indicator 2, and indicators for the relevant DLIs and IRIs.

- **PDO Indicator 2/DLI 4.2.** Number of states that increased internally generated revenue collection by more than 20 percent annually (in nominal terms). Baseline (2017): 15. Target (2021): 22. Actual: 27 (April 2023). **Achievement of PDO Indicator 2/ DLI 4.2: Surpassed.**
- **DLI 3** (IRI 2.1**).** Number of states with a functional Treasury Single Account (TSA) system based on a formally approved cash management strategy and covering a minimum of 80 percent of state government finances. Baseline (2017): 6. Target (2021): 25. Actual: 17 (April 2023). **Achievement of DLI 3**: **Partially achieved** (by 68% of the targeted states).
- **DLI 4.1** (IRI 2.2). Number of states with approved and published consolidated and updated revenue code covering all local and state IGR sources. Baseline (2017): 0. Target (2021): 12. Actual: 19 (April 2023). **Achievement of DLI 4.1**: **Surpassed.**
- **DLI 11.1** (IRI 2.3). Number of States with announced and implemented tax compliance relief program for individual taxpayers and businesses to mitigate the impact of COVID-19. Baseline (2017): 0. Target (2021): 30. Actual: 35 (December 2020). **Achievement of DLI 11.1: Surpassed.**
- **DLI 11.3** (IRI 2.4). Number of States that have strengthened the foundation for state property taxation by updating property records of at least 50% of all properties in urban areas. Baseline (2017): 2. Target (2021): 24. Actual: 32 (April 2023). **Achievement of DLI 11.3: Surpassed.**

The overall efficacy rating for KRA 2 is: **Substantial.** The targets for the DLIs related to the updating of the state and local government revenue codes, updating of property tax base in urban areas and the implementation of the tax relief for individual taxpayers and businesses to mitigate the impact of COVID-19 were surpassed. Key achievements of the PforR program included implementation of a tax compliance relief program for individual taxpayers and businesses to mitigate the impact of COVID-19 in 35 of the 36 states; and strengthening the property tax systems by enabling states to collect geo-coded property information for more accurate, market-based valuations. States centralized this data in electronic databases and adopted regulations for sharing it with revenue services and other agencies via interoperable Application Programming Interfaces.

The achievement of KRA 2 was weak in two areas. Although the IGR-related PDO Indicator 2 (DLI 4.2) was surpassed, it did not measure the real increase in IGR as it was denominated in nominal terms (20% increase in IGR) and failed to net out inflation which was 16.8% at the end of 2021 in Nigeria. This meant that the real increase in the IGR was only 3%. Second, the target for the states that established a functional TSA system was met by only 68% of the targeted states. As per the ICR (para 42), achieving this target was difficult due to competing interests to engage various private banks, and some misunderstanding among states concerning the revenue management of semi-autonomous institutions (hospitals and tertiary education facilities). However, the ICR also notes (ICR para 43) that the impact of the TSA reform on the implementing states was significant in several ways. For this reason, the efficacy rating of KRA 2 is Substantial.

**Strengthened Efficiency in Public Expenditure (KRA 3)**

At appraisal, states faced recurrent spending pressures and inefficiencies in spending driven by personnel spending. Many states had completed biometric capture of their civil servants but only some had linked this to payroll to tackle the issue of paying ghost workers. 20 states had a legal framework for procurement, but procurement systems still lacked transparency and were inefficient. The TOC underlying PDO 2 was to increase efficiency in public expenditure by supporting states to (1) Reduce payroll fraud using biometric and bank verification number (BVN); and (2) Improve the transparency and value for money of public procurement through the implementation of e-procurement systems in Ministries, Departments and Agencies (MDAs), including those delivering education and health services, and open contracting standards.

The key outputs to achieve these outcomes were (Annex 5.1):

- Biometric and BVM data linked to payroll by states (DLI 5).
- State public procurement law approved, and state procurement agencies inaugurated; E-procurement piloted in state MDAs; Open contracting standards adopted by states (DLI 6).
- Established procurement guidelines for COVID-19 or emergency and guidelines to facilitate SME participation (DLI 12).

The achievement of PDO 2 through strengthened **e**fficiency in public expenditure (KRA 3) is assessed by a combination of the PDO 2 indicator 3 and indicators for the relevant DLIs and IRIs.

- **PDO Indicator 3/DLI 5.** Number of States that have completed biometrics or a Bank Verification Number (BVN) data to capture at least 90 percent of current civil servants and pensioners and used the biometrics or BVN data. Baseline (2017): 0. Target (2021): 20. Actual: 33. **Achievement of PDO Indicator 3/DLI 5: Surpassed.**
- **DLI 5.1** (IRI 3.1). States that have completed biometric capture of at least 90 percent of current civil servants and pensioners and used the biometrics data to identify and remove ghost workers off the payroll. Baseline (2017): 10. Target (2021): 20. Actual: 33. **Achievement of DLI 5.1: Surpassed.**
- **DLI 6.1** (IRI 3.3). States with approved and adequate Public Procurement Law and established regulatory agency. Baseline (2017): 0. Target (2021): 12. Actual: 33. **Achievement of DLI 6.1: Surpassed.**
- **DLI 6.2** (IRI 3.4)**.** States that have implemented e-procurement in at least four MDAs, including health, education, and public works. Baseline (2017): 0. Target (2021): 15. Actual: 18. **Achievement of DLI 6.2**: **Surpassed.**
- **DLI 12** (IRI 3.6)**.** Number of States with strengthened procurement function for emergencies, including COVID-19 and facilitated participation of SMEs. Baseline (2017): 0. Target (2021): 30. Actual: 28. **Achievement of DLI 12: Partially achieved.**

The overall efficacy rating for KRA 3 is: **High** as all but one DLI outcome was achieved. The exception, DLI 12, which was related to the number of states with a strengthened procurement function for emergency situations and participation of SMEs was almost achieved. Both DLIs related to the use of biometrics or BVN data to control personnel expenditures, and procurement reforms were critical achievements as they strengthened fiscal expenditure-related institutions and should support PDO 2 by enhancing fiscal transparency and sustainability in the Nigerian states.

**Strengthened Debt Sustainability (KRA 4)**

The total debt stock had doubled between 2014 and 2016, and debt management needed to be strengthened. 22 of the 36 states had fiscal responsibility laws, but many of these laws did not contain key provisions for debt management or rules limiting fiscal deficits. Debt sustainability analyses were not conducted to inform fiscal policy or the medium-term expenditure framework (MTEF). In just two years (2014-2016), domestic debt arrears had accumulated rapidly, the total debt stock had doubled, and the debt-to-revenue ratio tripled to 169 percent in 2016 (ICR, para 48). The TOC underlying PDO 2 was to strengthen debt sustainability by supporting states to (1) strengthen the legal framework for debt management and fiscal responsibility, improve state debt reporting and debt sustainability analyses; (2) reduce the stock of domestic expenditure arrears; and (3) strengthen debt sustainability ratios.

The key outputs to achieve these outcomes were (Annex 5.1):

- State public debt legislation approved (amended); timely and accurate state debt reporting to Debt Management Office (DMO); and state debt sustainability analysis conducted (DLI 7).
- Established system of domestic arrears counterpart verification (DLI 8).

The achievement of PDO 2 through strengthened debt sustainability (KRA 4) is assessed by a combination of the PDO 2 indicators 4 and 5, and indicators for the relevant DLIs and IRIs.

- **PDO Indicator 4/DLI 9:** Number of States with total debt stock as a share of total revenue for the preceding 12 months being less than 100 percent. Baseline (2017): 5. Target (2021): 16. Actual: 6 (April 2023). **Achievement of PDO Indicator 4 (DLI 9): Not achieved.** As noted in the relevance discussion, there were attribution issues with this indicator as the total revenue states received depended upon federal revenue transfers and external factors.
- **DLI 7.1** (IRI 4.1): Number of States with approved state-level public debt legislation, which stipulates: 1) responsibilities for contracting state debt; 2) responsibilities for recording/reporting state debt; and 3) fiscal and debt rules/limits. Baseline (2017): 6. Target (2021): 15. Actual: 35 (August 2020). **Achievement of DLI 7.1: Surpassed.**
- **DLI 7.2** (IRI 4.2): Number of States with quarterly debt reports accepted by the Debt Management Office (DMO) on average two months after the end of the quarter. Baseline (2017): 10. Target (2021): 25. Actual: 33 (December 2022). **Achievement of DLI 7.2: Surpassed.**
- **DLI 8** (IRI 4.4): Number of States with domestic arrears reported in a publicly available database with verification process in place. Baseline (2017): 0. Target (2021): 15. Actual: 17 (December 2022). **Achievement of DLI 8: Surpassed.**
- **PDO Indicator 5 (DLI 13):** Number of States with published approved credible COVID-19 responsive amended 2020 budgets which have realistic revenue projections and identified financing sources to fully finance the budget deficit. Baseline (2017): 0. Target (2021): 30. Actual: 36 (August 2020). **Achievement of PDO Indicator 5 (DLI 13): Surpassed.**

The overall efficacy rating for KRA 4 is: **Substantial**. PDO Indicator 4 measuring total debt stock as a share of total revenue was achieved by only 37% of the targeted states. The indicator had attribution issues as a state's total revenues depended on transfers from the federal government and therefore, were not within the state's control. This was the case in 2021 and 2022 when total state revenue was significantly lower than expected due to the COVID-19 pandemic and federal government policy affecting Federal Account Allocation Committee (FAAC) revenues, which were a significantly larger share of total revenues than IGR collected by the states. The PforR Program's achievements were high on the other indicators related with public debt legislation, and timely reporting of public debt to the DMO and online, and in this sense, the PforR program strengthened public debt management.

**The overall efficacy rating for PDO 2 is: Substantial.**

**Rating**
Substantial

## OVERALL EFFICACY

**Rationale**

The overall efficacy of the PforR program is rated **Substantial** as the operation largely achieved its expected outcomes, and the efficacy of both objectives is rated Substantial**.** At closure, 3 out of 5 PDO indicators had surpassed their targets (PDO indicators 2, 3 and 5), one was partially met (PDO indicator 1), and one was not met (PDO indicator 4) due to attribution problems. At closure, the disbursement rate for the 13 DLIs was 100 percent. The ICR noted that overall actual results exceeded expected results of the PforR program and full disbursement of the results would have been equivalent to 110 percent of financing (ICR, p. 12).18 Out of the 13 DLIs, 3 contributed to PDO 1, and 10 DLIs contributed to PDO 2. Out of 21 IRIs, 14 surpassed targets, 4 were partially achieved, and 3 were not achieved. Out on 24 DLIs (including PDO indicator-related DLIs), 17 were achieved, 3 were not achieved, and 4 were partially achieved. (Annex 5.6).

The overall efficacy rating for KRA 1 is: **Substantial.** Overall efficacy ratings for KRA 2, KRA 3 and KRA 4 are: Substantial, High, and High, respectively

**Overall efficacy is rated Substantial.**

**Rating**
Substantial

## 5. Outcome

The relevance of the PforR Program's objectives was **High**. They strongly aligned with the country context, the CPF for Nigeria at appraisal and at closing, and directly supported the GoN’s efforts to improve fiscal transparency, accountability and sustainability of the participating states by strengthening the institutions needed to achieve these objectives. The DLIs were highly relevant with a few shortcomings, and almost all were fully or partially achieved with substantial progress.

With the PforR program's objectives rated **High** and an overall efficacy rating of **Substantial,** the overall PforR program Outcome is rated **Satisfactory**

**Outcome Rating**
Satisfactory

## 6. Risk to Development Outcome

The risk to development outcomes for States Fiscal Transparency, Accountability and Sustainability (SFTAS) was substantial. The PforR program established a strong foundation for strengthening fiscal transparency, accountability, and sustainability in the participating states, and adapted to the COVID-19 crisis, helping to ensure government continuity and resilience at the state level in the face of disruptions presented by the crisis. However, an APA-like desk review conducted in Q2 2023 showed mixed results regarding the continuity and sustainability of reforms in the states in the absence of monetary incentives.

The ICR explains that reforms under KRA 1 related to systems for improving fiscal transparency and accountability such as publishing of budget implementation reports continued to be implemented after PforR program closure and are likely to be sustained. Reforms related to female participation in the budget consultation process (IRI 1.6) which were not monitored during the PforR program are unlikely to be sustained as they did not get off the ground. Under KRA 2, which focused on strengthened DRM, achievements in increased IGR collection are likely to be sustained as a consolidated state revenue code covering all state IGR sources was implemented in 29 states. Similarly, the PforR program strengthened property tax systems by enabling states to collect geo-coded property information. The states that centralized this data are likely to use the system, thus sustaining the outcome. Under KRA 3 that focused on increasing efficiency in public expenditure, as 33 states captured the biometrics of at least 90 percent of civil servants and pensioners and used the data to remove ghost workers from their payroll, the outcome is expected to be sustained. In the area of strengthening debt sustainability (KRA 4), the reforms are least likely to be sustained, especially because at the time of PforR program closure, only 6 states had achieved a total debt stock that was less than 100 percent of total revenue.

In addition, macroeconomic, political, and governance risks could impact the PforR pogram's sustainability. Challenges may arise from higher fiscal pressures due to demands for higher public spending and financial needs related to climate-induced disasters. In addition, the reforms to enhance revenues, which are conditioned by federal transfers, and accountability, are politically sensitive and may pose risks to program sustainability. Moreover, changes in government may bring a different set of priorities at the state level. These sensitive issues were not addressed in the ICR.

The WBG mitigated these risks through two new PforR programs to advance progress to date: the post-SFTAS Sustainability Strategy discussions were held in 2021-2022 which led the governors of all 36 states to publicly sign a States Charter to Sustain Transparency, Accountability and Sustainability Reforms. An agreement was reached on actions to be taken by the various stakeholders to promote the institutionalization of good practices and capacity support, financial incentives through both FGN and donor financing to states, and both demand side and peer pressure using a scorecard (Annex 5.8. for the full list of agreed actions). The State Action on Business Enabling Reforms (SABER) Program (P177442) leverages SFTAS to further consolidate gains from reforms implemented across the country by: (i) continuing to use the SFTAS eligibility criteria for access to the grants, providing a continued incentive for the timely publication of NCOA compliant budgets and IPSAS compliant audited financial statements; (ii) elevating the SFTAS result on annual DSA reporting to the EC; and (iii) sustaining the platform of mutual accountability between the states and the federal government, and of peer learning across states.

In addition, the Human Capital Opportunities for Prosperity and Equity Governance (HOPE-GOV) Program (181476) builds on the improved fiscal transparency and accountability results achieved by states under the SFTAS PforR program. It will reinforce the institutionalization for timely publication of core fiscal data, improved budget credibility, procurement transparency and payroll integrity for the primary health and basic education sectors.

## 7. Assessment of Bank Performance

### a. Quality-at-Entry

The SFTAS operation benefitted from the WBG's experience working with the federal and state governments in Nigeria on PFM and fiscal management as well as its experience from other large federal countries such as Brazil and India on issues related to subnational fiscal management. The PforR program design was based on strong country engagement, solid analytical underpinnings from public sector analytical and advisory reports, and technical and fiduciary analyses of country readiness. The decision to use the PforR instrument was informed by an understanding that an appropriately incentivized change management and institutional strengthening approach was required and that a traditional IPF or DPF would not be appropriate for achieving these objectives. The WBG provided TA to facilitate the development of work plans. However, it is not clear how unfamiliarity with the PforR instrument contributed to delays and/or a mismatch in expectations, or how a limited understanding of the PforR concept created weaknesses in work programming, planning, and coordination at program inception, leading to long delays and restructurings.

The 11-month delay in effectiveness was a Nigeria-wide problem, which is the average for most programs/projects and not specific to SFTAS. The main reason for the delay in effectiveness was that every WBG project requires approval by the Parliament, and SFTAS was no exception. Projects are only presented to the Parliament after WBG Board approval. Due to its support to all 36 states, SFTAS was approved by the Parliament ahead of the other projects that went to the Board at the same time in June 2018 (TTL interview).

The PforR program was well designed and based on a clear TOC with DLIs that were aligned with the PDO, and were overall clearly defined and measurable, with a clear protocol and methodology for monitoring and verification detailed in the operations manual. However, it is unclear if the participating states' lack of experience in PforRs added to the delays in implementation and whether these challenges were mitigated by the WBG through TA. The Operational Risk Assessment Framework included in the original design (PAD) identified various risks (macroeconomic, political, governance, technical design, institutional capacity, and fiduciary risk) and proposed adequate mitigation measures.

The PforR program adapted well to the unforeseen pandemic challenges and was used to manage the fiscal impacts on states to safeguard social services.

While the design of most DLIs and the elaborate set of indicators is generally robust and based on solid foundations and availability of good data, there were a few shortcomings in design. There was no PDO indicator to measure accountability even though it was an integral part of the PDO. Two of the PforR program's DLIs had measurement and attribution deficiencies. As an example, in DLI 4.2, the target of 20% for growth in IGR collection was set in nominal instead of real terms when inflation was over 16.8%, making it difficult to assess real progress in the outcome. Another example is the attribution issue for DLI 9/PDO indicator 4 defined as the total debt stock as a share of total revenue when state revenues are dependent upon federal revenue transfers and external factors to a significant extent. Low achievement of the indicator for COVID-19 related expenditures and audit reports is attributed to its complexity which led 50% of the states to miss the target (ICR).

The overall design of the PforR was efficient and well-suited to the institutional needs of Nigeria.

**Quality-at-Entry Rating**
Satisfactory

### b. Quality of supervision

The PforR program benefitted from the fact that both the TTLs and all the core members of the task team were based in Abuja. However, the Task Team would have benefited from additional expertise in local governance/ decentralization issues (ICR, p. 18). The WBG team conducted regular implementation support missions (ISMs). Although the ICR fails to report how many virtual missions were conducted during the pandemic, the TTL explained that even during the COVID-19 pandemic, the TTLs and task team remained in Abuja, daily supervision became virtual and the adoption of Zoom and MS teams was very quick by government counterparts including the states due to the strong motivation to restructure and obtain additional financing so that SFTAS could support states to fiscally respond to COVID-19 (TTL interview). Virtual meetings have continued post COVID-19 which makes communication with the 36 states easier. Aide-Memoires were overall candid, comprehensive and of high quality. They provided recommendations on how to address implementation challenges, but there were a few inconsistencies in the reporting of results in the ISRs. An MTR was conducted between September 27, 2021, and January 30, 2022.

Implementation arrangements were satisfactory, with clear agreements on the roles and responsibilities of the Steering and Technical Committees.

According to the ICR, a key factor that influenced the success of the PforR program was the WBG team helping the government to improve its capacity for compliance with safeguards, procurement, and financial management; flagging potential issues and devising action plans to remedy them; and restructuring the PforR program in response to the COVID-19 crisis and the projected decline in co-financing.

Although the ICR argues that seven restructurings were necessary, IEG has the view that the closing date could have been better anticipated to avoid the last four extensions.

**Quality of Supervision Rating**
Satisfactory

**Overall Bank Performance Rating**
Satisfactory

## 8. M&E Design, Implementation, & Utilization

### a. M&E Design

The M&E design for such a large and complex PforR program was challenging but enabled assessment of the achievement of the PDO and testing of the links in the results chain. The TOC at appraisal was clear, sound and reflected in the results framework. The DLIs were, for the most part, clearly defined, measurable, and aligned with the PDO with a clear protocol and methodology for monitoring and verification detailed in the operations manual, but two had attribution or complexity problems (DLI 4.2 and DLI 9/PDO indicator 4). The results framework included both PDO indicators and IRIs, each with a baseline and end of PforR program target, all derived from the set of DLIs. The protocol for verifying and assessing progress of the indicators was aligned with those for DLI verifications.

There were some design shortcomings that had implications for monitoring results. The objectives were clearly specified, but too broad, making it difficult for the indicators to encompass all outcomes of the PDO statement. An example is PDO 2: ‘To strengthen sustainability in the participating states.’ Some PDO indicators had attribution-design flaws. PDO indicator 4 (also DLI 9) on debt sustainability measured a state’s debt stock as a share of annual revenue when the latter was contingent on federal government’s transfers and the country’s macroeconomic situation rather than directly on the state’s generation of revenue. IRI 1.4 on states’ expenditure outturn deviations had similar issues. PDO indicator 2 (DLI 4) on states that increased IGR collection could not track revenue growth robustly as it was defined in nominal not real terms and ignored the high rate of inflation. There was no PDO indicator for measuring accountability although it was an explicit part of the PDO. Finally, PDO indicator 1 on State Budget Transparency Survey score, and DLR 10.2 on publishing COVID-19 related budget execution reports were too complex and the reason why 50% of the states missed their targets (ICR). The restructuring changes made to M&E did not address these issues.

### b. M&E Implementation

The verification protocol was effective in ensuring the necessary flow of funds for implementation. Despite challenges, the PforR program successfully delivered four APA cycles of performance-based financing from FY18 to FY21. An additional desk review was conducted internally by the WB team in FY22 to assess reform continuity without the PforR’s monetary incentives.

The M&E rating was downgraded from Satisfactory to Moderately Satisfactory in January 2020 due to delays in hiring an M&E consultant at the PCU. In May 2022, the M&E rating was upgraded to Satisfactory due to the PCU's active role in monitoring states' progress against DLIs. The PCU conducted a robust review of IVA verification processes, despite the absence of a third-party firm for the verification of the new COVID-19 responsive DLIs and leadership changes in the OAuGF, which negatively affected IVA quality.

### c. M&E Utilization

Data was made available regularly to the WBG and implementing agencies and served as the basis of discussions during implementation support missions (ICR). The M&E data was substantial and included 13 DLIs for 36 states and was effectively used to drive performance improvements. The M&E framework informed decision making including the MTR and the seven restructurings. The APA results were also used at the NGF monthly meetings with all the state governors. Delays in the completion of the 2018 and 2019 APAs did not allow the assessments to inform the next performance cycle.

The WBG, NGF Secretariat and CSOs collaborated on program-generated state-level fiscal data processing and analysis. The fiscal data was used by the CSOs to engage with states on accountability for appropriate financial management and service delivery. State budgets, audited financial statements, budget implementation reports and debt stock data for 2018-2021 are publicly available on the SFTAS website. The adoption of the NCOA in presenting fiscal data by all states for the 2021 annual budgets and budget implementation reports represented an important milestone. The strengthening of the accuracy of state domestic debt data was also an important contribution of the PforR program, including an annual validation and reconciliation process with the Central Bank that was part of the verification protocol for DLI 9.

### M&E Quality Rating

Substantial

## 9. Other Issues

### a. Safeguards

The Environmental and Social (E&S) Systems rating was downgraded from Satisfactory to Moderately Satisfactory in January 2020 but upgraded back to Satisfactory in September 2021. The downgrade was due to delays in implementing the Environmental and Social Assessment (ESA) actions in the PAP because of the late recruitment of the E&S safeguards consultants at PCU. The upgrade was done once ESSA actions were completed, with the rollout of the Grievance Redress Mechanism (GRM) and virtual sensitization and training provided to staff in all 36 states. The GRM used existing and functional structures at all levels of government. Complaints were registered and processed, and all were resolved.

Additionally, under the IPF component, a series of climate change budget tagging (CCBT) capacity-building virtual workshops were conducted in 2021 across 7 states enabling the states to assess climate-related appropriations in their 2021 budgets and 6 states included CCBT in their 2021 citizens' budget publication by end April 2021. The activity was extended to all states and 29 states submitted climate budget notes to the WBG by the end of January 2022.

### b. Fiduciary Compliance

The rating of Fiduciary Systems was downgraded from Satisfactory to Moderately Satisfactory in September 2020 and remained Moderately Satisfactory until PforR program closure due to weaknesses in the accounting system, internal control, and financial reporting. The PCU experienced challenges using the Tokuns Flexible Accounting software, ranging from the software reflecting incorrect balances in the bank reconciliations and showing differences in the accounting entries between cash books and general ledgers and were not able to overcome this issue due to the inability to pay annual maintenance fees to the service provider. This resulted in the PIU reverting to the use of excel to prepare the interim financial reports (ICR, p. 17).

A significant breach of internal control occurred with a direct payment made to the West African Institute for Financial and Economic Management (WAIFEM) that was hired by Public Service Institute of Nigeria (PSIN) to develop a structured curriculum-based PFM training program that was not delivered. However, a direct payment of US$703,575 was made to WAIFEM in advance of contract deliverables being achieved, and not in the contract currency (NGN).

In addition, as of October 28, 2024, US$3.8 million of undocumented advance remains for the most part in the designated accounts of the PCU (US$3.7 million), and the PSIN and the OGP Secretariat. An external audit report covering the period from January 2023 to April 2024 was completed in June 2024. The audit report concluded that the accompanying financial statements of the PforR program fairly present, in all material respects, the summary of sources and use of funds, the use of funds by PforR program component/activity, the withdrawal schedule, the statement of expenditure schedule, and the DA statement for the 16-month period ending on April 30, 2024.

While the procurement function was a significant source of PforR program implementation delay due to a lack of prior experience of the PCU with WBG procedures, all large/major procurements were completed by November 2021. The backlog of activities in the Procurement Plan was reduced with enhanced implementation support from the WBG, including through the recruitment of a consultant to provide hands-on quality assurance and advice to the PCU on WBG procurement guidelines.

### c. Unintended impacts (Positive or Negative)

Some positive gender impacts were delivered but not measured. At appraisal, the PforR program was not gender-tagged and the PforR program's contribution to gender opportunities was limited. During implementation of the PforR program, the OGP team made efforts to help the states focus on inclusivity and emphasized measuring female participation in the budget process. There is, however, no data reported for this IRI. Similarly, the AF referred to the protection of social spending (DLI 10) and the digitization of urban property rights (DLI 11) as benefiting women; however, no records were found tracking the number of women benefitting from these activities.

### d. Other

N/A

## 10. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|---|---|---|---|
| Outcome | Satisfactory | Satisfactory | |

| | | |
|---|---|---|
| Bank Performance | Satisfactory | Satisfactory |
| Quality of M&E | Substantial | Substantial |
| Quality of ICR | --- | High |

## 11. Lessons

IEG concurs with the lessons in the ICR.

**Mitigation measures should be put in place to decrease the risk of changes to the subnational governments' reform agenda.** The sustainability of subnational governments' reform agenda is at risk when the federal government's priorities or policies are changing. The Nigeria SFTAS PforR program illustrates why the results indicators of subnational governments for monitoring PforR programs needed to be designed such that they do not depend on federal revenues or the fiscal relationship of the states with the federal government. The PDO Indicator measuring the total debt stock as a share of total revenue was achieved by only 37 percent of the targeted states because a part of the states' total revenues depended on transfers from the federal government. As the latter's revenues were subject to external and internal shocks, the states had no control over them. Changes in federal priorities can similarly affect federal transfers to the states.

## 12. Assessment Recommended?

No

## 13. Comments on Quality of ICR

This ICR is a tightly written and comprehensive critique of a complex PforR program, despite a few lapses in the quality of data and information. There is a clear link between the narrative, the ratings and the evidence. It provides a candid, accurate and substantiated set of observations that are aligned to the PforR program development objectives. It also provided a clearly constructed matrix of original key expected outcomes and outcome/ intermediary-level indicators (PAD) (Annex 5.3); original DLIs by KRAs (PAD) (Annex 5.4); parent program and AF allocation across DLISs (Annex 5.5); and status of achievement of PDO indicators and DLIs/DLRs at closure (Annex 5.6).

The quality of evidence and analysis is satisfactory and informs all aspects of the ICR. There is a well-articulated theory of change at appraisal and following the 2nd restructuring (October 2020) (Annex 5.1) informing the reader as to how the ratings have been reached and the lessons are specific, useful and based on evidence of what occurred in the PforR program.

The few data/ information lapses include a repeat of the gender section in the other outcomes and impacts sections in the discussion on Poverty Reduction and Shared Prosperity (p. 13).

**a. Quality of ICR Rating**

High