

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: PIDC0122348

<b>Program Name</b>	Power Sector Recovery Performance Based Loan
<b>Region</b>	Africa
<b>Country</b>	Nigeria
<b>Sector</b>	Energy and Extractives
<b>Financing Instrument</b>	Program-for-Results
<b>Program ID</b>	P164001
<b>Parent Program ID</b>	N/A
<b>Borrower</b>	Federal Ministry of Finance
<b>Implementing Agency</b>	Office of Vice President
<b>Date PID Prepared</b>	June 29, 2017
<b>Estimated Date of Appraisal Completion</b>	September 29, 2017
<b>Estimated Date of Board Approval</b>	February 28, 2018
<b>Concept Review Decision</b>	

**I. Introduction and Context**

**A. Country Context**

1. **The 2015 elections marked, for the first time in Nigeria’s history, a peaceful democratic transfer of power between two political parties, in a fast deteriorating macroeconomic environment.** The ruling party in the Federal Government of Nigeria (FGN or the Government), the All Progressive Congress, also won the 2015 state elections in 21 states out of 36, on the same platform. This was the first time that the opposition won the national elections since 1999. The new cabinet was sworn into office, in November 2015, seven months after the elections. The Buhari administration took office in a context of three major global economic transitions: The slowdown and rebalancing of the Chinese economy; lower commodity prices, especially the sharp drop in oil prices; and tightening financial conditions and risk aversion of international investors. These external shocks have all had a significant impact on the Nigerian economy.

2. **GDP growth fell from 6.3 percent in 2014 to 2.7 percent in 2015, and to negative 1.6 percent in 2016, bringing Nigeria’s first full-year of recession in 25 years.** In 2016, global oil prices reached a 13-year low and oil production was crushed by vandalism and militant attacks in the Niger Delta, resulting in severe contraction of oil Gross Domestic Product (GDP). While the oil sector represents only 8.4 percent of GDP, the lower foreign exchange (FX) earnings from oil exports - which more than halved from US\$76.5 billion in 2014 to US\$32.6 billion in 2016 - had significant spillover effects on non-oil sectors, especially industry and services, which are dependent on imports of inputs and raw materials. The reduction in forex supply was compounded by the Central Bank of Nigeria’s (CBN) introduction of several FX allocation/utilization rules in order to maintain the interbank exchange rate at around NGN305 per USD. These measures include directing limited CBN forex offerings on the interbank market to higher priority transactions; a ban on use of either export proceeds or forex markets for financing the importation of goods from 41 categories of items that are deemed of relatively low importance or which are

seen as candidates for import substitution. Subsequently, imports declined even faster than exports, yielding an estimated current account surplus of 0.6 percent of GDP in 2016. The unmet demand from the interbank and Bureau de Change (BDC) channels increased demand for FX on the parallel market, leading to a widening parallel market premium of ~60 percent by February 2017, creating round tripping opportunities and distortions in the economy.

**Table 1: Key economic indicators, 2014-2017**

	2014	2015	2016 e	2017 f
<b>Real GDP growth, at constant market prices</b>	6.3	2.7	-1.6	1.2
Private consumption	0.6	1.4	-0.8	-1.3
Government consumption	-7.0	-11.9	-20.9	-4.6
Gross fixed capital investment	13.4	-1.3	-13.0	0.1
Exports, goods and services	24.1	-0.3	-5.2	10.6
Imports, goods and services	6.0	-26.9	-31.7	3.1
<b>Real GDP growth, at constant factor prices</b>	6.2	2.8	-1.5	1.2
Agriculture	4.3	3.7	4.1	4.7
Industry (including Oil)	6.8	-2.2	-8.5	2.6
Services	6.8	4.8	-0.8	-1.0
<b>Inflation (CPI)</b>	8.1	9.0	15.6	16.5
<b>Current account balance (% of GDP)</b>	0.2	-3.2	0.6	3.0
<b>Fiscal balance (consolidated government, % of GDP)</b>	-1.8	-3.5	-4.7	-5.0
<b>Debt (consolidated government, % of GDP)</b>	12.5	13.2	17.0	21.5
<b>Poverty rate</b>				
<b>Poverty rate (US\$1.9/day PPP terms)</b>	49.4	49.4	50.2	50.5
<b>Poverty rate (US\$3.1/day PPP terms)</b>	73.7	73.7	74.3	74.5

Source: NBS, World Bank and IMF staff projections.

3. **On the demand side, public consumption and investment was particularly affected in 2016.** Government revenues are dominated by oil - representing around three quarters of total revenue prior to 2015. This dependency was not adequately addressed during the boom years so that total government revenues, which were already low at 10.5 percent of GDP in 2014, declined to 5.2 percent of GDP in 2016. Although recurrent spending was rationalized and capital budgets

under-executed, the fiscal deficit of the consolidated government widened from 3.5 percent in 2015 to 4.7 percent of GDP in 2016. While the consolidated public debt-to-GDP ratio remains low (17 percent of GDP), the World Bank's estimate of the interest payments-to-revenue ratio for the Federal Government is as high as 59 percent for 2016. Rising inflation and policy uncertainty led to falling private consumption and investment. Increased lending from the CBN to the Government to finance the budget deficit, led to broad money growth at 18.5 percent; this and the depreciation of the NGN<sup>1</sup> contributed to inflation rising to an average of 15.6 percent in 2016. Together with rising unemployment, this hurt private consumption. The policy uncertainty around the exchange rate and FX convertibility concerns dampened private investment.

4. **Economic growth is expected to recover slightly to above 1 percent in 2017, but this is subject to significant risks, leaving the fiscal sector outcomes uncertain.** Economic recovery in 2017 depends mainly on the restoration of oil production (World Bank estimate: 2.1 monthly barrels per day) and supported by continued strong growth in agriculture. The recovery of non-oil industry and services will depend to a large extent on the sustained supply of FX to the markets. The CBN has used its FX reserves to significantly increase its supply of FX to the markets since the end of February (supplying more than US\$2.0 billion between February 21 and March 21, 2017) and the parallel market rate has strengthened to N365/USD (versus N305/USD interbank rate). However, any new shock to the oil price or to Nigeria's oil output under the current policy regime will limit CBN's ability to keep up the FX supply. With higher oil prices and production and economic growth, revenues are expected to be higher creating fiscal space for public expenditure. But given that the expected economic recovery hinges on the oil sector, there is a high degree of fragility and risks in the economy and this means fiscal sector outcomes will be subject to considerable uncertainty.

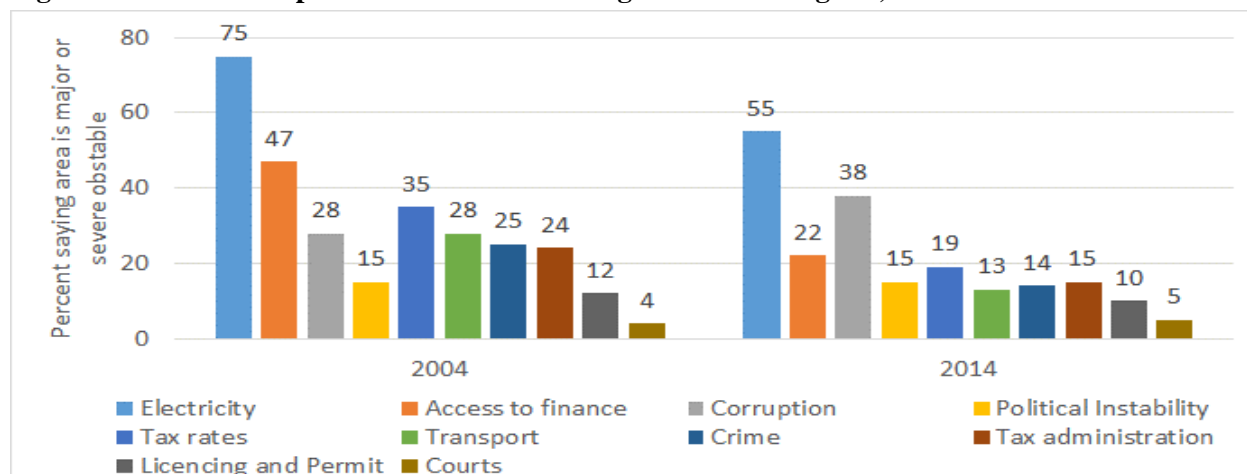
5. **The FGN launched on March 7, 2017 the national Economic Recovery and Growth Plan (ERGP) for the period 2017-2020.** The ERGP sets out the plan to restore macroeconomic stability in the short-term and the structural reforms, infrastructure investments and social sector programs to diversify the economy and set it on a path of sustained inclusive growth over the medium to long-term. The ERGP sets an ambitious target of reaching 7 percent growth in real GDP by 2020. To achieve the objectives of the ERGP, the key execution priorities are: 1) Stabilizing the macroeconomic environment; 2) Achieving agriculture and food security; 3) Ensuring energy sufficiency (power and petroleum products); 4) Improving transportation infrastructure; and 5) Driving industrialization focusing on Small and Medium Scale Enterprises. The ERGP sets the ambitious target of 7 percent real GDP growth by 2020, initially driven by the oil sector and then increasingly by strong non-oil sector growth (agriculture, manufacturing and services).

6. **Reliable power supply is central to supporting the ERGP targets for growth in the non-oil, in particular manufacturing service sectors.** Analysis of firm-level data from the Nigeria World Bank Enterprise Survey show that electricity supply is consistently the biggest constraint to doing business in Nigeria. Electricity is the most important obstacle in all regions except the northwest. Younger firms, exporters, and manufacturers are most likely to identify electricity access as a key obstacle. Having a reliable electricity supply is consistently associated with higher levels of firm productivity. The ERGP recognizes the importance of improving power supply under the *Ensuring energy sufficiency (power and petroleum products)* priority.

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<sup>1</sup> Other inflationary factors include higher electricity tariffs, increased prices of fuel due to subsidy removal, low food supplies at the beginning of the planting season

**Figure 1: The Most Important Obstacles to Doing Business in Nigeria, 2008 and 2014**



Source: World Bank Enterprise Surveys

## ***B. Sectoral and Institutional Context of the Program***

7. **Nigeria’s power sector is unbundled and largely privately owned.** The National Electric Power Policy (2001) and the resulting Electric Power Sector Reform Act (2005) removed the monopoly of the vertically integrated National Electric Power Authority and unbundled it into six generation companies (GENCOs), eleven distribution companies (DISCOs), and the Transmission Company of Nigeria (TCN). The Bureau of Public Enterprise (BPE) completed privatization of the DISCOs and GENCOs in 2013. FGN retained 40 percent ownership in the DISCOs via the BPE. Three of the five thermal GENCOs (that use natural gas as fuel) were sold in their entirety to new owners while the FGN retained 51 percent in one and 30 percent in another. Three hydropower plants were concessioned to private operators by the BPE. The TCN remained a fully government-owned monopoly transmission service provider operated initially by the private sector under a four-year management contract that ended in 2015.

8. **Following privatization, the power sector was expected to evolve in four stages but the reforms are still at the second, Transitional Electricity Market (TEM), stage.** The four reform stages are: (i) the Interim Period, which started in November 2013 and characterized by the allocation of sector cashflow deficits across all market participants before expected tariff reviews; (ii) the TEM, characterized by a government-owned public company Nigerian Bulk Electricity Trading Company (NBET)’s active trading of bulk power as a buyer from GENCOs and Independent Power Producers (IPPs) and reseller to DISCOs under Vesting Contracts that allocate a percentage of the capacity and energy output from one or more GENCOs to the relevant DISCO; (iii) the Medium Term Electricity Market, characterized by bilateral contracts between GENCOs and DISCOs (NBET ceases to exist at this stage and its power purchase agreements (PPAs) with generation are novated to DISCOs); and (iv) the Final Market, with bilateral contracts between electricity buyers and sellers at all levels, and, a central balancing mechanism through the creation of a spot electricity market. On January 31, 2015, Nigerian Electricity Regulatory Authority (NERC) by its order effectively declared TEM without all of the pre-requisites for TEM in place. Given the current state of the power sector, further stages of market evolution from the TEM are not likely to be reached in near future.

9. **Electricity service delivery is poor with serious repercussions for Nigerian economy and citizens.** Average annual per capita electricity consumption of Nigeria (147 kWh) is a fifth of

the average low middle-income country consumption (736 kWh) and a twentieth of the global average consumption (3,298 kWh). The unreliable power supply results in lack of consumers' willingness to pay, drives industry to pursue off-grid alternatives and causes economic losses in excess of US\$25 billion annually (the PSRP estimate). Nigerian businesses experience an average of 239 hours of power outages per month, accounting for nearly seven percent of lost sales. Most private enterprises are forced to resort to self-generation at a high cost to themselves and the economy (about US\$0.20-0.30 per kWh as compared to the current grid based tariff of US\$0.16 per kWh). In the recently released Nigeria Investment Climate Assessment, 83 percent of Nigerian business owners consider lack of electricity as being the biggest obstacle to doing business. The steep decline in power output in 2016 from the peak of over 5 gigawatt (GW) in March 2016 to less than 3.5 GW in early 2017 contributed to the contraction of economic activity by an estimated 1.5 percent in 2016.

10. **Underlying poor service delivery are the serious challenges of the power sector.** The principal challenges include: (i) erratic gas supply and transmission and distribution network constraints; (ii) poor performance of DISCOs; (iii) poor financial viability of sector companies; (iv) weak governance and inadequate enforcement of contracts; (v) lack of investment planning and procurement framework; and (vi) low access to electricity supply. Many of these challenges are interlinked. Lack of financial viability does not allow DISCOs to adequately maintain their assets and invest in new assets with resulting poor service quality and reliability. This, in turn, affects customers' willingness to pay with resulting difficulty to raise tariffs and enforce collections. Low collections of DISCOs and lack of enforcement of the contractual framework (specifically DISCOs' Vesting Contracts) results in non-payment across the supply chain and to the gas suppliers. The latter affects security and reliability of gas supply. The absence of an investment prioritization and planning and competitive procurement frameworks further exacerbates the sector issues leading to increased costs and contingent liabilities.

11. **Electricity supply is unreliable because of erratic gas supply and constraints in transmission and distribution.** The installed power generation capacity is around 12 GW comprised of 2 GW of hydro and 10 GW of gas-fired power plants. However, the available capacity that can be generated and dispatched ranges between 3 to 5 GW largely due to gas supply constraints resulting from non-payment for gas supply and gas pipeline vandalism. The primary transmission network (330kV) capacity is currently not a constraint; however, the transmission system is operating well below international reliability and security standards. There were six major system collapses in 2016. Frequency and voltage recordings often exceed established norms. System collapses (when not caused by generation outages due to gas supply interruptions) are primarily the result of inadequate maintenance of outdated equipment and lack of a comprehensive and modern Supervisory Control and Data Acquisition (SCADA) system to have real time data and manage real time operation and control for maintaining balance in the power system. Distribution infrastructure faces constraints at the interfaces with transmission and at various other points in the distribution networks. A distribution investment analysis is planned to identify the constraints. The required investments will likely include additional distribution lines and substations, reconfiguration of the existing distribution network, upgrading of distribution transformers.

12. **The poor operational and commercial performance of the DISCOs since their privatization is a key reason behind the overall poor performance of the power sector.** The sector Aggregate Technical Commercial and Collection (ATC&C) losses are high; averaging 54 percent in 2016 versus 32 percent projected in the tariff regulation/order. DISCOs need to make

significant investments in network improvement and expansion to attain the contractual targets set in their Performance Agreements (including for reducing ATC&C losses). The weak financial situation of the DISCOs coupled with their highly leveraged balance sheets have severely constrained DISCOs' ability to access commercial financing. Local commercial banks are reluctant (and in some cases unable) to extend further financing to the DISCOs due to their high exposure to the power acquisition companies during the 2013 privatization round. The privatized assets were purchased with significant leverage (assumed to be 70 percent debt and 30 percent equity) with most of the debt provided by the local commercial banks. International lenders and investors also do not have appetite for financing since the sector is nascent and lacking the requisite mitigation arrangements required to meet their risk acceptance criteria. Most DISCOs will need to be restructured/refinanced, depending on the extent of their financial and operational nonperformance.

**13. Lack of consistently cost reflective tariffs and low collections are the main sources of the poor financial viability of DISCOs and other power sector companies.** The end user tariffs reached cost recovery only for a brief period since the initial Multi Year Tariff Order 2 (MYTO) was introduced in 2012. As a result, the sector has been accumulating sizable financial deficit across the value chain. From November 2013 to December 2014, the accumulated financial deficit was NGN213 billion (US\$678 million, equivalent). An additional deficit of about NGN473 billion (US\$1.5 billion, equivalent) was accumulated from January 2015 to December 2016. End-user tariffs have fallen below cost recovery due to their inadequate adjustment for inflation, exchange rate, and actual amount of energy delivered. A significant portion of the sector deficit is contributed by the non-payment of electricity bills of DISCOs by the FGN's Ministries, Departments and Agencies (MDAs). The MDAs are the largest debtor group to the sector with about NGN64 billion (US\$203 million) in arrears. On average, DISCOs collected 57 percent of bills in 2017. Low tariffs, inadequate collections from customers, lack of oversight over the DISCOs (including enforcement of Vesting Contracts<sup>2</sup>), have led to low remittances by the DISCOs to the bulk trader, NBET (on average only 29 percent of invoices issued by NBET were settled by DISCOs in 2016). As a result, NBET remittances to GENCOs have been low and GENCOs have not been able to meet their ongoing operational costs, especially fuel and maintenance costs.

**14. Weak governance and inadequate enforcement of contracts further aggravate sector financial and operational situation.** Overall, the legal, regulatory and institutional framework in Nigeria is comprehensive and in accordance with international good practices. The content of regulations, in particular the Grid Code, Distribution Code and the Market Rules include mechanisms to improve performance. Tariff methodology is also overall adequate allowing full recovery of costs and incorporating incentive-based regulation. However, poor governance and associated poor transparency and accountability, together with overlapping roles and responsibilities of different agencies, lead to lack of enforcement of laws, regulations and contracts. The latter, in return, renders the sector dysfunctional with lack of payment discipline, high losses and poor service quality and reliability.

**15. Lack of an investment prioritization and competitive procurement framework increases the sector liabilities and risks.** Power sector has sizable investment needs. Yet, the investments currently do not follow least cost planning principles, which would allow balancing sector needs and managing the build-up of FGN contingent liabilities. At the same time, generation

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<sup>2</sup> Under Vesting Contracts, DISCOs are required to provide NBET with letters of credit in the amount of 3 months of sales. The letters of credits are currently subject to a legal injunction that the DISCOs requested the Nigerian courts impose, which prohibits NBET from drawing.

capacity has historically been contracted largely based on unsolicited proposals. Due to lack of competitive procurement processes (such as auctions), the sector lacks mechanisms for controlling costs.

16. **Access to energy is low and cannot be met with grid connection alone.** At present, 80 million people lack access to grid electricity, with the national electrification rate at 58 percent and only 41 percent in rural areas.<sup>3</sup> To achieve universal access to electricity by 2030, Nigeria would need to connect between 500,000 to 800,000 households per year, and add around 25 GW to its actual operating capacity.<sup>4</sup> The majority of the unserved people live in rural areas and rely on candles and flashlights for lighting. Both grid and off-grid extension would be needed to provide quality services to the unserved – and underserved households and businesses in a timely manner.

### *C. Relationship to CAS/CPF*

17. **The proposed Program is fully aligned with the Nigeria FY14-17 Country Partnership Strategy (CPS)<sup>5</sup>.** Under the CPS cluster I (‘The federally-led structural reform agendas for growth and jobs’), the Program will support the strategic objective of ‘fostering diversified growth and job creation by addressing the two key constraints (power and access to finance)’ by improving the efficiency and governance of electricity delivery. The Program is particularly relevant to the focus area of ‘increasing installed power generation and transmission capacity, and improving the efficiency and governance of electricity delivery’.

18. **The Program is also aligned with the FGN’s strategic priorities.** It is consistent with the ERGP 2017-2020 of the Government, which sets out the medium-term structural reforms to diversify Nigeria’s economy, including expanding power sector infrastructure as one of the top priorities. The Power Sector Recovery Program (PSRP) was designed on this basis. The PSRP aims to remove existing operational constraints in the power supply chain, improve financial capacity of the bulk electricity trader to support the electricity market, strengthen the governance and capacity of sector agencies, and improve the commercial viability of GENCOs and DISCOs. The proposed Program will support implementation of a portion of the PSRP.

19. **By improving availability and reliability of electricity, the Program will contribute to the World Bank’s twin objectives of reducing poverty and boosting shared prosperity.** About 100 million Nigerians connected to the electricity grid experience unpredictable, frequent and often prolonged power outages and frequent voltage fluctuations. Poor households take a heavier toll since they often revert to traditional fuels for lighting and cooking, which are inefficient and potentially harmful to their health and the environment. In 2013, 92 percent of poor households used firewood for cooking and 49 percent used candles and batteries as the main source of lighting. Poor electricity service delivery disproportionately impacts women and children who must spend several hours each day gathering firewood; this deprives women of opportunities to undertake other economic activities and deprives children of school. Households without electricity also lack access to modern communication appliances such as phones or TVs as well as other resources that allow them to run small home-based businesses. This is especially true of women: in 2013, 58 percent of nonfarm enterprise owners were women, and over 40 percent of these businesses were

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<sup>3</sup> 2015/16 Living Standards Measurement Study by the Nigerian National Bureau of Statistics and the World Bank Group.

<sup>4</sup> To achieve 30 GW of installed capacity per Nigeria’s Vision 2020.

<sup>5</sup> Report No. 82501-NG.

based in homes<sup>6</sup>. At the same time, most businesses use their own generator to meet most of their electricity needs, making electricity far more expensive than it would be from an efficient grid. This, in turn, negatively impacts business competitiveness.

20. The proposed Program will support achieving financial sustainability in the power sector, strengthening its governance and transparency and improving enforcement of contracts and regulations. The Program will also help establish a transparent and competitive framework for attracting new investments. These measures should help unlock the much needed financing into the sector (commercial financing from local and international capital markets as well as public financing from different development finance institutions) by improving the commercial standing and credibility of the sector companies.

#### ***D. Rationale for Bank Engagement and Choice of Financing Instrument***

21. **The proposed Program is an important part of the World Bank Group's (WBG) Energy Business Plan (EBP) for Nigeria.** The EBP sets out the coordinated support of the World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) for sector development. The EBP, which is forward looking, intends to mobilize the wide range of WBG instruments as outlined in the table below. The proposed Program will complement the WBG's large and diverse engagement in Nigeria's power sector by addressing several of the key challenges of the sector.

22. **Program-for-Results financing (PforR) is identified as the most relevant instrument for the proposed operation.** The choice of the PforR instrument is justified since it will support: (i) implementation of the FGN's existing program, the PSRP, by using the existing fiduciary and safeguards system with strengthening in institutional capacity, regulatory and financial management systems, which will enhance sustainability; and (ii) achievement of verifiable outcomes and outputs - power supply reliability through financial sustainability, improved efficiency and strengthened governance.

## **II. Program Development Objective(s)**

### ***A. Program Development Objective(s)***

23. The Program Development Objective (PDO) is to enhance reliability of electricity supply for Nigerian consumers and economy by improving power sector financial viability and efficiency.

24. The PDO level outcomes of the Program will be measured through the following indicators: (i) at least 4,000 MWh/h of electricity is dispatched from 2018 onwards; (ii) improvement in average frequency and duration of outages [SAIDI and SAIFI or similar customized indicators]; and (iii) power sector operates without a new deficit from 2018 onwards.

### ***B. Key Program Results***

25. The proposed Program is expected to contribute to three key result areas to achieve the PDO:

- Results Area 1: Financial sustainability of the power sector
- Results Area 2: Improved management of investments and contingent liabilities

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<sup>6</sup> World Bank (2016). Federal Republic of Nigeria Poverty Work Program: Poverty Reduction in Nigeria in the Last Decade. Washington, DC: World Bank



- Results Area 3: Strengthened governance and transparency.

### III. Program Description

#### A. PforR Program Boundary

26. **The PSRP involves a comprehensive package of interventions for the next five years to improve power sector performance across the supply chain and bring it to a sustainable state.** The PSRP includes the following components: (i) financial interventions to fully fund historical and future financial deficits of the sector; (ii) operational/technical interventions; (iii) governance interventions, and (iv) policy interventions.

**Table 3. Power Sector Recovery Program 2017-21**

<u>Objectives:</u>			
- Restore financial viability		- Create an enabling environment for attracting investments	
- Strengthen the sector's institutional framework and increase transparency		- Establish a contract based market	
Financial interventions	Operational/technical interventions	Governance interventions	Policy interventions
<ul style="list-style-type: none"> <li>• Dimension and commit to fund implied future sector deficits from 2017 to 2021 and execute a plan to fund the required Electricity Market Support until tariffs attain cost recovery levels; the Medium Term Expenditure Framework (MTEF) and the annual Federal Government budgets to include provision for this funding</li> <li>• Eliminate historical sector revenue deficits: through December 2016</li> <li>• Eliminate historical MDA debts and automate future payments</li> <li>• Restore cost reflective tariffs over the next 5 years and review of the tariff setting methodology</li> <li>• Payment Assurance Facility to assist NBET in meeting its payment obligations within generation invoices and ease the liquidity challenges</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure minimum baseline power generation of 4,000 MWh/h is guaranteed and distributed daily from 2017 to ensure stability of the grid</li> <li>• Improve DISCO performance by designing balanced incentives to ensure aggressive ATC&amp;C loss reduction (e.g., through a metering program), and DISCO financial restructuring and recapitalization, implementation of credible Business Continuity Plans where required</li> </ul>	<ul style="list-style-type: none"> <li>• Restore proper sector governance through the appointment of qualified Boards to government agencies and appointment of qualified Government representatives to the boards of DISCOs</li> <li>• Improve sector transparency by establishing data driven processes for decision making across the sector's value chain</li> <li>• Make contracts effective and start the contract based market (i.e. the Transitional Electricity Market or TEM) formally: address through arbitration legal issues that are impeding the activation of contracts</li> <li>• Develop and implement a clear communications strategy for the PSRP</li> <li>• Set up a dedicated team (Delivery Unit) that will be strengthened to coordinate and monitor the implementation of the PSRP</li> </ul>	<ul style="list-style-type: none"> <li>• Increase electricity access by implementing off-grid renewable energy solutions aimed at providing electricity supply to rural communities</li> <li>• Encourage private sector investments, including by clarifying the terms and conditions of government support for private sector investment in generation, transmission and distribution and the timetable for transition to competitive procurement of generation</li> <li>• Issue tariff policy that will balance protection of electricity customers with the interests of investors in outlining a trajectory to cost recovery tariffs</li> </ul>

27. **Program Boundary.** The proposed Program will cover the entire duration of the PSRP and will support implementation of select policy, governance, operational and financial interventions that are key to reset the power sector for sustainable operation.

28. **Key Results.** The Program will contribute to three key result areas:
- a. **Result Area 1: Financial sustainability reached.** Under this area, the Program will support PSRP measures intended to ensure that the power sector financial viability is improved and the sector functions without incurring new financial deficit from 2018 onwards.
  - b. **Result Area 2: Management of sector cost and contingent liability is improved.** This area will involve measures that will ensure future sector investments follow a least cost development plan and are procured following competitive procedures to ensure that the sector meets its operational performance improvement and supply increase goals in a least cost (and economically viable) manner while controlling sector costs and contingent liabilities. The least cost power development plan will also bring larger transparency and predictability to the sector, which would be important for attracting future investments.
  - c. **Result Area 3: Governance and transparency strengthened.** The measures under this area will support PSRP measures intended to strengthen corporate governance and oversight arrangements for all key sector agencies, enforcement of contracts and regulations for increased accountability and transparency of sector companies, and communication and other stakeholder engagement measures.
29. **Disbursement Linked Indicators (DLIs).** The DLIs selected for the Program will involve a mixture of output and outcome level indicators. The outputs would involve implementation of financial, governance, operational and policy measures that are key for ensuring sustainable operation of the power sector. The outcome indicators would involve indicators that will measure the improved reliability of the electricity supply.
30. **Technical assistance (TA).** The proposed operation will involve TA for implementation support and capacity building of the key agencies with significant implementation responsibility under the PSRP, which will be designed as an IPF.
31. **Institutional and Implementation Arrangements.** The Economic Management Team chaired by the Vice President oversees the PSRP implementation. A Delivery Unit is in the process of being established under the oversight of Economic Management Team to carry out the day-to-day coordination of the PSRP implementation, resolve any challenges that may emerge and ensure smooth and effective implementation.
32. **Results Monitoring and Evaluation:** Different agencies will have a lead role in implementations of the disbursement linked indicators of the proposed Program. The Delivery Unit will have the overall responsibility for monitoring the implementation of Program, based on the Results Framework that will be agreed as the preparation of the operation progresses.

### ***B. Role of Development Partners***

33. The Government has developed the PSRP in close coordination with the World Bank Group, and IFC and MIGA are expected to support private sector investments in the upstream and downstream segments of the power market. In addition, the Government is seeking funding from other development partners to support the PSRP implementation and cover a portion of the tariff shortfall.

#### IV. Initial Environmental and Social Screening

34. Based on the definition of the Program boundaries and the preliminary expenditure framework, the Program excludes activities that are typically category A activities that could have adverse environmental and social impacts that are large-scale, irreversible, sensitive, diverse, cumulative or precedent setting may affect an area broader than the sites or facilities financed by the project. The PforR instrument is therefore considered suitable to support the implementation of the PSRP.

35. *Environmental and social systems assessment:* As part of project preparation the Bank team will carry out an Environmental and Social System Assessment (ESSA) for the proposed Program to examine existing environmental and social management systems within the power sector. The ESSA will be undertaken to confirm consistency with six *core principles* outlined in paragraph 8 of the “World Bank Policy for Program-for-Results Financing” in order to effectively manage Program risks and promote sustainable development. The Assessment will review existing regulations and policies, their legal and practical applicability at the program level, institutional capacity, and the effectiveness of implementation in practice. In addition, the ESSA will assess management capacity with regard to (a) distributional equity, affordability and gender constraints; (b) consultation processes; (c) risk of creating or exacerbating conflicts. The findings of the ESSA will be factored into the overall integrated risk assessment, which will be revised at the appraisal stage.

36. If the ESSA process concludes that present capacity is sufficient to deliver environmental and social benefits, that there are no significant impacts or risks, or that management capacity is sufficient to handle impacts or risks that may be involved, there would be no need to devise and agree upon measures to further strengthen environmental or social management capacity (though the World Bank and borrower may nonetheless agree to do so as a Program objective). If the ESSA process concludes that capacity-building measures are necessary to strengthen environmental and social performance, or concludes that new or strengthened measures are necessary to mitigate specific environmental or social impacts associated with the Program, specific actions would be devised with the borrower and would be provided as an input into the Program Action Plan, which would be agreed on with the borrower.

37. In addition to the ESSA, the World Bank team will conduct a Poverty and Social Impact Assessment once the tariff trajectory is determined to assess the impact of planned tariff adjustments on the affected households, particularly the poor and vulnerable households. This analysis will inform the discussion of mitigation mechanisms (e.g. through social assistance or tariff), as necessary.

#### V. Tentative financing

Source	(US\$ million)
Borrower/Recipient	Remaining Financing Gap
IDA	1,000
Others (Central Bank of Nigeria)	2,200
Total	2,300 – 4,200

## **VI. Contact point**

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