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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM APPRAISAL DOCUMENT
ON TWO
PROPOSED CREDITS

IN THE AMOUNT SDR 255.4 MILLION

(US\$350 MILLION EQUIVALENT)

TO THE

FEDERAL REPUBLIC OF NIGERIA

FOR A

KADUNA STATE ECONOMIC TRANSFORMATION PROGRAM-FOR-RESULTS

May 30, 2017

Trade and Competitiveness Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 28, 2017)

Currency Unit: Nigeria Naira (NGN)

US\$1 = NGN 305

US\$1 = 0.72938396 SDR

ABBREVIATIONS AND ACRONYMS

ACTU	Anticorruption and Transparency Unit
AFS	Annual Financial Statement
BATMIS	Budget and Treasury Management Information System
BER	Budget Execution Report
CBN	Central Bank of Nigeria
CIIP	Competitive Industries and Innovation Program
CofO	Certificate of Occupancy
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DFID	Department for International Development
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DTF	Distance to Frontier
E&S	Environmental and Social
EFCC	Economic and Financial Crimes Commission
EIA	Environmental and Social Assessment
ERGP	Economic Recovery and Growth Plan
ENABLE	Enhancing Nigerian Advocacy for a Better Business Environment
ESSA	Environment and Social Assessment
FCCL	Fiscal Commitment and Contingent Liability
FCT	Federal Capital Territory
FRA	Fiscal Responsibility Act
FRILIA	Framework for Responsible and Inclusive Land-Intensive Agricultural Investments
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GEMS3	Growth and Employment in States 3
GFS	Government Finance Statistics
GRS	Grievance Redressal Service
ICT	Information and Communication Technology
ICPC	Independent Corrupt Practices and Other Related Offences Commission
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IPPIS	Integrated Payroll and Personnel Information

IPSAS	International Public Sector Accounting Standards
IVA	Independent Verification Agent
KADGIS	Kaduna Geographical Information Services
KADIPA	Kaduna Investment Promotion Agency
KADIRS	Kaduna Internal Revenue Services
KDSG	Kaduna State Government
KadInvest	Kaduna Investment and Economic Summit
KEPA	Kaduna Environment Protection Agency
KPPA	Kaduna Public Procurement Authority
KSDP	Kaduna State Development Plan
LG	Local Government
LINKS	Northern Nigeria Spatial Growth Program
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MIS	Management Information System
MoU	Memorandum of Understanding
MTEF	Medium-term Expenditure Framework
NGO	Nongovernmental Organization
NIAF	Nigeria Infrastructure Advisory Facility
NSIA	Nigeria Sovereign Investment Authority
NWIAA	North-West Investment Area Agreement
PAP	Program Action Plan
PAYE	Pay As You Earn
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PERL	Partnership to Engage, Reform, and Learn
PFM	Public Financial Management
PforR	Program-for-Results
PIM	Public Investment Management
PLR	Performance and Learning Review
PPD	Public-Private Dialogue
PPP	Public-Private Partnership
PSGRDP	Public Sector Governance Reform and Development Project
SDR	Special Drawing Rights
SIP	Sector Implementation Plan
SME	Small and Medium Enterprise
SPARC	State Partnership for Accountability, Responsiveness and Capability
SPRP	Systematic Property Registration Program
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference

TSA	Treasury Single Account
TUGAR	Technical Unit on Governance and Anticorruption Reforms
UNCAC	United Nations Convention Against Corruption
USAID	United States Agency for International Development

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FEDERAL REPUBLIC OF NIGERIA

Kaduna State Economic Transformation Program-for-Results

Table of Contents

I. STRATEGIC CONTEXT	1
<i>A. Country Context.....</i>	<i>1</i>
<i>B. Sectoral (or multi-sectoral) and Institutional Context</i>	<i>5</i>
<i>C. Relationship to the CAS/CPF and Rationale for Use of Instrument</i>	<i>8</i>
II. PROGRAM DESCRIPTION.....	10
<i>A. Government Program</i>	<i>10</i>
<i>B. Program Development Objective/s (PDO) and Key Results</i>	<i>11</i>
<i>C. PforR Program Scope.....</i>	<i>11</i>
<i>D. Disbursement Linked Indicators and Verification Protocols</i>	<i>16</i>
<i>E. Capacity Building and Institutional Strengthening</i>	<i>18</i>
III. PROGRAM IMPLEMENTATION	20
<i>A. Institutional and Implementation Arrangements</i>	<i>20</i>
<i>B. Results Monitoring and Evaluation</i>	<i>22</i>
<i>C. Disbursement Arrangements</i>	<i>22</i>
IV. ASSESSMENT SUMMARY	23
<i>A. Technical (including program economic evaluation)</i>	<i>23</i>
<i>B. Fiduciary.....</i>	<i>27</i>
<i>C. Environmental and Social Effects</i>	<i>28</i>
<i>D. Risk Assessment.....</i>	<i>31</i>
<i>E. Program Action Plan.....</i>	<i>33</i>
Annex 1: Detailed Program Description.....	36
Annex 2: Results Framework Matrix	48
Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols	57
Annex 4: Summary Technical Assessment.....	68
Annex 5: Fiduciary Systems Assessment	103
Annex 6: Environmental and Social Systems Assessment	123

Annex 7: Systematic Operations Risk Rating (SORT)134
Annex 8: Program Action Plan template.....135
Annex 9: Implementation Support Plan139

PAD DATA SHEET

Federal Republic of Nigeria

Kaduna State Economic Transformation Program-for-Results

PROGRAM APPRAISAL DOCUMENT

Trade and Competitiveness and Governance

Basic Information					
Date:	May 23, 2017	Sectors:	Other Industry, Trade, Services Sub-National Government		
Country Director:	Rachid Benmessaoud	Themes:	Business Enabling Environment Public Private Partnerships Public Administration		
Practice Manager	Rashmi Shankar, Hisham Waly				
Global Practice Vice President:	Jan Walliser				
Program ID:	P161998				
Team Leader(s):	Guillemette Jaffrin, Roland Lomme				
Program Implementation Period:	Start 6/20/2017	End Date:	12/31/2020		
Expected Financing Effectiveness Date:	09/01/2017				
Expected Financing Closing Date:	03/31/2021				
Program Financing Data					
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/>	Other
<input checked="" type="checkbox"/>	Credit ¹				
For Loans/Credits/Others (US\$, Millions):					
Total Program Cost:		490	Total Bank Financing:	350	
Total Cofinancing:		0	Financing Gap:	None	

¹ This proposed Program-for-Results is to be funded through two IDA windows: SDR 97.6 million (US\$133.79 million) in IDA Hard-Term and SDR 157.8 million (US\$216.21 million) in IDA Blend, using the remaining IDA balance for the Federal Republic of Nigeria under IDA17.

Financing Source	Amount (US\$, Millions)	
BORROWER/RECIPIENT	140	
IBRD/IDA	350	
Total	490	
Borrower: Federal Republic of Nigeria		
Responsible Agency: Federal Ministry of Finance		
Contact: Aliyu Mohammed	Title: Director IERD	
Telephone No.: +234 805 523 1816	Email: ahmed4.aliyu@gmail.com	
Responsible Agency: Kaduna State Ministry of Budget and Planning		
Contact: Mr. Muhammad Sani Abdullahi	Title: Commissioner of Budget and Planning	
Telephone No.: +234 701 412 9223	Email: info@kadmobp.kdsg.com.ng	

Expected Disbursements (in US\$, Millions)				
Fiscal Year	2018	2019	2020	2021
Annual	175	54.5	65.5	55
Cumulative	175	229.5	295	350

Program Development Objective(s)

The Program Development Objective is to improve the business enabling environment and strengthen fiscal management and accountability in Kaduna State

Compliance	
Policy	
Does the program depart from the CAS in content or in other significant respects?	Yes [] No [X]
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes [] No [X]
Have these been approved by Bank management?	Yes [] No []
Is approval for any policy waiver sought from the Board?	Yes [] No [X]
Overall Risk Rating: High	

Legal Covenants			
Name	Recurrent	Due Date	Frequency
Program Fiduciary, Environmental and Social Systems	Yes	Continuous	Continuous
Description of Covenant			
<p>Without limitation upon the provisions of Article IV of the General Conditions, the Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with financial management, procurement and environmental and social management systems acceptable to the Association, including those set forth in the ESSA and the Program Action Plan (“Program Fiduciary, Environmental and Social Systems”) which are designed to ensure that:</p> <ol style="list-style-type: none"> 1. the Financing proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and 2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process. 			
Name	Recurrent	Due Date	Frequency
Subsidiary Agreement	No	By signing of Financing Agreement	Not applicable
Description of Covenant			
<p>To facilitate the carrying out of the Program, the Recipient shall make the proceeds of the Financing available to Kaduna State under a subsidiary agreement between the Recipient and Kaduna State Ministry of Finance, under terms and conditions approved by the Association (“Subsidiary Agreement”)</p>			
Name	Recurrent	Due Date	Frequency
Program implementation manual	No	3 months after Effective Date	Not applicable
Description of Covenant			
<p>No later than three (3) months after the Effective Date, the Recipient shall prepare a Program implementation manual in form and substance satisfactory to the Association, containing detailed arrangements and procedures for implementation of the Program including <i>inter alia</i>: (a) disbursement and flow of funds arrangements; (b) institutional arrangements; (c) financial management, and governance arrangements; (d) environmental and social management systems including the ESSA and Program grievance redress mechanism; (e) monitoring and evaluation, reporting and communication, including Program indicators; (f) Program Action Plan; (g) detailed arrangements for verification of achievement of DLRs (including the Verification Protocol); and (h) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Program.</p>			
Name	Recurrent	Due Date	Frequency
Program Action Plan	Yes	Continuous	Continuous
Description of Covenant			
<p>Without limitation to the provisions of Section I.A of this Schedule, the Recipient shall carry out the Program Action Plan, or cause the Program Action Plan to be carried out in a manner satisfactory to the Association.</p>			
Name	Recurrent	Due Date	Frequency
Independent Verification Agent	Continuous	90 days after the Effective Date	Continuous

Description of Covenant			
<p>1. No later than ninety (90) days after the Effective Date, the Recipient, through Kaduna State, shall recruit one or more organizations with experience, independence, and capacity and under terms of reference acceptable to the Association (“Independent Verification Agent(s)” or “IVA”) to verify the data and other evidence supporting the achievement of one or more Disbursement Linked Results (“DLRs”) as set forth in the DLI Verification Protocol and recommend corresponding payments to be made.</p> <p>2. The Recipient shall: (a) ensure that the Independent Verification Agent(s) carries/carry out verification process(es) in accordance with the DLI Verification Protocol; and (b) submit to the Association the corresponding verification reports in a timely manner and in form and substance satisfactory to the Association.</p>			
Conditions			
Name	Recurrent	Due Date	Frequency
Additional Condition of Effectiveness	No	Effectiveness Condition	Not applicable
Description of Condition			
<p>The Additional Condition of Effectiveness consists of the following, namely, that the Subsidiary Agreement has been executed on behalf of the Recipient and Kaduna State.</p>			
Name	Recurrent	Due Date	Frequency
Withdrawal Conditions; Withdrawal Period	Yes	Continuous	Continuous
Description of Condition			
<p>Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:</p> <p>(a) for purposes of Section 2.03 of the General Conditions (renumbered as such pursuant to paragraph 6 of Section II of the Appendix to this Agreement and relating to <i>Program Expenditures</i>), for DLRs achieved prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 63,750,000, may be made for such DLRs achieved prior to this date but on or after November 8, 2016 (prior results);</p> <p>(b) for any DLR unless and until the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved and verified, all in accordance with the DLI Verification Protocol;</p> <p>(c) for a DLR related to a DLI for a FY under Categories 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, unless the Recipient has furnished evidence satisfactory to the Association that: (i) an aggregate amount equivalent to the amount of Financing withdrawn in respect of the DLR under said Category for the previous FY was, as applicable, transferred to Kaduna State, in a timely manner in accordance with the provisions of this Agreement; and (b) for said FY Kaduna State has received the amount of the Financing allocated to it based on the DLR(s) achieved by said State as verified by the DLI Verification Protocol.</p>			
Team Composition			
Bank Staff			
Name	Title	Specialization	Unit
Akinrinmola Oyenuga Akinyele	Senior Financial Management Specialist	Financial Management	GGO25
Alexandra Bezeredi	Lead Social Development Specialist	Social	GSU01
Andrew Gartside	Senior Private Sector Specialist	Private sector development / DFID	GTC07
Andrew Jones	Consultant	PPP	GTC07
Barbara Weber	Senior Operations Officer	Quality control	GCT07
Bayo Awosemusi	Lead Procurement Specialist	Procurement	GGO01
Ciliaka Millicent Wanjir Gitau	Young Professional	Economic analysis	GGEVP

Deborah Beth Berger	Senior Environmental Specialist	Environment	OPSPF
Edda Mwakaselo Ivan Smith	Senior Social Development Specialist	Social	GSU01
Fabian Seiderer	Lead Public Sector Specialist	Fiscal management	GGO18
Feyi Boroffice	Senior Private Sector Specialist	Private sector development	GTC10
Faly Diallo	Finance Officer	Disbursement	WFALA
Gabi George Afram	Program Leader	Peer reviewer	SACPK
George Ferreira Da Silva	Finance Analyst	Disbursement	WFALA
Gloria Aitalohi Joseph-Raji	Senior Economist	Macroeconomics and fiscal management	GMF01
Guillemette Jaffrin	Lead Private Sector Specialist	Co-Task Team Leader	GTC07
Irene Marguerite Nnomo Ayinda-Mah	Program Assistant	Quality control	GTC07
Ismaila B. Ceesay	Lead Financial Management Specialist	Financial Management	GGO25
Jan Loeprick	Senior Economist	Peer reviewer	GGO28
Johanne Buba	Economist	Economic analysis	GTC07
John Amedu Eimuhi	Paralegal	Administrative and Client Support	AFCW2
Jonathan Lindsay	Lead Counsel	Land	LEGEN
Joseph Ese Akpokodje	Senior Environmental Specialist	Environment	GEN07
Keta Ruiz	Lead Operations Officer	Quality control	GTCOS
Michael Wong	Lead Private Sector Specialist	Peer reviewer	GTCCS
Nabila Assaf	Senior Private Sector Specialist	Peer reviewer	GTC05
Nneamaka Okechukwu	Private Sector Specialist	Private sector development	GTC07
Omezikam Eze Onuoha	Consultant	Environment	GTI01
Rajni Bajpai	Program Leader	Peer reviewer	SACIN
Roland Lomme	Senior Governance Specialist	Co-Task Team Leader	GGO27
Shyamala Shukla	Senior PPP Specialist	PPP	GCPPP
Tanangachi Ngwira	Analyst	Quality control	GTC07
Vincent Palmade	Lead Economist	Adviser	GTC06
Zoe Kolovou	Lead Counsel	Legal	LEGAM

I. STRATEGIC CONTEXT

A. Country Context

1. **For over a decade, Nigeria experienced relatively stable and positive economic growth averaging about 7 percent a year.** As a result of a statistical rebasing of the gross domestic product (GDP) in 2014, Nigeria's GDP was placed close to US\$500 billion, making it the world's 26th largest economy and the largest economy in Africa at that time. Nigeria's economic position was founded on strong and stable macroeconomic fundamentals (tight fiscal and monetary stance as well as stable interest and exchange rates). It was also underpinned by an oil price boom, particularly between 2010 and the last quarter of 2014 when it reached record high levels, especially in 2013. However, contributions from the oil sector as a share of Government revenues have been declining since 2011, from about 80.95 percent to 67.12 percent in 2014, and growth contributions had been negative mostly due to supply disruptions. More importantly, the country's strong economic platform created positive domestic developments. These included strong inflows of foreign direct investment and domestic investment into the non-oil sector, particularly the communications, agriculture, construction, and manufacturing sectors. As a result, the Nigerian economy became more diversified, more services-oriented, and less dominated by oil and agriculture than it was a decade ago. The economy contracted in 2015 on the back of a sharp drop in commodity prices.

2. **Although the Nigerian economy has become more diversified, its revenues have not reflected this diversity as it has remained dependent on oil sector revenues.** GDP contributions from the non-oil sectors (agriculture, trade, real estate) have been significant but the contributions to the Government revenues and taxes have been proportionately lower than expected. There were a number of reasons for this disparity. First, the non-oil sector has a higher degree of informality than the oil sector. This has placed it outside the fiscal control of the Government. In consideration of its large informality, tax contributions from the non-oil sector have been very low especially from agriculture, which has a high incidence of subsistence farming, and trading. Further compounding the situation is the very weak system for tax assessment and collection.

3. **During the period of high growth, the greatest challenge that Nigeria faced was sustaining growth while making it more inclusive and socioeconomically beneficial to its citizens.** The achievements recorded in economic growth did not sufficiently and directly benefit the poor and vulnerable in the society. Poverty reduction rate was not commensurate with the rapid growth in the GDP of the country. Estimates of the growth elasticity of poverty indicate that for every 1.0 percent growth in GDP per capita, poverty declined by only 0.6 percent. Nigeria's GDP is half that of the regional average and only a fourth of that of lower-middle-income countries. Three factors determined this lack of responsiveness: (a) high growth rates have been accompanied by comparatively high rates of population growth; (b) Nigeria has been exhibiting a low capacity to absorb labor; and (c) inequality has been widening quickly and has adversely affected poverty reduction; only half the consumption per capita growth has translated into poverty reduction. Ongoing conflict has had negative implications for investment in the North, particularly in the Northeastern region, and created many internally displaced persons.

4. **The security situation in Nigeria has continued to be influenced by terrorism, armed conflict and general crime.** The attacks by Fulani herdsmen on farmers have intensified across Nigeria as the Sahel encroaches on their pastures. Other security challenges include kidnapping, crime, attacks on oil and gas infrastructure, and simmering discontent in the Delta and South East regions. However, the biggest challenge is the Islamic sect, Boko Haram, in North East Nigeria, which pledged allegiance to the Islamic State. The insurgency has led to the loss of more than 20,000 lives, the displacement of over 1.8 million people, and has negatively affected the livelihoods of over 6 million people.

5. **The collapse in oil prices revealed structural weaknesses in fiscal federalism, which is essentially distributive rather than productive.** Similar to the Federal Government, states and local government (LG) budgets are dependent on oil, but this dependency went unaddressed given the buoyant liquidity during the boom years.² In 2013, oil revenue represented 73 percent of total revenue of the states. This share declined by 47 percent between 2013 and 2016. The collapse of oil prices and the liquidity crunch revived tensions on the burden of the adjustment between the Federal Government and subnational governments that ended in a state bailout in July 2015. In May 2016, the liquidity situation had gotten worse given the drop in oil production due to the militant attacks on oil and gas pipelines. Salary arrears have continued to grow as the bailout fund was not always used for payment of salary arrears as intended, and debt service associated with the first bailout increased resulting in negative federal account allocation for some states. Hence, an extension of the bailout was agreed in 2016 under the Fiscal Sustainability Plan that includes a 22-point reform agenda to rationalize expenditure, increase internally generated revenue (IGR), strengthen public financial management (PFM), increase transparency and accountability, and ensure fiscal and debt sustainability.

6. **After a successful political transition in May 2015, the new government has been consolidating its efforts toward narrowing macroeconomic and fiscal risks, achieving more inclusive growth, and increasing revenues from the non-oil sector to compensate for declining oil revenues.** A paradigm shift in the way that the economy is managed, including revenues, expenditure, debt, and investment, will be needed to cope with the new landscape of low oil prices and low oil revenues without fiscal buffers to lean on. In aiming for more inclusive growth, Nigeria's growth and poverty reduction strategy should focus on addressing the fundamental and structural causes of inequalities across the country and uplifting its citizens out of poverty, as well as to ensuring shared prosperity. An even stronger economic foundation is required to facilitate the diversification of the export base and non-oil growth. This can be achieved through improvement in external competitiveness factors and structural reforms to address severe infrastructure deficiencies.

7. **To address these multiple challenges, the Federal Government of Nigeria launched, on March 7, 2017, an Economic Recovery and Growth Plan (ERGP) for 2017–2020.** The ERGP sets out actions to restore macroeconomic stability in the short term, and structural reforms 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

² In an attempt to address this dependency, in 2012, the Federal Government established the Nigeria Sovereign Investment Authority (NSIA), a sovereign wealth fund, with an initial capital of US\$1 billion. NSIA's current capital stands at US\$1.25 billion.

percent growth in real GDP by 2020. To this end, the ERGP has three broad strategic objectives: (a) restoring growth, (b) investing in our people, and (c) building a globally competitive economy. To achieve the objectives of the ERGP, the key execution priorities are (a) stabilizing the macroeconomic environment, (b) achieving agriculture and food security, (c) ensuring energy sufficiency (power and petroleum products), (d) improving transportation infrastructure, and (e) driving industrialization focusing on small and medium enterprises (SMEs). The ERGP serves as an ‘umbrella’; it is intended that detailed action plans and key performance indicators and targets for each of the 60 strategies contained in the ERGP will be developed. A Delivery Unit at the Presidency will oversee the implementation of the ERGP.

8. **The ERGP also recognizes that states (and local governments) have a critical—and often leading—role to play in many of the strategies outlined in the plan.** The ERGP therefore indicates that it will encourage states to develop economic recovery plans, which will outline the costed initiatives states intend to undertake in line with the thematic areas’ policy objectives laid out in ERGP. In June 2016, analysts³ highlighted that 17 states (out of 36) had IGR in 2015, representing less than 10 percent of the Federal Account Allocations (May 2015–June 2016). More recent data from BudgIT⁴ show that for 2015, 6 states had IGR below 10 percent of their net Federal Account Allocations for 2015 and 18 states had IGR below 20 percent of the net Federal Account Allocations (Kaduna State is not included in these 24 states). The ERGP highlights that since 2011, the total state government revenues have declined by 8 percent a year, while expenditures have increased by 4 percent a year. At the end of 2015, state expenditures exceeded revenues by approximately NGN 1 trillion.⁵

9. **Kaduna State is making strong efforts to improve its economic performance and social outcomes.** It has launched multiple reforms to improve fiscal sustainability, in line with the Federal Government Fiscal Sustainability Plan,⁶ and has already met several commitments under the plan. These include publication of audited annual financing statements within six months of financial year end, online publication of state budget, implementation of Treasury Single Account [TSA], database of Kaduna State Internal Revenue Services linked to Federal Joint Tax Board, approval of Tax Codification and Consolidation Law, biometric capture of all state’s civil servants to eliminate payroll fraud, establishment of an Efficiency Unit, and Fitch rating. See annex 4 for details.

10. **Reform success in Kaduna State can have a compelling demonstration effect for other Northern states.** With an estimated population of 8 million, Kaduna State is considered the gateway to Northern Nigeria, located along the Lagos-Kano corridor, the main trade route between Lagos and Northern Nigeria, connecting the two largest cities in Nigeria (see Figure 1). The northern belt of this corridor, connecting to Niger, consists of Kaduna, Kano, Katsina, and Jigawa States, with an estimated population of 30 million. Kaduna and Kano States have a significant industrial tradition with a strong agribusiness potential. The North-West geopolitical

³ www.economicconfidential.com.

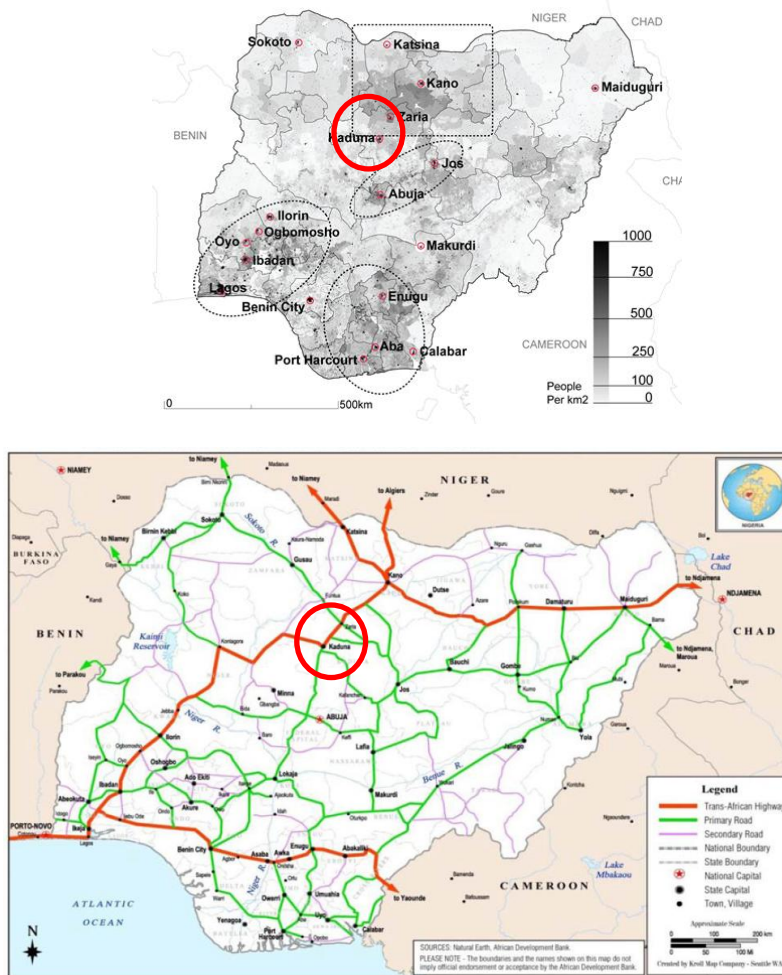
⁴ “State of the States,” Quick Factsheet 2016, BudgIT (BudgIT is a civic organization “driven to make the Nigerian budget and public data more understandable and accessible across every literacy span”).

⁵ In Kaduna State, though, revenue exceeded actual expenditure (2015 budget audited financial statements).

⁶ The Fiscal Sustainability Plan is built on five key strategic objectives: accountability and transparency, increase in public revenue, rationalization of public expenditure, public financial management reforms, and sustainable debt management—and includes 22 recommended actions points.

zone of Nigeria had among the worst development indicators and the highest level of poverty countrywide in 2013 (figure 2).⁷ Within the North-West, Kaduna State, in spite of a long history of conflicts⁸, stands out as one of the most advanced in the development path, both in human capital and service delivery (for example, children literacy rate is 60 percent higher than the regional average⁹ and so is the rate of skilled birth attendance),¹⁰ which potentially makes it a regional engine of growth. The Kaduna State Government (KDSG) has embarked on major reform efforts to turn around the economic situation of the state, which used to be a major industrial center. Reform success in Kaduna State can have a demonstration effect for other Northern States and can drive a change in the narrative of Northern Nigeria: a vicious circle of lower growth, higher poverty, and conflict.

Figure 1. Population Density and Lagos-Kano Corridor



⁷ In light of the Boko Haram insurgency and prevailing food crisis, the levels of poverty in the North-East are expected to have risen sharply since 2013.

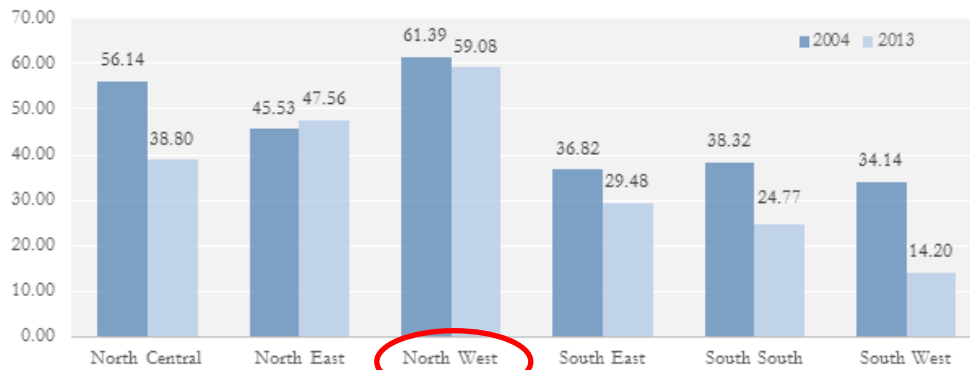
⁸ There is a long history of intercommunal conflicts in Kaduna State and conflicts have resurged in the period 2015–2017.

⁹ National Education Data Survey, 2015.

¹⁰ National Nutrition and Health Survey, 2015.

Sources: (i) Nigeria Urbanization Review (World Bank, 2016); (ii) An Infrastructure Action Plan for Nigeria (African Development Bank, 2013) – Nigeria road network

Figure 2. Poverty Headcounts by Zone, 2004–2013 (percent) and by States (2013)



Source: World Bank Poverty Assessment (2016).



B. Sectoral and Institutional Context

11. The KDSG has adopted an ambitious **Kaduna State Development Plan (KSDP) (2016–2020) to deliver jobs, social justice, and prosperity**. The KSDP stresses the importance of accelerating private investments and private sector-led growth, to create jobs and strengthen the fiscal sustainability of the state. The plan focuses on four areas: Economic Development, Social Welfare, Security and Justice, and Governance, with the following vision:

- **Economic Development.** Kaduna will become the destination for business investment and food basket for Northern Nigeria.
- **Social Welfare.** Kaduna will ensure that all citizens have access to high-quality, affordable health care and education.

- **Security and Justice.** Kaduna will turn the tide on public perception of insecurity in the North, becoming a place where every citizen can live and move freely without harm.
- **Governance.** Kaduna will set the standard for transparent decision making, citizen involvement, and competent and responsive public service.

12. **The objectives of the KSDP are consistent with the Federal ERGP and will contribute to its implementation.** The ERGP stipulates that its success is predicated on the states adopting critical measures to ensure its realization. Such measures include ensuring the availability of land required to transform the agriculture sector, improving business regulatory environment, and streamlining taxes “to reduce the multiplicity of taxes that can deter critical business activity” (ERGP).

13. **Kaduna State has the potential to become a regional engine of growth.** In 2015, Kaduna State’s GDP was estimated at US\$11.4 billion, with agriculture representing 37 percent, industry, 18 percent, and services 45 percent. In 2013, Kaduna State was estimated to be the fourth largest economy in Nigeria (after Lagos, Kano, and Oyo States).¹¹ Kaduna State used to be a major industrial hub in Nigeria in the 1970s, with a large textile industry. However, the manufacturing and textile sector has suffered significant decline under pressure from imports, as well as due to poor infrastructure. The textile sector in Kaduna State is currently moribund. A 2013 survey¹² estimated that Kaduna State counted 1.6 million micro-enterprises, representing 2.4 million jobs. This survey also estimated that Kaduna State counted 2,712 small enterprises (with fewer than 50 employees) and 170 medium enterprises (with 50 to 199 employees), representing a total of 114,132 jobs.¹³ With 81 percent of the population below 35 years and a labor force participation estimated at 51 percent (67 percent for men and 35 percent for women),¹⁴ creating jobs is a vital priority for Kaduna State.

14. **Centrally located in Northern Nigeria, Kaduna State is considered to be the gateway to the 19 Northern States, with a population estimated at over 100 million.** Kaduna State has considerable potential, with vast arable land and a beneficial climate, recognized training and research institutes, and strong agricultural production. Kaduna State is the largest producer of ginger and maize in Nigeria, second largest producer of soya beans, and fifth largest producer of rice. A value chains analysis for Kaduna and Kano States, undertaken in 2016, identified seven high-potential value chains representing large socioeconomic opportunity, with greater chance of success (that is, more limited implementation challenges): leather, staple crops, high-value crops, poultry, information and communication technology (ICT) applications and mobile, ICT computer assembly, and renewable energy. These seven value chains have a business potential of US\$11 billion and direct job creation of 220,000 over the next 15 years.

¹¹ “Nigeria Unveiled: Thirty-six shades of Nigeria,” Renaissance Capital, 2013.

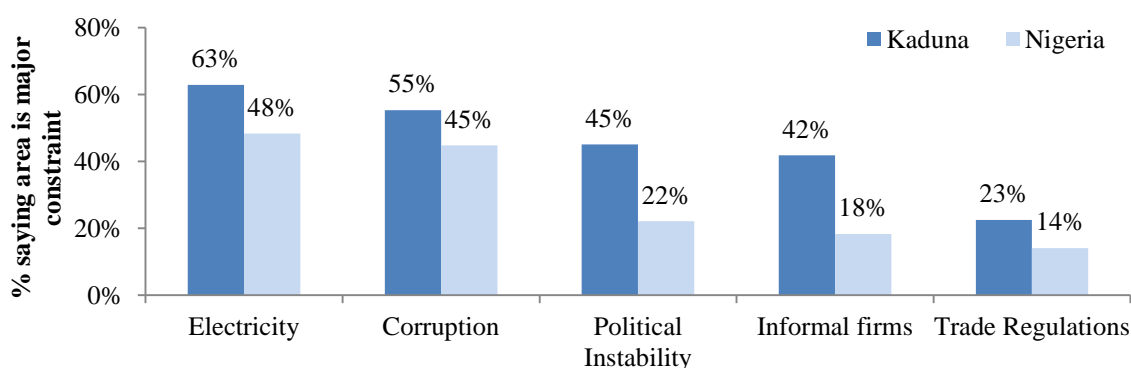
¹² Undertaken by the National Bureau of Statistics and the Small and Medium Enterprise Development Agency.

¹³ Overall, Nigeria counted 37 million micro-enterprises (representing 57.8 million jobs), as well as 68,168 small enterprises, and 4,670 medium enterprises (representing 1.9 million jobs).

¹⁴ Defined as individual above 15 years engaged in economic activities for at least a month in the last 12 months, Kaduna Baseline Report, Household Survey, 2015.

15. **To unleash its potential, Kaduna State needs to address business environment constraints.** The 2014 Enterprise Survey shows that the major constraints for firms in Kaduna State are electricity, corruption, and political instability¹⁵ (figure 3). While firms in Kaduna were more likely to say that electricity was a serious problem (63 percent of firms) than firms in other parts of the country (48 percent), transportation appears to be a lesser concern in Kaduna than elsewhere in the country (only 3 percent of firms in Kaduna said that transportation was a serious problem, compared to 17 percent in the country as a whole). Efforts to improve power in Kaduna State – critical for private investments – are bearing fruit: a 215 MW dual-fired power plant should be completed by end-2017 and three solar independent power projects, with a total capacity of 200 MW, are also planned.¹⁶ Firms in Kaduna were also more likely to say that corruption was a serious problem than in the rest of the country (55 percent versus 45 percent). In addition, 59 percent of firms in Kaduna state that "gifts" to public officials are needed to “get things done” (versus 24 percent across Nigeria). As a result, efforts to streamline and automate processes can have a major impact on corruption. Confirming the importance for Kaduna State to improve its business regulatory environment, the World Bank’s 2014 Subnational Doing Business report ranks Kaduna in the 15th position for Starting a Business, 32nd position for Dealing with Construction Permits, 24th position for Registering Property, and 2nd position for Enforcing Contracts—out of 36 Nigerian cities.

Figure 3. Major Constraints for Firms in Kaduna and Across Nigeria



Source: 2014 Enterprise Survey for Nigeria (<http://www.enterprisesurveys.org/>).

16. **In that context, Kaduna State has embarked on a two-pronged strategy highlighted in the KSDP.** First, through proclaiming that ‘Kaduna is truly open for business’ and through championing effective governance, Kaduna State aims to aggressively attract private investments to create jobs and increase IGR. Second, Kaduna State aims to markedly improve fiscal management and accountability to ensure that the limited financial resources of the state are used efficiently to allow for the financing of human capital and physical assets, to further catalyze private investments.

¹⁵ Presidential and State elections (for Governors) took place in March and April 2015, respectively, in Nigeria. Kaduna State suffered from deadly election-related and communal violence, following the April 2011 Presidential elections, with over 800 deaths. This can explain why ‘political instability’ is identified as a major constraint by 45 percent of firms in Kaduna State (while this is a major constraint for 22 percent of firms across Nigeria).

¹⁶ This is part of a broader Federal-level initiative. The Purchasing Power Agreements were signed between the independent power projects and the Nigeria Bulk Electricity Trading agency in July 2016.

C. Relationship to the CAS/CPF and Rationale for Use of Instrument

17. **The proposed operation is fully aligned with the World Bank Group’s Country Partnership Strategy (CPS) for the Federal Republic of Nigeria for FY14–FY17.**¹⁷ The CPS has three objectives: (a) *promoting diversified growth and job creation* by reforming the power sector, enhancing agricultural productivity, and increasing access to finance; (b) *improving the quality and efficiency of social service delivery* at the state level to promote social inclusion; and (c) *strengthening governance and public sector management*, with gender equity and conflict sensitivity as essential elements of governance. The CPS was adjusted in 2016 to the country’s emerging priorities by adding a new cross-cutting/foundational cluster—Restoring Macroeconomic Resilience Cluster (CPS Cluster 4).¹⁸ Recognizing the importance of urban growth, private sector development, and connectivity for reducing poverty and boosting shared prosperity in Nigeria, the adjustments also introduced an economic corridor approach. The proposed support to Kaduna State is part of the proposed economic corridor approach¹⁹ to increase private investments and create jobs.

18. **The proposed Program-for-Results (PforR) also contributes to the World Bank Group’s twin goals:** (a) ending extreme poverty—reducing the share of the global population living in extreme poverty to 3 percent by the year 2030; and (b) promoting shared prosperity—increasing the income of the bottom 40 percent of the population in each country—in a sustainable manner. The proposed PforR builds on recommendations from the 2016 World Bank report “Poverty Reduction in Nigeria in the Last Decade.” Rapid, diversified growth and job creation in Nigeria depend on the twin forces of industry and services-driven wages in urban areas and agricultural productivity in rural areas. Policy intervention, thus, should focus, in particular, on increasing the number of jobs in the modern private sector and boosting the productivity of traditional economic sectors. The report also advocates for the provision of services and infrastructures, with a renewed effort to provide more basic services ranging from education to water and sanitation and basic infrastructures, such as secondary roads and electricity.

19. **Another important and complementary focus of the PforR is to support Kaduna State to increase its fiscal space and enhance expenditure effectiveness to boost investments in human capital and physical assets sustainably.** Enhanced fiscal space is needed for transformational scale up in service delivery, as embedded in the KSDP. As noted by the 2016 World Bank report on “Economic Growth in Nigeria: Past Determinants and Future Prospects,” the Nigerian public sector revenues and expenditures are comparatively small relative to both the

¹⁷ Report No. 82501-NG, discussed by the Board of Directors on 04/24/2014, as adjusted with the 2016 CPS Performance and Learning Review (PLR, Report No. 104616), discussed by the Board of Directors on 09/22/2016.

¹⁸ The CPS, as revised with the 2016 PLR, covers the following two strategic clusters: (i) *Federally-led Structural Reform Agendas for Growth and Jobs*, and (ii) *Quality, Effectiveness and Efficiency of Social Service Delivery at State Level for Greater Social Inclusion*, as well as two cross-cutting/foundational clusters (iii) *Governance and Public Sector Management*, and (iv) *Restoring Macroeconomic Resilience*.

¹⁹ An economic corridor strategy encompasses a set of coordinated actions that ensure a critical mass of public and private investments with the ability to transform a region, integrating “hard” (infrastructure) and “soft” investments (such as policy and regulatory framework, institutional strengthening and capacity building) to unleash private investments. Kaduna State benefits from a strategic location across the Lagos-Kano corridor and is considered the gateway to Northern Nigeria. The proposed support to Kaduna State contributes to the development of an economic corridor strategy in the Northern section of the Lagos-Kano corridor.

economy and the gaps in human and physical capital. As a result, Nigeria is locked in a vicious cycle in which the limited financial capability of the Government and the poor quality of its institutions inhibit investment and growth in the non-oil economy, further eroding the revenue base and sapping the capacity of the public sector. The PforR addresses, at state level, serious deficiencies in capital project selection and evaluation and “permanent discrepancy between budgeted and actual capital spending (as a result) of cash management and procurement practices” countrywide. As a result, Nigeria ranks among the worst performers on public investment management (PIM).²⁰

20. **The PforR instrument has been identified as the most relevant instrument to support the ambitious reform efforts of KDSG** (which focuses on increasing private investments for job creation and revenue generation in a strengthened governance environment) for the reasons detailed below: (i) ownership; (ii) flexibility; (iii) institutions building; and (iv) incentives.

- **Ownership.** Kaduna State has developed a comprehensive and compelling State Development Plan for 2016–2020 (KSDP) with a detailed results framework and has defined a Medium Term Fiscal Framework to support the implementation of the Plan. The State has also established an institutional framework to support the implementation of the Plan, with in particular the establishment of a Results Delivery Unit within the Governor’s office, which will work in close coordination with the Monitoring and Evaluation Department of the Ministry of Budget and Planning. The proposed PforR will support selected aspects of the KSDP, focusing on two pillars of the Plan: Economic Development and Governance.
- **Flexibility:** By focusing on and aligning with KSDP outputs and outcomes, the Program leaves room for adjustments along the results chain and allows the KDSG to allocate resources and take necessary measures to address unforeseen implementation challenges so as to optimize results (with a focus on outcomes rather than process).
- **Institutions building.** Over the last two years, Kaduna State has made impressive progress to strengthen its institutions and systems. The proposed PforR will further support Kaduna State institutional capacity building, including financial systems, procurement, and environmental and social systems. In addition, the reliance of the PforR on Kaduna State’s own systems will further reinforce the progress achieved so far and the proposed capacity building.
- **Incentives.** The proposed PforR rewards the achievement of key results over the implementation period of the KSDP (2016–2020). The PforR thus supports the implementation of policy reforms, with a focus on rewarding the achievement of gradual results to ensure that the reforms are yielding the expected impacts in a sustainable manner. The strong focus on results of the PforR instrument is fully aligned with the commitment for visible results and impact of the leadership of KDSG.

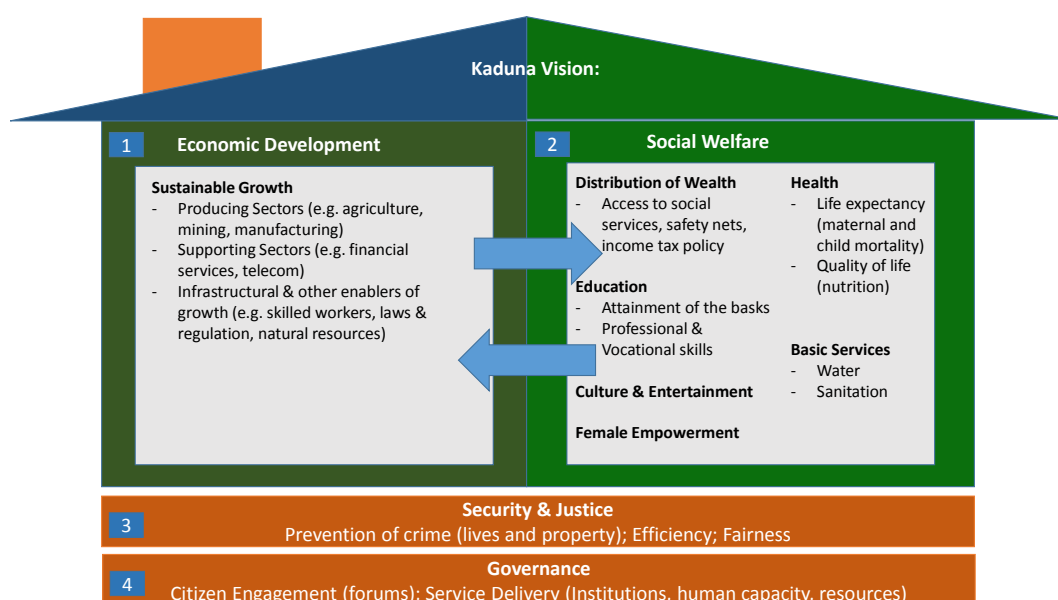
²⁰ Dabla-Norris E. and Alii, 2011. “Investing in Public Investment: An Index of Public Investment Efficiency.” IMF Working Paper.

II. PROGRAM DESCRIPTION

A. Government Program

21. **The KSDP focuses on four priority areas: (a) Economic Development, (b) Social Welfare, (c) Security and Justice, and (d) Governance**—with Economic Development and Social Welfare reinforcing each other and Security and Justice and Governance as the foundation—according to figure 4.

Figure 4. KSDP (2016–2020)



22. **A key focus of the KSDP is to attract private sector investments for economic development** with the following vision: “Kaduna will become the destination for business investment and the food basket of Northern Nigeria” (KSDP). Through increased private sector investments in high potential sectors (agriculture, mining,²¹ and manufacturing), Kaduna State aims to foster sustainable growth and job creation. Increased private sector activities in Kaduna State will also generate much-needed additional IGR, which can then be allocated to social welfare (and in particular, basic education, as this is a key focus of the KDSG). In turn, improved social welfare will foster further economic development, as shown in figure 4.

23. **In addition, as a foundation for economic development and social welfare, the KSDP puts a major emphasis on governance reforms:** “Kaduna will set the standard for transparent decision making, citizen involvement and a competent and responsive public service” (KSDP). Kaduna State has therefore embarked on major reforms efforts to increase transparency, accountability, and citizens’ engagement. On one side, the KDSG aims to significantly increase

²¹ The PforR will not support investments in the mining sector considering, in particular, the high environmental and social (E&S) risks. The Nigeria Mineral Sector Support for Economic Diversification Project (P159761), approved in April 2017, will provide technical assistance at the federal and state level to increase private investments in the mining sector.

IGR, from a very low base (1 percent of the state GDP in 2016). On the other side, as part of the social contract with its citizens, the Government is focusing on streamlining recurrent expenditure to create space for capital and social expenditure, as well as strengthening the preparation and execution of public investments. KDSG is also establishing a direct relation between taxation and service (including by way of provisions of tax for service).²²

B. Program Development Objective/s (PDO) and Key Results

24. **The PDO is to improve the business-enabling environment and strengthen fiscal management and accountability in Kaduna State.** The Program supports the efforts of Kaduna State to improve its business-enabling environment with the view to become a leading investment destination in Nigeria. According to the KSDP, private investments are expected to play a major role in generating jobs and revenues for the state. On one side, the Program supports the efforts of Kaduna State to significantly increase private investments for job creation and revenue generation. On the other side, the Program supports Kaduna State to strengthen fiscal management and accountability to ensure that increasing (but still limited) revenues are spent as efficiently as possible, to increase the state's capacity to invest in human capital and physical assets and to catalyze private investments. Accountability underlies this strategy by building public (including investors') trust in government and ensuring that its actions and decisions are subject to public scrutiny and citizen engagement.

25. **Progress toward achieving the PDO will be measured by key indicators that reflect the overall results areas of the Program.** The detailed Results Framework, including intermediate results indicators, is provided in annex 2. The key PDO results indicators are:

- **Simplified business processes** (measured by the reduction in the time required to start a business, deal with construction permit, and register property)
- **Increased budget credibility** (measured by two indicators: IGR outturn [IGR actual versus budgeted] and capital expenditure execution rate)
- **Increased fiscal accountability** (measured by improved government responsiveness to citizens' feedback on fiscal performance: responsiveness is indicated by the percentage of capital projects improved in response to citizens' feedback captured in the Eyes and Ears project monitoring system)

C. PforR Program Scope

26. **The proposed PforR supports selected elements of the Economic Development and Governance pillars of the KSDP.** The proposed PforR focuses on strengthening Kaduna State systems (that is, soft investments) rather than financing hard investments (that is, infrastructure)—as shown in annex 1, table 1.1.

Results Area 1: Improving the Business-enabling Environment

²² Tax for service is the earmarking of a percentage of tax revenue to the financing of local services to benefit taxpayers. Such provisions are agreed upon between the tax administration and business associations. See Growth and Employment in States 3 (GEMS3), 2016, Report on Presumptive Tax (posted by the Nigerian Joint Tax Board).

27. **Within the two KSDP pillars—Economic Development and Governance—the PforR focuses on the following two results areas:**

- Improving the business-enabling environment
- Strengthening fiscal management and accountability

28. **The PforR will support transversal reforms to improve regulations affecting the entry and operations of SMEs,** using the Subnational Doing Business reform areas as an entry point: starting a business, dealing with construction permits and registering property (see annex 1, para. 6 for details).

29. **Under this results area, the PforR will support Kaduna State policy reform efforts to improve the enabling environment and increase private investments.** To support this reform agenda, the KDSG established in 2016 Kaduna Investment Promotion Agency (KADIPA), through a ‘Law to Establish the Kaduna Investment Promotion Agency and Other Matters Connected Therewith’ (enacted on December 23, 2015). KADIPA has been established as a one-stop resource and coordination center for all investment-related activities in the state with a focus on (a) improving the state’s business-enabling environment and (b) attracting and facilitating new investment in the state (see annex 1, para. 5 for details).

30. **The PforR will also support improved investment policy and promotion.** It will support the strengthening of KADIPA to help attract and retain domestic and foreign investors to Kaduna State. PforR, through the Program Action Plan (see section IV.E and annex 8) will support KADIPA’s effort to develop out-growers’/off-takers’ arrangements for agriculture investments, to ensure benefits sharing, as well as increase agricultural productivity and foster job creation. The Program will also support KADIPA to develop a linkages strategy, to support local SMEs to provide goods and services to investors, and to ease access of the local workforce to job opportunities created by the investments. In addition, the Program (through the Program Action Plan) will support KADIPA to develop a North-West Investment Area Agreement (NWIAA) Framework. (See annex 1, para. 7 for details).

31. **As part of its mandate to attract private investment, KADIPA also has the legal mandate to drive public-private partnerships (PPPs) in Kaduna State.** The Program will support the development of the legal, regulatory, and institutional framework for PPPs—as the KSDP puts a major emphasis in fostering PPPs in Kaduna State across various sectors: energy,²³ transport, water and sanitation, health. (See annex 1, para. 8 for details).

32. **In parallel to the reform efforts aimed at simplifying the registration of property, the PforR will also support the Systematic Property Registration Program (SPRP) implemented by Kaduna Geographical Information Services (KADGIS) in urban areas,** as well as the strengthening of KADGIS capacity (see annex 1, para. 10). The PforR will help ensure that the SPRP not only promotes income generation, but strengthens citizens’ property rights in an inclusive manner.

²³ While on-grid power is a federal-level responsibility, there is a strong potential to develop off-grid renewable energy in Kaduna—which could help address the significant power constraints faced by Kaduna State.

33. **Finally, and critically, the Program will support the development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA) for Kaduna State.** The FRILIA will help ensure that land acquisition for land-intensive agricultural investments is undertaken in line with established international good practices and that the shortcomings of the (Federal) 1978 Land Use Act are addressed at the Kaduna State level (see further details in section IV.C and annex 6). A focus of the Program is to support benefits sharing between private investors and surrounding communities, in particular through the development and implementation of the FRILIA.

34. **Overall, the proposed PforR supports the KDSG efforts at ‘de-risking’ the state and attracting private investments, through enabling a more predictable business environment and reducing investment risks.** The KDSG has proclaimed that “Kaduna State is truly open for business” and aims “to make the State the safest haven for investments through excellent policies” (“Discover Kaduna”, KADIPA, 2017). The KSDP also puts a major emphasis on PPPs, to leverage, to the extent possible, private sector investments in infrastructure. In a context of scarce public resources, the PforR will support Kaduna State to crowd in commercial capital, with a focus on delivering sustainable and affordable infrastructure services. This approach is fully aligned with the World Bank Group’s ‘cascade approach’, which includes a focus on “mainstreaming the upstream to de-risk and create markets, by systematically addressing the conditions for investments at the country and sector level—prioritizing reforms that remove the binding constraints²⁴ and that over time expand infrastructure finance and delivery options” (“Piloting the Cascade Approach”, World Bank, 2017). The KSDP has the ambitious objective to mobilize over US\$2.5 billion in private investments through PPPs. The PforR will support Kaduna State to strengthen its legal and institutional framework for PPPs, including the development of a PPP pipeline. Public-private dialogue is also at the heart of the KSDP, with “quarterly forums for investors and business leaders to communicate their needs to the State Government to strengthen feedback loops between government and private sector” (KSDP).

Results Area 2: Strengthening Fiscal Management and Accountability

35. **As highlighted in section II.A, a major focus of the KSDP is to increase private investments to create jobs and boost IGR.** This strategy is underpinned by a strong focus on fiscal management and accountability, including citizens’ engagement. An increase in IGR—critically needed in the current macroeconomic context in Nigeria—and increased budget credibility would in turn allow Kaduna State to effectively increase capital expenditures, with a focus on social sectors.

36. **Improving revenue generation.** Kaduna State has been focusing on improving tax collection by broadening the tax base and enforcing tax compliance of registered taxpayers. It has managed to increase IGR between 2015 and 2016 by 33 percent,²⁵ even though IGR outturn deteriorated to 42 percent because of overoptimistic revenue forecast in the appropriation law (see annex 1, para. 13 for more details). The PforR supports revenue mobilization by incentivizing: (a) increased IGR outturn (through disbursement-linked indicator [DLI] 6); and (b) the broadening of the tax base and improvement of tax collection (both results indicators were

²⁴ A discussion on the binding constraints the proposed PforR is addressing is included in section IV.A.

²⁵ Initial efforts to broaden the tax base and increase tax compliance are already bearing fruits.

captured through the number of taxpayers filing their tax return, DLI7). By doing so, it helps enhance the fiscal sustainability of Kaduna State in two complementary ways: reducing its dependence from fiscal transfers (from the federation account), and increasing the credibility of its budget (and consequently the execution of capital expenditure, which is generally and historically the variable of adjustment to low budget performance across the states).

37. **Improving public investment management (PIM).** On the expenditure side, the Program will support the strengthening of PIM to catalyze private sector investments. The KDSG is committed to effectively rebalancing the ratio of budget expenditure to capital investment (which amounts to 60 percent of appropriations in 2017), but the achievement of this objective calls for a significant improvement of the performance of capital expenditure (whose execution rate already improved from 14 percent in 2014 and 25 percent in 2015 to over 50 percent in 2016).²⁶ The Program will support the development and implementation of the Kaduna State Infrastructure Master Plan; building upon the Nigeria National Integrated Infrastructure Master Plan (National Planning Commission 2014). The Program will also support improvement of the public investment preparation cycle and implementation, including by strengthening the effectiveness of procurement. The Program incentivizes the improved performance, hence the development effectiveness, of appropriated capital expenditure, thus supporting KDSG focus on increasing the share of education and other social sectors in capital. And the Program will support the operationalization of the capital project monitoring and evaluation (M&E) system introduced under the aegis of the Ministry of Budget and Planning as a social accountability mechanism. (See annex 1, para. 14 for full details.)

38. **Fiscal accountability.** The KDSG is strongly committed to fiscal transparency as a first step toward an open government. The PforR supports fiscal accountability in three main regards: it incentivizes: (a) strengthening external auditing; (b) public scrutiny on budget performance (both at state and LG level); and (c) the Government's responsiveness to citizens' feedback on public investments (through DLI10), and it also incentivizes enhanced budget credibility, both from a revenue perspective (DLI6 on IGR outturn) and for capital expenditure (DLI8 on execution rate). The PforR also operationalizes critical PFM reforms supported by other World Bank projects such as the Budget and Treasury Management of Information System (BATMIS), the Treasury Single Account and the adoption of the new national Budget Classification/National Chart of Accounts system in compliance with international accounting standards. Finally, the Program helps the KDSG meet its commitments under the Fiscal Sustainability Plan. (See annex 1, para. 15 for full details.)

Program Expenditure Framework

39. **The overall budget for the KSDP, the Government program, is estimated at US\$2.9 billion between 2017 and 2020,** across the four pillars of the Plan: Economic Development, Social Welfare, Security & Justice and Governance, as per table 1.

²⁶ It is not uncommon for capital expenditure to amount to more than 50 percent of total expenditure at appropriation stage across the states, and it was already the case in Kaduna under the previous government, but actual capital expenditure rarely amounts to such a percentage due to their low performance (24 percent in 2014 in Kaduna).

Table 1. KSDP Estimated Budget (in US\$ million)

	Recurrent exp.	Capex	Total
Economic Development	34	940	974
Social Welfare	520	547	1,067
Security & Justice	70	31	101
Governance	523	190	713
Total	1,146	1,709	2,855

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Note: Exchange rate: US\$1 = NGN 305.

40. **The Program expenditure framework is estimated at US\$490 million over the same period (2017–2020), according to table 2.**

Table 2. KSDP and Program Estimated Budgets (in NGN billion)

	2017	2018	2019	2020 (est.)	Total (Naira)	Total (US\$ bn)	%
KSDP	215	219	213	213	860	2.86	
PforR	43	35	36	36	149	0.49	17%

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Note: Exchange rate: US\$1 = NGN 305.

41. **According to table 3, the IDA contribution to the Program amounts to US\$350 million, for an expenditure framework of US\$490 million.** This amounts to the total of the operating expenses of the agencies responsible for the achievement of the PforR objectives. The expenditure framework consists of 78 percent of recurrent expenditure and 22 percent of capital expenditure. Capital expenditure is included only to the extent that it is part of operating expenses of the center of the Kaduna Government (that is, to the exclusion of most capital projects, such as the construction of roads, schools, and health facilities). The Program expenditure framework is based on the approved budget for 2017 for Kaduna State, which includes budget estimates for 2018 and 2019: “Budget of Jobs, Social Justice and Equity—Approved 2017–2019 Multi-Year Budget.”²⁷ The budget for 2020 was estimated using the 2019 budget. Further details on the Program expenditure framework are provided in annex 4.

Table 3. Program Financing, 2017-2020 (US\$ million)

Source	Amount (US\$)	% of Total
Government	140	29%
IDA	350	71%
Total Program Financing	490	

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Exchange rate: US\$1 = NGN = 305.

42. **Excluded activities.** The Program will exclude activities that do not meet World Bank policy on eligibility for PforR financing. Specifically, the borrower shall ensure that the Program

²⁷ This budget was prepared based on the “Economic and Fiscal Update, Fiscal Strategy Paper and Budget Policy Statement,” 2017–2019 (KDSG).

excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or have affected people, as defined in the World Bank policy on PforR financing, and Works, Goods, and Consultancy contracts above the Operations Procurement Review Committee thresholds. The World Bank will support Program execution to ensure compliance with PforR policy requirements during implementation. As the focus of the PforR is on supporting Kaduna State systems (that is, policies and institutions), the exclusion of the above activities will not impact the achievements of the results under the Program.

D. Disbursement Linked Indicators and Verification Protocols

43. The PforR funds will be disbursed based on 10 DLIs that reflect critical elements of performance required to achieve the PDOs. The DLIs are summarized in table 4. The complete DLI matrix is included in annex 3.

Table 4. Summary of DLIs

DLI	Definition	Amount, SDR millions
DLI1: Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property	Reduction in the time required to start a business, deal with construction permit and register property—as a proxy for the simplification of business processes in Kaduna State. <u>Prior result:</u> Approval of Ease of Doing Business Charter	25.54
DLI2: Implementation of systematic property registration program: number of new CofOs, issued	Number of new Certificates of Occupancy (CofOs) issued. CofOs provide citizens with land tenure security, reduce land disputes, add value to the land, facilitate transactions, and help the Government provide better public services. <u>Prior result:</u> 3,000 new CofOs issued by June 30, 2017 Approval of KADGIS regulations	25.54
DLI3: Strengthening of investment promotion: number of Memoranda of Understanding signed between investors and KADIPA	Number of Memoranda of Understanding signed between investors and KADIPA. This measures the effectiveness of KADIPA to attract and facilitate private investments in Kaduna State. <u>Prior result:</u> Organization of KADINVEST 2.0 (April 5-6, 2017)	25.54
DLI4: Development of the legal and institutional framework for PPP	This DLI will increase the capacity of Kaduna State to undertake PPP transactions, a major focus of the KSDP, and will involve the following: (a) Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation, including E&S aspects), and clarifies the institutional roles and responsibilities of all KDSG stakeholders (b) Project Facilitation Fund Rules, Governance, and Operational Manual prepared (c) PPP pipeline prepared (d) Pre-feasibility studies for three projects completed (e) PPP Fiscal Commitment and Contingent Liability (FCCL) Management Framework adopted; FCCL from existing projects measured and disclosed (f) PPP Disclosure Framework adopted, web portal	25.54

DLI	Definition	Amount, SDR millions
	<p>established, and project information available</p> <p>(g) Detailed feasibility studies for one transaction with low E&S risks* completed</p> <p>(h) Project Facilitation Fund established and seed funding of NGN 60 million provided</p> <p>(i) One PPP transaction with low E&S risks* meets commercial close</p> <p>*According to the PforR policy and as stipulated in the Program Implementation Manual</p> <p><u>Prior result: Not applicable</u></p>	
DLI5: Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	<p>Development and implementation of a FRILIA to ensure that land acquisition and resettlement for large-scale agribusiness investments are undertaken in line with established international good practices and guarantee shared benefits between private investors and surrounding communities.</p> <p><u>Prior result:</u> FRILIA principles approved by Kaduna State Governor</p>	25.54
DLI6: Increasing IGR outturn	<p>IGR outturn is measured by the ratio of IGR actual/budgeted. IGR outturn demonstrates the budget realism of the KDSG in revenue mobilization.</p> <p><u>Prior result:</u> BATMIS fully operational for revenues and expenditure chain</p>	25.54
DLI7: Improvement of tax collection	<p>The increase in the number of registered taxpayers (using the Tax Identification Number [TIN]) filing returns is used as a proxy for improving tax compliance and broadening the tax base.</p> <p><u>Prior result:</u> Number of registered tax payers (TIN) by June 2017: 30,000</p>	25.54
DLI8: Increasing capital expenditure execution rate	<p>An increased capital expenditure execution rate will demonstrate the capacity of Kaduna State to significantly increase public investment.</p> <p><u>Prior result:</u> Establishment of Planning Commission; draft Kaduna Infrastructure Master Plan released for public consultations; compliance with budget circular on capital project appraisal and prioritization in 2017 approved budget; reduction of arrears of payment to contractors from 3 percent to 1 percent of appropriations</p>	25.54
DLI9: Increasing procurement effectiveness	<p>Number of MDAs adopting e-procurement, disclosing contract awards and whose procurement is audited.</p> <p><u>Prior result:</u> Approval of Procurement Guidelines (as per Procurement Law); adoption of e-procurement strategy; disclosure of contracts above NGN. 50 million since Jan. 2017</p>	25.54
DLI10: Improved government responsiveness to citizens' feedback on fiscal performance	<p>Government responsiveness to citizens' feedback on fiscal performance is measured through the percentage of capital projects improved in response to citizens' feedback captured by the M&E system ('Eyes and Ears') for public investments under implementation by the Ministry of Budget and Planning.</p> <p><u>Prior result:</u> Approval of Audit Law by Executive Council, Approval of Freedom of Information Law by Executive Council;</p>	25.54

DLI	Definition	Amount, SDR millions
	disclosure of State and LG budgets for 2017; disclosure of State budget execution audit report for 2015 and 2016; launch of citizen’s module in Eyes and Ears for capital projects	

44. **Independent verification agent.** Progress toward the achievement of the Program’s objective will be verified twice a year by the Independent Verification Agent (IVA). The IVA will provide independent confirmation of the results reported to the World Bank. The IVA for this program will be a firm recruited on the basis of terms of reference developed by the Ministry of Budget and Planning. The recruitment of the IVA will be completed within three months after effectiveness²⁸. The independent verification of results will accompany any disbursement request to the World Bank. Kaduna State has already selected a reputable firm to act as the IVA for the verification of the prior results.

E. Capacity Building and Institutional Strengthening

45. **The PforR supports major reform efforts undertaken by the KDSG, under the KSDP, to strengthen capacity and institutions**—as part of its Governance pillar, with the overall objective “to create the right organizational and decision making structure to drive the achievement of expected service delivery outcomes at both States and LG areas with sound fiscal prudence and organizational efficiency” (KSDP).

46. **Kaduna State has embarked on a Public Service Revitalization and Renewal Project, as part of the KSDP**, recognizing the current challenges of the civil service (skills gap, aging workforce, lack of accountability, and efficiency). The objectives of the Public Service Revitalization and Renewal Project are the following: (a) undertake a strategic capacity renewal of the public service and bring in a new cadre of skilled and motivated young people to guarantee sustainable service efficiency and productivity; (b) restructure the Kaduna State public service wage bill and make it more sustainable in the long run by streamlining the payroll; (c) determine, on an MDA basis, actual staff strength by MDA profile and analyze staff skills to ascertain their relevance and suitability; (d) consider possible social safety net programs that would cushion the impact of the exercise on affected staff; (e) examine existing relevant social welfare programs to derive additional support for affected staff; (f) educate the general public on the strategic importance of this initiative to ensure popular support and proactively manage political and social resistance; and (g) carry out a comprehensive training needs assessment of the entire Kaduna State public service.

47. **In this context, Kaduna State has also established several new institutions that play a key role in the KSDP: KADIPA, KADGIS, KPPA, KADIRS, and a Planning Commission.**²⁹ The PforR will support the strengthening of these institutions as they will play a

²⁸ As stipulated in the Financing Agreement, Kaduna State shall recruit the IVA no later than three months after effectiveness. It should be noted that Kaduna State has already recruited the IVA for the verification of the prior results.

²⁹ With a view to guarantee sustainability (especially with regard to technical capacity), the Ministry of Budget and Planning will be transformed into a Planning Commission. The Commission will be formally established by June

key role in ensuring that the PforR objectives are met. In particular, there will be a focus on ensuring that the budget allocated to these institutions is aligned with their mandate.

External technical assistance for Capacity Building and Institutional Strengthening

48. **The Program builds on significant technical assistance provided by development partners to Kaduna State.** The United Kingdom Department for International Development (DFID) has been a long term partner of Kaduna State, with a broad range of programs across governance, private sector development, infrastructure, education and health. In April 2017, during the KadInvest summit, DFID signed a Development Cooperation Framework (2017-2020) with KDSG, with the strategic objective of “achieving the development priorities set in the Kaduna State Development Plan”. The United States Agency for International Development (USAID) is also a key partner of Kaduna State. During the KadInvest summit, KDSG and USAID signed a three-year Memorandum of Understanding outlining “the shared and individual commitments to help drive economic development collaboration between USAID/Nigeria and the Kaduna State Government”. These commitments include: (i) strengthening the agriculture sector through increased agricultural productivity of selected value chains, expanded market participation, increased access to finance and an improved business enabling environment; (ii) developing the capability of Kaduna State Government to manage water and sanitation resources; and (iii) increasing access to and availability of power in Kaduna State.

49. **DFID is a key partner for this Program.** The Program builds upon the major support to investment climate reforms provided to Kaduna State by GEMS3 (Growth and Employment in States–3). GEMS3 support has been focusing specifically on land administration, tax administration, and investment promotion and facilitation. GEMS3 is closing in June 2017 and DFID has initiated the preparation of a follow-up intervention (LINKS – Northern Nigeria Spatial Growth Program) focusing on three States in Northern Nigeria: Kaduna, Kano, and Jigawa States. The DFID-funded LINKS project is supporting a spatial development approach for private sector development in Northern Nigeria and as such is supporting the Northern belt of the Lagos-Kano corridor³⁰. The PforR will also rely on ENABLE (Enhancing Nigerian Advocacy for a Better Business Environment) II, which aims at improved policy and regulatory environment for business by enhanced Public-Private dialogue (PPD). ENABLE II has played a critical role in Kaduna State by fostering public-private dialogue (for example, in the context of the implementation of the presumptive tax for the informal sector). Nigeria Infrastructure Advisory Facility (NIAF) II, which closed in December 2016, has been providing critical assistance on infrastructure planning and PIM. The PERL (Partnership to Engage, Reform, and Learn) Project will also provide critical technical assistance during PforR implementation, as a follow-up operation to SPARC (State Partnership for Accountability, Responsiveness and Capability), under which the KDSG has benefitted from technical assistance for governance reforms since 2013. The PERL Project aims to promote public sector accountability and reduce corruption to ensure that Nigeria is able to use its own resources to deliver the public goods and services required for poverty reduction and growth. The PERL Project will support the PforR results area focusing on accountability (including by building institutional capacity for budget

2017 (the bill for the establishment of the Planning Commission is undertaking public hearings at the State Assembly).

³⁰ DFID and the World Bank are closely coordinating the preparation of the PforR for Kaduna State and LINKS.

preparation and execution and citizen engagement). With regard to accountability, the PforR will also rely on Mobilizing for Development, which supports LGs and local governance.

50. **The World Bank Competitive Industries and Innovation Program (CIIP), funded by the European Union, Austria, Norway, and Switzerland, is also supporting the preparation and implementation of the PforR,** with a focus on supporting competitiveness in Northern Nigeria, leveraging the Lagos-Kano corridor.

51. **The Public-Private Infrastructure Advisory Facility (PPIAF), a global technical assistance facility managed by the World Bank, will also provide technical assistance to Kaduna State** on PPP Project prioritization and institutional strengthening.

52. **The PforR will, therefore, include significant parallel technical assistance.** External technical assistance will mostly be provided through DFID, and World Bank technical assistance will mostly be provided through CIIP and PPIAF. A Memorandum of Understanding will be signed between the KDSG, DFID, and the World Bank specifying how DFID technical assistance and the World Bank-funded PforR jointly support the KSDP. Table 5 below summarizes the parallel technical assistance supporting the PforR implementation.

Table 5. External Technical Assistance Supporting the PforR

DLIs	External Technical Assistance
DLI1: Simplified business processes	DFID ENABLE II (with a focus on PPD) DFID LINKS (to be approved) CIIP
DLI2: Implementation of systematic property registration program	DFID LINKS (to be approved). No support to the SPRP per se, but technical assistance on land issues in Kaduna State CIIP
DLI3: Strengthening of investment promotion	DFID LINKS (to be approved) CIIP
DLI4: Development of the legal and institutional framework for PPP	Public Private Infrastructure Advisory Facility
DLI5: Development and Implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	DFID LINKS (to be approved), includes technical assistance on land issues in Kaduna State CIIP
DLI6: Increasing IGR outturn	DFID PERL
DLI7: Improvement of tax collection	DFID PERL
DLI8: Increasing capital expenditure execution rate	DFID PERL
DLI9: Increasing procurement effectiveness	DFID PERL
DLI 10: Improved government responsiveness to citizens' feedback on fiscal performance	DFID PERL

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

53. **Institutional arrangements.** The State Executive Council, chaired by the Governor, is responsible for coordinating all efforts related to the implementation of the KSDP to ensure that all stakeholders work together toward a common set of priorities. The Council ensures that the

Government's strategic priorities are being appropriately supported by the Sector Implementation Plans (SIPs) and budget. Members of the State Executive Council, with the exception of the Deputy Governor, are appointed by the Governor in due consultation with the legislative arm who approves such membership, and include the Governor, Deputy Governor, Secretary to the State Government, Chief of Staff to the Governor, Commissioners (that is, Ministers), and Special Advisers. The Council is the highest administrative decision-making body in the Kaduna State and is in charge of deliberating on key issues of great priority to the state.³¹

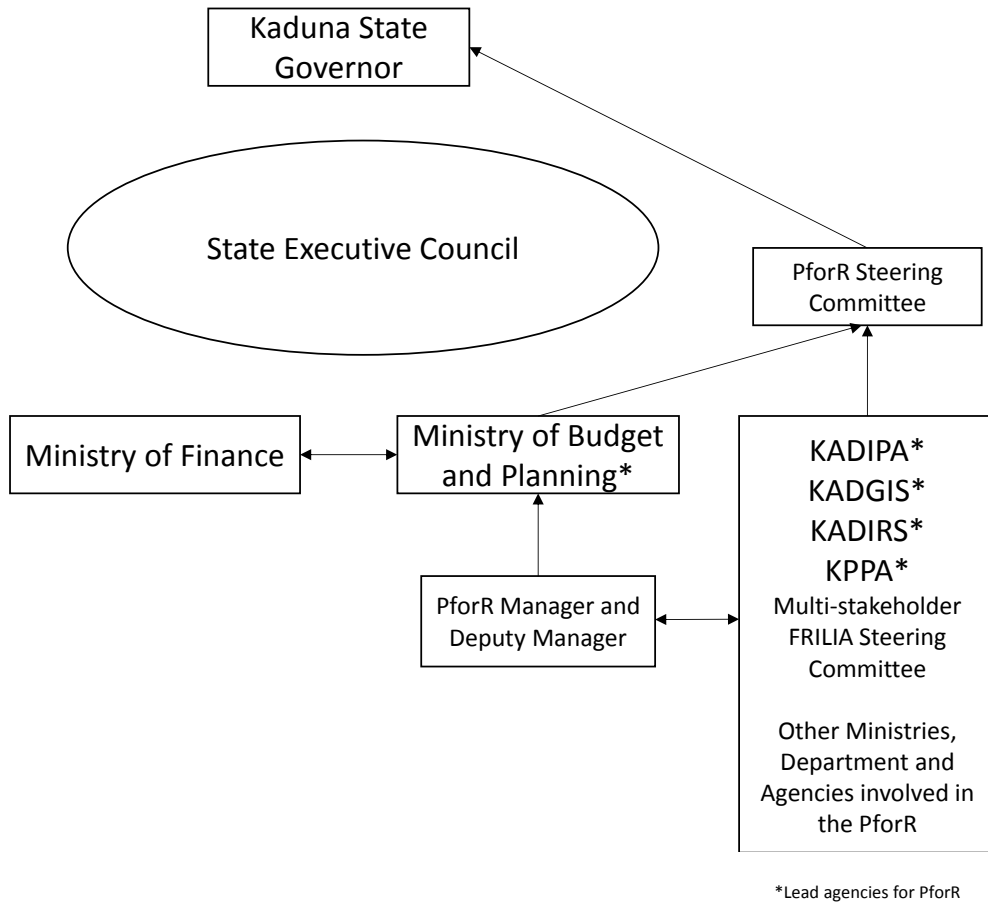
54. **The implementation of the PforR will be the responsibility of the Kaduna State Ministry of Budget and Planning, in close coordination with the Kaduna State Ministry of Finance.** A PforR Steering Committee will be established by the end of June 2017, chaired by the Governor and comprising the Commissioner of Budget and Planning and the Commissioner of Finance, as well as the heads of the lead agencies for each DLI, the PforR Program Manager and a representative of the Federal Ministry of Finance. In addition, to support the development and implementation of the FRILIA, a specific multi-stakeholder Steering Committee will be established. The institutional arrangements for the KSDP and the PforR are summarized in figure 5. (See annex 1, "Implementation Arrangements," for details.).

55. **The Program Implementation Manual will contain detailed arrangements and procedures for implementation of the Program,** including (a) disbursement and flow of funds arrangements; (b) institutional arrangements; (c) financial management and governance arrangements; (d) E&S management systems, including the Environmental and Social System Assessment (ESSA) and the Program Grievance Redress Mechanism³²; (e) M&E, reporting, and communication, including Program indicators; (f) Program Action Plan (PAP); and (g) detailed arrangements for verification of achievement of disbursement-linked results (DLRs) (including the Verification Protocol).

³¹ The number of ministries was reduced from 24 to 13 to enable each ministry to have a clear mandate that does not overlap with that of any other ministry, cut costs, and enhance the efficiency and effectiveness of the public service.

³² As per the Program Action Plan, Grievance Redress Mechanisms will be implemented in key Program agencies (KADIPA, KADGIS, KADIRS and KPPA).

Figure 5. KSDP and PforR Institutional Arrangements



B. Results Monitoring and Evaluation

56. **The PforR Program Manager, under the Ministry of Budget and Planning, will be responsible for the M&E of the PforR.** The PforR Program Manager will gather the M&E information from the different lead agencies of the PforR (according to table 1.3 in annex 1). The Federal Ministry of Finance, through the PforR Steering Committee, will be involved in the M&E of the Program. The PforR Results Chain is included in annex 1 and the Results Framework is provided in annex 2. The PforR Results Framework includes 3 PDO Indicators and 13 Intermediate Results Indicators. All DLIs are included in the Results Framework (either as PDO Indicators or as Intermediate Results Indicators).

C. Disbursement Arrangements

57. **Disbursement arrangements.** Disbursements from the World Bank, under the Program, will be made to the Special Treasury subaccount within the omnibus TSA of Kaduna State held with the Central Bank of Nigeria (CBN). The releases from the World Bank will be contingent on Kaduna State’s meeting of the targeted indicator results as defined by the DLIs. For each DLI, allocated amounts, baselines, targets, requirement for achievement, advance payments, prior results financing, and deadlines for achievement have been defined (see annex 3 for details).

Prior results achieved on or after November 8, 2016, but before signing of the Financing Agreement, will be eligible for disbursement of up to a ceiling of SDR 63.75 million. The operation will also include the provision of ‘advances’ (of up to a ceiling of 25 percent of the credit proceeds) to support the KDSG toward meeting future DLIs on time, especially under its current fiscal constraints.

58. **Program financial statements and audit.** The annual financial statements (AFSs) of the Program will be prepared by the Accountant General of Kaduna State as part of its consolidated financial reports. The fiduciary assessment shows the Office of the Accountant General has developed a reporting capability (being upgraded under the Budget and Treasury Management Information System [BATMIS]) to specifically report on program expenditures so that they are audited by the State Auditor General. The KDSG will demonstrate, through regularly prepared financial statements, that the Program’s net expenditures are equal to, or in excess of, the PforR financing by the end of the operation. The audit report on the financial statements, including the program activities, will be submitted to the World Bank, annually, within nine months of the end of the government fiscal year.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

59. **Strategic relevance.** The Program addresses the constraints of weak business environment, low efficiency of public expenditures, and a shrinking fiscal space. The Program is geared towards rewarding improved business environment, revenue mobilization, budget performance and expenditure effectiveness and incentivizing socially inclusive land management, and fiscal accountability. The proposed PforR is at the heart of KSDP as highlighted in section II.C Kaduna State is within the North-West geopolitical zone of Nigeria, which was registering the highest level of poverty in Nigeria in 2013³³ (with a poverty headcount of 59 percent in 2013, as indicated in section I.B).

60. **The successful implementation of the KDSG development strategy is hampered by the main following binding constraints:** (a) weak business enabling environment, (b) a shrinking fiscal space, and (c) weak development effectiveness of public expenditure. The Program addresses these binding constraints by (a) improving the business enabling environment, (b) increasing revenue mobilization for the financing of physical assets and human capital, and (c) strengthening fiscal accountability for enhanced development effectiveness of public expenditure as highlighted in table 6.

³³ In light of the Boko Haram insurgency and prevailing food shortage, the levels of poverty in the North-East are expected to have risen sharply since 2013.

Table 6. Binding Constraints and Program Remedies

Binding Constraints	Program Remedies
1. Weak business enabling environment	<ul style="list-style-type: none"> • Lowering market entry barriers • Reducing transactions costs for private investments • Improving predictability in the business environment • Improving factor input markets (land titling and registration) • Establishing a legal and institutional framework for PPP • Improving procurement competitiveness • Ensuring timely payment of contractors
2. A shrinking fiscal space	<ul style="list-style-type: none"> • Improving revenue outturn • Broadening the tax base • Increasing the collection rate • Ensuring effective allocation of fiscal resource to public investment • Leveraging private investment for capital investments
3. Weak development effectiveness of public expenditure	<ul style="list-style-type: none"> • Strengthening PIM (planning, selection, budgeting and execution) • Strengthening alignment of capital expenditure with strategic priorities • Institutionalizing citizen engagement on public investment

61. **Technical soundness of the Program.** The KSDP (2016–2020) is a sound and compelling document, which highlights the vision for Kaduna State for 2020 and details the strategy to reach this vision. It also provides details on the financing of the plan and on the implementation aspects. In addition, it includes a detailed Results Framework, with impact-level results, as well as outcome-level results across 15 sectors (as indicated in annex 1, table 1.1). The (separate) technical assessment provides a detailed analysis of the proposed Program. A summary is included in annex 4.

62. **The PforR builds on the major reform efforts undertaken since mid-2015 by the KDSG,** which have focused on strengthening the legal and regulatory framework (with a focus on fiscal sustainability) and the establishment of key institutions (such as KADIPA, KADGIS, KADIRS, and KPPA). Kaduna State investment promotion efforts are already yielding significant results, and a number of investors have committed significant investments (such as Olam, which announced a US\$100 million investment in a feed mill and poultry farm; Dangote, which announced a US\$30 million investment in a tomato farm, processing unit, and mini hydroelectric plant; and Anjeed Innova, which committed US\$150 million to a 100 MW solar power plant). The PforR supports the efforts of KDSG to improve the business enabling environment through a simplification of business processes, thus reducing transaction costs for private investors and improving predictability in the business environment. The PforR also supports the efforts of KDSG at attracting and facilitating private investments, including PPPs. The PforR includes a focus on supporting responsible and inclusive land-intensive agricultural investments, through the development and implementation of the FRILIA.

63. **The Program builds on and operationalizes a number of recent accountability reforms by the KDSG,** including with support from the World Bank (under the Public Sector Governance Reform and Development Project (P097026), PSGRDP) and DFID (under various programs, in particular, PERL and the NIAF): the adoption of a new public procurement and budget management legal framework, the development of a BATMIS and of a capital projects M&E system aiming at capturing citizens’ feedback on service delivery, the modernization of tax administration and streamlining of the tax code, the adoption of an Open Government Agenda.

64. **The PforR will be complemented by several World Bank operations.** In particular, these are the Growth and Employment Project (P103499), which provides financial and technical support to micro, small, and medium enterprises in high potential sectors (hospitality, entertainment, construction, ICT, and light manufacturing—with a specific focus on agribusiness); and the Development Finance Project (P146319), which supports the establishment of the Development Bank of Nigeria and seeks to help increase access to financial services for micro, small, and medium enterprises.

65. **Gender focus.** The KSDP aims to “mainstream gender equity and social inclusion in governance processes”. Three activities under the Program include a specific gender focus: (i) implementation of the SPRP; (ii) strengthening of investment promotion and (iii) development and implementation of the FRILIA. The implementation of the SPRP will include a focus on women to ensure that they are able to benefit from the program³⁴. With regard to investment promotion, KADIPA will develop and implement a strategy to maximize the benefits sharing potential of private investments. This strategy involves, in particular; (a) encouraging out-growers’/off-takers’ arrangements; (b) developing a SME supplier database; and (c) developing a job market place. In that context, KADIPA will track direct and indirect job created by private investments, tracking, in particular, jobs for women. The FRILIA principles (included in annex 6) stipulate that “particular attention should be paid to the engagement and needs of vulnerable groups among those displaced, especially those below the poverty line, elderly, women and children, people with disabilities, economically or socially disadvantaged, or other displaced persons who may not be adequately protected under law”.

66. **Governance structure and institutional arrangements.** The Ministry of Budget and Planning will be responsible for the implementation of the PforR, in close coordination with the Ministry of Finance.

67. **Program Expenditure Framework.** The US\$350 million PforR will support a US\$490 million Program of Expenditure extracted from the US\$2.8 billion KSDP. Further details on the Program Expenditure Framework are provided in annex 4.

68. **Fiscal sustainability analysis (with a baseline scenario) suggests that Kaduna’s fiscal framework is sustainable over 2017–2019.**³⁵ This is reflected in the projected debt and fiscal sustainability indicators, which all remain at manageable levels over the medium term. The debt-to-revenue ratio is projected to decrease from 70.7 percent in 2016 to 28 percent in 2019, while debt charges as a share of total revenue should gradually improve due to lower debt levels and a higher share of concessional financing. The overall fiscal deficit is forecast to contract from 0.4 percent of GDP in 2016 to 0.1 percent in 2019, while the operating balance is expected to remain

³⁴ The PAP includes the development of information brochures and promotional material targeting women for the SPRP.

³⁵ Revenue to Kaduna State from the Federation Account has been based on an assumed actual average oil price of US\$57, US\$62, and US\$63.5 per barrel in 2017, 2018, and 2019, respectively, which are the World Bank’s estimates. The Federal Medium-term Expenditure Framework (MTEF) assumes conservative prices of US\$44.5, US\$45, and US\$50 for the period. From experience in 2016 and Q1 2017, despite the oil price benchmark set by the budget/MTEF, total oil revenue accruing to the federation account gets shared among the tiers of Government even when the prices rise above the benchmark, to make up for shortfalls in oil output. There has been little or no accrual to the Excess Crude Account. If the budget benchmark oil prices were used to forecast Kaduna’s revenues, they would be much lower.

positive throughout the period. Though IGR as a share of total revenue is not forecast to increase, it is expected to remain stable at around 15 percent of total revenue. The full fiscal performance and sustainability is included in the Technical Assessment.

69. **Economic rationale for public financing.** The proposed Program is designed to address market failures that have constrained private sector-led and inclusive growth in Kaduna State. These constraints contribute to high poverty and loss of revenue to the state. The market failure includes information asymmetry and coordination failures. The approach to address these failures requires public intervention because the reforms fall under the purview of the Government, they benefit everyone, and they constitute public services that will otherwise not be provided by the private sector. In addition, reducing institutional/regulatory and market failures ensures the main functions of the state. For instance, the public nature of improving the institutional framework for tax collection, land registration, and resettlement requires public intervention. Program support to the Government to implement reforms at par with international standards promotes efficiency and economic growth. The most important instrument of providing opportunities, empowerment, and poverty reduction is efficient public spending programs.

70. **Program's economic impact.** The Program is expected to generate positive economic impact. The main focus of the Program is to stimulate private investments and increase fiscal space through improved business environment, PIM, and fiscal transparency and accountability. Results from similar programs show that implementing business reforms attracts significant private investments. When combined with government institutional reforms, increased government credibility and enabling environment can trigger private sector-led growth, create employment, and reduce poverty in the long run. The expected impacts of the Program interventions reinforce each other to improve the overall Program impact on efficiency for growth. In addition, each of the results area demonstrate positive economic impact. The estimation assumes elasticities to investments and incomes to approximate the expected benefits of various interventions. Where applicable, government tax rate is adopted to estimate government revenues. Considering the Program expected gains from private investment, income generated, and Government taxes, the net present value is estimated to be US\$456 million with a 28.4 percent economic rate of return, using 10 percent discount rate for 10-year horizon. The detailed analysis is included in annex 4.

71. **Results Area 1: Improving the Business-enabling Environment.** Under this results area, some of the gains include improvement of business environment (increases the number of registered businesses and their competitiveness), effective investment promotion (attracts domestic and foreign investors), development of PPP institutional framework (stimulate investments), systematic land titling, and land registration and resettlement framework (increases value of land and access to formal credit). Therefore, the propagated investments generate income and government taxes, while creating jobs. The Program produces a stream of benefits beyond the project life.

72. **Results Area 2: Strengthening Fiscal Management and Accountability.** To realize this target, the Program supports the strengthening of tax administration, of PIM, and the government responsiveness to citizens' feedback on capital projects. These interventions will lead to improved effectiveness and efficiency of government services delivery, enhanced

transparency and accountability, and credible and reliable budgeting. The improved budget execution rate and efficient resource allocation should yield efficient public services, higher tax revenue, and attract investments.

73. **World Bank value added.** The World Bank Group’s combination of technical expertise and convening power will allow the task team to act as a strong contributor to the Kaduna State reform program.

B. Fiduciary

74. **The state’s PFM systems, through which the financial management arrangements under the program will be anchored, are in reasonably good operating order and based on a robust enabling legal and regulatory environment.** Upon the technical and functional enhancement of the BATMIS, the existing systems of budgetary planning, budget preparation, budget execution, accounting, internal controls, funds flow, financial reporting, external audit, and legislative oversight will continue to be adopted for Program implementation. Kaduna State has enacted its own Organic PFM Law in 2016, updating the provisions of the erstwhile enabling legislation, Finance (Control and Management) Act 1958, and it has also enacted its Fiscal Responsibility Act, based on the domestication of the Federal Fiscal Responsibility Act (FRA). The KDSG transacts its budgetary spending through a TSA currently held with the CBN. It has also implemented the International Public Sector Accounting Standards (IPSAS) cash basis of accounting and reporting, albeit with a few compliance failures. The state has its own Audit Act which broadly conforms to international standards.³⁶ Kaduna State has fully transitioned to a new budget and account classification system that is compliant with Government Finance Statistics (GFS) 2001 standards. The state is also among those that have complied with the Federal Account Allocation Committee directive to harmonize classification methodologies across the Federation. Further improvements in the planning and budgeting systems, including linkage of sector strategies to budgets, are being supported under the World Bank-financed PSGRDP.

75. **Kaduna State has enacted the Public Procurement Law and established the Kaduna Public Procurement Authority (KPPA) in June 2016.** The law has all the tenets of a good procurement system as it conforms to international standards. The state is in the process of finalizing the required tools to operationalize the law. Kaduna State has set up the necessary institutions and structures, such as Procurement Units, Procurement Planning Committees, and Due Process Committees. However, there is need to enhance the capacity of these institutions. At the moment, it is only the KPPA that is fully conversant with the requirements of the new law and it has been handholding MDAs in performing procurement activities. Bidding opportunities and contract awards by the state are to be published in at least two national newspapers. The enabling law of the KPPA includes provision for a complaints and appeals mechanism. According to the provision of the Procurement Law, contract award after effectiveness of the law is contingent on availability of budgetary funds. There should be less issues with payments for duly executed contracts as contract awards are now based on the availability of funds as provided for in the state Procurement Law. So far there has not been any reported and/or identified cases of fraudulent and corrupt practices during the current administration.

³⁶ The state still intends to amend this act to further improve its compliance with international standards.

76. **The program is exposed to two main risks of fraud and corruption:** (1) fraudulent or corrupt fiscal transactions, including in tax collection and public procurement; and (2) fraudulent or corrupt practices in business regulation and land titling. Those risks are directly related to the achievement of the PDO: improving business environment and strengthening fiscal management and accountability. The operation builds on and operationalizes state-level PFM, business regulation and land management reforms, as well as the country’s anticorruption legal and institutional framework, to mitigate those risks. The national anticorruption framework and agenda applies in Kaduna state and national law enforcement agencies, such as the Economic and Financial Crime commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) have jurisdiction over cases of public corruption in Kaduna. The KPPA is vested with the responsibility of ascertaining the regularity of procurement transactions, of cancelling irregular contract awards, and of blacklisting corrupt bidders. The tax reform has significantly mitigated the risk of corruption by prohibiting tax agents, by granting KADIRS the monopoly of state and local tax collection, and by promoting automation of payments. As part of the Program Action Plan, the KDSG is committed to emulate the federal anticorruption institutional framework by appointing anticorruption desk officers in every MDA. In addition, also as part of the Program Action Plan, Grievance Redress Mechanisms will be put in place for key agencies under the Program: KADIPA, KADGIS, KADIRS, and KPPA.

77. **The Program is expected to support only operating costs of the focused MDAs, including some rehabilitation and expansion works to enhance their performance.** Therefore, major capital works are excluded from the program financing. There is also no technical assistance component in this program and therefore there is no need for developing Project Procurement Strategy for Development.

78. **The conclusion of the Fiduciary Systems Assessment (FSA) is that the Program fiduciary systems meet the requirements of the PforR policy and are adequate for achievement of the Program objectives.** The FSA has, however, identified certain risks, and measures have been designed to counter or mitigate such risks. The risks mitigation measures will be managed through methodical implementation of the PAP (annex 8). The overall Program’s Integrated Fiduciary Risk (financial management, procurement, and governance) is rated ‘Substantial’. The full FSA is included as annex 5.

C. Environmental and Social Effects

79. **The Environmental and Social Management System Assessment (ESSA) for the Kaduna State Economic Transformation Program for Results examines Kaduna State’s existing environmental and social management systems.** The ESSA was undertaken to ensure consistency with six *core principles* (see annex 6 for more details) 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 ESSA considers the consistency of the Program systems with these principles.

80. **Overall, the Program has a number of potential benefits, particularly social benefits from increased economic growth.** There are no physical works (beyond small-scale building rehabilitation) involved in this Program and therefore there are no associated adverse environmental and social impacts from construction. The enabling activities associated with

developing an institutional framework for PPP (DLI4) under the Program will be required to meet criteria for low E&S risk.

81. **Land-related risks are among the key social risks identified by the ESSA.** A major thrust of the Program is support the Systematic Property Registration Program (SPRP), administered by the Kaduna Geographical Information Service (KADGIS), currently focusing on urban areas. The SPRP program has undergone a Rapid Assessment by a Land Administration Specialist commissioned by the World Bank, which has concluded that overall, the SPRP is well governed and resourced. However, there are some gaps that will need to be addressed. The ESSA recommends a series of mitigation measures that will be completed as part of the Program Action Plan (see annex 6 and 8).

82. **Increasing private investments also introduces land-related risks.** To mitigate these risks, one of the key recommendations of the ESSA, and also a DLI, is the development of the Framework for Responsible and Inclusive Land Intensive Agricultural Investment (FRILIA) that will provide a comprehensive approach to the acquisition and allocation of land and a robust engagement strategy with all stakeholders including affected communities, vulnerable groups, as well as private investors. The development and implementation of the FRILIA will be supported with external technical assistance and in-house capacity enhancement as well as overseen by a specialized multi-stakeholder Steering Committee.³⁷

83. **The PforR supports the development and implementation of Grievance Redressal Mechanisms for the main activities supported by the Program.** Thus, under the Program Action Plan, tailored Grievance Redressal Mechanisms will be implemented for private investors, for participants to the Systematic Property Registration Program, for stakeholders of the FRILIA, for taxpayers, and for bidders involved in public procurement.

84. **The ESSA has examined the risk that the Program will exacerbate social conflict in Kaduna State,** especially in relation to land acquisition for large agribusiness enterprises, if this acquisition is not conducted in a sensitive and transparent manner. The ESSA concludes that the Program has adequate mitigation measures to avoid exacerbation of such contextual conflict risks. The PforR supports the development and implementation of the FRILIA incorporating good international practice in the areas of stakeholder engagement, land acquisition practices, and environmental management. The FRILIA requires that the PforR pay particular attention to the needs of different ethnic communities, provide adequate compensation for land and loss of access to natural resources (e.g. grazing areas and water), and promote shared benefits between investors and communities. Other measures outlined in the Program Action Plan (see annex 8) will ensure that a conflict-sensitive approach is taken.

85. **Beyond the boundaries of the Program, the Kaduna State Government has also already implemented several strategies to tackle both the symptoms and causes of the conflict** by engaging with NGOs, increasing police presence, and promoting rule of law, as well

³⁷ This specialized multi-stakeholder Steering Committee will include representation from private sector entities, NGOs, and academics. The PAP indicates that the TOR for the Steering Committee will be included in the Program Implementation Manual.

as adopting recommendations from the Peace and Reconciliation Committee³⁸ such as improved conflict resolution mechanisms, stakeholder engagement, and inclusion of youth.

86. **The environmental risks of the Program are considered manageable, provided that adequate measures are taken to ensure environmental regulatory agencies have sufficient resources in place to enforce laws.** Changes in land-use from its current uses (predominantly small-scale agricultural) towards increased industrial and intensified agricultural activity may result in environmental impacts such as an increase in levels of pollution, occupational, and community health and safety risks, loss of biodiversity, and damaged forest ecosystems. These risks apply equally to developing the framework for PPP (under DLI4). The Environmental Impact Assessment (EIA) processes for private investments required by the Kaduna Environmental Protection Agency (KEPA) have been strengthened over the last year. The Ministry of Environment is also further reinforcing the mandate of KEPA to undertake monitoring activities. The EIA process as outlined in the ESSA are considered adequate however there are gaps identified in social assessment, capacity building, and resources. These gaps are addressed through the Program Action Plan (annex 8).

87. **A formal consultation on the draft ESSA was organized during appraisal, in April 2017, eliciting inputs from the key stakeholders including government and civil society organizations (CSOs).** Key concerns raised by CSOs include government transparency and inclusion of people with disabilities. There are a number of elements of the Program that strengthen government transparency and inclusive stakeholder engagement such that these concerns are considered adequately addressed. The ESSA has been disclosed on the World Bank website.

88. **Conclusion.** Kaduna State has initiated key reform efforts to improve the investment climate in the State and to support the development of the private sector, as the driver of job creation. It also has undertaken a number of initiatives to strengthen its fiscal sustainability. The Kaduna Government is committed to the program of work outlined in the ESSA and has demonstrated its political will to tackle the challenges that hinder its social and economic development as reflected in the Kaduna State Development Plan.

89. **Grievance Redress.** Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

³⁸ White Paper on the report of the Peace and Reconciliation Committee (February 2016), <http://kdsg.gov.ng/download/white-paper-on-the-report-of-the-peace-and-reconciliation-committee-february-2016/>

D. Risk Assessment

90. **The overall risk of the Program is High.** The level of risk is rated High for five out of the nine categories: Political and Governance, Macroeconomic, Institutional Capacity for Implementation and Sustainability, Stakeholders and Conflict. For four out of the nine categories, the level of risk is rated Substantial: Sector Strategies and Policies, Technical Design of Program, Fiduciary and Environment and Social.

91. **Political and governance risk is assessed as High.** The new administration in Kaduna State has embarked on an ambitious reform program with a strong focus on governance and has already implemented important reforms (as described in sections II and IV). In addition, in the Nigerian context, State Governors have significant power; thus decision making and policy implementation are simpler at the state level than at the Federal level. The time line of the PforR is aligned with the time line of the Kaduna State Development Plan (2016–2020), with a 2020 end date. However, the next elections for the President of Nigeria and for State Governors are scheduled for early 2019, which will create significant uncertainties and make reform efforts more difficult in the second half of 2018 and early 2019. The mitigation strategy is dual: (a) fast-tracking reforms in 2017–2018, and (b) strengthening capacity in institutions to ensure sustainability. The KDSG is well aware of the small window for reforms and has been implementing reforms in an aggressive manner since mid-2015.

92. **Macroeconomic risk is assessed as High.** The current macroeconomic environment in Nigeria is particularly challenging. The national macroeconomic environment affects Kaduna State. At the Federal level, the World Bank, the IMF, and the African Development Bank have a policy dialogue with the authorities on possible policy responses to address the current challenging macro-economic environment. Kaduna State, with this Program, seeks to take advantage of the difficult macroeconomic environment as a window of opportunity for implementing necessary reforms. The devaluation of the naira had some positive impacts: for example, because importing goods is now much more expensive (and much more difficult due to foreign exchange scarcity), domestic and foreign firms operating in Nigeria are increasing backward linkages to source inputs locally, when possible. This explains the recent success of Kaduna State at attracting investors in the agribusiness sector. The decrease in Federal transfers has provided a sense of urgency and is encouraging long overdue reforms to increase the fiscal sustainability of states, that is, increasing IGR and increasing the quality of public expenditures (such as increasing efficiency, reducing leakages, and focusing on capital expenditure).

93. **Sector strategies and policies risk is assessed as Substantial.** The current administration in Kaduna State has convened a strong technical team. The KSDP is a cogent reform document. One potential risk is the speed of reform implementation: as the KDSG is aware of the short window of opportunity for reforms, the state government is undertaking reforms at a very rapid pace. This risk is mitigated by the openness of the KDSG to learn from the experience of other Nigerian states or countries, and the available advisory and capacity support to that end.

94. **Technical design risk is assessed as Substantial.** The technical design of the PforR is based on the KSDP and ongoing technical assistance provided to Kaduna State on the two results areas of the PforR. The main risk relates to a slowdown of reform efforts ahead of the 2019

elections and to a possible change of Government and priorities. The mitigation strategy for this risk (already identified in the above paragraph) is the same: (a) fast-tracking reforms in 2017–2018, and (b) strengthening capacity in institutions to ensure sustainability (see discussion in the next paragraph).

95. **Institutional capacity for implementation and sustainability risk is assessed as High.** While there is currently a strong leadership within the KDSG, there is also a recognition of the importance of deepening capacity within MDAs in the state. The main risks for the PforR are (a) lack of capacity to implement the reforms supported by the PforR, and (b) lack of sustainability of the results achieved in case of change of Government and priorities after the 2019 elections. The main mitigation strategy is the critical Public Service Revitalization and Renewal Project under implementation, which will lead to increased and sustainable capacity within MDAs. The implementation of the PforR also benefits from technical assistance provided by DFID. Another critical mitigation strategy to address the risk of lack of sustainability is the PforR focus on accountability and citizens' engagement which will generate social demand and pressure on State authorities and prevent reform reversal. It is hoped that citizens will continue to demand accountability even in case of change of government.

96. **Fiduciary risk is assessed as Substantial.** Despite the recent significant progress, the fiduciary risk remains Substantial. The mitigation strategy rests on the PforR supporting key reforms to improve the fiduciary systems of Kaduna State. The PAP provides additional mitigating measures.

97. **Environmental and Social (E&S) Risk is assessed as Substantial.** The level of risk for E&S is rated Substantial due to the shortcomings in the legal framework for land in Nigeria, in particular, related to land acquisition and resettlement as highlighted in section IV.C. At the same time there is significant demand for land from private investors in the agribusiness sector especially. The mitigation strategy has been to include, in the PforR, a focus on supporting the development of a FRILIA, in line with good international practices, for Kaduna State. While there is a broad recognition that such a framework is highly needed in Kaduna State (and more broadly in Nigeria), the World Bank faces a reputational risk of being associated with the framework, if its quality is unsatisfactory and/or not consistent with World Bank principles or if it is poorly implemented. The mitigation strategy is the commitment of the KDSG to develop a sound framework in a participatory and consultative manner and to implement the framework to deal with complex and contentious land issues in a positive, equitable, and transparent way. In addition, a climate and disaster risk screening was undertaken for the PforR. The main identified risks in Kaduna State are flooding and drought. Overall the potential impact (for climate and disaster risk) is considered Moderate for the PforR as the PforR focuses on strengthening Kaduna State systems and does not include infrastructure investments. In addition, a key focus of the PforR is on supporting environmental and socially sustainable private investments in the state.

98. **Stakeholder risk is assessed as High.** There are three main risks related to stakeholders. First, as the PforR supports Kaduna State efforts at attracting private investors, communities around the private investments might consider that they are not benefiting enough from these investments, which could in turn create resentment and social tensions (tensions can be particularly strong in case of land acquisition and resettlement caused by private investors). Second, as the PforR aims to increase the fiscal space for Kaduna State, this includes increasing

IGR, which could entail abuses from tax collectors. Under the current circumstances in Nigeria (recession and high inflation), the citizens could object paying higher taxes. Third, there could be resistance to reforms within MDAs, especially if the reforms require changing established habits or eliminating the possibility for rent seeking. The mitigation strategy for the first risk is to support a strategy for linkages with private investors to ensure that communities, the population, and firms in Kaduna State can benefit from opportunities created by these investments (for example, through off-takers'/out-growers' arrangements and efforts to source the workforce as well as goods and services locally). Another important risk mitigation strategy described in the above paragraph is the development and implementation of a FRILIA. The mitigation strategy for the second risk is the PforR to support the 'social contract' of Kaduna State: while citizens might be asked to pay taxes, the citizens should be able to see the impact of their taxes (through infrastructure and service delivery improvement, in particular). The mitigation strategy for the third risk relies on the ongoing civil service reform efforts of the KDSG described above. Provisions of the PAP on the institutionalization of grievance redress under the aegis of key Program implementing agencies (KADIPA, KADGIS, KADIRS and KPPA) will further mitigate identified risks.

99. **Other: Conflict risk is assessed as High.** There is a long history of intercommunal conflicts in Kaduna State and conflicts have resurged in the period 2015–2017. Increasing conflicts and violence would put at risk the implementation of the KSDP and the results to be achieved under the Plan, and would thus also put at risk the PforR (in particular, the focus on attracting and retaining private investments). The ESSA analyzed whether the PforR could exacerbate social conflicts in the State and concluded that the PforR has adequate mitigation measures to avoid exacerbation of conflicts related to the activities supported by the Program. Development and implementation of the FRILIA is the main strategy to mitigate land-related conflicts and support socially and environmentally sustainable investments. There is however a recognition that conflict risks in Kaduna State are mostly beyond the control of the PforR. Beyond the boundaries of the PforR, KDSG is focusing on tackling the symptoms, causes, and risk factors of the conflicts in the State (annex 6).

E. Program Action Plan

100. **A Program Action Plan (PAP) has been developed that outlines the key actions required to improve the Program because of the Technical, Fiduciary, and Environment and Social Assessments.** These assessments have been undertaken to evaluate the capacity of the Program's coordinating and implementing agencies to achieve the DLI targets and have identified gaps to be addressed. The PAP comprises a series of actions based on the Technical, Fiduciary, and Environment and Social Assessments. A simplified version of the PAP is included in Table 7 below. The full PAP matrix, describing the key actions, due dates, responsible parties, and completion measurement, is included in annex 8.

Table 7. Summary of PAP

Results Area 1: Improving the Business-enabling Environment
<p>KADIPA</p> <ul style="list-style-type: none"> • Review KADIPA’s 2017 budget (and outer years) to ensure it is commensurate to KADIPA’s mandate • Development and implementation of a strategy based on a socio-economic assessment to maximize benefits sharing of investments:³⁹ e.g. (i) maximize out-growers’/off-takers’ arrangements; (ii) maintain SME suppliers’ database; and (iii) develop jobs marketplace, with a focus on maximizing opportunities for women • In that context, KADIPA will track data disaggregated by age and gender and monitor key indicators, such as direct and indirect job creation. • Development of investors’ satisfaction survey (including satisfaction with KADIPA facilitation services) and of investors’ grievance redressal mechanism • KADIPA to lead the development of the proposed NWIAA • Development of a PPP legal and institutional framework that appropriately manages E&S risks: (i) PforR Implementation Manual to incorporate E&S aspects and outline risk assessment criteria for low E&S risk; (ii) PPP manual incorporates best practice E&S risk management
<p>KADGIS</p> <ul style="list-style-type: none"> • Development and implementation of the Framework for Responsible and Inclusive Land Intensive Agricultural Investments (FRILIA):⁴⁰ (i) develop Stakeholder Engagement Strategy to outline consultation process for developing FRILIA; (ii) develop in-house capacity to support the implementation of the FRILIA; (iii) establish multi-stakeholder Steering Committee to oversee development of FRILIA and effectiveness of implementation; (iv) develop and implement community grievance redressal and conflict resolution mechanisms • Review KADGIS’ 2017 budget (and outer years) to ensure it is commensurate to KADGIS mandate • Agreed amendments to Kaduna State Land Use Regulations • Undertake, review, and enhance the SPRP Stakeholder Engagement Strategy • Implementation of a grievance redressal mechanism for the SPRP • Prepare and regularly review SPRP documentation: (i) Standard Operating Procedure manual, using the Systematic Land Titling and Registration manual as a guide, which includes detailed flowcharts of the processes, responsible persons, actors, time lines, and outputs of the program; (ii) regulatory framework for SPRP; (iii) training manual; (iv) information brochures and other promotional material targeting women for the SPRP
<p>KEPA</p> <ul style="list-style-type: none"> • Review KEPA budget for 2017 (and subsequent years) to ensure that it allows KEPA to satisfactorily fulfill its mandate, with a focus on private investments in Kaduna State. In support of the above, a detailed capacity building program should be outlined and budgeted, covering environmental and social impact assessment, and monitoring.

³⁹ Development and implementation of the FRILIA also has opportunities to maximize benefit sharing.

⁴⁰ Development and implementation of the FRILIA also has opportunities to maximize benefit sharing. The development of the FRILIA will be supported by external Technical Assistance to be provided by World Bank and/or DFID. The Program Implementation Manual will provide detail about how to develop and implement the FRILIA including the TOR for an Independent Social Audit and grievance redressal mechanism. The Social Audit will report on the quality and progress of the FRILIA development process, as well as on the implementation of the FRILIA for a sample of investments in the portfolio.

Results Area 2: Strengthening Fiscal Management and Accountability
<p>KADIRS</p> <ul style="list-style-type: none"> • Strengthening of grievance redressal system for taxpayers • Commission of a study of social impact of tax reforms (distributive analysis)
<p>Ministry of Budget and Planning</p> <ul style="list-style-type: none"> • Undertake a Strategic Environmental and Social Assessment to support the Kaduna State Infrastructure Master Plan: (i) Outline and Terms of Reference; (ii) Strategic Environmental and Social Assessment • Publish BERs, AFSs, and audit opinion on the Kaduna State Government and Local Governments financial statements • Production and dissemination of statistical information, with a focus on socio-economic information • Prepare Procurement Plans for five MDAs with highest volume procurements as part of the budget preparation and approval process
<p>Ministry of Finance</p> <ul style="list-style-type: none"> • Adoption of fund release policy to MDAs for improved predictability of resource flows to MDAs.
<p>KPPA</p> <ul style="list-style-type: none"> • Capacity building on e-procurement procedures and contract management conducted annually for pilot MDAs • Implementation of grievance redressal mechanism
<p>Accountant General</p> <ul style="list-style-type: none"> • Introduction of risk-based internal audit function outside the expenditure processing cycle
<p>All Program Lead Agencies</p> <ul style="list-style-type: none"> • Operationalization of the state anticorruption framework

Annex 1: Detailed Program Description

Program Development Objective

1. **The PDO is to improve the business-enabling environment and strengthen fiscal management and accountability in Kaduna State.** The Program supports the efforts of Kaduna State to improve its business-enabling environment with the view to become a leading investment destination in Nigeria. According to the KSDP, private investments are expected to play a major role in generating jobs and revenues for the state. Thus, on the private sector side, the Program supports the efforts of Kaduna State to significantly increase private investments for job creation and revenue generation. On the public sector side, the Program supports Kaduna State to strengthen fiscal management and accountability to ensure that increasing (but still limited) revenues are spent as efficiently as possible, thereby to increase the state's capacity to invest in human capital and physical assets and to catalyze private investments. Accountability underlies this strategy by building public trust in Government and ensuring that its actions and decisions are subject to public scrutiny.

2. **Progress toward achieving the PDO will be measured by key results indicators that reflect the overall results areas of the Program.** The detailed Results Framework, including intermediate results indicators, is provided in annex 2.

- **Simplified business processes** (measured by the reduction in the time required to start a business, deal with construction permit and register property)
- **Increased budget credibility** (measured by two indicators: IGR outturn [IGR actual versus budgeted] and capital expenditure execution rate)
- **Increased fiscal accountability** (measured by improved government responsiveness to citizens' feedback on fiscal performance: percentage of capital projects improved in response to citizens' feedback captured in the Eyes and Ears project monitoring system).

Scope of the Program

3. **The proposed PforR supports the KSDP, with a focus on two of the four pillars of the Plan: Economic Development and Governance.** In addition, it only finances part of these two pillars (and part of the associated sectoral plans), see table 1.1, as the PforR focuses on strengthening Kaduna State systems (that is, soft investments) rather than financing hard investments (that is, infrastructure).

Table 1.1. Alignment between the KSDP and PforR

KSDP Pillars	KSDP Sectoral Plans	PforR
Economic Development Destination for business investment and food basket for Northern Nigeria	Agriculture and Forestry	√
	Industry, Commerce and Tourism	√
	Infrastructure and Transport	
	Water and Sanitation	
	Environment and Natural Resources	√
	Lands and Urban Development	√
Governance A transparent and accountable government with highly motivated and efficient civil service	Governance and Administration	√
	Local Government Administration	√
	Budget, Planning and Revenue Mobilization	√
Social Welfare All citizens have access to quality healthcare and education	Rural and Community Development	
	Education, Science and Technology	
	Health	
	Social Welfare and Development	
Security and Justice All citizens will live and move freely without the fear of harm	Security, Law, and Justice	

4. In alignment with the two pillars—Economic Development and Governance—of the KSDP, the PforR focuses on the following two results areas:

- Improving the business-enabling environment
- Strengthening fiscal management and accountability

Results Area 1: Improving the Business-enabling Environment

5. Under this results area, the PforR will support Kaduna State policy reform efforts to improve the enabling environment and increase private investments. To support this reform agenda, the KDSG established, in 2016, KADIPA, through a ‘Law to Establish the Kaduna Investment Promotion Agency and Other Matters Connected Therewith’ (enacted on December 23, 2015). KADIPA has been established as a one-stop resource and coordination center for all investment-related activities in the state with a focus on (a) improving the state’s business-enabling environment and (b) attracting and facilitating new investment in the state. In that context, 49 possible investment sectors were reviewed and the following key sectors were identified by KADIPA as high potential: (a) agriculture and agro-allied, (b) construction and housing, (c) solid minerals and mining;⁴¹ (d) transport and logistics, (e) energy (with a focus on renewable energy), (f) health, (g) manufacturing and light industry, (h) education, (i) services and ICT, and (j) tourism. A value chain analysis completed in 2017 broadly confirms KADIPA’s findings and provides further granularity. This analysis identified the following value chains as short-term, high potential in Kaduna and Kano States: leather, staple crops, high-value crops, poultry, ICT, and renewable energy. Medium-term, high potential value chains include textile/cotton, meat, packaging, kaolin/ball clay and ceramics, sand glass, and glass.

⁴¹ The PforR does not include a focus on solid minerals and mining. Support to Kaduna State on solid minerals and mining will be provided through the Nigeria Mineral Sector Support for Economic Diversification Project (P159761), approved in April 2017.

6. **Under this results area, the PforR will support transversal reforms to improve regulations affecting the entry and operations of SMEs,** using the Subnational Doing Business reform areas as an entry point (starting a business, dealing with construction permits and registering property). KADIPA has already undertaken a process mapping for business licensing, business premises registration, access to land, construction permits, and contract agreement vetting, with the view of reducing procedural delay and transaction cost. The Kaduna Ease of Doing Business Charter was formally announced at the Kaduna Investment Conference, KadInvest, in April 2017 and commits to a significant reduction in processing times for key business services (such as business premises certificates, taxpayer identification number, development permit, certificate of occupancy and contract vetting).

7. **The PforR will also support improved investment policy and promotion.** It will support the strengthening of KADIPA to help attract and retain domestic and foreign investors to Kaduna State. KADIPA currently has a pipeline of 103 investments (as of January 2017). Pipeline investments are concentrated in agribusiness (42 percent), housing (29 percent), and power (10 percent). In that context, the PforR will support KADIPA's effort to develop out-growers'/off-takers' arrangements for agriculture investments, to ensure benefits sharing, as well as increase agricultural productivity and foster job creation. The Program will also support KADIPA to develop a linkages strategy, to support local SMEs to provide goods and services to investors, and to ease access of the local workforce to job opportunities created by the investment, as part of the PAP. Under the PAP, KADIPA will also roll out an investors' satisfaction survey, to monitor investors' perception of Kaduna State and address, in a timely manner, concerns raised by investors. In addition, the Program will support KADIPA to develop a NWIAA Framework. KADIPA aims to champion a Common Investment Area to encourage joint development and reduce unhealthy competition between States and promote the region as one investment region in which to do business, leveraging the leadership of the Northern Governors Forum to promote this agenda.

8. **As part of its mandate to attract private investment, KADIPA also has the legal mandate to drive PPPs in Kaduna State.** The Program will support the development of the legal, regulatory, and institutional framework for PPPs—as the KSDP puts a major emphasis in fostering PPPs in Kaduna State across various sectors (energy, transport, water and sanitation, health). The PforR will support the following activities:

- (a) Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation, including E&S aspects), and clarifies the institutional roles and responsibilities of all the KDSG stakeholders.
- (b) Development of Project Facilitation Fund Rules, Governance, and Operational Manual.
- (c) Development of PPP pipeline.
- (d) Pre-feasibility studies for three projects.
- (e) PPP capacity building: PPP nodes in three key sector ministries established and two technical staff in KADIPA and in each key sector ministries complete PPP Certification Program.

- (f) Adoption of PPP Fiscal Commitments and Contingent Liabilities (FCCL) Management Framework; FCCL from existing projects measured and disclosed.
- (g) PPP Disclosure Framework⁴² adopted, web portal established, and project information made available.
- (h) Detailed feasibility studies for one transaction.
- (i) Project Facilitation Fund established and seed funding of NGN 60 million provided.
- (j) One PPP transaction with low E&S risks meets commercial close. The PforR will therefore support the development of one PPP transaction with low E&S risks, in line with the PforR policy.

9. **As indicated in the paragraph above, the PforR will support the development of one PPP transaction with low E&S risks, according to the PforR policy.** As such the selected PPP transaction must follow the following principles (which will be further spelled out in the Program Implementation Manual):

- Promote E&S sustainability; avoid, minimize, or mitigate adverse impacts, and promote informed decision making relating to E&S impacts.
- Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources.
- Protect public and worker safety against the potential risks associated with (a) construction and/or operations of facilities or other operational practices; (b) exposure to toxic chemicals, hazardous wastes, and other dangerous materials; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
- Give due consideration to the needs or concerns of vulnerable groups.
- Avoid exacerbating social conflict.

10. **In parallel to the reform efforts aimed at simplifying the registration of property, the PforR will also support the SPRP implemented by KADGIS** in urban areas, as well as the strengthening of KADGIS capacity. KADGIS was established in 2016 following the enactment on December 23, 2015 of a ‘Law to Establish the Kaduna Geographic Information Service and Matters Connected Therewith’, which transformed the Ministry of Lands, Survey, and Country Planning into KADGIS. Systematic land titling and registration help secure property rights, which can lead to higher level of investment and productivity under a sound governance environment. Property taxes are also potentially an important source of revenues for states. In that context, the PforR will include a focus on ensuring that the SPRP not only promotes income generation, but strengthens citizens’ rights in an inclusive manner.

⁴² <http://pubdocs.worldbank.org/en/143671469558797229/FrameworkPPPDisclosure-071416.pdf>.

11. **Finally, and critically, the Program will support the development and implementation of FRILIA for Kaduna State.** This will help ensure that land acquisition for land-intensive agricultural investments is undertaken in line with established international good practices, and that the shortcomings of the (Federal) 1978 Land Use Act are addressed at the Kaduna State level (see further details in section IV.C and annex 6). A major focus of the Program is to ensure shared benefits between private investors and surrounding communities.

Results Area 2: Strengthening Fiscal Management and Accountability

12. **As highlighted in section II.A, a major focus of KSDP is to increase private investments to create jobs and increase IGR. This strategy is underpinned by a strong focus on fiscal management and accountability, including citizens' engagement.** An increase in IGR—critically needed in the current macroeconomic context in Nigeria—and increased budget credibility would in turn allow Kaduna State to effectively increase capital expenditures, with a focus on social sectors.

13. **Improving revenue generation.** Kaduna State has been focusing on ensuring that it improves tax collection by broadening the tax base and enforcing tax compliance of registered taxpayers. It has managed to significantly increase IGR in 2016, that is, by 33 percent, but IGR outturn has deteriorated to 42 percent because of overoptimistic revenue forecast in the appropriation law. Kaduna State has initiated a critical reform of tax administration, enacted in the 'Kaduna State Tax (Codification and Consolidation) Law' of March 1, 2016. The reform both facilitates revenue mobilization and reduces the cost of compliance for taxpayers by (a) prohibiting the collection of cash revenues (which prevents diversion of collected taxes) and promoting automation of tax collection; (b) centralizing all revenue collection under the KADIRS which puts an end to tax collection by tax agents, a significant source of revenue diversion and extortion from taxpayers; (c) simplifying tax payments by reducing the number of LG taxes from 52 to 18; and (d) by introducing presumptive taxation for the informal sector. Consequently, the PforR supports revenue mobilization by incentivizing (a) increased IGR outturn (through DLI6) and (b) the broadening of the tax base and improving collection rate (both results indicators captured through the number of taxpayers filing their tax return, DLI7). By doing so, it helps enhance the fiscal sustainability of Kaduna State in two complementary ways: by reducing its dependence from fiscal transfers (from the federation account); and by increasing the credibility of its budget (and consequently the execution of capital expenditure, which is generally and historically the variable of adjustment to low budget performance across the states).

14. **Improving PIM.** On the expenditure side, the Program will support the strengthening of public investments management to catalyze private sector investments. The KDSG is committed to rebalancing the ratio of budget expenditure to capital investment (which amounts to 60 percent of appropriations in 2017), but the achievement of this objective calls for a significant improvement of the performance of capital expenditure (whose execution rate already improved from 14 percent in 2014 and 25 percent in 2015 to over 50 percent in 2016). Further progress on capital expenditure outturn can only result from improvements along the whole expenditure chain, that is, from budget preparation, to cash management, procurement and project management, including the timely payment of contractors. The Government is also institutionalizing citizens' feedback on capital projects. The Program will support the

development and implementation of the Kaduna State Infrastructure Master Plan, building upon the Nigeria National Integrated Infrastructure Master Plan (National Planning Commission, 2014). The development of the Kaduna State Infrastructure Plan will take into account regional and spatial development considerations, such as the Lagos-Kano corridor. The Program will also support the improvement of public investment preparation cycle (from planning and prioritization to budgeting) and implementation (until completion and evaluation), including by strengthening the effectiveness of procurement. It supports the enforcement of the new procurement legal framework enacted on June 1, 2016 under the responsibility of the Kaduna State KPPA, in order to improve competitiveness, cost effectiveness, public disclosure of contract awards, and the streamlining of procedural delays. The Program incentivizes the improved performance (hence development effectiveness) of appropriated capital expenditure, because the KDSG is committed to increase the share of education and other social sectors (to over 25 percent of capital expenditure appropriated in 2017 to education): in that regard, the PforR should contribute to the government program of rehabilitation of over 4,000 schools to foster pupil enrollment. And PforR will support the operationalization of the capital project M&E system introduced under the aegis of the Ministry of Budget and Planning as a social accountability mechanism “allowing everyone in Kaduna State to check on the progress of government projects through a simple, phone-based platform named the Eyes and Ears project” as characterized by the Governor in his budget speech in October 2016.⁴³

15. **Fiscal accountability.** The KDSG is strongly committed to fiscal transparency as a first step toward an open government. It has also initiated the production of statistical information to inform policy making and fiscal decisions: a general household survey, a survey of the Gross State Product, an energy audit, and a demographic survey have been conducted in 2016 to provide baseline information on the state development challenge. Whereas Kaduna was ranked among the worst performers on budget transparency across Nigerian states in 2015, the Government has disclosed, since then, a broad range of budget documents, including on appropriations for LGs. Accordingly, the PforR supports fiscal accountability in three main regards: it incentivizes (a) the strengthening of external auditing, (b) public scrutiny on budget performance, both at state and LG level (under the Program Action Plan), and (c) government responsiveness to citizens’ feedback on public investments (through DLI10); and it also incentivizes enhanced budget credibility, both from a revenue perspective (DLI6 on IGR outturn) and for capital expenditure (DLI8 on execution rate). Beyond these accountability mechanisms, critical PFM reforms have been supported by the PSGRDP: Budget and Treasury Management Information System (BATMIS), Integrated Personnel and Payroll Information System (IPPIS), Treasury Single Account and Charter of Accounts compliant with international accounting standards. And the proposed State Fiscal Reform Results Based Financing (to be approved in FY18) will also help strengthen fiscal discipline. In the meanwhile, the Program helps the KDSG meet its commitments under the Fiscal Sustainability Plan agreed upon between the federal and state governments in 2016. The KDSG is also committed to emulate the National Action Plan on Open Government, that is, to open budgeting and contracting, which will further strengthen fiscal transparency. The KDSG announced its intention to participate to the Open Government Partnership, which the Federal Government joined in June 2016, and to emulate the National Action Plan on Open Government, adopted in December 2016. For example, after mainstreaming e-procurement, it will adopt open contracting standards.

⁴³ <http://kdsg.gov.ng/wp-content/uploads/2016/10/Budget-of-Jobs-Social-Justice-and-Equity.pdf>

16. **Table 1.2 summarizes the Results Chain.** The Results Chain identifies for each DLI the activities/inputs, outputs, and intermediate outcomes, as well as overall PDO outcomes. The Results Chain identifies where the DLIs fit within the Results Chain: to the extent possible, efforts were made to have DLIs at the intermediate outcome level and to minimize DLIs at outputs level. Two DLIs (DLI1 and 6) are at the PDO outcome level. The Results Chain also identified prior results, as well as activities included in the PAP.

17. **The two Results Areas are closely linked.** For example, tax reforms underpinning the broadening of the tax base and the increase of collection rate benefit businesses by streamlining local taxes, automating tax payments, reducing the risk of corruption by centralizing tax collection, i.e. by reducing the cost of compliance. Improved management of public investments benefit contractors thanks to the payment of significant arrears. Higher execution rate of capital expenditure increases certainty and business opportunities for contractors as well. The streamlining of e-procurement also reduces contractors' vulnerability to corruption and lowers market barriers. In addition, leveraging private investments through PPP will allow a more efficient use of scarce fiscal resources.

Table 1.2. Results Chain of the PforR

Prior result	DLI	PAP	
Activities/ inputs	Outputs	Intermediate Outcomes	PDO outcomes
Results area 1: Improving the business enabling environment			
DLI1	Identification and implementation of reforms to improve regulations affecting the entry and operations of small and medium enterprises	Establishment of Kaduna Investment Promotion Agency (KADIPA) , with the mandate to improve the State business enabling environment	Process mapping across key MDAs to identify reduction in procedures, time and cost
		<u>Announcement of Ease of Doing Business Charter at KadInvest 2.0</u>	Number of reforms implemented (IRI, core indicator)
	<i>Budget process to provide sufficient resources to KADIPA to satisfactorily implement its mandate</i>		
DLI2	Implementation of Systematic Property Registration Program (SPRP) in selected urban areas	Establishment of KADGIS (incl. selection & training of staff); aerial mapping of Kaduna State; roll out of Geographical Information System software	Implementation of Systematic Property Registration Program: number of new Certificates of Occupancy issued (IRI & DLI2)
	<i>Stakeholder engagement strategy; Standard Operating Manual; regulatory framework; training manuals; information materials for women</i>	<u>Initial production of Certificates of Occupancy</u>	
	<i>Budget process to provide sufficient resources to KADGIS to satisfactorily implement its mandate</i>	<i>Establishment of Grievance Redressal Mechanism for the SPRP</i>	
DLI3	Strengthening of investment promotion, led by the Kaduna Investment Promotion Agency (KADIPA)	Establishment of KADIPA with roadmap; implementation of investor tracking tool; investment facilitation (incl. provision of data in coordination with NBS)	Strengthening of investment promotion: number of MoUs signed between investors and KADIPA (IRI & DLI3)
		<u>Organization of KadInvest 2.0 (5-6 April 2017)</u>	# of investors that reach Operation Stage or Aftercare in Kaduna State with KADIPA facilitation (IRI)
		<i>Implementation of investors' feedback survey and investors' grievance redressal mechanism</i>	
	<i>Development and implementation of benefits sharing strategy, incl. support to development of outgrowers/off-takers schemes</i>	<i># of farmers (% female) in outgrowers/off-takers schemes; # of direct jobs created by the investors; estimation of indirect jobs created by the investors</i>	
	<i>Budget process to provide sufficient resources to KEPA to satisfactorily implement its mandate; ; capacity building in ESIA</i>	<i>Approval of North West Investment Area Agreement</i>	
DLI4	Strengthening of capacity of key MDAs: (i) PPP nodes in 3 key sector ministries established; (ii) two staff in KADIPA and key sector ministries complete PPP Certification Program; PPP manual incorporates best practices E&S risk management	Enactment of PPP legal and institutional framework; Project Facilitation Fund Rules, Governance and Operational Manual prepared; development of PPP Pipeline; pre-feasibility study for 3 priority transactions; PPP Fiscal Commitments and Contingent Liabilities Management Framework (FCCL) adopted; FCCL from existing projects measured and disclosed; PPP Disclosure Framework adopted, web portal established and project information available; Detailed feasibility studies for 1 transaction with low E&S risks completed; Project Facilitation Fund established and seed of NGN. 60 million Naira provided (DLI4)	One PPP transaction with low E&S risk reaches commercial closure (DLI4)
	<i>Budget process to provide sufficient resources to KADIPA to satisfactorily implement its PPP mandate</i>		KADIPA has a clear legal and institutional mandate, as well as the technical tools and capacity to lead the implementation of successful PPP in the State

DLI5	Development of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	<u>Approval of key principles for FRILIA</u>	Enactment of FRILIA (DLI5)	
		FRILIA in line with approved principles developed through a consultative process (DLI5)		
	<i>Stakeholder engagement strategy; in-house capacity for FRILIA; multi-stakeholder Steering Committee; community grievance redressal and conflict resolution mechanisms</i>			
Results area 2: Strengthening fiscal management and accountability				
DLI6, DLI7, DLI8	Taxpayer registration, improvement in tax collection	<u>BATMIS fully operational; number of registered tax payers (TIN) end June 2017</u>	Improvement of tax collection: increase in number of registered tax payers (TIN) filling returns (IRI & DLI7)	Increased budget credibility (PDO indicator): (i) increasing IGR outturn (DLI6) & (ii) increasing capital expenditure execution rate (DLI8)
	Study of social impacts of tax reforms	<i>Taxpayers' grievance redressal mechanism</i>	% of PAYE compliant large public and private corporate entities (IRI)	
	Strengthening of public investment management: prioritization and selection of budgeted capital projects	<u>Establishment of Planning Commission; draft Kaduna State Infrastructure Master Plan circulated for public consultations; compliance with budget circular on capital project appraisal and prioritization in 2017 approved budget</u>	# of MDAs with Sector Implementation Plans (SIP) reflected in budgeted capital expenditure (IRI)	
	Strategic Environmental and Social Assessment to support the Kaduna State Infrastructure Master Plan			
	Timely payment of contractors under public procurement	<u>Reduction of arrears of payment to contractors from 3% to 1% of appropriations</u>	Reduction of arrears of payment to contractors (under public procurement) in state budget (IRI)	
	<i>Adoption of fund release policy to MDAs</i>	Improved predictability of resource flows to MDAs		
	<i>Introduction of risk-based internal audit function outside the expenditure processing cycle</i>			
	<i>Production and dissemination of statistical information, with a focus on socio-economic information</i>			
DLI9	Increasing procurement effectiveness	<u>Approval of procurement guidelines, adoption of e-procurement strategy, disclosure of contracts above NGN. 50 million</u>	Increasing procurement effectiveness: percentage of MDA with implementation of e-procurement; disclosure of contract awards and procurement audit (DLI9)	
	<i>Prepare Procurement Plans for five MDAs with highest volume procurements as part of the budget preparation and approval process; capacity building on e-procurement procedures and contract management conducted annually for pilot MDAs</i>	<i>Bidders' grievance redressal mechanism</i>		
DLI10	Improving government responsiveness to citizens' feedback on fiscal performance	<u>Approval of Audit Law by Executive Council, Approval of Freedom of Information Law by Executive Council; disclosure of State and LG budgets for 2017; disclosure of State budget execution audit report for 2015 and 2016; launch of citizen's module in Eyes and Ears for capital projects</u>	Improved government responsiveness to citizen's feedback on fiscal performance: percentage of ongoing capital projects improved in response to citizens' feedback (DLI10)	Increased fiscal accountability (PDO indicator)
	<i>Appointment of anticorruption desk officer</i>	Operationalization of the state anticorruption framework		
	Public disclosure of budget information (on appropriations and execution).	<i>Publish BERs, AFSSs, and audit opinion on the Kaduna State Government and Local Governments financial statements</i>	Increased State & LG fiscal transparency (IRI)	

Excluded Activities

18. **The Program will exclude activities that do not meet World Bank policy on eligibility for PforR financing.** Specifically, the borrower shall ensure that the Project excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people, as defined in the World Bank policy on PforR financing. The program shall also exclude works, goods, and consultancy contracts above the Operations Procurement Review Committee Thresholds. The World Bank will support Program execution to ensure compliance with PforR policy requirements during implementation.

19. **As indicated in paragraph 3 above, the Program focuses on strengthening Kaduna State systems.** As such it supports soft investments, rather than hard investments (that is, infrastructure). The Program Expenditure Framework, therefore, covers recurrent expenditures for 78 percent and capital expenditures for 22 percent. These capital expenditures do not include any infrastructure investments.

Implementation Arrangements

20. **The State Executive Council, chaired by the Governor, is responsible for coordinating all efforts related to the implementation of the KSDP,** to ensure all stakeholders work together toward a common set of priorities. The Council thus ensures that the Government's strategic priorities are being appropriately supported by the SIPs and budget. The number of ministries was reduced from 24 to 13. This enables each ministry to have a clear mandate that does not overlap with that of any other ministry, to cut costs, and to enhance the efficiency and effectiveness of the public service. The KPPA has also been established to regulate public procurement in the State, including regulating, auditing, monitoring, harmonising existing policies, and setting value-for-money standards to enhance effective and efficient use of public funds. The PforR will therefore rely on the KSDP institutional and implementation arrangements described in this paragraph.

21. **The implementation of the PforR per se will be the responsibility of the Kaduna State Ministry of Budget and Planning, in close coordination with the Kaduna State Ministry of Finance. The Ministry of Budget and Planning will oversee the two results areas.** A PforR Steering Committee will be established by end June 2017, chaired by the Governor and comprising the Commissioner of Budget and Planning and the Commissioner of Finance, as well as the heads of the lead agencies for each DLI (according to table 1.3), the PforR Program Manager and a representative of the Federal Ministry of Finance. The Steering Committee will meet once every two months. A PforR Program Manager and a PforR Deputy Program Manager have been appointed reporting to the Commissioner for Budget and Planning. The PforR Program Manager has two broad roles. The first is to monitor the performance of the overall PforR, based on the PforR Results Framework (see section below). The second is to monitor progress of the agencies leading on each DLI to ensure progress in achieving the DLIs in a timely manner and to ensure that lead agencies receive the required technical, financial, and political support to achieve the DLIs. The PforR Program Manager will report progress on a monthly basis to the Commissioner for Budget and Planning. As the scope of the PforR is multisectoral, the achievements of the DLIs require actions across a wide range of institutions.

The Steering Committee will play a key role in ensuring that all relevant MDAs are fully aligned with the objectives of the PforR, which are themselves consistent with the objectives of the KSDP. Other MDAs critical to the achievement of the DLIs can therefore be invited to report on progress and challenges to the Steering Committee. To support the development and implementation of the FRILIA, a specific multi-stakeholder Steering Committee will be established.

22. **In addition, a Program Implementation Manual (to be completed within three months after effectiveness) will contain detailed arrangements and procedures for implementation of the Program**, including (a) disbursement and flow of funds arrangements; (b) institutional arrangements; (c) financial management and governance arrangements; (d) E&S management systems, including the ESSA; (e) M&E, reporting and communication, including Program indicators; (f) PAP; and (g) detailed arrangements for verification of achievement of DLRs (including the Verification Protocol).

Table 1.3. Lead Agencies for DLIs

DLI	Lead agency
DLI1: Simplified business processes	KADIPA
DLI2: Implementation of systematic property registration program	KADGIS
DLI3: Strengthening of investment promotion	KADIPA
DLI4: Development of the legal and institutional framework for PPP	KADIPA
DLI5: Development and Implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	KADGIS
DLI6: Increasing IGR outturn	KADIRS
DLI7: Improvement of tax collection	KADIRS
DLI8: Increasing capital expenditure execution rate	Ministry of Budget and Planning
DLI9: Increasing procurement effectiveness	KPPA
DLI10: Improved government responsiveness to citizens' feedback on fiscal performance	Ministry of Budget and Planning

23. **The PforR Program Manager, under the Ministry of Budget and Planning, will be responsible for the M&E of the PforR.** The PforR Program Manager will gather the M&E information from the different lead agencies of the PforR (see table 1.3). The Federal Ministry of Finance, through the PforR Steering Committee, will be involved in the M&E of the Program. The Results Framework is provided in annex 2, which includes a definition of the indicators.

24. **Disbursement arrangements.** Disbursements from the World Bank, under the Program, will be made to the Special Treasury subaccount within the omnibus TSA of Kaduna State held with the CBN. The releases from the World Bank will be contingent on Kaduna State's meeting of the targeted indicator results as defined by the DLIs. For each DLI, allocated amounts, baselines, targets, requirement for achievement, advance payments, prior results financing, and deadlines for achievement have been defined (see annex 3 for details). DLRs achieved on or after November 8, 2016, but before signing of the Loan Agreement, will be eligible for disbursement of up to a ceiling of 25 percent of the credit proceeds. The operation will also include the provision of 'advances' (of up to a ceiling of 25 percent of the credit proceeds) to support the KDSG toward meeting future DLIs on time, especially under its current fiscal constraints.

25. **Program financial statements and audit.** The AFSs of the Program will be prepared by the Accountant General of Kaduna State as part of its consolidated financial reports. The fiduciary assessment shows the Office of the Accountant General has developed a reporting capability (being upgraded under the BATMIS) to specifically report on program expenditures and subject them to audit by the State Auditor General. The KDSG will demonstrate, through regularly prepared financial statements, that the Program's net expenditures are equal to, or in excess of, the PforR financing by the end of the operation. The audit report on the financial statements, including the program activities, will be submitted to the Bank, annually, within nine months of the end of the government fiscal year.

Annex 2: Results Framework Matrix

Results Framework

The PDO is to improve the business-enabling environment and strengthen fiscal management and accountability in Kaduna State

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI Number	Unit of Measure	Baseline (2016)	End Target (2020)
Results Area 1: Improving the Business-enabling Environment	PDO Indicator 1: Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property		1	Number (aggregate)	248 days (2014 Subnational Doing Business report for Nigeria)	123 days
		IR Indicator 1.1: Reforms undertaken by Kaduna State Government (core indicator)		Number	0 (2015)	20
		IR Indicator 1.2: Implementation of systematic property registration program: new Certificates of Occupancy (CofOs) issued	2	Number	0 (January 2017)	40,000 (cumulative)
		IR Indicator 1.3: Strengthening investment promotion: Memoranda of Understanding signed between investors and KADIPA	3	Number per year	10 (January 2017)	8 per year; 32 across 4 years
		IR Indicator 1.4: Investors that reach operations stage or aftercare in Kaduna State with KADIPA facilitation		Number	2 (January 2017)	20
		IR Indicator 1.5: Development of the legal and institutional framework for PPP	4	Milestones	Incomplete legal and institutional framework (2016)	Approval of PPP legal and institutional framework; Project Facilitation Fund operational; PPP pipeline prepared;

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI Number	Unit of Measure	Baseline (2016)	End Target (2020)
						PPP FCCL Management Framework adopted and FCCL from existing projects measured and disclosed; PPP Disclosure Framework adopted, web portal established, and project information available.
		IR Indicator 1.6: Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	5	Milestones	No FRILIA (2016)	FRILIA adopted through a legal instrument and under satisfactory implementation
Results Area 2: Strengthening Fiscal Management and Accountability	PDO Indicator 2: Increased budget credibility (IGR outturn and capital expenditure execution rate)		6, 8	Percentages	IGR outturn = 42 Capital expenditure execution rate = 50 (2016)	IGR outturn = 66 Capital expenditure execution rate = 70
		IR Indicator 2.1: Improvement of tax collection: registered taxpayers (TIN) filing tax returns	7	Number	6,000 (2015)	200,000
		IR Indicator 2.2: Compliance of large (over 250 employees) private and public corporate entities with Personal Income Tax Administration (PAYE) system		Percentages	70 for private; 80 for public entities (2016)	80 for private, 90 for public entities
		IR Indicator 2.3: Enhanced strategic planning and budgeting of public investment: MDAs whose budgeted		Percentage	25 (2016)	100

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI Number	Unit of Measure	Baseline (2016)	End Target (2020)
		capital expenditure are aligned with Sector Implementation Plans (SIP)				
		IR Indicator 2.4: Increased procurement effectiveness: main procuring MDAs implementing e-procurement, disclosing information on contract awards and conducting procurement audits	9	Number	0 (2016)	15
		IR Indicator 2.5: Timely payment of contractors by public entities: arrears of payment to contractors as percentage of appropriation		Percentage	1.7 (2016)	0.5
		IR Indicator 2.6: Improving performance information on service delivery: sector programs evaluated after three years of implementation		Percentage	5 (2016)	50
	PDO Indicator 3: Increased fiscal accountability (measured by improved government responsiveness to citizens' feedback on fiscal performance: responsiveness is indicated by the percentage of capital projects improved in response to citizens' feedback captured in the Eyes and Ears project monitoring system)		10	Percentage	0 (2016)	20
		IR Indicator 3.1: Increased fiscal transparency of State and Local Governments (LG): disclosure of state and LG appropriations and budget execution audit reports		Milestones	LG budgets disclosed for first time in 2016; audit report of LG budget execution not disclosed.	Timely disclosure of state and LG budgets and audit reports of state and LG budget execution.

Indicator Description

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property	Aggregate time required (number of days) to start a business, deal with construction permit and register property, as measured in the 2014 Sub National Doing Business Report for Nigeria http://www.doingbusiness.org/Reports/Subnational-Reports/nigeria	Annual	Qualitative surveys of relevant MDAs and private sector users	Methodology as provided in the Program Implementation Manual, as per the 2014 Sub National Doing Business Report for Nigeria http://www.doingbusiness.org/Reports/Subnational-Reports/nigeria	KADIPA	IVA	Yes
Reforms undertaken by Kaduna State Government (core indicator)	Core Indicator: Implemented reforms supporting private sector development; reforms are legislative/legal, administrative, or institutional changes that positively affect private sector development. Their effect on the private sector should be substantiated with evidence showing the implementation of reforms (that is, data on how the private sector is using/benefitting from the reform).	Semiannually	Qualitative survey of relevant MDAs and private sector feedback	See World Bank Guidance on Core Indicators (November 2016)	KADIPA	—	—
Implementation of systematic property registration program: new Certificates of Occupancy	Number of new CofOs issued by KADGIS under the SPRP (excluding recertification: that is, replacement of old CofOs)	Semiannually	KADGIS	KADGIS MIS	KADGIS	IVA	Yes

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
(CofOs) issued							
Strengthening investment promotion: Memoranda of Understanding signed between investors and KADIPA	KADIPA identifies 6 levels for prospective investors: Level 1 = initial enquiry Level 2 = detailed enquiry (including site visit) Level 3 = negotiations / signing of Memorandum of Understanding Level 4 = due diligence and facilitation of implementation Level 5 = operations initiated Level 6 = aftercare Memorandum of Understanding signed between investor and KADIPA represents Level 3 in KADIPA investment tracking. This indicator will track the number of new MoUs signed. This will measure how effective KADIPA is at transforming an initial enquiry into detailed enquiry (which requires a site visit) and an initial commitment to invest (i.e. signing of MoU)	Semiannually	KADIPA	KADIPA MIS	KADIPA	IVA	Yes
Investors that initiate operations and reach aftercare in Kaduna State with KADIPA facilitation	‘Operations initiated’ represents Level 5 and ‘aftercare’ represents Level 6 in KADIPA investment tracking. This indicator will track the total number of investors that have reached operations stage (Level 5) and	Semiannually	KADIPA	KADIPA MIS	KADIPA	—	—

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
	aftercare (Level 6), with KADIPA facilitation						
Development of the legal and institutional framework for PPP	This will involve the following activities: (a) Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation), and clarifies the institutional roles and responsibilities of all KDSG stakeholders (b) Project Facilitation Fund Rules, Governance, and Operational Manual prepared (c) PPP pipeline prepared (d) Pre-feasibility studies for 3 projects completed (e) PPP FCCL Management Framework adopted; FCCL from existing projects measured and disclosed (f) PPP Disclosure Framework adopted, web portal established, and project information available (g) Detailed feasibility studies for 1 transaction with low E&S risks* completed (h) Project Facilitation Fund established and seed funding of NGN 60 million provided	Semiannually	KADIPA	KADIPA PPP Unit	KADIPA	IVA	No

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
	(i) One PPP transaction with low E&S risks* meets commercial close *According to the PforR policy and as stipulated in the Program Implementation Manual						
Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	Development and implementation of a FRILIA. This will involve first the approval of key principles by the Governor of Kaduna, then the development of a framework through a participatory process, the testing of the pilot, the enactment of the framework and a social audit to confirm satisfactory implementation of the framework.	Semiannually	KADIPA	(a) Principles approved by Governor; (b) Framework developed through a consultative process (minutes of consultations); (c) testing of framework (documentation of testing of framework); (d) enactment of framework; (e) social audit to confirm satisfactory implementation of enacted FRILIA	KADGIS	IVA	No
Increased budget credibility	Tracking of 2 ratios: (a) IGR actual versus budgeted (percent) and (b) capital expenditure execution rate (percent)	Annually	Ministry of Finance	Audit report on budget execution from Auditor General	KADIRS, Ministry of Budget and Planning	IVA	Yes
Improvement of tax collection: registered taxpayer (TIN) filing tax returns	Number of registered taxpayers with a TIN filing tax returns	Semiannually	KADIRS	KADIRS MIS	KADIRS	IVA	Yes
Compliance of large corporate entities with	Percentage of PAYE compliant large public and private corporate entities	Semiannually	KADIRS	KADIRS MIS	KADIRS	—	—

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
Personal Income Tax Administration (PAYE) system	(over 250 employees)						
Enhanced strategic planning and budgeting of public investment	Number of MDAs whose budgeted capital expenditure are aligned with Sector Implementation Plans (SIP)	Annually	Ministry of Budget and Planning	Number of line ministries submitting a SIP in compliance with budget circular; annual report on budget preparation from Ministry of Budget and Planning	Ministry of Budget and Planning	—	—
Increased procurement effectiveness	Number of main procuring MDAs implementing e-procurement, disclosing information on contract awards and conducting procurement audit	Semiannually	KPPA	Reports from KPPA	KPPA	IVA	Yes
Timely payment of contractors by public entities	Arrears of payment to contractors as percentage of budget appropriation	Annually	Ministry of Budget and Planning	Budget execution audit report	Ministry of Budget and Planning	—	—
Improving performance information on service delivery	Sector programs evaluated after three years of implementation. Programs to be identified by the Ministry of Budget and Planning	Annually	Delivery Unit	Evaluation reports	Ministry of Budget and Planning	—	—
Improved government responsiveness to citizens' feedback on fiscal performance	Improved ongoing capital projects based on citizens' feedback captured by the Eyes and Ears project monitoring system (feedback through mobile application)	Semiannually	Ministry of Budget and Planning	Percentage of capital projects under implementation improved in response to citizens' feedback	Ministry of Budget and Planning	IVA	Yes
Increased fiscal transparency of State and Local Governments	Tracking of indicators: (a) Timely (before June 30 of the budget year) disclosure of the state and LG approved	Annually	Website: openkaduna.com.ng and/or kdsg.gov.ng	Online availability	Ministry of Budget and Planning	—	—

Indicator Name (#)	Description	Frequency	Data Source	Methodology for data collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
(LG)	budgets and (b) timely (before September 30 of the following year) disclosure of audit reports of state and LG budget execution						

Note: MIS = Management Information System.

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols

Disbursement-linked Indicator Matrix

	Total Financing Allocated to DLI (US\$, millions)	As % of Total Financing Amount	DLI Baseline	Prior results [Since November 8, 2016]	Indicative Timeline for DLI achievement			
					2017	2018	2019	2020
DLI1: Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property			248 days (2014 Nigeria Sub-National Doing Business report)	Ease of Doing Business Charter announced at KadInvest 2017	217	186	155	123
Allocated amount	35	10	—	10	6.2	6.2	6.2	6.4
DLI2: Implementation of systematic property registration program: number of new CofOs, issued			0 (January 2017)	3,000 new CofOs issued by June 30, 2017 Approval of KADGIS regulations	7,000	10,000	10,000	10,000
Allocated amount	35	10	—	12.5	4.5	6	6	6
DLI3: Strengthening investment promotion: number of new Memoranda of Understanding signed between investors and KADIPA			10 (January 2017)	Organization of KadInvest 2017 (April 5–6, 2017)	8	8	8	8
Allocated amount	35	10	—	5	7.5	7.5	7.5	7.5
DLI4: Development of the legal and institutional framework for PPP			Incomplete legal and institutional framework		Approval of legal and institutional framework for PPP	Project Facilitation Fund Rules, Governance, and Operational Manual prepared; Development of PPP pipeline, pre-feasibility	FCCL from existing projects measured and disclosed; PPP disclosure Framework adopted; web portal established, and project information available; Detailed feasibility studies for	One PPP transaction with low E&S risks* reaches commercial closure *According to the PforR policy

	Total Financing Allocated to DLI (US\$, millions)	As % of Total Financing Amount	DLI Baseline	Prior results [Since November 8, 2016]	Indicative Timeline for DLI achievement			
					2017	2018	2019	2020
						study for 3 priority transactions; PPP FCCL Management Framework adopted	one transaction with low E&S risks* completed; Project Facilitation Fund established and seed funding of NGN 60 million provided *According to the PforR policy	
Allocated amount	35	10	—	—	8.75	8.75	8.75	8.75
DLI5: Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)			No FRILIA	FRILIA principles approved by Kaduna State Governor		FRILIA developed in line with approved principles and through a consultative process	Enactment of FRILIA	Social audit confirms satisfactory implementation of FRILIA
Allocated amount	35	10	—	5		10	10	10
DLI6: Increasing IGR outturn			42% (2016)	BATMIS fully operational for revenues and expenditure chain	50%	55%	60%	66%
Allocated amount	35	10	—	5	10	6.25	6.25	7.5
DLI7: Improvement of tax collection: increase in number of registered taxpayers (TIN) filing returns			6,000 (2015)	Number of registered taxpayers (TIN) by June 2017: 30,000	50,000	100,000	150,000	200,000
Allocated amount	35	10	—	10	2.8	7.4	7.4	7.4
DLI8: Increasing capital expenditure execution rate			50%	Establishment of Planning Commission; Draft Kaduna Infrastructure	55%	60%	65%	70%

	Total Financing Allocated to DLI (US\$, millions)	As % of Total Financing Amount	DLI Baseline	Prior results [Since November 8, 2016]	Indicative Timeline for DLI achievement			
					2017	2018	2019	2020
				Master Plan released for public consultations; Compliance with Budget Circular on capital project appraisal and prioritization in 2017 approved budget; reduction of arrears of payment to contractors from 3% to 1% of appropriations				
Allocated amount	35	10	—	15	5	5	5	5
DLI9: Increasing procurement effectiveness			Low level of transparency and competitiveness in procurement process	Approval of Procurement Guidelines (according to the Procurement Law); Adoption of e-procurement strategy; disclosure of contracts above NGN 50 million since January 2017	Implementation of e-procurement, disclosure of contract awards in three main procuring MDAs; procurement audit in one main procuring MDA	Implementation of e-procurement, disclosure of contract awards, procurement audit in five main procuring MDAs	Implementation of e-procurement, disclosure of contract awards, procurement audit in 10 main procuring MDAs	Implementation of e-procurement, disclosure of contract awards, procurement audit in 15 main procuring MDAs
Allocated amount	35	10	—	10	6.25	6.25	6.25	6.25
DLI10: Improved government responsiveness to citizens' feedback on fiscal performance			Absence of citizen engagement on budget execution	Approval of Audit Law by Executive Council, Approval of Freedom of Information Law by Executive Council;	5% of capital projects improved in response to citizens' feedback	10%	15%	20%

	Total Financing Allocated to DLI (US\$, millions)	As % of Total Financing Amount	DLI Baseline	Prior results [Since November 8, 2016]	Indicative Timeline for DLI achievement			
					2017	2018	2019	2020
				Disclosure of State and LG budgets for 2017; Disclosure of state budget execution audit report for 2015 and 2016; launch of citizens' module in Eyes and Ears for capital projects				
Allocated amount	35	10		15	5	5	5	5
Total Financing Allocated	350	100		87.5	56	68.35	68.35	69.8

DLI Verification Protocol Table

#	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
1	Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property	Aggregate time required (number of days) to start a business, deal with construction permit and register property, as measured in the 2014 Sub National Doing Business Report for Nigeria (http://www.doingbusiness.org/Reports/Subnational-Reports/nigeria)	Yes	KADIPA	IVA	IVA verifies the data provided by KADIPA—according to the methodology included in the Program Implementation Manual
2	Implementation of systematic property registration program: number of new CofOs, issued	Number of new CofOs issued by KADGIS (excluding recertification: that is, replacement of old CofOs). The target is 10,000 new CofOs per year.	Yes	KADGIS	IVA	The IVA verifies the data reported by KADGIS
3	Steps toward the improvement of investment promotion: number of Memoranda of Understanding signed between investors and KADIPA	KADIPA identifies 6 levels for prospective investors: Level 1 = initial enquiry Level 2 = detailed enquiry (including site visit) Level 3 = negotiations / signature of Memorandum of Understanding (MoU) Level 4 = due diligence and facilitation of implementation Level 5 = operations initiated Level 6 = aftercare MoU represents Level 3 in KADIPA investment tracking. This indicator will track new MoU, according to KADIPA MIS, excluding mining investments.	Yes	KADIPA	IVA	The IVA verifies the data provided by KADIPA
4	Development of the legal and institutional framework for PPP	(a) Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation, including E&S aspects), and	No	KADIPA	IVA	The IVA verifies the information provided by KADIPA

#	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
		clarifies the institutional roles and responsibilities of all KDSG stakeholders; (b) Project Facilitation Fund Rules, Governance, and Operational Manual prepared; (c) PPP pipeline prepared; (d) Pre-feasibility studies for 3 projects completed; (e) PPP FCCL Management Framework adopted; FCCL from existing projects measured and disclosed; (f) PPP Disclosure Framework adopted, web portal established and project information available; (g) Detailed feasibility studies for 1 transaction with low E&S risks* completed; (h) Project Facilitation Fund established and seed funding of NGN 60 million provided; (i) One PPP transaction with low E&S risks* meets commercial close. *According to the PforR policy and as stipulated in Program Implementation Manual				
5	Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	Development and implementation of FRILIA: Step 1: Approval of key principles by Governor of Kaduna Step 2: Development of a framework in line with the approved principles through a consultative process Step 3: Enactment of FRILIA Step 4: Social audit confirms satisfactory implementation of FRILIA	No	KADGIS	IVA	The IVA verifies the information provided by KADGIS
6	Increasing IGR outturn	IGR outturn is calculated as follows: IGR actual / IGR budgeted (percent)—based on audited financial statements	Yes	KADIRS	IVA	The IVA verifies the information provided by the Ministry of Budget and Planning
7	Improvement of tax collection	Number of registered taxpayers with a TIN filing tax returns	Yes	KADIRS	IVA	The IVA verifies the data provided by KADIRS
8	Increasing capital expenditure execution rate	Capital expenditure execution rate is calculated as follows: actual capital expenditure / capital expenditure appropriated—based on audited financial statements	Yes	Ministry of Budget and Planning	IVA	The IVA verifies disclosure of information confirmed by Ministry of Budget

#	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
						and Planning.
9	Increasing procurement effectiveness	<p>Step 1: Implementation of e-procurement, disclosure of contract awards in three main procuring MDAs; procurement audit in one main procuring MDA;</p> <p>Step 2: Implementation of e-procurement, disclosure of contract awards, procurement audit in five main procuring MDAs</p> <p>Step 3: Implementation of e-procurement, disclosure of contract award, procurement audit in 10 main procuring MDAs</p> <p>Step 4: Implementation of e-procurement; disclosure of contract awards; procurement audit in 15 main procuring MDAs</p>	Yes	KPPA	IVA	The IVA verifies the information provided by KPPA
10	Improved government responsiveness to citizens' feedback on fiscal performance	<p>2017: 5% of capital projects under implementation improved in response to citizens' feedback</p> <p>2018: 10% of capital projects under implementation improved in response to citizens' feedback</p> <p>2019: 15% of capital projects under implementation improved in response to citizens' feedback</p> <p>2020: 20% of capital projects under implementation improved in response to citizens' feedback</p> <p>Improvements are remedial actions taken by the KDSG in response to citizens' feedback on projects under implementation (and captured as such by the monitoring system for capital projects). Those remedies can be ad hoc (specific to a single project) or generic (common to all relevant projects). The KDSG is expected to report those remedies on the web-based platform which support the citizens' feedback mechanism. The IVA will verify the percentage of projects to which such remedies actually apply.</p>	Yes	Ministry of Budget and Planning	IVA	The IVA verifies the information provided by the Ministry of Budget and Planning

Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI (US\$, million)	Of which Financing available for Prior results	Deadline for DLI Achievement	Minimum DLI Value to be Achieved to trigger disbursements of World Bank Financing	Maximum DLI Value(s) Expected to be Achieved for World Bank Disbursements Purposes	Determination of Financing Amount to be Disbursed against Achieved and Verified DLI Value(s)
1	Simplified business processes: reduction in the time required to start a business, deal with construction permit and register property	35	Yes	December 31, 2020	247	123	Prior result: Announcement of Ease of Doing Business Charter = US\$10 million US\$0.2 million per reduced day (capped to US\$25 million)
2	Implementation of systematic property registration program: number of new CofOs issued	35	Yes	December 31, 2020	4,000 (3,000 new CofOs = prior result)	40,000	Prior result: 3,000 new CofOs issued = US\$12.5 million US\$608,108 per 1,000 new CofOs (capped to US\$22.5 million)
3	Strengthening investment promotion: number of Memoranda of Understanding (MoU) signed between investors and KADIPA	35	Yes	December 31, 2020	1 new MoU	32 new MoUs	Prior result: Organization of KadInvest (April 5–6, 2017) = US\$5 million US\$937,500 for every new MoU signed (capped to US\$30 million)
4	Development of the legal and institutional framework for PPP	35	No	December 31, 2018 DLR4.1. Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation, including E&S aspects), and	Not applicable	Not applicable	US\$8.75 million for each of the four (4) DLRs (DLR4.1, 4.2, 4.3 and 4.4). Disbursement against DLR4.4 requires that DLR4.1, 4.2 and 4.3 have been met. If DLR 4.4 is not met, the allocated funding will be cancelled.

				<p>clarifies the institutional roles and responsibilities of all KDSG stakeholders</p> <p>DLR4.2: Project Facilitation Fund Rules, Governance, and Operational Manual prepared; PPP pipeline prepared; Pre-feasibility studies for 3 projects completed; PPP FCCL Management Framework (FCCL) adopted</p> <p>December 31, 2020</p> <p>DLR4.3: FCCL from existing projects measured and disclosed; PPP Disclosure Framework adopted, web portal established, and project information available; Detailed feasibility studies for 1 transaction completed; Project Facilitation Fund established and seed funding of NGN 60 million provided</p> <p>DLR4.4: One PPP transaction with low E&S risks meets commercial close</p>			
5	Development and implementation of a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments (FRILIA)	35	Yes	<p>June 20, 2017 for FRILIA principles (DLR5.1 = prior result)</p> <p>December 31, 2018 for approval of FRILIA (DLR5.2)</p> <p>December 31, 2019 for enactment of FRILIA (DLR5.3)</p> <p>December 31, 2020 for social audit confirming satisfactory implementation</p>	Not applicable	Not applicable	<p>Prior result: Approval of FRILIA principles (DLR5.1) = US\$5 million</p> <p>US\$10 million is allocated for DLR5.2, DLR 5.3 and DLR5.4 (each DLR = US\$10 million) subject to pass/fail and all successive steps have to be completed in the indicated order. If DLR5.2 to 5.4 are not met, the allocated funding will be cancelled.</p>

				of FRILIA (DLR5.4)			
6	Increasing IGR outturn	35	Yes	March 31, 2018 for year 2017 March 31, 2019 , for year 2018 March 31, 2020 for year 2019 March 31, 2021 for year 2020 Based on audited financial statements	IGR actual versus budgeted = 50%	IGR actual versus budgeted = 66%	Prior result: BATMIS fully operational for revenues and expenditure chain = US\$5 million US\$1.25 million per point rounded to the closest point (capped to US\$30 million)
7	Improvement of tax collection: increase in number of registered taxpayers (TIN) filing returns	35	Yes	December 31, 2020	31,000	200,000	Prior result: 30,000 registered taxpayers filing returns = US\$10 million US\$147,059 per 1,000 new registered taxpayers filing returns (capped to US\$25 million)
8	Increasing capital expenditure execution rate	35	Yes	March 31, 2018 for year 2017 March 31, 2019 , for year 2018 March 31, 2020 for year 2019 March 31, 2021 for year 2020 Based on audited financial statements	51%	70%	Prior result: Establishment of Planning Commission; Draft Kaduna Infrastructure Master Plan released for public consultations; Compliance with Budget Circular on capital project appraisal and prioritization in 2017 approved budget = US\$15 million US\$1 million per point rounded to the closest point (capped to US\$20 million)
9	Increasing procurement effectiveness	35	Yes	Prior result: Approval of Procurement Guidelines (according to the Procurement Law); Adoption of e-procurement strategy; disclosure of contracts above NGN 50 million since January 2017 (DLR9.1) December 31, 2017 DLR9.2: Implementation of	Implementation of e-procurement, disclosure of contract awards in three main procuring MDAs; procurement audit in one MDA	15 main procuring MDA	Prior result: DLR9.1 = US\$10 million US\$1.67 million per main procuring MDA (capped to US\$25 million)

				<p>e-procurement, disclosure of contract awards in three main procuring MDAs; procurement audit in one MDA</p> <p>December 31, 2018 DLR9.3: Implementation of e-procurement, disclosure of contract awards, procurement audit in five MDAs</p> <p>December 31, 2019 DLR9.4: Implementation of e-procurement, disclosure of contract award, procurement audit in 10 MDAs</p> <p>December 31, 2020 DLR9.5: Implementation of e-procurement; disclosure of contract awards; procurement audit in 15 MDAs</p>			
10	Improved government responsiveness to citizens' feedback on fiscal performance	35	Yes	<p>Prior result: Approval of Audit Law by Executive Council, Approval of Freedom of Information Law by Executive Council; Disclosure of State and LG budgets for 2017; Disclosure of state budget execution audit report for 2015 and 2016; launch of citizens' module in Eyes and Ears for capital projects (DLR10.1)</p> <p>December 31, 2020</p>	One percentage point of ongoing capital projects improved in response to citizens' feedback.	20%	Prior result: = US\$15 million US\$1 million per percentage point (capped at US\$20 million)

Annex 4: Summary Technical Assessment

1. **The PDO is to improve the business-enabling environment and to strengthen fiscal management and accountability in Kaduna State.** The Program supports the efforts of Kaduna State to improve its business-enabling environment with the view to become a leading investment destination in Nigeria. According to the KSDP, private investments are expected to play a major role in generating jobs and revenues for the state. Budget management is the main policy tool available to the state government (along with business regulation) to promote growth and economic development. Thus, on the private sector side, the Program supports the efforts of Kaduna State to significantly increase private investments for job creation and revenue generation. On the public sector side, the Program supports Kaduna State to strengthen fiscal management and accountability to ensure that increasing (but still limited) revenues are spent as efficiently as possible, thereby to increase the state's capacity to invest in human capital and physical assets, and to catalyze private investments. Accountability underlies this strategy by building public (including investors') trust in Government and ensuring that its actions and decisions are subject to public scrutiny and participation.

2. **In alignment with the two pillars—Economic Development and Governance—of the KSDP, the PforR focuses on the following two results areas:**

- Improving the business-enabling environment
- Strengthening fiscal management and accountability

Strategic Relevance and Technical Soundness

Results Area 1: Improving the Business-enabling Environment

Improvement in Aggregate Doing Business Performance in Kaduna State

3. **The PforR will support the Kaduna State reform efforts to improve the business-enabling environment to increase private investments through KADIPA, Kaduna Investment Promotion Agency.** To support this reform agenda, the KDSG established KADIPA through a 'Law to Establish the Kaduna Investment Promotion Agency and Other Matters Connected Therewith' enacted on December 23, 2015. KADIPA was formally established in March 2016 as a one-stop resource and coordination center for all investment-related activities in the state with a focus on (a) improving the state business-enabling environment and (b) attracting and facilitating new investment in the state. The law gives KADIPA a broad mandate.

4. **The PforR will support in particular transversal reforms to improve regulations affecting the entry and operations of SMEs,** using the Subnational Doing Business reform areas as an entry point (starting a business, dealing with construction permits, and registering property).

5. **The latest Subnational Doing Business report for Nigeria was undertaken in 2014.** In this report, Kaduna ranks 2nd (out of a total of 35 states and Federal Capital Territory (FCT);

Borno State was not covered for security reasons) for Enforcing Contracts, 15th for Starting a Business, 24th for Registering Property, and 32nd for Dealing with Construction Permits. Distance to Frontier (DTF) shows how far a state is at a point in time from the best performance achieved by any Nigerian state (the measure is normalized to ranges between 0 and 100, with 100 representing the frontier). The Kaduna State DTF stands at 60, with virtually no improvement between 2010 and 2014.

Table 4.1. Kaduna State Performance in 2014 Subnational Doing Business Report for Nigeria

Starting a business (rank)	15	Registering property (rank)	24
Procedures (number)	11	Procedures (number)	12
Time (days)	31	Times (days)	112
Cost (% of income per capita)	54.3	Cost (% of property value)	13.8
Paid-in minimum capital (% of income per capita)	0.0		
Dealing with construction permits (rank)	32	Enforcing contracts (rank)	2
Procedures (number)	14	Procedures (number)	41
Time (days)	105	Time (days)	291
Cost (% of income per capita)	513.9	Cost (% of claim)	26.2

6. **In this context, KADIPA undertook a diagnostic study of business licensing and registrations in the Kaduna State.** KADIPA focused on four sectors where licensing reform is expected to have the greatest impact: building construction, road transport, wholesale and retail trade, and manufacturing (food and drugs). Data for the development of this report was gathered through interviews, field surveys, PPDs, and focus group discussions with key stakeholders operating within the four sectors. Stakeholders consulted include the state and Federal Government agencies, private sector Business Membership Organizations, and individual businesses. The inventory exercise identified a total of 18 licenses and permits issued by federal- and state-level regulatory agencies across the four sectors, of which 5 are broad licenses that apply to all companies regardless of business type, while 13 are sector-specific licenses. The identified licenses are issued under nine laws (five federal and four state laws). The most significant challenges to compliance for the private sector are long timelines and slow processing of applications; too many registration requirements, resulting in cumbersome application processes; and high costs of compliance comprising registration fees, costs of meeting application requirements, costs of engaging middlemen, and administrative costs of meeting information obligations.⁴⁴

7. **To accompany this diagnostic, a process optimization was conducted for four licenses and permits responsible for regulating business activity in Kaduna State** to identify inefficiencies within the current processing procedures and bottlenecks within the regulatory agencies that further compromise ease and efficiency. The four licenses reviewed are business premises registration administered by the Ministry of Commerce, land allocation administered by

⁴⁴ “Diagnostic Study of Business Licensing and Registrations in Kaduna State,” December 2016 (supported by Business Investment Climate, funded by the European Union and implemented by GEMS3).

KADGIS, development permits administered by KASUPDA (Kaduna State Urban and Planning Agency), and vetting contract agreements by the Ministry of Justice.⁴⁵

8. **The diagnostic study identified key broad and sectoral licenses applicable across the four priority sectors, assessed the cost of complying with licensing regulations, identified the key compliance challenges faced by the private sector, and identified recommendations for reform to individual licenses to improve the ease of doing business in the state.** To ensure the viability of reform recommendations, two rounds of validation were conducted with the private sector through technical working groups, followed by a third validation session with the Director Generals, General Managers, and senior management of MDAs. A Reforms Memo was then drafted reflecting the outcome of the validation sessions and containing all reforms that were validated and accepted for implementation by MDAs.⁴⁶ The Decision Memo on business licensing and registration reforms across six MDAs in Kaduna State was presented, for approval, to the Ease of Doing Business Committee (chaired by the Deputy Governor, including Commissioners of relevant ministries, and Director Generals of relevant agencies) on February 28, 2017. The Decision Memo identifies 26 reforms accepted by six MDAs: Ministry of Commerce—3 reforms, KADIRS—5 reforms, KADGIS—2 reforms, KASUDPA (Kaduna State Urban and Planning Agency)—9 reforms, Kaduna Environment Protection Agency (KEPA)—3 reforms, and KASTELEA (Kaduna State Traffic and Environmental Law Enforcement Agency)—4 reforms. These reforms form the basis of the Kaduna Ease of Doing Business Charter that was formally announced at the KadInvest 2017 on April 5th, 2017. The Charter commits these MDAs to reduce the time of key business processes (such as business premise certificate, taxpayer identification number, development permit, certificate of occupancy, and contract vetting). The implementation of the reforms will require staff training in relevant MDAs, close monitoring, and continuous engagement with the private sector. KADIPA has received technical support from GEMS3 to conduct this reform process.

9. **Moving forward, the PforR will support the continuous efforts of the KDSG to improve the Ease of Doing Business in the state,** using three Subnational Doing Business indicators (starting a business, dealing with construction permits and registering property), as proxy indicators for broader reform efforts.

Strengthening of Investment Promotion

10. **The PforR will also support improved investment policy and promotion.** It will support the strengthening of KADIPA to help attract and retain domestic and foreign investors to Kaduna State. As highlighted in paragraph 3, KADIPA was formally established in March 2016, with a broad mandate. To initiate its activities, KADIPA developed a “Road Map Towards Effective Promotion of Investments in Kaduna State” in 2016 (KADIPA, 2016).

⁴⁵ “Process Improvement for four MDAs in Kaduna State,” Presentation by KADIPA to KDSG, October 2016.

⁴⁶ “Report on Validated Reforms to Business Licensing and Registration in Kaduna State,” February 2017 (supported by Business Investment Climate, funded by the European Union and implemented by GEMS3).

11. **This roadmap highlights the following initial priorities:**

- (i) **Image building for Kaduna State.** Re-branding the image of Kaduna State to leverage the state nationally/globally and build a perception of an ideal business location.
- (ii) **Policy advocacy.** Supporting reforms in institutional, legal, and regulatory frameworks that create and improve an enabling environment for investments, as described in the above section.
- (iii) **Investment generation/creation,** with a focused approach on sectors identified as growth pillars.
- (iv) **Investment promotion and post-investment services.** This focuses on pre-investment, investment, and post-investment.
- (v) **NWIAA Framework.** KADIPA aims to champion a Common Investment Area (NWIAA) to encourage joint development and reduce unhealthy competition between the states and promote the region as one investment region in which to do business—building on the Northern Governors Forum.

12. **KADIPA recently completed sector scans to identify high potential sectors.** Forty-nine possible investment sectors were reviewed and the following key sectors were identified: (a) agriculture and agro-allied, (b) construction and housing, (c) solid minerals and mining, (d) transport and logistics, (e) energy (with a focus on renewable energy), (f) health, (g) manufacturing and light industry, (h) education, (i) services and ICT, and (j) tourism.

13. **KADIPA has also established an investment tracking tool.** KADIPA currently has a pipeline of 103 investments (as of January 2017). KADIPA represents the initiating source for 92 percent of these investments, with the Ministry of Agriculture and Forestry representing 5 percent; the Ministry of Commerce, Industry, and Tourism, 2 percent; and the Ministry of Water Resources 1 percent. Pipeline investments are concentrated in agribusiness (42 percent), housing (29 percent), and power (10 percent). Other sectors include waste-to-wealth (5 percent), ICT (3 percent), manufacturing (3 percent), education (2 percent), services (2 percent), and health, transport, infrastructure, retail (each 1 percent). Currently, 53 percent of pipeline investments are under initial enquiry, 10 percent under detailed enquiry/initial visit, 8 percent are under negotiations, 15 percent under facilitating implementation, and 2 percent have reached aftercare services.

14. **Three solar energy firms signed in July 2016 Power Purchasing Agreements with Nigerian Electricity Bulk Trading to operate in Kaduna State—En Africa (50 MW), Quaint Abiba Power Limited (50 MW), and Anjeed Innova Group (100 MW).**

15. **Kaduna State has also attracted major investments in agribusiness.** Vicampro has initiated a US\$120 million investment for a potato farm and processing facility. Olam, a leading agribusiness firm operating in 70 countries, will establish an integrated animal feed mill and poultry farm for an estimated US\$100 million⁴⁷. The poultry farm is expected to produce one million hatching eggs per week. Dangote has also announced the establishment of a tomato paste

⁴⁷ The groundbreaking ceremony took place in April 2016.

processing plant in Kaduna, a processing facility for animal feed, as well as tomato production, with an initial investment of US\$10 million.

16. **In that context, the PforR will support KADIPA’s effort to develop out-growers’/off-takers’ arrangements for agriculture investments**, to ensure benefits sharing, as well as to increase agricultural productivity and foster job creation. The program will also support KADIPA to develop a linkages strategy, support local SMEs to provide goods and services to investors, and support the local workforce to access job opportunities created by the investments. When facilitating agribusiness investments, KADIPA already encourages investors to implement off-takers’/out-growers’ schemes, which have two main advantages. First, it can reduce upfront investment costs for investors as they need less land and less resources to develop the land; second, it helps ensure good relations with the surrounding communities, which is critical for the sustainability of the investments. Vicampro signed a Community Development Agreement with KADIPA, identifying the benefits for the communities, while Vicampro initiates its investment (Vicampro is currently testing potato production on 10 hectares). Overall, it will be important for KADIPA to formalize these benefit-sharing processes. In parallel, KADIPA is developing an online SME supplier database for investors, as well as an online Human Capital Resource database (KADIPA Job Center). The PforR will support KADIPA’s efforts to attract and retain private investors in the state, with a focus on ensuring socially and environmentally sustainable investments.

17. **As highlighted in the above section, Kaduna State held its second Investment and Economic Summit (KadInvest) on April 5–6, 2017 (www.kadinvest.org)**. As explained on the website home page: “KadInvest is the platform demonstrating that Kaduna State is open for business. The state has demonstrated firm commitment to achieving sustainable economic growth by legislating to make it easier to do business, and aligning its budget to capital expenditure to build human capital and infrastructure. Kaduna believes that private investment is the best vehicle for job creation, and is eager to bring together the private sector, international development partners and development finance institutions to identify opportunities in the state and take the investment initiatives that create growth.”

Development of the Legal and Institutional Framework for PPP

18. **Legal and institutional framework.** As part of its mandate to attract private investments, KADIPA also has the legal mandate to drive PPPs in Kaduna State. The KADIPA Law establishes KADIPA as the body responsible to “initiate, promote, facilitate, and coordinate investments in the state through Greenfield, Public Private Partnerships, Privatisation, Commercialisation of State owned assets and Build, Operate and Transfer.” The law’s enactment is the first step in the development of a PPP framework in Kaduna State. The KADIPA Law creates a two-tier structure, with a multi-stakeholder, cross-sectorial board established to provide high-level oversight and strategic direction to KADIPA, and an agency established to provide day-to-day management of the investment promotion program in Kaduna State. While the KADIPA Law does create an institutional mandate for KADIPA within the PPP program, it does not provide a clear legal basis for the procurement of PPPs, lay out a defined PPP project cycle process (from project identification through implementation), or clarify the institutional roles of other stakeholders to the PPP program, most notably, MDAs that will own and implement PPP projects.

19. **In addition to the KADIPA Law, a PPP Manual has been prepared** with the support of the NIAF. The PPP Manual does provide additional detail on the legal and institutional framework for PPPs in Kaduna, and covers the following elements:

- Definition and characteristics of PPPs, including applicable models/structures
- PPP project cycle, from project identification to preparation, procurement, and implementation
- Legal and institutional framework for PPPs
- Financing approaches to PPPs

20. However, while the PPP Manual provides useful detail and guidance material, it remains unclear how it fits within the PPP framework. It does not appear that the PPP Manual sits under the KADIPA Law (or any other law), and in the absence of any legal umbrella, the PPP Manual lacks a legal mandate to guide the PPP program. It should be noted that none of the PPP projects under implementation or under procurement have properly followed the PPP project cycle process laid out in the PPP Manual.

21. **Beyond the KADIPA Law and the PPP Manual, a Public Procurement Law was enacted in 2016**, establishing the KPPA and processes for the procurement of goods and services. The Public Procurement Law does not specifically mention PPPs, and is not adapted to the specificities of PPP procurement, but in the absence of other relevant legislation, it is considered that PPPs in Kaduna State would currently need to be procured under the Public Procurement Law. This creates a risk that PPPs will not be procured through a clearly defined and standardized process, which may negatively impact the quality of the procurement process. To strengthen the legal and institutional framework for PPPs in Kaduna, it may be necessary to enact a specific PPP Law, or amend the Public Procurement Law to create specific provisions to guide the procurement of PPP projects.

22. **Infrastructure planning and project prioritization.** The KSDP is the umbrella document guiding the KDSG development strategy. Over 2016–2020, the KSDP envisions total public sector expenditure of NGN 638.7 billion, allocated on a 60:40 ratio of capital expenditure to recurrent expenditure. In addition, private investment of NGN 800 billion through PPPs is also forecast, a strong signal of the KDSG’s commitment to the development of a PPP program in Kaduna State. Infrastructure investment is a core pillar of the KDSG’s economic growth and development strategy, and the KSDP outlines high-level priorities and challenges across core infrastructure sectors. To realize its infrastructure investment vision, the KSDP advocates a strong linkage between the KSDP and the budget through Sector Implementation Plans (SIPs). The SIPs are designed to define and prioritize sector investments to deliver the KDSG’s development strategy.

23. **A robust PIM system helps governments to efficiently allocate resources (both public and private)** by prioritizing projects necessary to meet development objectives and optimizing their financing by leveraging private capital through de-risking. This planning process naturally creates an infrastructure pipeline from which potential PPP projects can be identified. While the KSDP and SIPs are intended to support a similar process, they lack the robustness of a PIM system, and there is no clear methodology to help the prioritization of

infrastructure investments and simultaneous allocation of finance to those investments. In addition, there is no clear methodology to identify and prioritize potential PPP projects from the SIPs, and there is a general lack of capacity across MDAs to understand the core principles that underlie PPP suitability and viability.

24. **As a result, infrastructure planning in Kaduna State is relatively ad hoc, and this cascades down to PPPs.** In the absence of a PPP project prioritization methodology, the KDSG has been unable to efficiently identify and prioritize suitable PPP projects. Projects that have moved forward, therefore, have tended to derive from unsolicited proposals or have been driven by political priorities. The Ministry of Budget and Planning is aware of this issue, and the draft Kaduna State Infrastructure Master Plan has been released for public consultation in April 2017. The finalization of the Infrastructure Master Plan has the potential to provide a major step forward to both infrastructure planning and PPP project identification and prioritization in Kaduna State.

25. **PPP experience.** Due to the relatively recent passing of the KADIPA Law, there has been limited PPP experience in Kaduna State, but KADIPA has made important strides in building awareness of the KDSG's commitment to the PPP program, and attractive private investment in general. To date, there is one solid waste project under implementation, and three projects at various stages of procurement, including in the transport sector (Ring Road 3), the ICT sector (backbone connectivity), and housing.

26. **In terms of PPP opportunities and pipeline, the following sectors have been identified through preliminary analysis:** (a) off-grid energy projects (on-grid energy is the responsibility of the Federal Ministry of Energy, and thus, any state-level initiatives would be off-grid and likely relatively small-scale in nature); (b) transport logistics, Bus Rapid Transit system, parking facilities; (c) bulk water supply and distribution facilities, small-scale regulated water tankers; (d) solid waste management services; (e) agribusiness—cold storage, slaughterhouses, and irrigation to support dry season farming; and (f) health specialized facilities, particularly diagnostic clinics and rehabilitative centers.

27. **To strengthen the legal and institutional framework for PPPs, the PforR will support the following activities:**

- Approval of suitable PPP legal and institutional framework that comprehensively defines and legally enables the PPP project cycle process (project identification, preparation, procurement, and implementation, including E&S aspects), and clarifies the institutional roles and responsibilities of all the KDSG stakeholders
- Project Facilitation Fund Rules, Governance and Operational Manual prepared
- PPP pipeline prepared
- Pre-feasibility studies for three projects completed
- PPP capacity building, including (a) PPP nodes in three key sector ministries established; and (b) two technical staff in KADIPA and in each key sector ministries complete the PPP Certification Program

- PPP FCCL Management Framework adopted, and FCCL from existing projects measured and disclosed
- PPP Disclosure Framework⁴⁸ adopted, web portal established, and project information available
- Detailed feasibility studies for one transaction completed
- Project Facilitation Fund established and seed funding of NGN 60 million provided
- One PPP transaction with low E&S risks meets commercial close

28. **The PforR will support the development of one PPP transaction with low E&S risks according to the PforR policy.** The selected PPP transaction must follow the following principles (which will be further spelled out in the Program Implementation Manual):

- Promote E&S sustainability, and avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to E&S impacts
- Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources
- Protect public and worker safety against the potential risks associated with (a) construction and/or operations of facilities or other operational practices; (b) exposure to toxic chemicals, hazardous wastes, and other dangerous materials; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards
- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assists the affected people in improving, or at the minimum restoring, their livelihoods and living standards
- Give due consideration to the needs or concerns of vulnerable groups
- Avoid exacerbating social conflict

Implementation of Systematic Property Registry Program

29. **The PforR will support the overall improvement of Kaduna State across three Subnational Doing Business indicators. One of the indicators is registering property.** This indicator records the full sequence of procedures necessary for a business (the buyer) to purchase a property from another business (the seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans, or if necessary, sell the property to another business. It also measures the time and cost to complete each of these procedures. This indicator also measures the quality of the land administration system. The quality of land administration index has five dimensions—reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution, and equal access to property rights (<http://www.doingbusiness.org/Methodology/registering-property>).

⁴⁸ <http://pubdocs.worldbank.org/en/143671469558797229/FrameworkPPPDisclosure-071416.pdf>

30. **In the 2014 Subnational Doing Business report for Nigeria, Kaduna State ranked 24 (out of 35 States and FCT) for Registering Property**, with 12 procedures, 112 days, and a cost of 13.8 percent of the property value. The best-performing state was Zamfara State, with 9 procedures, 31 days, and a cost of 8 percent of property value.

31. **Another Subnational Doing Business indicator is dealing with construction permits.** This indicator records all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure. In addition, this indicator measures the building quality control index, evaluating the quality of building regulations; the strength of quality control and safety mechanisms, liability and insurance regimes; and professional certification requirements (<http://www.doingbusiness.org/Methodology/dealing-with-construction-permits>).

32. **In the 2014 Subnational Doing Business report for Nigeria, Kaduna State ranked 32 (out of 35 States and FCT) for dealing with construction permits**, with 14 procedures, 105 days, and a cost of 513.9 percent of income per capita. The best performing state was Jigawa State, with 11 procedures, 32 days, and a cost of 342.1 percent of income per capita.

33. **For both indicators, the CofO—the term used for certificate of land ownership in Nigeria—plays a critical role.** In addition, the benefits of strengthening land tenure security are well established in the literature. Research has emphasized the significance of secure property rights over land as a precondition for sustainable pro-poor economic growth.⁴⁹

34. **Under the 1978 Land Use Act, there is no private ownership of land in Nigeria.** The maximum interest a person may hold in land is the right of use and occupancy. The statutory right of occupancy of urban land is given to any person by the Governor's consent and a written CofO. LGs may grant customary rights of occupancy for non-urban land. At the time of its passage, the stated purpose of the Land Use Act was to create a uniform land tenure system throughout the country by nationalizing all land. Paragraph 2(1) confers “control and management” of the land upon the Governor of each state in the case of urban land, and to the LG in the case of land outside the designated urban boundaries. Statutory rights of occupancy must be for a stated period of time, which is not specified in the Act. It is common for rights of occupancy to be granted for a period of 99 years, with the CofO issued for a period just short of that (often by one day). When rights are transferred or assigned to a different party, that party acquires the same CofO, with the transfer noted on it, for the balance of the occupancy term left at the time of the acquisition. The Act prohibits the alienation of a statutory right of occupancy without the consent of the Governor: the holder of a statutory right of occupancy must obtain the consent of the Governor before alienating or selling interest in land, otherwise the transaction is void. Similarly, where the property is subject to customary right of occupancy, the consent of the LG is required before land is sold.⁵⁰

35. **Procedures for property acquisition and title registration in Nigeria are among the most cumbersome, expensive, and lengthy in the world.** In the World Bank Doing Business

⁴⁹ “Land Policies and Land Reform,” Klaus Deininger, 2004, World Bank.

⁵⁰ This paragraph is adapted from “Nigeria Developing Housing Finance,” World Bank, 2016.

Report 2017, Nigeria ranks 182 out of 190 for registering property because of its long and costly process.

36. **The complexity of land transaction procedures has contributed to the growth of a vibrant informal land market.** It is estimated that more than 70 percent of land transactions in Nigeria are in the informal market. Another deficiency is that records are not regarded as reliable and are far from complete.

37. **To improve registration systems, the Government has funded computerization and digitization of records and geographic information systems,** in the FCT and the Lagos State. In 2005, the Lagos State Lands Bureau began an ambitious project to improve land registration, beginning with upgrading facilities, modernization of operations, and making information more accessible to customers. These reforms are leading to an increasing number of properties being brought into the formal system, every year, at a lower cost to the occupants.⁵¹ More recently Kaduna and Kano States have also initiated such modernization efforts.

38. **The KDSG has undertaken major reforms to modernize land administration in the state.** A law to establish the Kaduna geographic information service and matters connected therewith was enacted in December 2015. The purpose of this law is to establish KADGIS to replace the Ministry of Lands, Surveys, and Country Planning, with the objective of computerizing all land records and information through the Kaduna State. The transition from the Ministry of Lands to KADGIS took effect in November 2016.

39. **KADGIS is in the process of finalizing the Kaduna Land Use Regulations.** The Land Use Regulations introduce four registration programs for rights of occupancy: (a) recertification, (b) the SPRP, (c) regularization, and (d) regular application. Recertification is a mandatory process of the old valid statutory titles to new digital CofO with security features. The number of old CofOs is estimated between 40,000 and 50,000. The regularization program targets owners and occupiers within planned unapproved layouts in Kaduna State. The regularization program has not yet started—a Council Memo, to be presented to the Executive Council, is under preparation.

40. **The SPRP is a process of mass land registration.** It builds on the efforts, initiated at the federal level through the Presidential Technical Committee on Land Reform, to encourage systematic land titling and registration in Nigeria. As indicated in paragraph 36, due to the complexity to access formal titles, the formal land market in Nigeria remains comparatively small and most land transactions occur within the informal market. The informality of the land market raises a number of issues. First and foremost, it provides limited tenure security. Informal transactions also mean that the ability of state-level MDAs to benefit from land-related revenue is limited by the absence of legitimate land data on ownership, use, and extent. In addition, data on land use, extent, and ownership is extremely limited, and where it does exist, it is largely paper-based and inaccessible. This lack of data affects the state's ability to implement basic social and economic planning, discouraging investment, and limiting the collection of property tax, all of which could contribute to the state's IGR.⁵²

⁵¹ "Nigeria Developing Housing Finance," World Bank, 2016.

⁵² GEMS3 Land Strategy (October 2015–June 2017).

41. **The SPRP in Kaduna State builds on the Manual of Standard Operating Procedures on Systematic Land Titling and Registration for Nigeria** (Presidential Technical Committee on Land Reform, December 2014). The cost of a CofO under the SPRP stands at NGN 5,000 (whatever the size of the plot). The process relies on Orthophotos with 10 cm resolution for the metropolitan areas of Kaduna, Zaria, and Kafanchan. The SPRP field work has been completed for Kaduna North LG area. Field work is now starting for Kaduna South LG area. The production of CofO was initiated in January 2017. Currently, 150 CofOs are produced each week. Around 1,000 CofOs have been produced to date under the SPRP.

42. **The PforR will support the SPRP implemented by KADGIS.** The Program will include a focus to ensure that the SPRP is inclusive, avoids elite capture, and includes strong grievance redressal mechanisms—building on the World Bank Toolkit “Systematic Property Registration: Risks and Remedies” (May 2016).⁵³ The Program will also include a focus on supporting the sustainability of the ongoing modernization and digitization efforts.

Development of FRILIA

43. **A major focus of the Program is to support Kaduna State in developing tools to successfully attract inclusive private investment and to ensure shared benefits between private investors and surrounding communities.** Under the “improving the business-enabling environment” results area, the Program supports the KDSG to improve its regulatory and institutional systems in a manner that ensures balanced efforts at aggressively attracting private investors and at minimizing environment and social impacts. A key tenet under the Program is that sound environment and social practices will further enhance Kaduna State attractiveness for the private sector as it will minimize potential conflicts with communities, as well as conflict between pastoralists and farmers. The Program includes a focus on improving the systems for land acquisition and resettlement, and on adapting the current regulatory and institutional framework to better reflect international best practices as expressed in such instruments as the Voluntary Guidelines on the Responsible Tenure of Land, Fisheries, and Forests in the context of National Food Security (to which Nigeria is a signatory), as well as the Council on Food Security’s Principles for Responsible Investment in Agriculture and Food Systems.

44. **In doing so, the Program recognizes that the KDSG will need to address a number of risks and shortcomings evident in current laws and processes across Nigeria,** including the following: (a) documentation and spatial information concerning existing rights is weak, especially in rural areas; (b) land allocation decisions based on the principle that the Government owns all land sometimes fails to take into account the long-established interests and customary uses of rural communities; (c) the legal status of common areas is uncertain despite the fact that such areas are critical for livelihoods of rural communities; (d) compulsory acquisition processes and compensation standards are not consistent with international best practice; (e) excessive reliance on compulsory acquisition to assemble land for private investment may limit the potential involvement of local communities as genuine partners in an investment; (f) benefit arrangements may be vaguely defined and constrained by weak community capacity to negotiate; (g) there is weak capacity in state government to conduct land acquisition and reallocation

⁵³ <http://pubdocs.worldbank.org/en/870621470748209208/FINAL-WEB-Title-Registration-Toolkit.pdf>.

efficiently and fairly; and (h) Government identification of land for large-scale investment is not always based on robust environmental assessment.

45. **Recognizing the significant shortcomings of the existing legal framework for land in Nigeria, this Program provides a unique opportunity to address the identified issues at the state level.** The KDSG has expressed its commitment to establishing under the Program a more transparent, efficient, and better-resourced land sector to ensure that current and future demand for land leads to beneficial and equitable outcomes for affected communities, while attracting and supporting high-quality investment. However, the appropriate revision of existing laws, regulations, procedures, and institutional arrangements to address this overarching goal will require significant analytical work (some of which is already under way), the development of technically sound and socially legitimate proposals, widespread consultation, and validation with all affected stakeholders, followed by careful testing and adjustment. In other words, the precise details of the reforms will necessarily require time to be designed and agreed upon. In the interim, KDSG has committed to a set of land management principles that incorporate the core elements of internationally-recognized good practice (see the FRILIA principles in the appendix of annex 6), and will be developed into a more detailed Framework for Responsible and Inclusive Land Intensive Agricultural Investments (FRILIA).

46. **The Program will support the process to develop a FRILIA for Kaduna State.** The development of FRILIA will require a thorough consultative process. Once a framework has been agreed upon and piloted, the KDSG indicated that it would ensure it is enacted, and therefore, move from key principles, to policy and legislation. This builds on the experience of Jigawa State, which already approved a Land Acquisition and Resettlement Framework for large-scale agribusiness investments, with support from the GEMS3. The Program will include a focus on strengthening the capacity of the institutions in Kaduna State, which will have the responsibility to implement FRILIA. As part of the process, the 1982 Compensation Law will be repealed (as the rates stipulated in the law are outdated), and replaced with a regulation so that compensation rates can be adapted so as to reflect the evolving market conditions.

Results Area 2: Strengthening Fiscal Management and Accountability

47. **The Kaduna PforR aims to contribute to economic recovery in Nigeria by supporting the objectives of the State Development Plan, which are aligned with the macroeconomic strategy.** In this regard, it is informed both by the ERGP for 2017–2020 recently released by the Federal Government and the World Bank’s recent analytical work on economic growth and development in Nigeria.

48. **The ERGP calls for the alignment of state-level fiscal policy with the strategic objectives of the Federal Government on fiscal stability and the operation aims to support the implementation by the Kaduna Government of its commitments under the Fiscal Sustainability Plan.** “State and local governments have a critical—and often leading—role to play in many of the strategies outlined in the ERGP. Subnational coordination is therefore essential to the success of the Plan. (...) At present, however, the ability of the States to provide essential services to their citizenry is at risk and several are in a challenging financial position. Since 2011, total State government revenues have declined by 8 per cent a year, while expenditures have increased by 4 per cent a year. At the end of 2015, state expenditures

exceeded revenues by approximately NGN 1 trillion. The inability of some States to meet their recurrent expenditure obligations, including salaries for civil servants, health workers, and teachers, has had a direct negative impact on individual well-being and general economic activity.” The vehicle of intergovernmental fiscal coordination is the Fiscal Sustainability Plan agreed upon by the federal and state government in June 2016. The plan “outlines critical measures to be adopted by the States that mirror PFM reforms being undertaken at the Federal level” along five strategic objectives: (a) enhancing fiscal accountability and transparency, (b) increasing public revenue, (c) rationalizing public expenditure, (d) improving PFM, and (e) managing debt sustainability. The KDSG is strongly committed to the implementation of the plan and operation support in practically all its dimensions.

49. **Economic recovery in Nigeria calls for revenue mobilization to increase public investment, fiscal stability, and enhanced expenditure effectiveness, and the operation aims to tackle these very challenges in Kaduna State.** It is expected that it would show the way forward for other reform-minded states and will contribute to the national Economic Recovery and Growth Plan (including through Kaduna state compliance with its commitments under the Fiscal Sustainability Plan) through emulation.

50. **In alignment with the state level and countrywide fiscal strategies, the operation focuses on revenue mobilization, public investment, and fiscal accountability.** This focus is warranted by the peculiar narrowness of the fiscal space in Kaduna, with the state budget amounting to less than 10 percent of the state-level GDP by its Government countercyclical fiscal strategy of increasing public investment, and by its Government commitment to accountability and transparency, already reflected in significant progress on fiscal accountability.

Revenue Mobilization

51. **The Program supports revenue mobilization by incentivizing (a) increased IGR outturn⁵⁴ (through DLI 6), and (b) the broadening of the tax base and improvement of collection rate (both results indicators captured through the number of taxpayers filing their tax return, DLI 7).** By doing so, the Program helps enhance fiscal sustainability of Kaduna State in two complementary ways—by reducing its dependence from fiscal transfers and increasing the credibility of its budget (and consequently, the execution of capital expenditure, which is generally and historically the variable of adjustment to low-budget performance across the states). The results chain for revenue mobilization is highlighted in the figure 4.1. below.

Figure 4.1. Elements of the Results Chain for Revenue Mobilization Controlled under the Program



52. **Since 2015, the KDSG has undertaken significant tax reforms to increase revenue collection while reducing the cost of compliance for taxpayers, including for informal traders and entrepreneurs, by enhancing tax transparency.** It has simplified the tax schedule,

⁵⁴ Ratio of actual Internally Generated Revenues (IRG) to Internally Generated Revenues (IRG) estimates in the Appropriation Act.

phased out tax agents (a significant source of tax abuse and revenue leakages) and cash payments, centralized revenue collection, automated tax collection while broadening the tax base, and increasing the collection rate to raise the share of IGR as a percentage of total state-level revenue.

53. **As in most Nigerian states, the state budget in Kaduna is mostly funded by fiscal transfers from the federation account and IGR provides only a small share of total revenue.** On average, between 2011 and 2015, IGR amounted to less than 15 percent of total revenue and increased to 16 percent in 2016 because of a significant decrease of fiscal transfers from the federation account, as well as of an increase by 33 percent of revenue collection (see table 4.2. below).

Table 4.2. IGR in the State Budget

	2011	2012	2013	2014	2015	2016
IGR (in NGN, billions)	11.7	14.4	13.3	15.9	13.6	18.0
Outturn (actual/appropriations) (%)	91	41	46	41	44	42
In percentage of total revenue (%)	7.9	15	12	14	12	16

Source: Annual financial statements Kaduna State.

54. **As in most Nigerian states, the fiscal space is remarkably narrow and needs to be significantly increased to allow the state to pay for critical public assets and goods.** IGR amounted to only 1 percent of the state GDP in 2016, and given the steep decrease of fiscal transfers from the Federation Account, total state government revenue amounted to less than 4 percent of the state GDP. When accounting for LGs (essentially funded by transfers from the Federation Account routed through the joint state-LG account), total government revenue in Kaduna amounts to less than 10 percent of the GDP, that is, a remarkably narrow fiscal space which limits the state fiscal capacity to invest in human capital and physical assets.

55. **In the Nigerian tax system, the main source of IGR at the state level is personal income tax (that is, essentially Pay As You Earn taxation, dubbed PAYE)⁵⁵ and Kaduna State does not make exception to the rule.** In 2016, PAYE revenue amounted to 63 percent of collected IGR in Kaduna and 83.5 percent of collected tax revenue.

56. **As a consequence, the state-level tax system bears mostly on big corporate entities (public and private) and tax reforms undertaken by the KDSG since 2015 have aimed at broadening the tax base without hurting small-income earners.** In 2015, the top 20 taxpayers under the PAYE system generated over 20 percent of tax revenue (NGN 1.9 billion out of NGN 8.5 billion). The fiscal strategy of the KDSG is to increase the compliance rate of the main corporate taxpayers, public and private, from 70 percent to 80 percent over the next four years. The broadening of the tax base through presumptive taxation of informal traders and businesses is also conducted (with DFID technical assistance) through a transparent and negotiated process with traders' associations so as to avoid resulting in increasing the tax burden on small entrepreneurs. On the contrary, presumptive taxation reduces the cost of tax compliance for informal traders and businesses (owing to the transparency of the rate schedule, streamlining and

⁵⁵ PAYE is due by employers of wage earners and based on their employees' taxable income. Personal income tax due by state residents is to be deducted by the employer from source and remitted to the state internal revenue board, KADIRS in Kaduna.

codification of the tax schedule, and mitigation of the risk of tax abuse by tax agents and from cash payments).

57. **Before 2015, like most state governments, the KDSG hardly bothered to collect taxes and the tax base was extraordinarily narrow. Since then, significant progress both in broadening the tax base and in increasing tax collection has already been achieved.** Early 2016, only 6,000 taxpayers were registered by the state tax administration, even though the number of Government employees is over 15 times higher. Since then, the number of registered taxpayers has increased fourfold (to 28,000 at the end of 2016) and tax collection has increased by 31 percent in 2016 as compared to 2015.

58. **Revenue collection at the state level was hampered by institutional bottlenecks which the tax administration reforms undertaken since 2015 are addressing, including by centralizing revenue collection.** Until 2015, the multiplicity of taxes was compounded by the multiplicity of revenue collecting agencies which entailed confusion for taxpayers and led to tax abuse—in 2012, the state tax administration collected only 70.67 percent of IGR in Kaduna (Review of Internal Revenue Administration in Kaduna State, SPARC, 2013). Inadequate institutional capacity for revenue collection, such as the lack of proper IT system, automation of tax collection and comprehensive taxpayer database, and the multiplicity of revenue collecting bodies, was compounded with lack of taxpayers’ awareness and a low level of compliance, absence of mandatory tax clearance certificate, leakages (including because of cash payments by taxpayers), and abuse by tax agents (including to the detriment of informal traders and businesses). Under the 2015 Tax Codification and Simplification Law, the tax administration is now vested with the monopole of revenue (tax and non-tax) including on behalf of LGs.

59. **Since 2015, the KDSG has initiated significant tax administration reforms on the following dimensions:** (a) simplification and codification of the tax system, (b) broadening of the tax base, (c) strengthening tax administration and enforcing compliance, and (d) improving taxpayers’ information. The state tax system has been simplified significantly in 2016 by the Kaduna State Tax (codification and consolidation) Act and cost of compliance for taxpayers reduced. The number of local taxes, levies, and charges has been reduced from 52 to 19 to avoid multiple taxation. No authority is allowed anymore to mount a roadblock for the purpose of collecting taxes. When a taxpayer is liable to more than one tax, levy, fee and charge, he is only supposed to be served a single demand notice specifying the amount due for each revenue item. The tax administration is mandated to issue a receipt for any tax payment. The Kaduna tax administration pilots voluntary compliance for SMEs. The tax base is broadened through taxpayers’ registration, intergovernmental cooperation on taxpayers’ database, and inclusion of informal income earners through presumptive taxation. The number of taxpayers granted a TIN has increased from 6,000 in January 2016 to 28,000 in December. Tax administration has been significantly strengthened by the establishment of the KADIRS as the sole tax revenue collection authority. KADIRS is vested with the “power to administer any Law on taxation in the state,” including local taxes, non-tax revenue, and levies on behalf of LGs. It is responsible for tax assessment, tax and other revenue collection, taxpayers’ registration through the issuance of a TIN, and enforcement of compliance. In Kaduna State, tax agents, who have often resorted to extortion and are a source of revenue leakages, have been replaced by tax collectors who are employees of KADIRS. At least 5 percent of collected tax revenue in the preceding year accrues to KADIRS budget on the following one. To avoid revenue leakages, no revenue due to any state

authority is any more payable or collected in cash. Banks are mandated to report to KADIRS any transaction of individuals or corporate entities exceeding a fixed amount and are criminally liable for not complying.

60. **The Government has adopted ambitious strategic objectives with regard to revenue collection for the next three years.** It aims at increasing IGR from 14.5 percent of total revenue in 2016 to 40 percent by 2020. Such increase will be predicated on the broadening of the tax base and the increase of compliance rate. To increase tax collection by 30 percent per year, KADIRS is committed to the following objectives:

- To increase taxpayer registration by at least 40 percent yearly
- To achieve a tax compliance filing rate of 80 percent annually
- To reduce tax arrears and unremitted tax deductions at source by 90 percent by end of 2020

61. **The achievement of the KDSG’s objectives regarding revenue mobilization and critical for budget credibility hinges on the performance of tax collection.** So far, the low performance of tax collection (as a percentage of revenue estimates) has undermined budget credibility—in 2016, while IGR increased by nearly one third, it only amounted to 37 percent of estimates in the 2016 Appropriation Act. This calls for the further operationalization of tax management information system (including for budget management) and their interoperability with other registries (such as the land registry). Important tax administration reforms have already been initiated to that effect: according to the 2015 Public Expenditure and Financial Accountability (PEFA) report, “since 2008 the pay direct system, in which taxpayers make payments directly into ‘tax-collection only accounts’ in collecting banks, has been in operation in the State. Revenue collections by the collecting banks [being] transferred monthly to the main bank account of the Treasury, during the period covered by the assessment” and in 2015, according to the PEFA report, the TSA has been introduced to ensure the daily transfer of all Government revenue to the main bank account of the Treasury. But tax collection is yet to be captured by the BATMIS under development, and according to the 2015 PEFA report, “there is no evidence that complete reconciliation of tax assessments, collections, arrears and transfers to the Treasury is undertaken by” the tax administration. Also “there are limited controls to ensure taxpayers registration involving requests for tax clearance certificates during land registration, building approvals, tenders for contracts, registration of private schools and hospitals and requests for TIN during motor vehicles registration and opening of bank accounts” and “the debt collection ratio of gross tax arrears could not be determined for lack of data” (PEFA 2015).

62. **Effective revenue mobilization also requires the significant strengthening of the institutional capacity of the tax administration.** Limited capacity for taxpayers’ registration epitomizes institutional bottlenecks to tax collection—early 2017, only 10 taxpayers’ registration kits were operational (including 3 mobile ones, dispatched in LGs or other state government agencies, such as KADGIS). Consequently, the success of the fiscal strategy of the KDSG will require sustained technical assistance to KADIRS, in pursuance of support provided to it by DFID in the past few years, as well as to the Accountant General under the World Bank PGRDP.

63. **The Program supports the strengthening of PIM by incentivizing (a) improved performance of capital expenditure (through DLI 8) and (b) enhanced effectiveness of public procurement (through DLI 9).** As intermediate result indicators, it also supports the strengthening of capital project preparation, selection, and budgeting, and the phasing out of arrears of payment due to contractors (PAP). By doing so, it helps improve budget credibility and expenditure effectiveness for the development of public assets and human capital. The results chain for PIM is summarized in figure 4.2. below.

Figure 4.2. Elements of the Results Chain for Strengthened PIM Controlled under the Program



64. **Creating physical infrastructure and building human capital are at the core of the development strategy of the KDSG, as laid out in the KSDP for 2016–2020.** For that purpose, the KDSG is improving PIM in four ways: (a) by freeing space for capital expenditure, (b) by aligning resources allocation to the Government development priorities, (c) by improving strategic planning, and (d) by strengthening the implementation of capital projects, including public procurement.

65. **The KDSG is freeing scarce resources for public investment by reducing the cost of governance, that is, both the wage bill and overheads.** In 2016, the KDSG reported to have saved 14.4 percent on personnel costs and 25.7 percent on overheads (based on appropriations execution rate)⁵⁶. As in several other states, at appropriation stage, capital expenditure amounted to more than half of total expenditure in the past five years. But due to their low performance/execution rate, actual capital expenditure never exceeded one fourth of total expenditure until 2015. For the first time over the past five years, owing to their significantly improved execution rate in 2016, capital expenditure actually amounted to over 50 percent of total expenditure (see table 4.3. below). In 2015, capital expenditure amounted initially to 64 percent of total appropriations but with an execution rate of only 21.64 percent, they eventually amounted to only 23 percent of actual expenditure. In 2016, the execution rate of capital expenditure significantly improved to over 50 percent.

Table 4.3. Kaduna State Budget Capital Expenditure in the Past 5 Years

	2011	2012	2013	2014	2015	2016
Appropriated capital expenditure (NGN, billions)	77	86	93	140	130	116
In percentage of total appropriation (%)	53	41	58	66	64	63
Actual capital expenditure (NGN, billions)	32	35	27.5	17.5	27.5	59
In percentage of total expenditure (%)	25	22	22	14	23	53

Source: Authors' calculation based on annual financial statements.

⁵⁶ “2016 Budget Performance”, Kaduna State Government, 2017.

66. **Since 2015, the KDSG has undertaken to streamline the wage bill by mainstreaming the biometric registration of state employees and the use of the Integrated Personnel and Payroll System (IPPIS).** As a consequence, it has cleaned the personnel roll of nearly 10,000 ‘ghost workers’ (reducing the total of duly registered and paid state civil servants to 24,000).⁵⁷ It has also streamlined the number of MDAs to 79 (including the 14 line ministries) after a mandate mapping, functional review, and workforce planning exercise. In 2017, the IPPIS is being operationalized for budget preparation to hold MDAs accountable for the streamlining of their recurrent expenditure through enhanced payroll/wage bill management. MDAs have been granted a separate budget ceiling for recurrent costs and instructed by the Ministry of Budget and Planning in the “2017–2019 Multi-Year Budget Call Circular” to cost personnel expenditure and substantiate their estimate by providing the Public Service Number (known as PSN) and Bank Verification Number of every staff and justified by a “validated staff list signed by the chief executive of the MDAs.” And while “the staff list must be updated versions from the recent biometric verification exercise, chief executives are also expected to perform an independent assessment of the true staff position of their MDAs and ensure this is reflected in the staff list to be sent to the Ministry of Budget and Planning. Recruitment that is not approved by the Government before the submission of this estimate should not be captured [in the list]. For approved recruitment, approval authorization should be included in the submission” (Ministry of Budget and Planning, 2017–2019 Multi-Year Budget Call Circular).

67. **The strengthening of state budget preparation ensures alignment of resources allocation to the strategic objectives of the state government as reflected by the State Development Plan.** The 2017 budget preparation process aims to ensure that the State Development Plan is adequately reflected into Sector Implementation Plans (SIPs) to be submitted by the line ministries during budget preparation to underlie their budget submission to the Ministry of Budget and Planning: “through the SIPs, MDAs will focus on delivering the outputs and strategies that will deliver the outcomes specified in the State Development Plan. (...) The first year of the SIP constitutes MDAs program for that year. Once costed, it forms the basis of that year’s budget. Budgets will thus not be prepared outside the SIP framework. This arrangement ensures that all budgets will be aligned to state policies and priorities.” (Ministry of budget and Planning, 2017–2019 Multi-Year Budget Call Circular). The budget circular also introduces a multiyear budgeting framework which it characterizes as the “financial implementation plan of the State Development Plan.” In effect though, only half of the state ministries submitted an SIP in 2017 and the strengthening of budget preparation needs to be pursued. **Resource allocation of capital expenditure across sectors in the 2017 Appropriation Act reflects the prioritization of education (which is granted close to one third of total capital expenditure as compared to only 15 percent in the 2015 Appropriation Act), and which had been neglected under the previous government.**

68. **The KDSG is also strengthening strategic planning to improve budget performance.** Sound project planning, appraisal, selection, prioritization, and budgeting have deteriorated in the past few years and are yet to be mainstreamed across Government agencies. According to the 2015 PEFA report, “only capital expenditure budgets in the education, health, agriculture, and

⁵⁷ The KDSG has also undertaken to renew the cadre of civil servants by increasing the share of junior officers (from 22 to 35 years old) to between 30 percent and 50 percent, which leads to savings on the wage bill but incurs additional costs on pensions for early retirees.

water resources sectors, which have MTSSs (Medium Term Sector Strategies), have links with sector strategies and their recurrent cost implications are included in forward expenditure estimates. The capital expenditure budget of other sectors without MTSSs have weak links to sector strategies and their capital cost implications are not included in the forward expenditure estimates.” The State Ministry of Budget and Planning is being restructured into a State Planning Commission to strengthen its capacity and leverage. An Economic Planning Board is being established to strengthen planning coordination with LGs (whose budget amounts to over 40 percent of public expenditure in the state). Under the 2017 budget preparation process, the line ministries are also held accountable for capital projects prioritization and budgeting at sector level—two separate budget envelopes for 2017–19 have been introduced, one for recurrent expenditure and another for capital expenditure. Capital envelopes/ceilings were determined at sector/ministry (not MDAs) level—each ministry being instructed to determine capital allocation across its departments and agencies. MDAs were also instructed to factor into their 2017 budget submission ongoing capital projects which were unlikely to be completed in 2016 and to prioritize capital projects already initiated and to be completed in 2017 and beyond: “Where all payments for ongoing projects consume the entire MDAs ceiling, new projects aligned to SIP should only be included in the 2018 to 2019 column of the budget proposal.” Budgeted capital projects were not to exceed the ceiling for capital expenditure: “Resources should be allocated starting from the highest priority activities and continuing in sequence down to lower priority activities until the budget ceiling is reached. This becomes the cut off point for resource allocations for that year. Projects that do not make the cut for 2017 can then be moved to 2018 and 2019” (Ministry of Budget and Planning, 2017–2019 Multi-Year Budget Call Circular).

69. **The KDSG is also improving the management of capital projects, including by strengthening the effectiveness of the public procurement process and expediting the payment of contractors.** Improving the completion rate of capital projects is critical to ensure effective alignment of resources allocation to development priorities—in social sectors, such as education and health, the disbursement rate of appropriated capital expenditure was often lower than average until 2015 so that their share of actual expenditure was much less than at appropriation stage and resource allocation of capital expenditure across the sector was thoroughly altered during implementation (see table 4.4. below).

Table 4.4. Execution Rate of Capital Expenditure in Education and Health since 2011

	2011	2012	2013	2014	2015	2016
Education (%)	29	25	39	3	29	90
Health (%)	45.7	26.3	14	3	11.74	59
Total capex (%)	42	41	26	29	18	51

Source: Authors’ calculation based on annual financial statements.

70. **The KDSG has increased budget allocation to education to over 25 percent of total expenditure in 2016 and 2017,** and owing to their comparatively higher performance, public investment in education exceeded 23 percent of capital expenditure in 2016. But the ambitious objectives laid out by the Government in education and health (rehabilitating 4,265 primary schools and modernizing 255 primary health centers across all wards) will require that it sustains and improves further the higher capital budget performance achieved in 2016.

71. **Performance of capital expenditure also calls for improving cash management and controls on payments.** According to the 2015 PEFA report, “There is no evidence to indicate that cash flow forecasts are prepared for each fiscal year and are updated either monthly or quarterly on the basis of actual cash inflows and outflows” and contrary to cash release by the Treasury for personnel costs and overheads, “releases for capital expenditure are unpredictable. Requests for capital expenditure and a portion of overhead cost have to be approved by the Governor before cash releases are made by Treasury. Therefore, cash planning for capital expenditure (...) is carried out on a month by month basis”; as for controls on payments for capital expenditure, although “MDAs first obtain the approval of the Governor monthly based on actual cash availability while the Ministry of Budget and Planning confirms that payment requests are within approved budget allocations, before payments are made by the AG, these expenditure commitment procedures are partially effective; they do not comprehensively cover all expenditure and are occasionally violated.” Compounded with inadequate capital project planning, this results in large arrears of payments due to contractors. According to the Governor’s 2016 budget speech, such arrears amounted to NGN 3 billion at the beginning of 2016, that is, to around 1.7 percent of appropriations (that is, to 2.5 percent of capital expenditure over the year). To improve budget execution, the Public Procurement Law of 2016 also prescribes that procurement transactions can only be based on procurement plans supported by prior budgetary appropriations, and that no procurement proceedings or contracts shall be concluded unless funds are budgeted and appropriated to meet the obligations.

Public Procurement

72. **The KDSG has significantly strengthened the institutional and legal framework for public procurement.** The 2016 Public Procurement Law mainstreams open competitive bidding as the default procurement process and promotes competition, economy, efficiency, and equal opportunities in public procurement (contracts being awarded to the lowest priced or most economically advantageous bid). It established the Kaduna Public Procurement Authority (KPPA) mandated to (a) formulate general policy guidelines and supervise the enforcement of the regulatory framework at the state and LG level; (b) monitor the prices of tendered items and establish a database of standard prices; (c) publish the details of procurement contracts and collate and maintain in archives all state procurement plans and information; (d) review procurement transactions and issue certificate of no-objection for contract award; (e) build the capacity of procuring entities and train procurement cadre; (f) review the socioeconomic effect of procurement policies; (g) prepare and update standard bid/tender and contract documents; (h) provide an effective monitoring mechanism, prevent fraudulent and unfair procurement, and apply administrative sanctions for irregularities; (i) review compliance of the procurement process and award of contract of every state level entities; (j) perform regular procurement audits; (k) handle complaints from bidders and the general public; and (l) ensure transparency, fairness, and the long-term sustainability of the outcome of every procurement process in the state. The KPPA is also mandated to set up a framework for e-procurement and concession contracts. It is vested with the power to nullify irregular contract award and cancel related payments and to blacklist contractors for violation. It is also mandated to report annually to the state legislature on “all procurement activities carried out by procuring entities” and “complaints resolved and unresolved” (Kaduna State Public Procurement Law, 2016) and its report is supposed to be published on the state government's official website and or the procurement

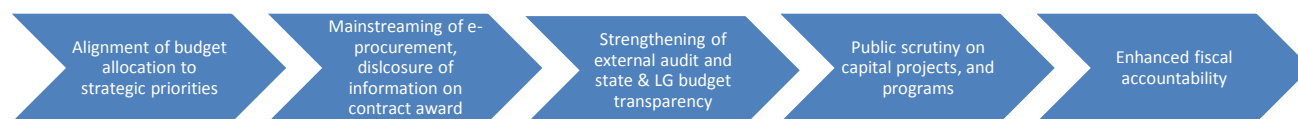
authority's website. The law also prescribes that all procurement records be open to inspection by the public (on payment of an administrative fee).

73. **The KPPA has adopted a strategic plan for the enforcement of the procurement legal framework.** It commits to a range of tangible actions and practical objectives for the next four years pertaining to process effectiveness, competitiveness, institutional capacity, and compliance.

Fiscal Accountability

74. **The Program supports fiscal accountability by strengthening external auditing and public scrutiny on budget performance (both at the state and LG level) through budget information disclosure (through the PAP) and incentivizing Government responsiveness to citizens' feedback on fiscal performance (through DLI 10).** It also holds the KDSG accountable for its commitment to the implementation of the Fiscal Sustainability Plan signed between the federal and state governments in 2016. Accountability for revenue mobilization (DLI 6) and public investment management (DLI 7) are also incentivized by the operation. By doing so, the Program helps the KDSG to meet its commitments under the Fiscal Sustainability Plan. The results chain for fiscal accountability is summarized in the figure 4.3 below.

Figure 4.3. Elements of the Results Chain for Fiscal Accountability Controlled under the Program



75. **Recognizing that fiscal policy is its main economic policy tool,⁵⁸ the KDSG has significantly strengthened fiscal accountability and transparency as a way to build public (including investors') trust in the Government.** Since 2015, PFM reforms in Kaduna State have enhanced fiscal accountability in the following respects:

- (a) Strategic alignment of budget resource allocation to the objectives of the State Development Plan
- (b) Accountability of MDAs for the streamlining recurrent expenditure through payroll/wage bill management
- (c) Accountability of MDAs for capital projects prioritization and budgeting at the sector level
- (d) Accountability of tax administration for revenue mobilization and tax transparency
- (e) Public participation in budget preparation and scrutiny on budget execution (including physical outputs)

⁵⁸ In his 2017 budget speech, the Governor declared: “As a subnational government with no control over monetary policy, the state budget is our key fiscal policy tool and only opportunity to insulate the state economy from further negative shocks and turn the tide towards growth and development. The budget is also our most important mechanism towards achieving the goals of the State Development Plan 2016–2020.”

- (f) Strengthening of external auditing (including on public procurement) and legislative budget oversight
- (g) Fiscal transparency, including at LG level
- (h) Government accountability for expenditure efficiency and effectiveness

76. **The KDSG has significantly strengthened the legal framework for fiscal accountability.** It has enacted a Fiscal Responsibility Law, a Public Finance (Management and Control) Law, a Public Procurement Law establishing the KPPA, a Tax Codification Law, and a Local Government Appropriation Law. It has also tabled a Bill on Budget and Planning, which aims at establishing a State Budget and Planning Commission, to be chaired by the Deputy Governor, and tasked with the strengthening of economic planning and budgeting, including by ensuring that LG plans are fully integrated to the state-level ones. An audit bill is also being drafted to strengthen the effectiveness of external auditing at the state level.

77. **The state government is complying with the requirements of the Fiscal Sustainability Plan agreed upon in 2016.** The Fiscal Sustainability Plan commits the federal and state governments to a range of fiscal reforms, with the Federal Government committed to provide fiscal support to states fulfilling their commitments. According to its status report, the KDSG has already met several of the commitments, which are discussed in the following paragraphs.

78. **External auditing is being strengthened.** No state budget execution audit report has been cleared by the state legislature since 2007. The 2015 budget execution audit report was cleared in early 2017. In 2017, the State Auditor General is committed to audit the 2016 budget financial statements within the constitutionally prescribed timeline of nine months after the end of the fiscal year. The Auditor General for LGs has also started to clear a backlog of seven years of unaudited accounts of the 23 LGs.

79. **Fiscal transparency has significantly improved at the state level and it has also been extended to LGs.** In 2015, Kaduna was ranked among the worst performers on budget transparency at the state level.⁵⁹ Since then, the KDSG is committed to disclose publicly all the budget documentation deemed necessary for comprehensive public information under the PEFA assessment methodology: (a) executive budget proposal, (b) appropriated budget, (c) quarterly BERs, (d) AFSs and audit report, and (e) fiscal strategy and MTEF. The KDSG is also committed to disclose performance information on service delivery, that is, performance assessment report of policies, programs, and MDAs. In 2016, it also disclosed the budget of LGs as appropriated, which is a rare occurrence in Nigeria. Total LG expenditure amount to NGN 39.52 billion, that is, to 23 percent of the state budget, but recurrent expenditure amount to 74 percent of the total so that capital expenditure appropriated at the LG level amounted to less than 10 percent of the state-level ones. LGs are essentially funded by fiscal transfers from the Federation Account (20.6 percent of total revenue) and a share of value-added tax revenue (35 percent). They are also supposed to be remitted 10 percent of IGR raised by the state. LGs are vested with a number of responsibilities, including contributing to service delivery in primary

⁵⁹ Civil Resource Development and Documentation Centre (CIRRDOC), 2016, Nigerian States Budget Transparency Survey.

education and health. Accordingly, they are mandated to pay the salaries of teachers, which amount to nearly 20 percent of LG expenditure. In effect though, their resources are routed through the joint state-LG account and often withdrawn at source by the state government, which substitutes to them in the exercise of their mandate, such as for the payment of 45,000 primary school teachers' salary. According to the Auditor General for LGs in Kaduna, such deductions at the source amount to up to 70 percent of LGs' IGR, which deprives them from autonomy and agency.

80. To assess and improve the performance of capital expenditure, the Ministry of Budget and Planning has launched an M&E system, dubbed 'Eyes and Ears' and extended it to citizens' feedback in March 2017. This monitoring tool aims to (a) inform budget allocation by providing information on actual or potential performance of capital projects; (b) assess the performance of the state government in executing its State Development Plan; (c) support project management by providing information on project status, effectiveness (completion level), and efficiency (quality control); and (d) underpin Government accountability for capital project implementation. So far the system provides a dashboard, including to the Governor, providing line information on ongoing capital projects—it flags projects at risk, documents contractors' performance, helps monitor program implementation (such as school facilities construction and refurbishment), and monitors budget execution. Information is collected by monitoring officers using IT devices to capture on-site level data (geo-mapping, completion rate, and so on). A new functionality is being developed to allow citizens to provide feedback using social media, radio stations, and phone applications. The KDSG system also plans to use the system to monitor the performance of social programs, such as the school feeding one (that is, monitoring in real time the performance of food vendors, quality of service delivery, and impact on pupils' enrollment) as well as to monitor teachers' absenteeism (with teachers using a biometric attendance phone application to clock in and out at the beginning and end of their working day).

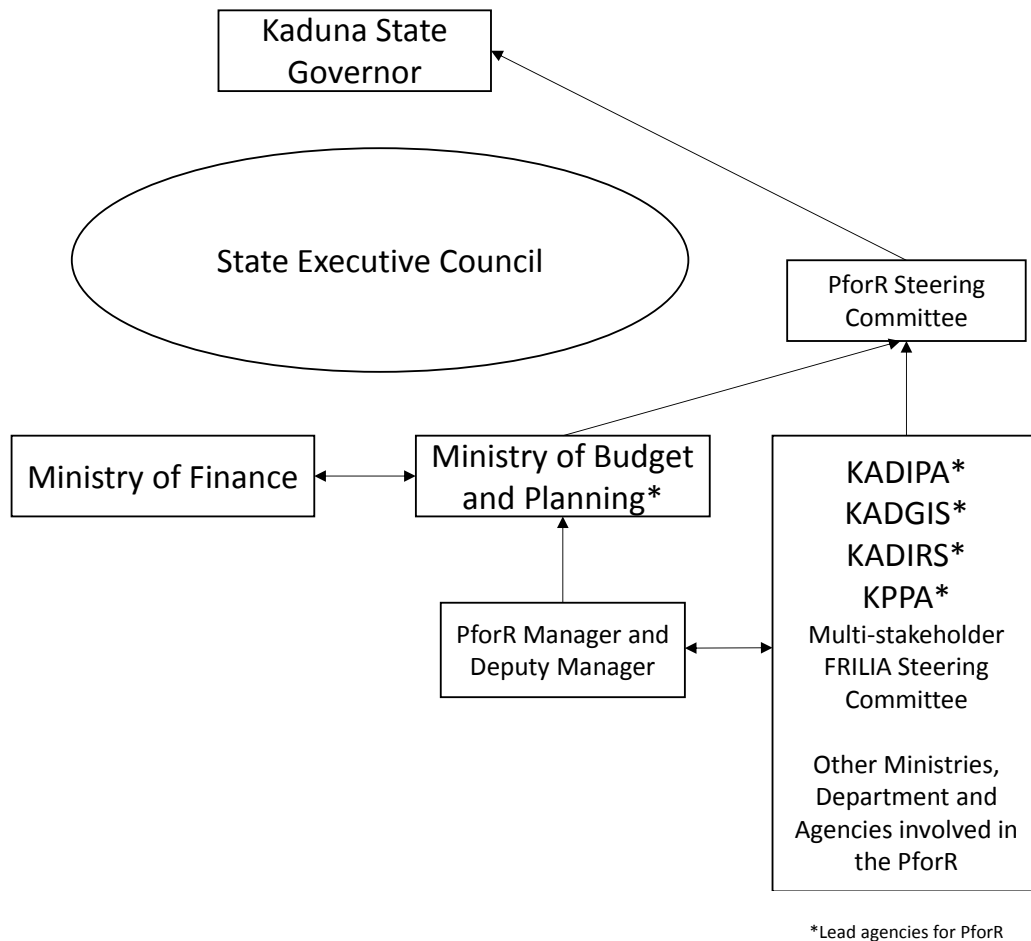
81. Statistical information is also being strengthened to support evidence-based policy making and fiscal accountability. The State Bureau of Statistics has also recently conducted other critical socioeconomic surveys to establish baseline data that will inform policy making and budget management, including a GDP survey, an energy audit, and an agriculture survey. Those surveys are providing important baseline information: for example, so far, the GDP is not disaggregated at the state level by the National Bureau of Statistics. The capacity of the State Bureau of Statistics is being built up and its mandate strengthened after it was declared the sole statistical information collection authority. The state statistician general claims that by improving the reliability of the state annual school census, it spared the state coffers an amount of NGN 875 million for the implementation of the school feeding program.

82. The KDSG is committed to the Open Government Agenda with an initial focus on fiscal transparency further expanded to citizens' engagement and freedom of information. The KDSG announced its intention to participate to the Open Government Initiative, which the Federal Government joined in June 2016, and to emulate the National Action Plan on Open Government, adopted in December 2016. For example, after mainstreaming e-procurement, it will adopt open contracting standards.

Institutional and Implementation Arrangements

83. **Strong interagency coordination is institutionalized in the KDSG.** The State Executive Council, chaired by the Governor, is responsible for coordinating all efforts related to the implementation of the KSDP to ensure that all stakeholders work together toward a common set of priorities. The Council ensures that the Government’s strategic priorities are being appropriately supported by the Sector Implementation Plans (SIPs) and budget. Members of the State Executive Council, with the exception of the Deputy Governor, are appointed by the Governor in due consultation with the legislative arm who approves such membership, and include the Governor, Deputy Governor, Secretary to the State Government, Chief of Staff to the Governor, Commissioners (that is, Ministers), and Special Advisers. The Council is the highest administrative decision-making body in the Kaduna State and is in charge of deliberating on key issues of great priority to the state.⁶⁰ This institutional framework ensures that the Program implementing agencies should be duly capacitated to meet the objectives assigned to them by the result framework.

Figure 4.4. KSDP and PforR Institutional Arrangements



⁶⁰ The number of ministries was reduced from 24 to 13 to enable each ministry to have a clear mandate that does not overlap with that of any other ministry, cut costs, and enhance the efficiency and effectiveness of the public service.

84. **The implementation of the PforR will be the responsibility of the Kaduna State Ministry of Budget and Planning, in close coordination with the Kaduna State Ministry of Finance.** A PforR Steering Committee will be established by the end of June 2017, chaired by the Governor and comprising the Commissioner of Budget and Planning and the Commissioner of Finance, as well as the heads of the lead agencies for each DLI, the PforR Program Manager and a representative of the Federal Ministry of Finance. In addition, to support the development and implementation of the FRILIA, a specific multi-stakeholder Steering Committee will be established. The institutional arrangements for the KSDP and the PforR are summarized in figure 4.4. above. Both ministries have adequate capacity and benefit from sufficient influence and leverage within the KDSG to ensure effective Program implementation.

85. **Development partners have provided substantial capacity building support over the past several years in Kaduna State and will continue to do so during Program implementation.** DFID has been strengthening capacity for business regulations, investment promotion land management, revenue mobilization (tax administration), fiscal transparency and accountability. The World Bank has strengthened fiduciary capacity under the PSGRDP. As a result, although overall institutional capacity is limited in Kaduna State as in most other Nigerian states, critical capacity for the successful implementation of the Program has been built and will be further strengthened through development partners’ support.

86. **Weak M&E capacity is being strengthened in areas relevant to the implementation of the Program.** KADIPA has rolled out an investment tracking tool. The PAP calls for its further strengthening to capture additional information (such as gender disaggregated data) as well as for investors’ satisfaction surveys. The automation of KADGIS allows for a state-of-the-art land administration system, with digital CofOs. A social audit will confirm the satisfactory implementation of the FRILIA. Automation and centralization of tax collection ensures adequate monitoring of tax revenue. BATMIS and IPPIS allows for accurate and timely revenue and expenditure information. Timely auditing of budget performance will ensure adequate monitoring of revenue outturn and execution rate of capital expenditure. An M&E system for capital projects (which will be operationalized by the Program to capture citizens’ feedback) is already established. The capacity of the State Bureau of Statistics and the M&E Department of the Ministry of Budget and Planning (to be transformed into a State Planning Commission by end of June 2017) are being strengthened.

Program Expenditure Framework

87. **The overall budget for the KSDP, the Government program, is estimated at US\$2.9 billion between 2017 and 2020,** across the four pillars of the Plan: Economic Development, Social Welfare, Security & Justice and Governance, as per table 4.5.

Table 4.5. KSDP and PforR Estimated Budgets (in US\$ million)

	Recurrent exp.	Capex	Total
Economic Development	34	940	974
Social Welfare	520	547	1,067
Security & Justice	70	31	101
Governance	523	190	713
Total	1,146	1,709	2,855

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Note: Exchange rate: US\$1 = NGN 305.

88. **The PforR expenditure framework is estimated at US\$490 million over the same period (2017-2020), according to table 4.6.**

Table 4.6. KSDP and PforR Estimated Budgets (in NGN billion)

	2017	2018	2019	2020 (est.)	Total (Naira)	Total (US\$ bn)	%
KSDP	215	219	213	213	860	2.86	
PforR	43	35	36	36	149	0.49	17%

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Note: Exchange rate: US\$1 = NGN 305.

89. **According to table 4.7, the IDA contribution to the PforR amounts to US\$350 million, for an expenditure framework of US\$490 million.** The expenditure framework consists for 78 percent of recurrent expenditure and for 22 percent of capital expenditure. It amounts to the total of the operating expenses of the agencies responsible for the achievement of the PforR objectives. Capital expenditure is included only to the extent that it is part of operating expenses of the center of the Kaduna Government (that is, to the exclusion of most capital projects, such as the construction of roads, schools, and health facilities). The PforR expenditure framework is based on the approved budget for 2017 for Kaduna State, which includes budget estimates for 2018 and 2019 (“Budget of Jobs, Social Justice and Equity—Approved 2017–2019 Multi-Year Budget”).⁶¹ The budget for 2020 was estimated using the 2019 budget.

Table 4.7. PforR Expenditure Framework (US\$ million)

Source	Amount (US\$)	% of Total
Government	140	29%
IDA	350	71%
Total Program Financing	490	

	PforR (US\$)	%	IDA (US\$)
Recurrent expenditure	382	78%	
Capital expenditure	108	22%	
Total	490		350

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).

Exchange rate: US\$1 = NGN = 305

90. **The expenditure framework includes operating expenses of MDAs actively involved in the implementation of the PforR.** As the focus of the PforR is on strengthening Kaduna State systems, the expenditure framework does not include infrastructure investments but only the capital expenditure necessary for the functioning of state-level public entities within the center of Government which are responsible for the achievement of PDO indicators (such as

⁶¹ This budget was prepared based on the “Economic and Fiscal Update, Fiscal Strategy Paper and Budget Policy Statement 2017–2019”, KDSG.

small rehabilitation works, vehicles, Information Technology and office equipment). The expenditure framework includes MDAs involved in the two results areas: (a) improving the business-enabling environment and (b) strengthening fiscal management and accountability. These two results areas are of cross-sectoral nature and involve a broad range of MDAs (for example, virtually all the line ministries are spending on capital projects and procuring works, goods and services, that is, involved in PIM). The expenditure framework therefore includes MDAs that have a horizontal role in the PforR: the Government House, Office of Secretary to State Government, Office of Head of Service, Office of the Accountant General, Ministry of Finance, and Ministry of Budget and Planning. The framework also includes MDAs with a specific mandate supporting the PforR objectives: KADIPA, KADIRS, KADGIS, KPPA, KEPA, and the Office of Auditor General (state and LG). Operating expenses of the line ministries that play a role in the PforR have also been included: Ministries of Agriculture, Commerce and Industry, Rural and Community Development, Women Affairs and Social Development, and Environment. The expenditure framework also includes the operating expenses of the five ministries,⁶² which manage the bulk of capital projects.

91. **Table 4.8 below presents the Expenditure Framework by MDAs**, identifying cross-cutting MDAs and MDAs involved in Results Area 1 and Result Area 2, respectively. The detailed Expenditure Framework per MDAs is included as an appendix to this annex.

Table 4.8. PforR Expenditure Framework per MDA

MDAs	US\$ million
Cross-cutting	
Government House	22.9
Office of Secretary to State Government	35.8
Bureau of Public Service Reform	0.7
Office of the Head of Service	23.7
Civil Service Commission	0.8
Ministry of Finance	62.7
Ministry of Budget and Planning	30.8
Office of the Accountant General	182.3
Kaduna State Bureau of Statistics	10.6
Ministry of Agriculture and Forestry	8.4
Results Area 1: Improving the business enabling environment	
KADGIS	21.4
KADIPA	5.3
Ministry of Commerce, Industry and Tourism	3.7
Ministry of Environment and Natural Resources	1.7
Ministry of Rural and Community Development	1.9
Ministry of Women Affairs and Social Development	6.0
KEPA	4.5
Results Area 2: Improving fiscal transparency and accountability	
Kaduna State Public Procurement Authority	4.3
Office of the State Auditor General	1.9
Office of the Auditor General – LG	1.8
KADIRS	18.3
Ministry of Local Government	7.3

⁶² For the Ministry of Education and the Ministry of Health, considering their important workforce, the expenditure framework includes head office costs (estimated at 10 percent of total recurrent costs).

Ministry of Works, Housing and Transport	8.6
Ministry of Water Resources	1.1
Ministry of Education, Science and Technology	14.8
Ministry of Health and Human Services	8.5
Total	489.8

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).
Exchange rate: US\$1 = NGN = 305

92. **Table 4.9 presents the expenditure framework by sub-Program area.** To undertake this estimate, the operating costs of MDAs have been divided across the sub-Program areas. Some MDAs have a transversal role and their operating costs have been divided across all sub-Program areas, while other MDAs have a role specific to a given or a few sub-Program area(s).

Table 4.9. PforR Expenditure Framework per sub-Program area

Sub-Program areas	US\$ million
1. Improvement in aggregate Doing Business performance in Kaduna State	37.6
2. Implementation of Systematic Property Registration Program	57.2
3. Improvement of investment promotion	55.6
4. Development of legal and institutional framework for PPP	37.6
5. Development and implementation of Framework for Responsible and Inclusive Land-Intensive Agricultural Investments	40.7
6. Increased IGR outturn	37.6
7. Improvement of tax collection	54.1
8. Increased capital expenditure execution rate	84.3
9. Promoting procurement effectiveness	40.2
10. Improved government responsiveness	45.0
Total	489.8

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).
Exchange rate: US\$1 = NGN = 305

93. **As indicated in the PAP, the Program will ensure that MDAs critical to the achievement of the objectives and results of the Program are allocated sufficient resources through the budgetary process.** For example, KADIPA will be playing a leading role to improve the business-enabling environment, attract and retain private investments, and develop PPPs in the state that need to be adequately resourced. Similarly, it will be critical that KADGIS has sufficient resources to fully utilize and maintain the state-of-the-art land administration system rolled-out.

94. **Budget execution performance.** The Expenditure Framework consists of Recurrent Expenditures for 78 percent (personnel expenditure representing 21 percent and overheads representing 57 percent) and of Capital Expenditure for 22 percent (capital expenditure includes small rehabilitation works, vehicles, Information Technology and office equipment). Performance on personnel expenditure is usually close to 100 percent. It was only 73 percent in 2015 because of low oil prices and the decrease in the Federal allocation to States. In addition, 2015 was an election year (Presidential and Gubernatorial elections) with significant uncertainty. In 2016, performance of personnel expenditure was 100 percent. Performance on overhead expenditure deteriorated between 2013 and 2015, but increased to 85 percent in 2016. Performance on capital expenditure has been historically low, but reached 50 percent in 2016 (see table 4.10. below). The year 2016 represents the first full year with the new administration in Kaduna State.

Table 4.10: Budget execution performance

	2014	2015	2016
Personnel	96%	73%	100%
Overhead	66%	56%	85%
Capital	13%	18%	50%

Source: Economic and Fiscal Update, Fiscal Strategy Paper and Budget Policy Statement 2017-2019

95. **Excluded activities.** The Program will exclude activities that do not meet World Bank policy on eligibility for PforR financing. Specifically, the borrower shall ensure that the Program excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or have affected people, as defined in the World Bank policy on PforR financing, and Works, Goods, and Consultancy contracts above the Operations Procurement Review Committee thresholds. The World Bank will support Program execution to ensure compliance with PforR policy requirements during implementation. As the focus of the PforR is on supporting Kaduna State systems (that is, policies and institutions), the exclusion of the above activities will not impact the achievements of the results under the Program.

Economic Analysis

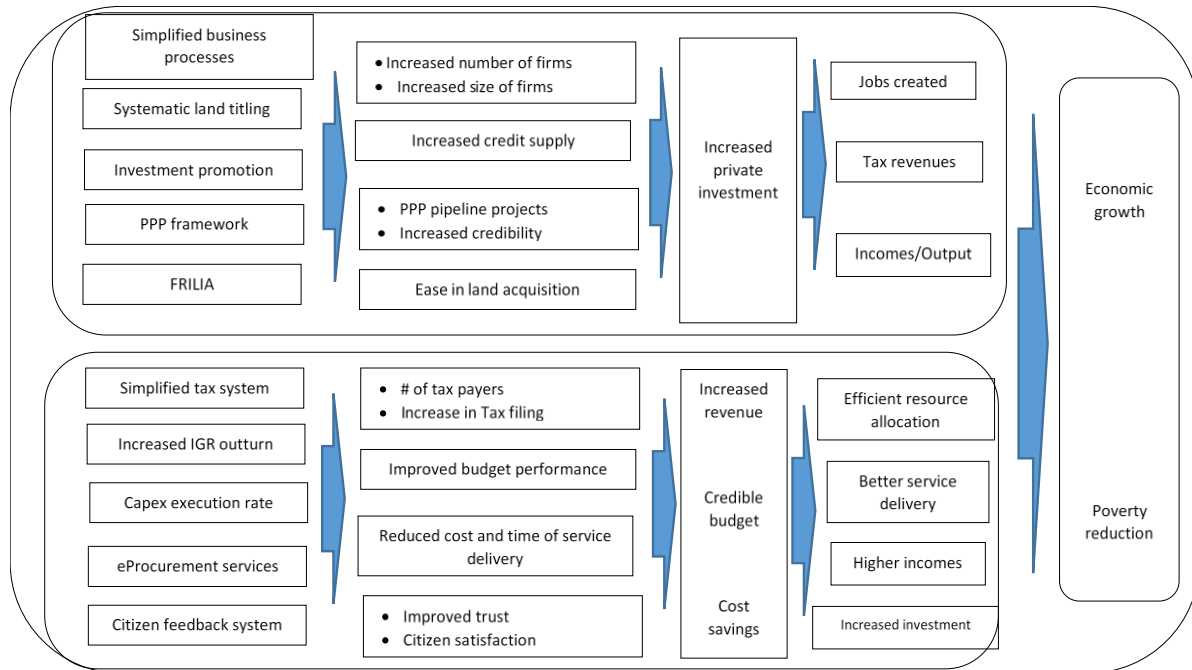
96. **Economic impact of the Program.** By supporting the KSDP, the Program is expected to generate positive economic impact for the State in terms of increased investments, higher incomes and government revenues. The Program is focused on promoting private investments and fostering good governance by addressing constraints to business development and enhancing government transparency and accountability. This creates a favorable investment environment. Attracting private foreign and domestic investments generates significant multiplier effects. Private investments stimulate economic growth through jobs created, higher incomes, higher productivity and competitiveness, increase in trade, government revenues, innovation and sharing of knowledge and technology, among others. It is important to note that the benefits generated by this program are intertwined and will accrue to economic agents (citizens, firms, government) in the long run, beyond the life of the program.

97. **The main assumption is that every unit of private investments generated will yield increase in incomes while creating jobs and producing tax revenue for the Government.** Further, the increase in government transparency and accountability, will generate costs savings and stimulate efficient resource allocation. The amplified and efficient public and private investment will produce positive real-sector effects. Therefore, the Program will stimulate economic growth and poverty reduction. For example, the KSDP's main aim is to improve agricultural productivity. The agriculture sector in Kaduna contributes 37 percent of the state's GDP (US\$11.4 billion in 2015) and about 43 percent of employment. Reforms focused on improving land registration, acquisition and compensation, and enhancing PIM will contribute significantly to increasing agricultural productivity and investment in Kaduna and consequently, creating employment and increasing income.

98. **The economic impacts of the Program interventions reinforce each other to improve the overall Program impact.** For example, simplifying business processes, developing a legal

and institutional framework for PPP, and implementing systematic land titling and registration will remove key barriers to private investments and increase the impact of strengthening investment promotion. Similarly, more open government through increased fiscal transparency and mainstreaming of e-procurement are likely to lead to increased public sector confidence. Increased confidence in the Government, coupled with improvements in tax administration and higher capital expenditure execution rate, will facilitate public service delivery. The expected benefits can be illustrated as in figure 4.4.

Figure 4.4. Program-expected Benefits



99. **The economic impacts of the individual interventions are also positive on a standalone basis. For Results Area 1 on improving the business enabling environment, the interventions to simplify business processes will reduce the cost and time of compliance for businesses.** Strengthening of investment promotion (including the development of agricultural off-taker schemes) and the development of a PPP legal and institutional framework will increase agricultural productivity and increases the public returns to PPP projects in Kaduna State. Improving and increasing land registration increases the economic value of land as a source of income for both the government (through property tax) and for the landholders (as an economic asset that can be collateralized). It also decreases the risk of eviction and promotes private investments on the land.

100. **The Results Area 2 on fiscal management and accountability will lead to positive economic benefits by promoting fiscal transparency and accountability, which improves the efficiency of public expenditure.** Lack of transparency leads to loss of confidence and increases likelihood of social instability. Fiscal transparency allows for clear assessment of past and current fiscal positions, and risks and the direction of fiscal policy. In addition, better identification and monitoring of fiscal expenditure will inform policies to avoid limited fiscal space vulnerability. The simplification of tax administration and improved transparency reduces

cost and time of compliance, increases government revenue, and enhances efficient public service delivery.

101. **Economic Rate of Return.** The estimation assumes elasticities to investments and incomes to approximate the expected benefits of various interventions amenable to cost-benefit analysis. Where applicable, government tax rate is adopted to estimate government revenues. Considering the Program expected gains from private investment, income generated, and government taxes, the net present value is estimated to be US\$456 million with a 28.4 percent economic rate of return, using 10 percent discount rate for 10-year horizon. For each of these sub-Program areas, we estimate expected investment, incomes and revenues benefits, against US\$489.8 million program costs.⁶³ The analysis includes: simplification of business processes, implementation of the Systematic Property Registration Program, improvement of investment promotion, development of the legal and institutional framework for PPP, development and implementation of FRILIA, increased IGR outturn, improvement of tax collection and increased capital expenditure execution rate. The benefits for improved government responsiveness and promoting procurement effectiveness are not captured in this analysis. Although the expected benefits from e-procurement are not captured in the Economic Rate of Return, it is estimated that a five percent decrease in procurement costs, together with improved transparency on MDAs budget, will generate more than US\$20 million cost savings annually. The detailed explanation of expected benefits is shown below.

102. **The economic impact and rationale for each of the key interventions are detailed in the following paragraphs:**

- **The US\$37.6 million invested in simplifying business processes will reduce the cost and time of compliance and will generate positive economic returns.** Business registration has been shown to be one of essential steps toward fostering private-sector growth.⁶⁴ Addressing constraints to registering business and properties and to obtaining construction permits will ease the cost of doing business and attract investments. According to Anderson and Gonzalez (2012),⁶⁵ a difference of 1 percentage point in regulatory quality as measured by Doing Business Distance to Frontier scores is associated with a difference in annual Foreign Direct Investments inflows of US\$250–US\$500 million. The Government will also enjoy significant gains from the taxes generated. Similar reforms in Latvia, supported by the World Bank, led to improvements in private investments (gross fixed capital formation increased from 16 percent to 27.5 percent of GDP within eight years), and number of active firms paying taxes increased by 31 percent. In the same period, significant poverty reduction and economic growth was realized.⁶⁶
- **The implementation of systematic land titling in Kaduna State⁶⁷ will increase the economic value of land as an asset that can be collateralized while the Government will realize increased property tax revenue.** In addition,

⁶³ See the breakdown in Table 4.9. Estimation details are in project files.

⁶⁴ IFC 2013, “Reforming Business Registration A Toolkit for the Practitioners.”

⁶⁵ Anderson and Gonzalez, 2012, “Does Doing Business Matter for Foreign Direct Investment,” World Bank.

⁶⁶ FIAS 2008, “Improving Business Environment in Latvia.”

⁶⁷ Kaduna State has 48,473 sq km of land.

improvement in quality of land registry and their digitization will reduce the transaction cost of establishing the property rights, the cost of updating the registry, and will significantly increase efficiency and reduce expropriation risk. Cheap and easy access to such registry by financial institutions will have significant impact on credit supply. This will lead to increased investments, incomes, and job creation. With increased property rights security, there are expected benefits on agricultural activity as better farm practices are adopted. Deininger and Goyal (2012)⁶⁸ show that credit supply effects of land registry digitization is between 10.5 percent to 32 percent. For every unit of available credit, investment is expected to increase by 20 percent to 30 percent (Cingano, Manaresi, and Sette, 2016)⁶⁹. Conservatively, the US\$57.2 million invested in systematic land registration will realize approximately US\$545 million in credit supply, and about US\$760 million worth of investments for a period of 10 years.

- **Investment promotion and facilitation will not only boost foreign investments but also improve the quality of the investments to realize jobs creation and economic growth.** Experience shows that the investment promotion agency's characteristics influence the effectiveness of the investment promotion interventions. The value addition of the program is to support KADIPA in adopting international best practices and promoting responsible business conduct to enhance its effectiveness. The existing investment promotion activities have shown significant impact by attracting over US\$300 million of private investment. US\$55.6 million in funding to operationalize KADIPA and implement an investment promotion strategy is expected to attract investments, and contribute to KADIPA's objective of attracting US\$1 billion investments by 2020.
- **Similarly, the development of the legal and institutional framework for PPP will attract investments and will allow for an effective mechanism to address financing, management and maintenance of public goods and services.** The success of PPP depends on the enabling environment and country's readiness for PPP. The PPP best practices protect the risks of public and private counterparts while increasing gains to citizens. The program will support the Kaduna State in developing PPP framework that works best for the state. According to KSDP, there are about 12 investments projects in the pipeline worth approximately US\$2.6 billion.
- **The US\$40.7 million invested in developing and implementing a Framework for Responsible and Inclusive Land-Intensive Agricultural Investments will support socially and environmentally sustainable investments in agriculture.** This will attract private investments especially in agriculture and stimulate increase in farm productivity and incomes. The establishment of acquisition mechanism and compensation measures will reduce grievances and minimize unrest and insecurity. In the long run, the framework will create a conducive market for land as productive

⁶⁸ Deininger and Goyal, 2012, "Going digital: credit effects of land registry computerization in India," Policy Research working paper No. WPS 5244, World Bank.

⁶⁹ Cingano, Manaresi, and Sette, 2016, "Does Credit Crunch Investment Down? New Evidence on the Real Effects of the Bank-Lending Channel," Mo.Fi.R. Working Papers 91, Money and Finance Research group (Mo.Fi.R.)—Univ. Politecnica Marche - Dept. Economic and Social Sciences (<https://ideas.repec.org/p/anc/wmofir/91.html>).

asset, exert upward pressure on land prices, and facilitate well-planned development for rural areas.

- **To enhance transparency, Kaduna State has embarked on simplification of tax schedules and automation of tax collection.** The US\$54.1 million spent on revenue mobilization will stimulate taxation system transparency and efficiency leading to diversified revenue sources and increased public investments. The Program is expected to increase the number of registered taxpayers from 28,000 to 200,000, and the compliance rate from 70 percent to 80 percent. In 2016, Kaduna Government collected US\$50 million tax revenue, equivalent to approximately US\$1,785 per taxpayer per year. Increasing the tax base and compliance rate will increase tax revenues tenfold in the next 10 years to approximately US\$680 million by 2026.
- **Improved fiscal management and transparency increases the likelihood of having credible and reliable budget.** This translates to higher-budget execution rates. PFM that is efficient, effective, and transparent serves as an important catalyst for economic growth and triggers poverty reduction. It encourages better designed and implemented projects with greater developmental impact.⁷⁰ Literature shows that increase in efficiency of public capital expenditure results in about 7.7 percent increase in output growth (Calderon, Moral-Benito, and Serven 2011).⁷¹ The US\$84.3 million spent on increased capital expenditure execution rate (from 50 to 70 percent) is expected to generate efficiency gains greater than the cost. In addition, the approval of the Kaduna Infrastructure Master Plan will lead to more efficient allocation of Government's resources.
- **The US\$45 million in improving responsiveness to citizens' feedback, as well as US\$40.2 million spent on mainstreaming e-procurement will increase the accountability and transparency of the government.** The disclosure of Government data has numerous benefits, including increased citizen engagement, encouragement of innovation, improved effectiveness and efficiency of government services, and better insights into difficult problems following better analytics, among others. The implementation of e-procurement for key MDAs will result in cost savings and efficiency gains. Federal Government adoption of e-procurement in Brazil, led to more than 50 percent costs savings and reduced procurement period from two months to less than 15 days. In Kaduna State, the capital expenditure budget is around US\$420 million a year, a five percent reduction in procurement costs is expected to generate US\$21 million per year. Improvement in government responsiveness to citizens' feedback improves public trust, citizen satisfaction and service delivery.

103. **World Bank value added.** The PforR financing instrument focuses World Bank support on helping Governments improve the design and implementation of their programs using country systems and directly linking disbursement to the achievement of results. The proposed PforR is

⁷⁰ Rajaram et al., 2014, *The Power of Public Investment Management*, World Bank, Washington, DC.

⁷¹ Calderon, Moral-Benito, and Serven, 2011, "Is Infrastructure Capital Productive? A Dynamic Heterogeneous Approach," Policy Research working paper; no. WPS 5682; Paper is funded by the Knowledge for Change Program (KCP). Washington, DC: World Bank.

designed to improve implementation of the Kaduna's State program by incorporating lessons learned from international experience addressing similar challenges. The World Bank Group has provided lending and non-lending support to subnational programs in at least 89 countries.

Annex 4: Summary Technical Assessment
Appendix: Detailed Expenditure Framework per MDA

	2017			2018			2019			2020			Total
	Pers.	Overhead	Capital	Pers.	Overhead	Capital	Pers.	Overhead	Capital	Pers.	Overhead	Capital	
Cross cutting													
Government House	279,975	2,676,496		220,027	6,408,670		242,029	6,408,670		242,029	6,408,670		22,886,565
Office of Secretary to State Government	1,606,550	5,361,196		1,767,205	7,449,132		1,943,925	7,881,918		1,943,925	7,881,918		35,835,770
Bureau of Public Service Reform		33,387	207,791		36,289	169,131		39,655	104,918	-	39,655	104,918	735,744
Office of the Head of Service	579,116	2,325,292		4,246,852	2,358,103		4,671,537	2,417,488		4,671,537	2,417,488		23,687,412
Civil Service Commission	162,227	57,570		146,956	32,883		178,856	32,883		178,856	32,883		823,114
Ministry of Finance	996,706	3,428,847	2,625,582	1,096,376	5,103,459	12,028,938	1,206,014	5,464,115	12,028,938	1,206,014	5,464,115	12,028,938	62,678,041
Ministry of Budget and Planning	699,811	650,699	6,027,495	1,031,864	508,282	6,520,446	1,083,457	513,958	6,102,127	1,083,457	513,958	6,102,127	30,837,682
Office of the Accountant General	4,260,221	71,249,685		1,981,326	33,466,329		2,179,458	33,502,395		2,179,458	33,502,395		182,321,267
Kaduna State Bureau of Statistics	337,223	64,097	2,316,679	370,945	67,131	2,182,141	408,040	67,131	2,151,305	408,040	67,131	2,151,305	10,591,168
Ministry of Agriculture and Forestry	1,997,150	95,078		1,776,062	322,631		1,776,062	330,909		1,776,062	330,909		8,404,865
Results Area 1: improving the business enabling environment													
KADGIS	366,720	126,610	12,867,065	421,054	133,229	2,100,656	463,159	124,705	2,100,656	463,159	124,705	2,100,656	21,392,374
KADIPA	292,924	219,909	390,164	322,216	669,340	393,443	354,438	669,340	491,803	354,438	669,340	491,803	5,319,158
Ministry of Commerce, Industry and Tourism	586,679	318,847		645,347	228,591		709,881	232,919		709,881	232,919		3,665,063
Ministry of Environment and Natural Resources	209,558	122,945		230,514	202,441		253,565	202,441		253,565	202,441		1,677,470
Ministry of Rural and Community Development	212,704	440,678		233,974	152,667		257,372	152,667		257,372	152,667		1,860,101
Ministry of Women Affairs and Social Development	245,661	71,825	1,442,754	270,227	82,626	1,475,410	297,250	90,889	836,066	297,250	90,889	836,066	6,036,911
KEPA	262,274	43,192	1,007,435	288,501	62,387	1,023,336	317,351	63,846	526,230	317,351	63,846	526,230	4,501,979
Results Area 2: Strengthening fiscal management and accountability													
Kaduna State Public Procurement Authority	92,642	29,493	783,209	97,678	44,450	1,038,457	156,342	48,896	971,100	156,342	48,896	971,100	4,340,753
Office of the State Auditor General	347,154	102,581		361,727	108,419		397,900	108,419		397,900	108,419		1,932,520
Office of the Auditor General - LG	327,232	97,083		343,593	108,038		360,773	108,038		360,773	108,038		1,813,567
KADIRS	2,056,018	940,029	183,607	2,261,620	1,769,762	839,344	2,487,782	1,783,024	839,344	2,487,782	1,783,024	839,344	18,270,680
Ministry for Local Government	281,239	1,460,887		309,363	1,528,133		340,300	1,528,493		340,300	1,528,493		7,317,208
Ministry of Works, Housing and Transport	894,885	529,439		1,524,480	884,305		1,528,288	839,418		1,528,288	839,418		8,568,520
Ministry of Water Resources	177,528	47,750		195,280	66,203		214,809	67,733		214,809	67,733		1,051,845
Ministry of Education, Science and Technology	2,710,740	375,246		3,208,052	477,094		3,528,857	479,962		3,528,857	479,962		14,788,771
Ministry of Health and Human Services	1,728,097	140,643		1,900,907	172,101		2,090,998	186,439		2,090,998	186,439		8,496,623
Total													489,835,169

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).
Exchange rate: US\$1 = NGN = 305

Annex 5: Fiduciary Systems Assessment

1. **Introduction.** As part of the program preparation, the FSA of the Program was carried out, consistent with the PforR policy and in accordance with the Guidance Notes provided by the OPCS for “PforR Financing.” The objective of the assessment was to examine whether the Program systems provide reasonable assurance that the financing proceeds will be used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The financial management systems were assessed to gauge the extent to which the planning, budgeting, accounting, controls, funds flow, financial reporting, and auditing systems and practices provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. Equally, the Program procurement systems have also been assessed to establish the extent to which the planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide a reasonable assurance in support of achievement of the program results. In addition, the assessment considered how Program governance systems manage the risks of fraud and corruption and how such risks will be mitigated.

2. The FSA was conducted through a methodical review of systems and practices at the federal and Kaduna State levels, as well as a number of analytical works earlier carried out in Kaduna State. The analysis took cognizance of the PEFA/Public Expenditure Management and Financial Accountability Review work carried out in the following reports: “Federal Government, Kaduna—Public Financial Management Performance Report” (2012); “Kaduna—Economic and Fiscal Update, Fiscal Strategy Paper and Budget Policy Statement 2015–2017” (April 2014); PIFANS (2015) carried out in six states; and the “Policy Note on PFM Reform Opportunities at Federal Level in Nigeria” (2015), which also drilled down conclusions on state-level PFM. Additionally, the integrated fiduciary risk assessment was informed by the strength of the dialogue between the World Bank/IMF and the KDSG on budget management reforms, accounting, TSA, and implementation of the state’s BATMIS under the World Bank–financed project PSGRDP.

3. The conclusion of the FSA is that the Program systems meet the requirements of the PforR policy and are adequate for achievement of the Program objectives. The FSA has however, identified certain risks, and measures have been designed to counter or mitigate such risks. The risks mitigation measures will be managed through methodical implementation of the PAP. The overall program Integrated Fiduciary Risk (financial management, procurement, and governance) is rated ‘Substantial’.

A. Program Design and Expenditure Framework

4. The Program is an integral part of the KSDP (2016–2020). The Program will aim to support the implementation of the KSDP, with a focus on Economic Development and Governance, by building on ongoing interventions, while simultaneously incentivizing for enhanced accountability in the results areas.

5. The KSDP focuses on four priority areas: (a) Economic Development, (b) Social Welfare, (c) Security and Justice, and (d) Governance. Two of these pillars—Economic Development and Governance—are supported under the Program. The expenditures under the

Economic Development and Governance pillars will be the basis of analysis for ensuring that the overall state program expenditures (actual) at program closure are more than or equal to the Program withdrawals (disbursements) from IDA. The strengthening of expenditure management and accounting, thanks to the operationalization of the Budget and Treasury Management of Information System (BATMIS) and the functional and economic classification of expenditure in compliance with international accounting standards, will ensure the availability of financial information regarding the two pillars supported under the Program.

6. Kaduna State operates a centralized budget execution architecture. The MDAs initiate their commitments against approved budgets but expenditures are centrally processed through the Office of the Accountant General. Therefore, payments for all expenditures in the state, quite apart from the basic operating expenses of MDAs that are made through imprest cash advance accounts, are made directly through the state's TSA held with the CBN and managed under the auspices of the State Accountant General. The status of budget execution (appropriation, budget release, actual payments, payments in transit, commitments outstanding, total expenditures against appropriations and budget releases, and unexpended balance of appropriations) will, with the support of the BATMIS, be known 'real time'—a factor that supports timely and efficient expenditure management. With the anchoring of key controls in budget execution management at the Office of the Accountant General, and with MDAs not being self-accounting or reporting, the assessment of the financial management systems thus covers the entire budget management system—from budgetary planning, execution and control, to financial reporting and oversight—for all central finance agencies and their units in MDAs.

7. **The expenditure framework includes recurrent expenditures of MDAs that play a role in the implementation of the PforR, as well as limited capital expenditures (those which are part of their operating costs).** As the focus of the PforR is on strengthening Kaduna State systems, the expenditure framework does not include infrastructure investments. With regard to recurrent expenditures, the expenditure framework includes MDAs involved in the two results areas: improving the business-enabling environment and strengthening fiscal management and accountability. By essence, these two results areas are of cross-sectoral nature and involve a broad range of MDAs. The expenditure framework therefore includes two types of MDAs. The first is MDAs that have a transversal role in the PforR: Government House, Office of Secretary to State Government, Office of Head of Service, Office of the Accountant General, Ministry of Finance, Ministry of Budget and Planning. The second type is MDAs with a specific mandate supporting the PforR objectives: KADIPA, KADIRS, KADGIS, KPPA, KEPA, Office of Auditor General (state and LG). Recurrent costs of sectoral ministries that play a role in the PforR have also been included: Agriculture, Commerce and Industry, Rural and Community Development, Women's Affairs and Social Development, and Environment. The expenditure framework also includes recurrent costs of the five ministries⁷² that are responsible for the bulk of capital expenditure (Ministry of Works, Housing and Transport; Education; Health; Water Resources; and Agriculture). The Program Expenditure Framework is summarized in table 5.1.

⁷² For the Ministry of Education and the Ministry of Health, considering their important workforce, the expenditure framework includes head office costs (estimated at 10 percent of total recurrent costs).

8. **The program funds leverage the state government’s own budget.** The leveraged funds will be released through the budget to MDAs for implementation of program activities supported under the operation.

Table 5.1. Program Expenditure Framework (US\$)

	Prior results	2017	2018	2019	2020 (est.)	Total (US\$)
Total		140.6	115.5	116.9	116.9	489.8
IDA	87.5	54.5	65.5	70.5	72.0	350.0

Source: Kaduna State 2017 approved budget (which includes budget estimates for 2018 and 2019).
Exchange rate: US\$1 = NGN = 305

B. Program Financial Management Systems

9. The financial management arrangements under the program will be carried out using the state’s PFM systems which are, generally, in good operating order. Upon the technical and functional enhancement of the BATMIS, the existing systems of budgetary planning, budget preparation, budget execution, accounting, internal controls, funds flow, financial reporting, external audit, and legislative oversight will continue to be adopted for Program implementation.

B1. Institutional and Legal Framework—Financial Management Arrangements

10. The key institutions for PFM in the KDSG are the states’ Ministry of Finance and its respective agencies, including the Office of the State Accountant General. Other players include the Ministry of Budget and Planning, the State House of Assembly, and the Office of the State Auditor General.

11. In Nigeria, broadly, the enabling institutional and legal framework for financial management is contained in the (a) Constitution (Sections 80–89)—accounts, audit, and investigations; (b) Finance (Control and Management) Act 1958—the organic PFM Law; (c) FRA 2007, aiming to instil discipline into fiscal planning and management; (d) Federal Public Procurement Act 2007 and Public Procurement Acts at the state level that mirror the Federal Public Procurement Act—regulating public procurement for Federal and state governments; (e) Audit Act 1957; and (f) Freedom of Information Act 2011—aiming to improve transparency and public accountability by providing for public access to non-sensitive official data. There are also subsidiary legislations, regulations, and operational and financial directives that dictate the day-to-day basis for the management and oversight of public finances (notwithstanding the long overdue organic public finance legislation and the Audit Law). Considering all these entities, it is concluded that the legal framework is in place and acceptable to the World Bank.

12. Kaduna, however, has enacted its own Organic PFM Law in 2016, updating the provisions of the erstwhile enabling legislation—the Finance (Control and Management) Act 1958; and it has also enacted its FRA, based on the domestication of the Federal FRA. The state has its own Public Procurement Act, as well as its Audit Act, both broadly conforming to international standards. It may be added that Kaduna is one of few states in the Federation that has renewed the enabling legislations for PFM, with the approval of the ‘Law to Provide for the Control and Management of the Public Finances of Kaduna State’ (Law No. 6 2016) and of the

‘Law to Provide for the Prudent Public Expenditure, Financial Management and Discipline with a View to Ensuring a Long Term Macroeconomic Stability in Kaduna State’ (Law No. 7 2016). Thus, Kaduna State has established strong enabling legal and regulatory environment for PFM.

13. As a state-wide program of intervention, the program’s financial management will be anchored in and managed within the Final Accounts Unit in the Office of the State Accountant General. In general, the Office of the State Accountant General, as well as the Budget Directorate, play a significant part in the overall management and control of public finances—in this context, releasing the budget to MDAs and accounting and reporting on the expenditure transactions of MDAs.

B2. Planning and Budgeting

14. Kaduna State has since fully transitioned to a new budget and account classification system that is GFS 2001-compliant. The state is one of 14 other states that have complied with the Federal Account Allocation Committee directive to harmonize classification methodologies across the Federation. Further improvements in the planning and budgeting systems, including linkage of sector strategies to budgets, are being supported under the World Bank–financed PSGRDP.

15. The planning and budgeting reforms at the state level include: (a) the preparation and use of a medium-term State Development Plan that in its development strategy actions mirrors closely and is aligned thereto with Federal reforms; and (b) the use of underlying principles of a form of zero-based budgeting in the development of its state budget. Kaduna State is also committed to the Open Government Agenda, including open budgeting and contracting. Except for its LGs, it is reputed to be one of a few Nigerian states that has published its approved budget in detail. Despite these measurable reform efforts, the policy of predictable budget releases to MDAs has yet to be fully implemented; and budget realism remains a challenge. There have been significant variations in revenue and expenditure out-turns, year by year, affecting predictability of resource flows to service delivery agencies. Nevertheless, the state government is conscious of the impact of lack of budget realism on service delivery efficiencies and effectiveness, and has taken it upon itself to improve its revenue forecast as well as rationalize its expenditure budget planning. The latter is supported through the introduction of a form of zero-based budgeting—a form of budget reforms most actively pursued by only the Federal Government and Kaduna.

16. Note that the state’s budget is a product of the State Development Plan, and accordingly, a strategic linkage exists between the Government’s Development Plan and KDSG annual budgets. The annual budgets are equally informed by the Sectoral Strategic Plans, which are updated annually. The Program will support MDAs under the budget (rather than the state entities as a whole), notwithstanding the fungibility of liquid cash resources within the consolidated revenue fund of the state.

B3. Payments and Flow of Funds

17. The KDSG transacts its budgetary spending through a system of a TSA currently held with the CBN. At present, all budgetary resources are processed through the BATMIS, albeit

without a strong commitment control functionality in place, because the BATMIS is under reconstruction and is being upgraded. This is a significant improvement from the erstwhile status quo when cash was being indiscriminately moved from the Consolidated Revenue Fund held with the commercial banks that the state used to maintain the fund, to nominated commercial bank accounts of agencies, thus undermining the good principles of an effective and efficient cash management system. Kaduna State has begun to fully transition to a better model of TSA for management of its cash resources, to assure improved predictability of resources flows to service delivery agencies.

18. In the state, the control in funds flow is exercised through the Ministry of Finance and, by extension, the Office of the State Accountant General. The Cash Management Unit in the Office of the State Accountant General, working in liaison with the Ministry of Budget and Planning, prepares periodic cash flow forecasts. This arrangement has supported the reversal of the erstwhile non-predictability of funds flow which had occasioned expenditures arrears in the past. Expenditures undergo a process of validation at the MDAs' level, as well as at the State Accountant General's Office, and prepayment audits are undertaken on every expenditure transaction before payment is authorized. Complementary efforts at ensuring value for money are also being provided by the Efficiency Unit in the Office of the Commissioner, Ministry of Finance. Payments for all expenditures are done through electronic cash transfers (under a cashless economy policy) from the TSA held centrally with the CBN.

B4. Accounting and Financial Reporting

19. The Federation has adopted the International Public Sector Accounting Standards (IPSAS) cash basis of accounting and financial reporting as of fiscal year 2014, although a majority of states are still lagging behind in implementation. Kaduna State has implemented the IPSAS cash basis of accounting and reporting, albeit with a few compliance failures—that is, lack of inclusion of third-party transactions as well as the definition of an entity for consolidation, and some disclosure deficiencies. Work is progressing well to enabling full transition to the requirements of the standards. The state's first attempted compliance with the standards was in the preparation of its 2015 financial statements. Consistent with the Federal Account Allocation Committee directive, Kaduna is currently gearing itself to moving toward IPSAS accrual, although full compliance seems quite unlikely in the immediate future because of the necessity to perfect the necessities for such a migration. Although implementation challenges remain, it could be inferred that Kaduna is committed to moving progressively toward complying with international standards on accounting and financial reporting.

20. The BATMIS computerized system of accounting for and reporting on financial transactions in the state is generally performing at suboptimal but reasonably acceptable levels. BATMIS is functioning without the activation of the 'expenditure commitment' functionality as the system is under enhancement. The staff members of the Office of the State Accountant General are adequately qualified and experienced. Enhancement of the BATMIS is on schedule to be fully in place with all the requisite functionalities by Program effectiveness. As a result, in-year and year-end accounting and reporting of revenues and expenditures, which are broadly timely, will be systems-generated and even timelier; and comprehensive budget execution statements will be conveniently generated from the system to guide budget implementation decision making. Draft AFS are currently finalized by the Accountant General within four

months of the end of the fiscal year and submitted to audit. The 2015 audited financial statements were published on May 29, 2016, in four national dailies and on the state's website.

21. The focus of the Program, for purposes of program expenditure reporting, will be the state's financial information, including on the two pillars supported under the Program. This will be accomplished through adequate disclosures deriving from the mapping of program expenditures from the function and sub-function classifications of government. Classifications will be derived using the OECD's Classification of the Functions of Government (COFOG); the economic classifications of the recurrent expenditures of MDAs that are critical for the successful implementation of the PforR; and the capital spending on executive and governance expenditures (no infrastructure investments are included).

B5. Internal Controls and Internal Audit

22. The internal control over expenditures is one of the key areas of risk for the Program. With uneven internal control capacity at sector levels and with relatively weak fiduciary oversight, evidence from the report of the Kaduna State Auditor General indicates that internal controls over procurement processes, as well as operational expenses (travel, per diem, and workshops) represent particular risk areas. It will be very important that internal controls over soft expenditures and in general operational expenses are strengthened through the program. The PAP therefore includes an action to support the strengthening of internal controls across Program expenditures.

23. The internal audit process is largely focused on prepayment audits, while lacking in oversight as a support function to internal management. Leakages remain in the expenditure management system because of a dearth of risk-based internal audit and control processes, and a lack of focus on systemic issues. A key challenge would be how to separate the internal audit function from involvement in the expenditure processing cycle and accord independence to the role the internal auditors play, consistent with the guiding principles of the International Institute of Internal Auditors (IIA). The State Auditor General, in his 2015 report, had highlighted that internal auditors were generally of relatively junior status and inexperienced, thereby jeopardizing the purposes of the internal control systems. This is an institutional and systemic issue cutting across all MDAs in the state, but the Program will seek to address the shortcoming by supporting the upgrading of the internal audit function to become more independent of the expenditure processing cycle but focusing on systemic fiduciary issues and risk-prone areas. The Accountant General will assign risk-based internal auditors (outside the ex-ante expenditure processing cycle) to key MDAs supported under the program to help strengthen their internal management.

B6. Oversight—Program Audit

24. The Auditor General of Kaduna State conducts the independent audit of public finances in the State. The Auditor General's report is generally rendered timely to the Kaduna State House of Assembly, within 6 months of fiscal year end. The report of the Auditor General on the 2015 financial statement was published on May 29, 2016. However, the review of the Auditor General's reports by the Public Accounts Committee is currently in arrears, but this legislative oversight activity is being supported under the World Bank-financed PSGRDP.

25. The Audit Office is endowed with qualified and experienced staff. In general, the quality of audit, while generally uneven, is acceptable. The audit opinions, highlighting minimal fiduciary issues, are not qualified. There is currently a progressive transition by the State Auditor General toward International Organization of Supreme Audit Institutions (INTOSAI) standards of auditing, and this will result in further improvements in the quality of audit.

26. The AFS of the Program will be prepared by the Accountant General as part of the state's consolidated/entity financial reports. Thus, the audited financial statements of the state will be considered as constituting the basis for the annual financial assurance required by the World Bank. The audited financial statements shall be submitted to the World Bank within nine months of the end of the Government fiscal year. With regard to LGs, there is huge backlog of audit of their financial statements. The program will support the clearance of these arrears of audit and, going forward, also cause the audited financial statements of the bodies to be progressively published.

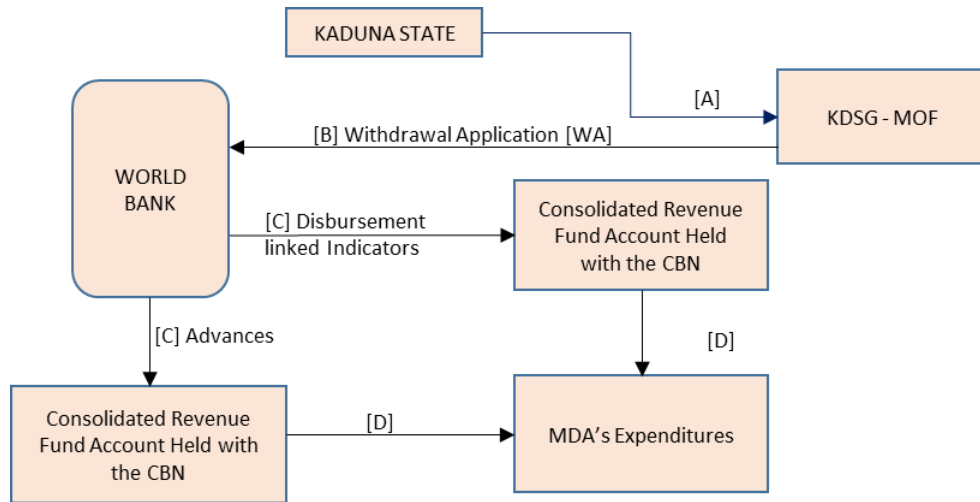
B7. Disbursements from the World Bank

27. Triggered by the achievement of the DLI results under the Program, and upon validation, a Withdrawal Application will be submitted to the World Bank, using the World Bank's standard disbursement forms through the e-disbursement functionality in the World Bank's Client Connection system. The DLI values will be then be disbursed from the IDA credit proceeds to the omnibus TSA of Kaduna State held with the CBN. The Withdrawal Application would be accompanied by certified and cleared evidence from the task team that the related results were achieved. Figure 5.1. highlights the flow of funds arrangements under the PforR.

28. Results emanating from meeting DLIs for a prior period ("prior results") would form part of the Program. In addition, disbursement arrangements will allow disbursement of 'advances'. The sum of the amount disbursed for prior results (up to 25 percent of the credit) and of the amount disbursed for advances (up to 25 percent of the credit) shall not exceed 50 percent of the credit. Advances aim to facilitate and accelerate the achievement of DLIs not yet met. The advance is deducted (recovered) from the amount due to be disbursed under achieved DLIs. The advance amount recovered by the Bank is then available for additional advances ("revolving advance"). Advances when the DLIs have not been met (or have been only partially met) by the Program Closing Date will need to be refunded.

29. A general principle for disbursements against DLIs adopted for the Program implementation will be as follows: for any DLI not met at the evaluation date in any single year, the amount allocated to that DLI would remain undisbursed (or recovered from the next cycle of disbursements if an advance was made) until the DLI is met at a future date during the life of the Program (see further details in annex 3, Bank Disbursement Table).

Figure 5.1. Fund Flow Arrangement under the PforR



Note:

[A]: State submits evidence of performance against criteria to IVA for verification and validation.

[B]: Upon verification and assessment against criteria, KDSG submits WA to World Bank for disbursement.

[C]: Disbursement Linked Indicators: For DLIs (including for prior results), the World Bank disburses to the KDSG's Consolidated Revenue Fund Account held with the CBN.

[C]: Advances: For advances the World Bank disburses to the KDSG's Consolidated Revenue Account held with the CBN.

[D]: From the Consolidated Revenue Fund Account held with the CBN, KDSG disburses to MDAs.

B8. Program Financial Management Risk

30. Although there exists a robust financial MIS in place in Kaduna State, some key modules of the BATMIS necessary for improved financial control have yet to be implemented. These include commitment control—Procure to Pay, and so on. However, enhancement of the state's BATMIS under the World Bank-funded PSGRDP is well on course, having been substantially completed to support mitigation of financial management risks to the Program.

31. Given the weak internal controls as highlighted above, the reinforcement of internal controls through the introduction of a methodical internal audit function within key MDAs shall be implemented. Currently, the role of internal audits in the state is limited to conducting 'prepayment audits'. This functioning mandate comes from the local laws and does imply that internal auditors (who should be independent, consistent with IIA standards) are directly involved in the expenditure processing cycle—a factor that undermines the independence and integrity of internal auditors. As part of the PAP, the Kaduna State Accountant General would assign separate internal auditors to key MDAs to carry ex post audits that will focus on systemic issues and risk and thus mitigate the effects of possible collusion between the prepayment audit teams (as mandated by law) and those with spending authority under the Program. This is another critical area of risk to the achievement of the Program objectives. Quarterly reports of the ex post internal auditors shall be submitted to the Permanent Secretaries of MDAs, the Accountant General, and the Auditor General. The World Bank task team shall, where necessary, review the reports during implementation support missions.

32. Similarly, the World Bank implementation support mission teams will carry out periodic reviews of the in-year fiscal reports produced by the Office of the Accountant General of Kaduna State for overall program implementation monitoring purposes. Such reports, which are currently being prepared and published on the State's website in the form of BERs, are expected to be further improved and provided at least at the levels of function, sub-function, and economic classification levels consistent with GFS and COFOG. Therefore, budget execution reporting and publication will remain as key features in strengthening transparency in fiscal management at the State level, and progressively at the LG level during the program life.

33. Consistent with international best practice, the state has committed itself to implementing the policy of budget release to MDAs. The KDSG will also enhance the in-house technical capacity in the Ministries of Finance and Budget and Planning to stem the lingering challenge with budget realism and expenditure predictability. Historically, unrealistically high budget estimates were usually being set. The 2015 report of the State Auditor General indicates that only 57.91 percent of the estimated revenue was collected. The ability of the state government to comprehensively deliver on its policy intents may therefore be constrained. The new Government had not settled in well in 2015, but has since 2016 began to implement key reforms in the PFM area that have begun to show results. Budget credibility has improved in 2016 because of improved forecasting of fiscal transfers and IGR as well as the policy change from incremental budgeting principles to a form of zero-based budgeting.

34. In addition to meeting the DLIs, one of the criteria to be established is for ensuring that the overall Kaduna State program expenditures (actual) at program closure are more than or equal to the Program withdrawals (disbursements) from IDA. Any shortfalls will need to be recovered from/refunded by the KDSG. This will ensure that the results achieved have a relationship with the overall financial resources deployed.

35. Finally, the external audit of the Program expenditures will be critical to providing the requisite assurance that the Program resources were appropriately used with the requisite economy, efficiency, and effectiveness toward achieving the Program goals. To this end, and with a view to managing the risks to program outcomes on time, the audit report of the Kaduna State Auditor General will be submitted to the World Bank within nine months of end of the fiscal year. The arrears in conduct of review of the Auditor General's reports by the Public Accounts Committee, as identified above, is one of identified risks to be managed and supported under the World Bank-financed PSGRDP.

36. Overall, notwithstanding the established deficiencies in the state's financial management, there is reasonable assurance that the established systems will be adequate, especially with the enhancement of the BATMIS, and when the mitigating factors as highlighted in the PAP are adopted and implemented.

C. Program Procurement Systems

C1. Assessment of Procurement Framework

37. Kaduna State started procurement reforms about 11 years ago, when the Kaduna State Bureau of Budget Implementation, Monitoring and Price Intelligence Law No. 4 of 2005 was promulgated and the Due Process Office was established. However, there was not much progress made on implementing the law until the onset of the current administration in May 2015. Before that there was no real interest on the part of the Kaduna Government to implement the Due Process System that had been established to foster economy, efficiency, transparency, and value for money. The previous administrations were more comfortable with maintaining the status quo. The procurement system before establishment of the Due Process Office had many fundamental challenges including:

- Lack of an appropriate policy and regulatory framework to ensure value for money in the procurement system
- Lack of an independent public procurement agency to make uniform public procurement policy
- Weak organization of the procurement function
- Involvement of politicians in contract approvals
- Weak procurement procedures
- Lack of adequate proficient procurement staff
- Lack of an appropriate complaints review mechanism

38. **Current status.** After more than eight years of ambivalence in implementing procurement reforms, Kaduna State is on the right track toward establishing a sound procurement system that will deliver goods, works, and services at the best value for money and with integrity. In May 2016, legislators passed the Kaduna Public Procurement Act, which the Governor assented to on May 31, 2016. The act is intrinsically sound and the following are highlights of its provisions:

- The creation of the KPPA to regulate public procurement in the state, including monitoring, harmonising existing policies, and setting value for money standards
- State-wide institutional capacity building and training of a professional, efficient, and sustainable procurement system
- Setting fair pricing standards to obtain value for money in a transparent and fair process
- Ensuring equal opportunities for prospective providers with special emphasis for building capacity for SMEs
- Creation of a governing board for the KPPA that shall be responsible for supervising the authority and approving major decisions, such as the budget, guidelines, and regulations for implementing the law; appointment of senior staff of the authority; changes in thresholds; and so on.

39. The Kaduna Law has a number of features that are superior to the Federal Public Procurement Act, including the following:

- There is a provision for full decentralization of contract approval process after two years by which time, procurement capacity is supposed to have been built at procuring entity level
- It is more gender sensitive with a provision to include at least one woman from the private sector on the governing board
- It is more specific on the powers of the regulatory body with respect to setting the frameworks for e-procurement and concessionary contracts
- It is more transparent because all records are subject to inspection by the public after payment of an appropriate fee
- The contract award criterion of ‘Most Economically Advantageous Tender’, which is most appropriate for determining value for money, has been more comprehensively covered
- The concept of framework contracts is covered more comprehensively
- Sustainable procurement encompassing environmental, socioeconomic, and health aspects of procurement has been covered
- The state has also created the KADIPA to promote and manage PPP procurements.

40. **Scope of the review.** This assessment covers the enabling legal framework, the organizational aspects, procurement processes, record keeping and document management system, staffing capacity, quality and procurement planning, development of the procurement documents, bids/proposals submission, evaluation of the proposals and contract award, and application and appropriateness of the laws, rules, and regulations applicable to Kaduna State in the implementation of the Program.

41. **Procurement activities under the Kaduna PforR.** The Program focuses on strengthening Kaduna State systems (in particular, procurement systems) and does not directly finance hard investments (that is, infrastructure). Therefore, there will be no high-value contracts that require OPCS review. Although all procuring agencies will benefit from the strengthening of procurement systems, the institution in charge of the oversight of procurement transactions is KPPA.

42. **KPPA.** The KPPA is the public procurement regulatory body created under the Public Procurement Law to provide oversight over all matters related to public procurement activities in Kaduna State. Together with performing oversight functions, there are three other major functions performed by the KPPA that are not normally performed by regulatory bodies. These three functions include assisting procuring entities to carry out transactional activities, approving contract awards above a certain threshold, and endorsing contract award recommendations above a certain threshold for approval of the Kaduna State Council. The transactional activities are carried out using KPPA staff that are actually attached to certain MDAs with particularly inadequate procurement capacity. It was evident that the assistance provided by the KPPA is highly valued and many MDAs indicated that they would not be able to carry out their

procurement activities according to the new law without the hand-holding support received from the KPPA. With regard to the approval thresholds, the limits indicated in table 5.2 are currently in force.

Table 5.2. Current Approval Thresholds

Approving Authority	Thresholds (naira)	Remarks
Procuring entity	$\geq 5,000,000 \leq 20,000,000$	Needs KPPA clearance
	$\leq 5,000,000$	Needs no KPPA clearance
KPPA	$> 20,000,000 \leq 100,000,000$	

43. Currently, KPPA has a total staff of 21 persons of which some require additional training to enhance their procurement proficiency. Additional staff will be required to provide support to MDAs at state and LG levels. The agency will urgently need to (a) carry out its skill gap analysis (b) prepare a capacity-building strategy, including training, and (c) implement the strategy. These activities will take some time and they will have to be carried out with the assistance of external consultants. In the meantime, consultants will also have to be employed to assist in the day-to-day transactional activities.

44. **KADIPA.** The most critical procurement carried out by KADIPA is the procurement of PPP. Although the process of procuring PPP is intrinsically the same as normal public procurement, there are features that are unique and that require special procedures and skills. Such special features and skills include treatment of ‘unsolicited bids’ and negotiations. PPP procurement demands special knowledge to ensure that the Government secures private investments at reasonable cost to the economy. The state has prepared a PPP Manual and it is in the process of being approved. However, KADIPA does not have adequate capacity to handle all the PPP projects and therefore has been seeking the assistance of other MDAs such as the Project Implementation and Delivery Unit in the Ministry of Finance for financial matters, the Ministry of Works for the engineering aspects of the projects, and external consultants. In the meantime, KADIPA is proceeding with recruiting more staff using an external recruitment firm to ensure high quality.

45. **Status of implementation of the Public Procurement Law.** The state has a good law which has all the tenets of a good procurement system as it conforms to international standards. The state is in the process of finalizing the required tools to operationalize the law, including the Regulations, Standard Bidding Documents, and Procurement Manual. Kaduna State has set up the necessary institutions and structures, such as Procurement Units, Procurement Planning Committees, and Due Process Committees. However, there is need to enhance the capacity of these institutions as most of their staff do not have adequate procurement experience. The most critical institution is the KPPA. The agency is fully responsible for implementing the law and is tasked with supervising and hand-holding all MDAs in their procurement activities.

46. **Modernization of the procurement system.** As indicated above, the law has many features of a modern procurement system and can be used to move quickly from first generation to second generation reforms. First generation reforms involve (a) the promulgation of procurement laws that adhere to the above core principles; (b) preparation of implementation instruments, such as regulations, manuals, and Standard Bidding Documents; and (c) establishment of operational and regulatory institutions for the procurement system. Second

generation reforms are aimed at achieving enhanced transparency and accountability for development results. These reforms will include focused effort on increasing capacity, monitoring performance, and achieving an appropriate balance between fiduciary and development objectives.

47. Appropriate results will be achieved through strategic use of technology, including introduction of e-procurement and computerization of procurement records; a greater focus on regulated principles and adherence to standards, rather than dogmatic compliance with detailed procedures; and a drive to achieve measurable performance outcomes. All these involve behavior changes, as well as training and professionalization of procurement staff of both the public and the private sectors.

C2. Overview of Procurement Performance in the State

48. **Procurement management.** Since the Procurement Law came into effect on June 1, 2016, the legal framework for public procurement performance management has been well laid out. For example, the law provides for monitoring, evaluation, and audit of public procurement processes to ensure that their implementation is in accordance with the provisions of the law and regulations. In addition, the law requires the procurement authority to establish pricing standards and benchmarks to narrow distortions between project estimates and market reference prices. Already, the regulatory agency is establishing a database of suppliers, contractors, and consultants, with appropriate categorization and classification, to understand the supplier market. It is expected that when the law is fully operational, quality metrics will be available to measure the procurement system and to make adjustments as necessary. Presently, there are a number of challenges associated with procurement management across MDAs. These include (a) insufficient procurement capacity; (b) lack of necessary procurement implementation tools, including a procurement manual and standard bidding documents; and (c) inadequate office infrastructure, such as office equipment, furniture, and physical storage facilities for procurement documents. However, with the assistance of KPPA, MDAs have been complying with the requirements of each step in the procurement cycle except preparation of Procurement Plans.

49. Currently DFID and other development partners are providing assistance to the state to strengthen its institutional capacities, which includes providing technical support for the state procurement system. The identified weaknesses are expected to be addressed, and therefore no TA component is proposed for this program.

50. **Payments to service providers.** There are no issues with payments for duly executed contracts. However, there are arrears of contractual liabilities from contracts associated with the former regime in the state. The state is implementing the TSA which hopefully will improve cash management and eliminate contractual liabilities in future.

51. **Stock Control.** MDAs have a Stores and Verification Department responsible among others, for the custody of procured items. The state has a Stores Regulation Manual which guides the operation of the stores, including procedures for dealing with the disposal of obsolete goods and stores. Record keeping is generally adequate, and the asset register updated regularly. Under the Public Procurement Law, the Stores Department will become part of the Procurement Unit.

The procurement and disposal procedures for stores will be governed by the Public Procurement Law, which has very comprehensive guidelines on the acquisition and disposal of stores.

52. **Record keeping.** For each contract, there is a specific file for procurement and contract management that ensures an audit trail and lends to easy auditing. Each file describes the entire history of the procurement process—from invitation for bids up to contract award. It also includes contract management, an activity that the Procurement Unit is closely involved with, especially after enactment of the Public Procurement Law. The Stores and Verification Department implements a manual filing system and all procurement files are kept in metallic locked cabinets in the offices of the procurement staff. The procurement information can be located and this is protected from unauthorized access. More sensitive documents, such as the financial proposals and original bids that are being evaluated, are kept in a secured safe, accessible only to the members of the Due Process Committee. This practice fulfills the legal requirements of the Kaduna State Public Procurement Law. The main issue is that record keeping is still manual, thus requiring a large amount of storage space for files. The law underscores the need for enhanced use of ICT and electronic filing will be implemented under this program.

53. **Complaints mechanism.** The Public Procurement Law sets out a clear framework for dealing with complaints. It defines the institutions to be involved and the process to be used in handling complaints from aggrieved bidders or any stakeholders who believe that the law has not been upheld during the procurement process. The Procurement Manual provides details of the process, including timing for each step. There have not been many cases of complaints against handling of the procurement process in the state. The four cases recorded and assessed shows that they were compliant with the complaint procedures provided in the Procurement Law, with one of the cases being resolved in favor of the aggrieved bidder. In this case, MDAs award recommendation was reversed by the State Executive Council based on the findings and recommendation of the State Procurement Agency.

Procurement Risk Assessment

54. It should be borne in mind that the Kaduna procurement system is still at the first generation stage and the above challenges are normal teething problems. The system is destined for great success if the current strong political will continues. Notwithstanding, the challenges are real and it will take some time to address them fully. In consideration of this, the procurement risk for this program has been determined to be ‘**Substantial**’.

D. Assessment of Fraud and Corruption Risks and Mitigation

55. **The program is exposed to two main risks of fraud and corruption:** (a) fraudulent or corrupt fiscal transactions, including in tax collection and public procurement, and (b) fraudulent or corrupt practices in business regulation and land titling. Those risks are directly related to the PDO to improve the business enabling environment and strengthen fiscal management and accountability. The operation builds on and operationalizes state-level PFM, business regulation, and land management reforms, as well as the country anticorruption legal and institutional framework, to mitigate those risks.

56. **The national anticorruption framework and agenda applies in Kaduna State.** A recent peer review of the implementation of the United Nations Convention Against Corruption (UNCAC) in Nigeria concludes that its legal and institutional anticorruption framework is robust enough.⁷³ Since then, reforms introduced by the Federal Government have further strengthened it, including on the prosecution of financial crimes, on the management of recovered stolen assets and on government overall transparency (under the Open Government Initiative). It has recently adopted a National Anti-corruption Strategy for the next three years.⁷⁴ The National Action Plan on Open Government adopted by the Nigerian Government in October 2016 commits the Federal Government, as well as encourages the commitment of state governments, to the following measures:

- (a) **On fiscal transparency.** Budget transparency, full implementation of open contracting in the public sector, disclosure of companies' payments and government receipts in the extractive sector, prevention of tax avoidance, and evasion
- (b) **On anticorruption.** Establishment of a public register on beneficial ownership, establishment of a database on convicted companies for criminal offenses (including money laundering); strengthening of the legal framework for non-conviction-based recovery of stolen public assets; adoption of an anticorruption strategy; establishment of a public register of property
- (c) **On access to information.** Improving compliance of public institutions with the Freedom of Information Act on proactive disclosure as well as on responses to request for information
- (d) **On citizens' engagement.** Institutionalizing the citizens' forum in key MDAs (including FIRS and BPP), introducing IT-based citizen feedback on projects and programs, rolling out social accountability mechanisms in rural areas, and adoption of whistleblower policy

57. **The Federal Government actively prosecutes public corruption both at the federal and state levels,** and several state-level officials are being prosecuted for corruption and their assets have been seized.

58. **The anticorruption legal framework rests essentially on the criminal justice system** and more specifically on the Corrupt Practices and other Related Offences Act of 2000, as well as on the UNCAC, ratified in 2004. Additional pieces of legislation address conflict of interest, promote transparency (asset disclosure and freedom of information), and strengthen the governance of extractive industries (Nigeria Extractive Industries Transparency Initiative Act). Legal provisions relevant to the education sector defined in Corrupt Practices Act as criminally punishable corrupt practices include:

“Any public officer who uses his office or position to gratify or confer any corrupt or unfair advantage upon himself or any relation or associate of the public officer or any other public

⁷³ UNCAC. Implementation Review Group. 2014. *Review of the Implementation of the United Nation Convention Against Corruption in Nigeria*. Nigeria is a party to the UNCAC since it signed and ratified it in 2004, that is after its Corrupt Practices Act was enacted. As such, it is submitting itself to implementation self-assessment and peer review. A second peer review is ongoing.

⁷⁴ [National Anti-Corruption Strategy](#).

officer shall be guilty of an offence and shall on conviction be liable to imprisonment for five (5) years without option of fine.”

59. This provision extends to sheer solicitation by a public officer of any undue advantage for providing assistance of using one’s influence, as well as to attempted (but not actual) corrupt practices as well as to corrupt practices on behalf of third parties.

60. The Nigerian Criminal Law also sanctions “*any person who, being employed in the public service, takes, or accepts from any person, for the performance of his duty as such officer, any reward beyond his proper pay and emoluments, or any promise of such reward.*” The law punishes both active and passive corruption, that is, both public officials and the private parties to the transaction. The definition of public officers under the Corrupt Practices Act extends to all elected and non-elected officials, at federal, state and local levels, in public administrations or state-owned enterprises.

61. With regard to **public procurement**, the Corrupt Practices Act specifies:

“Any public servant who, without lawful authority or reasonable excuse, solicits or accepts any advantage as an inducement to or reward for or otherwise on account of his giving assistance or using influence in, having assistance or used influence in the promotion, execution, or procuring of

- (i) Any contract with a public body for the performance of any work, the providing of any service, the doing of anything or the supplying of any article, material or substance; or*
- (ii) any sub-contract to perform any work, provide any article, materials or substance required to be performed provided, done or supplied under any contract with a public body; or*
- (iii) the payment of the price, consideration or other moneys stipulated or otherwise provided for in any such contract or sub- contract as aforesaid;*

*shall be guilty of an offence.”*⁷⁵

62. The Corrupt Practices Act sanctions conflicts of interests of public officers in charge of financial transactions:

“Any person who, being employed in the public service, knowingly acquires or holds, directly or indirectly, otherwise than as a member of a registered joint stock company consisting of more than twenty (20) persons, a private interest in any contract, agreement or investment emanating from or connected with the department or office in which he is employed or which is made on account of the public service, is guilty of an offence, and shall on conviction be liable to imprisonment for seven (7) years.”

⁷⁵ Under the Corrupt Practices Act, the following also qualify as criminal offences: (a) the award or signing of contracts without budget provision, approval and cash backing; and (b) the transfer and payment of any sum allocated to a particular project or service to another one.

63. Public officers are also criminally liable for not reporting any unduly offered, promised, or granted gratification. Private individuals who have been solicited to pay a bribe to a public officer are also criminally liable for not reporting it to the Independent Corrupt Practices and Other Related Offences Commission (ICPC) or the police.

64. **Asset disclosure requirements apply to all public officers, that is, including at state and LG level.** All public officers are constitutionally mandated to declare to the Code of Conduct Bureau their assets and liabilities on assumption and term of office, and every four years for permanent employees. Failure of declaration of assets may entail removal from office, disqualification from holding any public office, and forfeiture to the state of any property acquired through abuse of office or dishonestly. State officials are being pursued for false declaration of assets.

65. **All Nigerian law enforcement agencies have jurisdiction at state level.** The Nigerian anticorruption institutional framework comprises multiple agencies at the federal level, loosely coordinated by the President's Office (within the inter-agency task team on anticorruption).⁷⁶ However, the departmental and agency levels have the greatest need. Anticorruption and Transparency Units (ACTUs) need to be established in each and every MDA and are the most relevant for the purpose of assessment under the Program. The anticorruption nodal agency in Nigeria is not the Economic and Financial Crimes Commission (EFCC) but the ICPC. But a recently established Technical Unit on Governance and Anticorruption Reforms (TUGAR) is also an important addition for corruption risk assessment: it has recently assessed the fiduciary performance of PFM systems in Kaduna as well as other Nigerian states.⁷⁷

66. **The ICPC.** Established in 2000 by the Corrupt Practices Act, the ICPC has both a repressive and preventive role. The ICPC has a zonal office in Kaduna and allegations of corruption can be conveyed to it by email or by phone. Allegations are also conveyed to it indirectly through websites, such as [BribeNigeria](#) or [Egunje](#) (which publish statistics on the geographical and sectoral distribution of gathered allegations) run by nongovernmental organizations.

67. **The EFCC.** The EFCC (created in 2004) is the nodal agency for anti-money laundering, financing terrorism, and other economic and financial crimes. Its role is complementary to that of ICPC but it is not the most important anticorruption agency for the purpose of this Program (neither is the National Financial Integrity Unit which gathers intelligence on suspicious financial transactions) even though the EFCC mandate overlaps somewhat with that of the ICPC.

68. Other agencies also contributing to anticorruption, such as the Public Complaints Commission (established in 1975); the Code of Conduct Bureau (created in 1990), essentially

⁷⁶ The Inter-Agency Task Team of Anti-Corruption Agencies (IATT) comprises representatives of the Office of the Attorney General of the Federation and Ministry of Justice, the Ministry of Foreign Affairs, the Federal Ministry of Finance, the EFCC, the Nigerian Financial Intelligence Unit, the ICPC, the Code of Conduct Bureau, the Public Complaints Commission, the Nigerian Extractive Industry Transparency Initiative, the TUGAR, the Nigerian Police Force, the Federal Inland Revenue Service, the Office of the Auditor General, the Corporate Affairs Commission, the CBN, the National Drug Law Enforcement Agency, the Bureau of Public Service Reforms, and the Budget Office of the Federation.

⁷⁷ [TUGAR. 2016. *Mapping and Scoping Survey of Anti-Corruption and Governance Measures in Public Finance Management \(PFM\)*.](#)

ensuring compliance by public officers of their legal obligations in the performance of their functions (including on asset disclosure); and TUGAR (created in 2008). These agencies are mandated to collect data, monitor and evaluate governance and anticorruption initiatives across the three tiers of government, conduct corruption risk assessments, and provide policy advice on anticorruption. A National Prosecution Coordination Committee was inaugurated in 2016 to strengthen the Nigerian Government prosecuting capacity in high-profile criminal cases in Nigeria, including corruption cases.

69. **ACTUs within federal MDAs.** ACTUs are the nodal anticorruption agency at the departmental level. Their creation has been decided by the Head of Services on recommendation from the ICPC. They are responsible for the prevention of corruption and preliminary investigations. They are partly independent from the Chief Executive Officer of the department (Permanent Secretary): their chairman is appointed by the Head of Services and cleared by the ICPC; they report on their investigations to the ICPC (with copy for information to the Permanent Secretary). But their budget is still allocated by the ministerial department they belong to, thus impairing their financial independence. The ICPC is reviewing the budget issue of ACTUs while arguing that they should not be conducting full-scale investigations by themselves but only collecting intelligence to be conveyed to the ICPC, the sole agency in charge of criminal investigations.

70. The role of ACTUs is to serve as the main link between ministries and government agencies on the one hand and the commission on the other. For the repression of corruption, ACTUs “receive oral and/or written reports of conspiracy to commit/attempt to commit an offence of corruption and submit both their initial report and their comments to the secretary of the commission with copies to the Permanent Secretary/Chief Executive within 30 working days.” As regards prevention, ACTUs “examine the practices, systems and procedures in the Ministries, Agencies, and so on, and where in the opinion of the unit, such practices, systems or procedures aid or facilitate fraud or corruption, they submit a detailed report with recommendations to the Secretary of the Commission (ICPC) for appropriate action with copies to the Permanent Secretary/Chief Executive” of the relevant ministry or agency. Their role extends to training and sensitization of department staff and counterparts (for example, visitors) on corruption (Circular from the Office of the Head of Civil Service of the Federation, October 2001).

71. **Recent business and land regulation and PFM reforms in Kaduna significantly mitigate the risk of fraud and corruption under the Program.** The streamlining of administrative procedures at work in business regulation, such as business and land registration, mitigates the risk of corruption by reducing red tape. PFM reforms, both on revenue collection (tax codification and simplification) and on expenditure (streamlining of the wage bill and overheads, public scrutiny on procurement transactions and capital projects) also strengthen fiduciary integrity.

Table 5.3. Governance Reforms Mitigating the Risk of Corruption in Kaduna under the Program

Results Areas	Governance Reforms	Corruption Risk Mitigating Impact
Improving Business-enabling Environment	Streamlining of business registration	E-registration and payment of fees, streamlining of procedures
	Systematic land titling	Legal security for land holders, standardization of procedure and fees, formal acknowledgement of submission of application and payment of fees, digital cadaster data repository to inform land allocation
Fiscal Management and Accountability	Tax codification and simplification	Phasing out of tax agents and cash payments, taxpayers' information, introduction of taxpayers' grievance redress, centralization of revenue collection reduces the risk of tax abuse and revenue leakages
	Wage bill management	Biometric record of government employees and operationalization of IPPIS for budget preparation reduces the number of 'ghost workers'
	Procurement transparency and oversight	Mainstreaming of competitive bidding and information disclosure on contract award; procurement auditing; debarment of fraudulent and corrupt contractors; rolling out of e-procurement
	Oversight on capital expenditure	Operationalization of citizens' feedback on capital project
	External audit and fiscal transparency	Public disclosure of budget documents, including audit report of the state and LGs budgets

72. **Additional provisions are called for to mitigate further the risk of fraud and corruption under the program, based on this assessment:**

- (a) Grievance redress mechanisms will be implemented across key agencies involved in program implementation, namely KADIRS, KADIPA, KADGIS and KPPA. In addition, the PAP includes the appointment of anticorruption desk officers in the Program lead agencies.
- (b) To raise public awareness about existing mechanisms to handle allegations of fraud and corruption, the state government will agree with the ICPC on adequate measures to be introduced by the state government, including the insertion of a link with ICPC portal on the state government's websites (including Open Kaduna).
- (c) The World Bank Anti-Corruption Guidelines⁷⁸ will apply to the Program-for-Results.

E. Program Integrated Fiduciary Risk Assessment

73. The integrated assessment concludes that Kaduna Economic Reform Integrated Fiduciary Systems have the capabilities to provide reasonable assurance that the financing proceeds under the Program will be used, generally, for intended purposes. The assessment noted the existence of significant gaps and weaknesses in these systems which will need to be addressed in the PAP as part of Program implementation. There are opportunities to be harnessed, based on prevailing legal framework on anticorruption that the Program can take advantage of. Based on the findings of the assessment, a PAP has been developed, and whose implementation would support the

⁷⁸ "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing", July 2015, World Bank.

further mitigation of the risks. Considering all the associated integrated fiduciary risk elements assessed under the Program, the Program risk is rated ‘Substantial’. Monitoring the implementation of the Action Plan and refining the operational modalities as and when required would be critical to managing the risks during program life.

F. Program Action Plan

74. The PAP (see annex 8) covers the entire spectrum of the integrated fiduciary areas requiring management, monitoring, and control under the Program during 2017–2020. Every year, a monitoring report on the status of implementation of the actions will need to be provided by the Ministry of Budget and Planning for discussion, and strategic and technical directions and guidance provided.

G. Implementation Support

75. The Nigeria Country office has a team of fiduciary staff—Procurement, Financial Management, and Governance. They will, as part of the Program task team, monitor the implementation of the Program’s integrated fiduciary aspects and, in particular, the status of implementation of the Action Plan. This will be carried out not only half-yearly during implementation support missions, but between missions, at least for the first year of Program implementation. The team will provide hands-on support to the Kaduna Government teams dealing with procurement, financial management, and to the entities supporting the mitigation of fraud and corruption. In carrying out its implementation support, the World Bank team also will review the Program’s financial reports and their conformance with applicable standards.

Annex 6: Environmental and Social Systems Assessment

1. **This annex summarizes the findings of the Environmental and Social Systems Assessment (ESSA) undertaken for the Kaduna State Economic Transformation Program for Results.** The ESSA for the Kaduna State Economic Transformation Program for Results examines Kaduna State's existing environmental and social management systems. These systems provide the legal, regulatory, and institutional framework guiding the program. The ESSA defines measures to strengthen the systems, and provides recommendations for integrating these measures into the overall Program. The ESSA has been undertaken to ensure 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.

2. The six core principles are the following:

- (a) **Environment.** Promote E&S sustainability in the Program design; avoid, minimize, or mitigate adverse impacts; and promote informed decision-making relating to the Program's E&S impacts.
- (b) **Natural habitats and cultural resources.** Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program.
- (c) **Public and worker safety.** Protect public and worker safety against the potential risks associated with (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
- (d) **Land acquisition.** Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
- (e) **Vulnerable groups.** Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the indigenous peoples and to the needs or concerns of vulnerable groups.
- (f) **Social conflict.** Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

3. **The ESSA considers the consistency of the Program systems with these principles on two levels:** (a) as systems are defined in laws, regulations, and procedures, and (b) the capacity of Program institutions to effectively implement the Program's E&S management systems.

4. **Overall, the Program has a number of potential benefits, particularly social benefits from increased economic growth.** The PforR is a multi-faceted Program aimed at improving *systems* connected to the Kaduna State Development Plan. Ultimately the KSDP is aimed at increasing social spending through increased tax revenues and economic growth, as well as direct and indirect job creation through increased levels of private investment. Most of the Program's Disbursement Linked Indicators are linked to government systems that improve the

business enabling environment as well as fiscal sustainability, transparency and accountability. The ESSA concludes that most of these systems will have minimal negative environmental and social effects.

5. There are no physical work (beyond small-scale building rehabilitation) directly supported by this Program and therefore there are no adverse impacts from construction.

The activities associated with the development of a legal and institutional framework for PPP supported under the Program, such as feasibility studies (including Environmental and Social Impact Assessment) for one transaction reaching commercial closure, will be required to meet criteria for low E&S risk.

6. Land-related risks are among the key social risks identified by the ESSA. A major thrust of the Program is support for the Systematic Property Registration Program (SPRP), administered by the Kaduna Geographical Information Service (KADGIS) and currently focusing on urban areas. The Government recognizes that land management is central to achieving its objectives and has focused significant budget and resources towards modernization land administration, including a systematic property registration program. Issuance of Certificates of Occupancy (CofOs) to people who currently lack them will enhance their security of tenure and the economic value of their land and assets. The SPRP will reduce uncertainty and disputes by clarifying boundaries and providing a transparent mechanism by which disputes may be resolved outside costly and lengthy court processes. Removal of uncertainty on boundaries will allow land parcels to be more fully developed. CofOs will also facilitate tax collection, and thus increase government revenue.

7. While the SPRP has many benefits, if poorly implemented it may lead to elite capture, or increased conflicts. While disputes regarding property boundaries or assets are typically between private citizens, there is a risk that the process of obtaining CofOs may lead to a process of resolving conflicting property boundaries or asset ownership involving government entities that could ultimately lead to eviction. However this risk is considered low under the SPRP in light of its modus operandi with a well-defined focus on nongovernment land where no previous CofOs had been issued.

8. The SPRP has undergone a Rapid Assessment by a Land Administration Specialist commissioned by the World Bank, which has concluded that overall, the Systematic Property Registration Program is well governed and resourced. The SPRP is supported by first-class technology and is considered to be efficient and effective; it is already producing CofOs at a significant rate. Consultations on the ESSA confirmed that the program is generally viewed positively by the population, including civil society organizations. However, there are some gaps that will need to be addressed. The ESSA recommended the following mitigation measures to be completed prior negotiations of the financing agreement or as part of the Program Action Plan: (i) amendments to the recently drafted Land Use regulations (2016);⁷⁹ (ii) enhanced stakeholder engagement; (iii) improvements to the grievance redressal mechanism; and (iv) documentation of procedures.

⁷⁹ The amendments were completed as a condition for negotiation of the financing agreement.

9. **There are associated risks from other activities of the Kaduna State Government and KADGIS that have the potential to garner civil society attention.** Alongside SPRP, KADGIS is undertaking a property regularization program aimed at addressing illegal property layouts (e.g. subdivided plots) in order to bring them up to codes. While not specifically supported by the PforR through a DLI, the regularization program carries associated risks because evictions may occur. In practice, KADGIS is minimizing this scenario to the extent possible, and will offer replacement housing for encroachers.⁸⁰ However the Kaduna Government has been criticized by civil society and nongovernmental organizations for demolishing houses belonging to encroachers on public lands. They contend that the evictions were ordered by the Kaduna State Urban Planning and Development Authority without due process.⁸¹

10. **Promotional activities for private investment also introduce land-related risks.** To mitigate these risks, the Program includes a focus on improving the systems for land acquisition and resettlement at the State level, considering the shortcomings of the Land Use Act at the Federal level. In particular, one of the key recommendations of the ESSA, and also a DLI, is the development of the Framework for Responsible and Inclusive Land Intensive Agricultural Investment (FRILIA). The FRILIA will provide a comprehensive approach to the acquisition and allocation of land and a robust and inclusive engagement strategy with all stakeholders, including affected communities and vulnerable groups, as well as private investors. The FRILIA is based on the FAO Voluntary Guidelines for the Responsible Tenure of Land, Fisheries and Forests in the context of National Food Security, as well as the Committee on World Food Security Principles for Responsible Investment in Agriculture and Food Systems. It also draws on international good practice for environmental management, land acquisition and resettlement. The Framework is focused on large-scale agricultural investments because this remains a sector of investment priority and carries significant land risks. The framework may be adapted to other sectors at a later time.

11. **As the FRILIA will take time to develop fully and consult upon, a set of land management principles were agreed with the government as a condition to negotiate the Financing Agreement** (see appendix to this annex). Elaboration of the Framework in line with the approved principles and with due consultation and participation of key stakeholders (DLI to be achieved in 2018) will be supported by external technical assistance from the World Bank and/or development partners and overseen by a multi-stakeholder steering committee. Ultimately, the Program requires that the FRILIA be enacted into law (DLI to be achieved in 2019). The government's progress in developing and implementing the FRILIA will then be evaluated by a third party social audit (DLI to be achieved in 2020).

12. **The ESSA has examined the risk that the Program will exacerbate social conflict in Kaduna State, especially in relation to land acquisition for large agribusiness enterprises, if this acquisition is not conducted in a sensitive and transparent manner.** Kaduna has a long history of ethno-religious violence which has seriously affected inter-communal relations. Since mid-2016, Southern Kaduna has become a major flashpoint and violent inter-communal conflicts

⁸⁰ The regularization program has not yet been initiated by KADGIS.

⁸¹ <http://www.amnestyusa.org/get-involved/take-action-now/nigeria-stop-the-planned-forced-eviction-of-residents-of-gbagyi-villa-ua-17416>

have intensified, with killings and reprisal killings, although there are conflicting reports of the numbers of victims and fatalities. Many of the violent conflicts are said to be linked to disagreements between pastoralists and farmers over the use of essential resources such as farmland, grazing areas, and water. Historical ethno-religious divides, rural banditry, and social media and rumors contribute to further the escalation of events.

13. **The ESSA concludes that the Program has adequate mitigation measures to avoid exacerbation of such contextual conflict risks.** The Kaduna State Development Plan heavily emphasizes the role of the private investor in achieving its goals, and the government is seeking to attract investors through acquiring and providing land for them. Conflict over land is considered one of the key drivers of the pastoralists/farmers conflict. The PforR will promote Kaduna State private investment efforts, as well as introducing a stronger stakeholder engagement and land acquisition process through the development and implementation of the FRILIA, that the State plans to enact into law. Other measures detailed in the Program Action Plan ensure that a conflict sensitive approach is taken. For example, investments will undergo a social assessment to provide further insight into the impacts and grievance and conflict resolution mechanisms will be in place to monitor and resolve conflict as they occur at a project level (as part of the FRILIA).

14. **Further, the conflict risks may be attenuated by treating generic risk factors such as youth unemployment and poverty, such that the Program will contribute to a broader process to reduce these risks over time.** One of the main objectives of the Kaduna State Development Plan and the PforR, is job creation, especially amongst young people. Chronic youth unemployment in Kaduna, as well as in other parts of Nigeria, has long been cited as one of the main drivers of conflict. The pool of disaffected, disengaged youth provides a fertile recruiting ground for religious and political extremists. Increasing youth employment is a critical intervention that will ultimately help to reduce conflict in some areas.

15. **Beyond the boundaries of the Program, the Kaduna State Government has also already implemented several strategies to tackle both the symptoms and causes of the conflict** by engaging with NGOs, increasing police presence, and promoting rule of law, as well as adopting recommendations from Peace and Reconciliation Committee⁸² such as improved conflict resolution mechanisms; stakeholder engagement, and inclusion of youth.

16. **The environmental risks of the PforR Program are considered manageable, provided that adequate measures are taken to ensure environmental regulatory agencies have sufficient resources in place to enforce laws.** Changes in land-use from its current uses (predominantly small-scale agricultural) toward increased industrial and intensified agricultural activity may result in environmental impacts such as an increase in levels of pollution, occupational and community health and safety risks, and loss of biodiversity and forest ecosystems. These risks apply equally to developing the legal and institutional framework for PPP (under DLI4). The Environmental Impact Assessment (EIA) processes for private investments required by the Kaduna Environmental Protection Agency (KEPA) have been strengthened over the last year. The Ministry of Environment is also further reinforcing the

⁸² “White Paper on the report of the Peace and Reconciliation Committee” (February 2016), KDSG, <http://kdsg.gov.ng/download/white-paper-on-the-report-of-the-peace-and-reconciliation-committee-february-2016/>

mandate of KEPA to undertake monitoring activities. The EIA process as outlined in the ESSA is considered adequate, but there are gaps identified in social assessment, capacity building, and resources. These gaps are addressed through the Program Action Plan (annex 8).

17. **A formal consultation on the draft ESSA was organized during appraisal in April 2017 eliciting inputs from the key stakeholders.** For the preparation of the ESSA, World Bank staff undertook a series of meetings and engagements with various stakeholders including state agencies in Kaduna, development partners, and technical experts aimed at information gathering and risk analysis. The draft ESSA, in particular the description of the Program, the system assessment, and findings, including the Program Action Plan, was then formally presented to and discussed with government stakeholders and civil society organizations (CSOs) during appraisal, providing further input to, and validation of, the said ESSA. The CSO consultation was well attended with representation from religious organizations, farmers associations, Fulani herders associations, women's organizations, and organizations focused on people with disabilities and living with HIV/AIDs. Key concerns raised include government transparency and inclusion of people with disabilities. There are a number of elements of the Program that strengthen government transparency and inclusive stakeholder engagement such that these concerns are considered addressed. The draft ESSA has been shared with participants of the consultation and the final ESSA was disclosed on the World Bank website on May 16, 2017.

18. **The ESSA analyzes the strengths and gaps in Kaduna State's environmental and social management system for effectively addressing the environmental and social risks associated with the Program and its alignment with the Core Principles of Bank Policy for Program-for-Results Financing.** Following this analysis, the ESSA recommendations are as follows:

- (a) **Development and implementation of the FRILIA.** The development and implementation of the FRILIA is a disbursement-linked indicator (DLI5). As a condition of negotiation, the FRILIA principles were agreed upon and will then be further developed into a full framework through consultation, and enacted into law by agreed dates. The FRILIA will be supported by external Technical Assistance to be provided by World Bank and/or DFID. A Social Audit will report on the quality and progress of the FRILIA development and implementation process. The Program Action Plan further requires augmented in-house capacity, the establishment of a multi-stakeholder Steering Committee to oversee the development of FRILIA and effectiveness of implementation, and community grievance redressal and conflict resolution mechanisms.
- (b) **Development and implementation of a strategy based on a socioeconomic assessment to maximize benefits sharing of investments.**⁸³ As set out in the Program Action Plan, this will involve the following: (i) maximize out-growers/off-takers arrangements; (ii) maintain a SME suppliers database; and (iii) develop a jobs marketplace, with a focus on maximize opportunities for women. In this context, KADIPA will track information disaggregated by age and gender and monitor key indicators, such as direct and indirect job creation.
- (c) **Development of a PPP legal and institutional framework that appropriately**

⁸³ Development and implementation of the FRILIA also has opportunities to maximize benefit sharing.

manages E&S risks. Under the PPP DLI (DLI4), the Disbursement Linked Results (DLR) are as follows: detailed feasibility studies for one transaction with low E&S risks completed (as per PforR policy); and one PPP transaction with low E&S risks (as per PforR policy) that reaches commercial closure. The Program Action Plan requires: (i) PforR Implementation Manual to incorporate E&S aspects and outline risk assessment criteria for low E&S risk; (ii) PPP manual that incorporates best practice E&S risk management. The Independent Verification Agent will verify that the DLR is met, which will entail verifying that the PPP transaction is low E&S risk (as per the specifications of the Project Implementation Manual).

- (d) **Address gaps in the Systematic Property Registration Program.** The following requirements are incorporated into the Program Action Plan: (i) amendments to the recently drafted Land Use Regulations (2016);⁸⁴ (ii) undertake, review, and enhance SPRP stakeholder engagement strategy; (iii) improvements to the grievance redressal mechanism; (iv) documentation of procedures; and (v) promotional materials to encourage participation by women.
- (e) **Address weaknesses in the EIA process.** The Program Action Plan requires a review of the KEPA budget for 2017 (and subsequent years) to ensure that it allows KEPA to satisfactorily fulfill its mandate, with a focus on private investments in Kaduna State. Budget forecasting is required to be supported with a capacity review covering environmental impact assessment and monitoring.

19. **Conclusion:** The ESSA concludes that the Kaduna Government is committed to the program of work outlined in the ESSA and has demonstrated its political will to tackle the challenges that hinder its social and economic development as reflected in the Kaduna State Development Plan.

⁸⁴ The amendments were completed as a condition to negotiate the Financing Agreement.

Annex 6: Environmental and Social Systems Assessment

Appendix: Principles for the Framework for Responsible and Inclusive Land-Intensive Agricultural Investments

1. The proposed PforR supports the KSDP, with a focus on Economic Development and Governance. It focuses on strengthening Kaduna State systems and supports the following results areas:

- Improving the business-enabling environment
- Strengthening fiscal management accountability

2. A major focus of the Program is to support Kaduna State to develop tools to successfully attract inclusive private agricultural investment and to ensure shared benefits between private investors and surrounding communities. Under this results area, the main focus of the Program is to support the Kaduna State Government (KDSG) to improve its regulatory and institutional systems in a manner that ensures balanced efforts at aggressively attracting private investors in the agriculture sector and at minimizing environmental and social (E&S) impacts. A key tenet under the Program is that sound environment and social practices will further enhance Kaduna State attractiveness for the private sector, as it will minimize potential conflicts with communities, as well as conflict between pastoralists and farmers. The Program includes a focus on improving the systems for land acquisition and resettlement and adapting the current regulatory and institutional framework to better reflect fair and inclusive principles as expressed in such instruments as the Voluntary Guidelines on the Responsible Tenure of Land, Fisheries, and Forests in the context of National Food Security (to which Nigeria is a signatory), as well as the Council on Food Security's Principles for Responsible Investment in Agriculture and Food Systems.

3. In doing so, the Program recognizes that the KDSG will need to address a number of risks and shortcomings evident in the operationalization of current laws and processes across Nigeria, including the following: (a) documentation and spatial information concerning existing rights are weak, especially in rural areas; (b) land allocation decisions based on the principle that the Government owns all land sometimes fails to take into account the legal and constitutional recognition of customary uses of rural communities; (c) the legal status of common areas is uncertain, despite the fact that such areas are critical for livelihoods of rural communities; (d) compulsory acquisition processes and compensation standards are at times not consistent with international best practice; (e) excessive reliance on compulsory acquisition to assemble land for private investment may limit the potential involvement of local communities as genuine partners in an investment; (f) benefit arrangements may be vaguely defined and constrained by weak community capacity to negotiate; (g) there is weak capacity in the state government to conduct land acquisition and reallocation efficiently and fairly; and (h) government identification of land for large-scale investment is not always based on robust environmental and social impact assessment.

4. Recognizing the significant shortcomings of the existing legal framework for land in Nigeria, this Program provides a unique opportunity to address the identified issues at the state level. The KDSG has expressed its commitment to establishing, under the Program, a more

transparent, efficient, and better resourced land sector to ensure that the current and future demand for land leads to beneficial and equitable outcomes for affected communities, while attracting and supporting high-quality investment. However, the appropriate revision of existing laws, regulations, procedures, and institutional arrangements to address this overarching goal will require significant analytical work (some of which is already under way), the development of technically sound and socially legitimate proposals, widespread consultation and validation with all affected stakeholders, followed by careful testing, and adjustment. In other words, the precise details of the reforms will necessarily require time to be designed and agreed upon.

5. The Governor of Kaduna confirmed to the World Bank, via a letter, the commitment of the KDSG to undertake this work in manner that is consistent with a number of key principles, related generally to improving the enabling environment for inclusive land-based investment in the agriculture sector, and more specifically, to aligning the KDSG approach to fair and inclusive E&S management systems.

1. Overarching principles:

- Investments in agricultural lands should occur transparently and should be consistent with the objectives of social and economic growth and sustainable human development.
- Responsible investment should safeguard against dispossession of legitimate tenure right holders and environmental damage, unless adequately mitigated.
- Investments should contribute to policy objectives, such as poverty eradication, food security, sustainable land use, employment creation, and support to local communities.
- A range of production and investment models should be considered, which provides alternatives to the large-scale transfer of land and that encourage partnerships with customary and other local tenure rights holders, through joint ventures, outgrower schemes, tripartite agreements, and other models.
- Investment models should seek to ensure that, subject to the Land Use Act, affected communities have the opportunity and responsibility to decide whether or not to make land available for investments, based on informed choices, to secure sustained and well-defined benefits, to receive fair compensation for the land (including common areas) and living natural resources that they make available to investment, to engage in partnerships with investors and Government, to be able to hold investors accountable to their commitments, and to respect and abide by their own commitments.
- Investments should be subject to consultation and participation with affected people and communities, including those that are disadvantaged or vulnerable, and they should be informed of their rights and assisted to develop their capacity to engage in consultations and negotiations.
- Large-scale investments should be preceded by independent assessments of potential positive and negative impacts on tenure rights, food security, livelihoods, and the environment.

- All existing legitimate rights, including customary and informal rights, and rights to common property resources, should be systematically and impartially identified.
- Investments should be monitored and grievance mechanisms provided for aggrieved parties, including non-judicial mechanisms.

2. Land acquisition and resettlement. In implementing the above overarching principles, the following specific principles should apply to issues related to land acquisition and resettlement:

- Land acquisition and related adverse impacts will as much as possible be minimized or avoided.
- Economic and social impacts caused by land acquisition or loss of access to natural resources shall be identified and addressed, including those affecting people who may lack full legal rights to assets or resources they use or occupy.
- Adequate compensation will be provided to purchase replacement assets of equivalent value and to meet any necessary transitional expenses, paid before taking of land or restricting access.
- Supplemental livelihood improvement or restoration measures will be provided if taking of land causes loss of income-generating opportunity (that is, loss of crop production, or employment).
- Public infrastructure and community services that may be adversely affected will be replaced or restored.
- Where livelihoods of displaced persons are land-based, or where land is collectively owned, displaced persons should be offered an option for replacement land, unless equivalent land is not available.
- Economically displaced people with legal rights or claims should receive replacement property (for example, agricultural or commercial sites) of equal or greater value, or, where appropriate, cash compensation, at replacement cost.
- Displacement can have severe economic and social impacts even on those persons who have no formal legal right to land, particularly the poor and vulnerable who depend on that land for their livelihoods. Where this occurs, in lieu of compensation for land, resettlement assistance should be provided to help such persons restore their livelihoods elsewhere and compensation provided for non-land assets they may lose as a result of the displacement. At the same time, reasonable cutoff dates for assistance should be established to help prevent opportunistic settlers who may move illegally into an area specifically with the expectation of receiving compensation.
- If it is demonstrated that replacement land or resources are unavailable, economically displaced people should be provided with options for alternative income-earning opportunities, such as credit facilities, skills training, business start-up assistance, employment opportunities, or cash assistance additional to the compensation.

- Transitional support will be provided as necessary to all economically displaced persons, based on a reasonable estimate of the time required to restore their income-earning capacity, production levels, and standards of living.
- Displaced persons need to be engaged about their options and rights pertaining to involuntary resettlement. Decision-making processes on involuntary resettlement and livelihood restoration should include options and alternatives from which project-affected persons may choose. Disclosure of relevant information and meaningful consultation should take place throughout the design and implementation phases of the resettlement process.
- Compensation standards for categories of land and fixed assets need to be disclosed and applied consistently. Compensation rates may be subject to upward adjustment where negotiations strategies are employed. In all cases, a clear basis for calculation of compensation will be documented and compensation distributed in accordance with transparent procedures.
- Particular attention should be paid to the engagement and needs of vulnerable groups among those displaced, especially those below the poverty line, elderly, women and children, people with disabilities, economically or socially disadvantaged, or other displaced persons who may not be adequately protected under law.
- Grievance mechanisms need to be established to provide accessible and affordable procedures for third-party settlement of disputes arising from displacement or resettlement. These mechanisms should take into account the availability of judicial recourse and community and traditional dispute mechanisms.
- Any action related to the displacement of people must comply with federal and state laws and be conducted in a manner consistent with basic principles of due process (including provision of adequate advance notice, meaningful opportunities to lodge grievances and appeals, and avoidance of the use of unnecessary, disproportionate, or excessive force).

3. E&S sustainability. In implementing the above overarching principles, the following specific principles should apply to issues related to E&S sustainability:

- To incorporate recognized elements of E&S assessment good practice, including (a) early screening of potential effects; (b) consideration of strategic, technical, and site alternatives (including the ‘no action’ alternative); (c) explicit assessment of potential induced, cumulative, and trans-boundary impacts; (d) identification of measures to mitigate adverse environmental or social impacts that cannot be otherwise avoided or minimized; (e) clear articulation of institutional responsibilities and resources to support implementation of plans; and (f) responsiveness and accountability through stakeholder consultation, timely dissemination of program information, and responsive grievance redress measures.
- To incorporate due consideration for social risks and impacts, including: (i) threats to human security through the escalation of personal, communal or inter-

state conflict, crime or violence; (ii) risks that project impacts fall disproportionately on individuals or groups who, because of their particular circumstances, may be disadvantaged or vulnerable; (iii) any prejudice or discrimination toward individuals or groups in providing access to investment benefits, particularly in the case of those who may be disadvantaged or vulnerable; (iv) negative economic and social impacts relating to the involuntary taking of land or restrictions on land use; and (v) risks or impacts associated with land and natural resource tenure and use, including (as relevant) potential project impacts on local land use patterns and tenurial arrangements, land access and availability, food security and land values, and any corresponding risks related to conflict or contestation over land and natural resources.

- To include appropriate measures for early identification and screening of potentially important biodiversity and cultural resource areas.
- To support and promote the conservation, maintenance, and rehabilitation of natural habitats; avoid the significant conversion or degradation of critical natural habitats, including legally protected forest reserves; and if avoiding the significant conversion of natural habitats is not technically feasible, include measures to mitigate or offset impacts or program activities.
- To take into account potential adverse impacts on physical cultural property and, as warranted, provide adequate measures to avoid, minimize, or mitigate such effects.
- To promote community, individual, and worker safety through the safe design, construction, operation, and maintenance of physical infrastructure, industrial, and agricultural facilities, or in carrying out activities that may be dependent on such infrastructure and facilities with safety measures, inspections, or remedial works incorporated as needed.
- To promote the use of recognized good practice in the production, management, storage, transport, and disposal of hazardous materials generated through program construction or operations; promote the use of integrated pest management practices to manage or reduce pests or disease vectors; and provide training for workers involved in the production, procurement, storage, transport, use, and disposal of hazardous chemicals in accordance with international guidelines and conventions.
- To promote the fair treatment, non-discrimination, and equal opportunity of workers and to prevent the use of all forms of forced labor and child labor in accordance with national and state laws.
- To include measures to avoid, minimize, or mitigate community, individual, and worker risks when program activities are located within areas prone to natural hazards, such as floods, hurricanes, earthquakes, or other severe weather or climate events.

Annex 7: Systematic Operations Risk Rating (SORT)

Stage: Board

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	Rating (H, S, M, L)
1. Political and Governance	H
2. Macroeconomic	H
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	H
6. Fiduciary	S
7. Environment and Social	S
8. Stakeholders	H
9. Other (Conflict)	H
OVERALL	H

Annex 8: Program Action Plan

Action Description	Due Date	Responsible Party	Completion Measurement
Results Area 1: Improving the Business-enabling Environment			
KADIPA			
Review KADIPA's 2017 budget (and outer years) to ensure it is commensurate to KADIPA's mandate	December 31, 2017; continuous	KADIPA and Ministry of Budget and Planning	Supplementary budget for 2017; 2018 budget (with estimates for 2019 and 2020) reflects the adjusted budget for KADIPA
Development and implementation of a strategy based on a socio-economic assessment to maximize benefits sharing of investments ⁸⁵ : e.g. (i) maximize out-growers'/off-takers' arrangements, (ii) maintain SME suppliers database, and (iii) develop jobs marketplace, with a focus on maximizing opportunities for women. In that context, KADIPA will track data disaggregated by age and gender and monitor key indicators, such as direct and indirect job creation.	December 31, 2017; continuous	KADIPA	KADIPA approval of benefits sharing strategy and annual monitoring of implementation of strategy (with adjustments if necessary)
Development of investors' satisfaction survey (including satisfaction with KADIPA facilitation services) and of investors' grievance redressal mechanism	December 31, 2017; continuous	KADIPA	Investors' satisfaction survey launched and investors' grievance redressal mechanism operational; annual reports
KADIPA to lead the development of the proposed NWIAA	By June 30, 2018	KADIPA	NWIAA presented at the Northern Governors Forum
Development of a PPP legal and institutional framework that appropriately manages E&S risks: (i) PforR Implementation Manual to incorporate E&S aspects and outline risk assessment criteria for low E&S risk; (ii) PPP manual incorporates best practice E&S risk management	(i) & (ii) by October 31, 2017	KADIPA	(i) PforR Implementation Manual (ii) PPP Manual
KADGIS			
Development and implementation of the Framework for Responsible and	(i) December 31, 2017	KADGIS	(i) Stakeholder Engagement Plan

⁸⁵ Development and implementation of the FRILIA also has opportunities to maximize benefit sharing.

Inclusive Land Intensive Agricultural Investments (FRILIA): ⁸⁶ (i) develop Stakeholder Engagement Strategy to outline consultation process for developing FRILIA; (ii) develop in-house capacity to support the implementation of the FRILIA; (iii) establish multi-stakeholder Steering Committee to oversee development of FRILIA and effectiveness of implementation; (iv) develop and implement community grievance redressal and conflict resolution mechanisms	(ii) Staffing complete by December 31, 2017 (iii) August 31, 2017 (iv) December 31, 2017		submitted (ii) KADGIS (and relevant agencies) has developed in-house capacity to support the FRILIA implementation (staff trained and assigned responsibility for support to FRILIA implementation) (iii) Committee established as per TOR; ⁸⁷ bi-annual reports from committee (iv) Community grievance redressal and conflict resolution mechanism operational
Review KADGIS' 2017 budget (and outer years) to ensure it is commensurate to KADGIS mandate.	December 31, 2017; continuous	KADGIS and Ministry of Budget and Planning	Supplementary budget for 2017 (if required); 2018 budget (with estimates for 2019 and 2020) reflects the adjusted budget for KADGIS
Agreed amendments to Kaduna State Land Use Regulations	By negotiations (Completed)	KADGIS	Revised regulations
Undertake, review, and enhance the SPRP Stakeholder Engagement Strategy	December 31, 2017	KADGIS	Updated Stakeholder Engagement Plan
Implementation of a grievance redressal mechanism for the SPRP	December 31, 2017	KADGIS	Grievance redressal mechanism operational
Prepare and regularly review SPRP documentation: (i) Standard Operating Procedure manual, using the Systematic Land Titling and Registration manual as a guide, which includes detailed flowcharts of the processes, responsible persons, actors, time lines, and outputs of the program; (ii) regulatory framework for SPRP; (iii) training manual; (iv)	SPRP Standard Operating Procedure manual: July 31, 2017; other SPRP documentation : June 30, 2018; Review:	KADGIS	Approved Standard Operating Procedure manual; training manual and promotional material; updated SPRP documentation (including regulatory framework)

⁸⁶ The FRILIA principles are incorporated in the ESSA and were agreed ahead of the negotiations of the financing agreement. The FRILIA will be supported by external Technical Assistance to be provided by World Bank and/or DFID. The Program Implementation Manual will provide detail about how to develop and implement the FRILIA including the TOR for an Independent Social Audit and grievance redressal mechanism. The Social Audit will report on the quality and progress of the FRILIA development process, as well as on the implementation of the FRILIA for a sample of investments in the portfolio.

⁸⁷ The TOR for a Steering Committee will be incorporated into the Program Implementation Manual.

information brochures and other promotional material targeting women for the SPRP	continuous		
KEPA			
Review KEPA budget for 2017 (and subsequent years) to ensure that it allows KEPA to satisfactorily fulfill its mandate, with a focus on private investments in Kaduna State. In support of the above, a detailed capacity-building program should be outlined and budgeted, covering environmental and social impact assessment, and monitoring.	December 31, 2017; continuous	KEPA, Ministry of Environment and Ministry of Budget and Planning	Supplementary budget for 2017 supported by a capacity assessment program; 2018 budget (with estimates for 2019 and 2020) reflects the adjusted budget for KEPA
Results Area 2: Strengthening Fiscal Management and Accountability			
KADIRS			
Strengthening of grievance redressal system for taxpayers	December 31, 2017	KADIRS	Grievance redressal mechanism operational
Commission of a study of social impact of tax reforms (distributive analysis)	December 31, 2018	KADIRS	Completion of study
Ministry of Budget and Planning			
Undertake a Strategic Environmental and Social Assessment to support the Kaduna State Infrastructure Master Plan: (i) Outline and Terms of Reference; (ii) Strategic Environmental and Social Assessment	(i) December 31, 2017 (ii) December 31, 2017	KEPA	(i) Terms of Reference (ii) Approved Strategic Environmental and Social Assessment
Publish BERs, AFSs, and audit opinion on the Kaduna State Government and Local Governments financial statements	December 31, 2017 and ongoing	Ministry of Finance	BERs available on the state's website (within six weeks of quarter end) and AFSs (within seven months of end of FY)
Production and dissemination of statistical information, with a focus on socio-economic information	Continuous	State Bureau of Statistics	Number of surveys completed and publicly disclosed
Prepare Procurement Plans for five MDAs with highest volume procurements as part of the budget preparation and approval process	June 30, 2018 and every year	5 MDAs	Ministry of Agriculture, Works, Education, Health, and Water Resources—procurement plans of these MDAs available
Ministry of Finance			
Adoption of fund release policy to MDAs for improved predictability of resource flows to MDAs.	December 31, 2018	Ministry of Budget and Planning; Ministry of Finance	MDAs BERs showing cumulative budget releases against appropriations

KPPA			
Capacity building on e-procurement procedures and contract management conducted annually for pilot MDAs	December 31, 2017	KPPA	Attendance sheets and KPPA annual reports
Implementation of grievance redressal mechanism	March 31, 2018	KPPA	Grievance redressal mechanism annual reports
Accountant General			
Introduction of risk-based internal audit function outside the expenditure processing cycle	December 31, 2018	Pilot MDAs/Accountant General	Internal audit reports
All Program Lead Agencies			
Operationalization of the state anticorruption framework	December 31, 2017	Program lead agencies	Appointment of anticorruption desk officer

Annex 9: Implementation Support Plan

1. This annex describes how the World Bank and other development partners will support implementation of the Program, with particular emphasis on (a) reviewing implementation progress (including that of the PAP) and achievement of Program results and DLIs; (b) providing support on resolving emerging Program implementation issues and on building institutional capacity; (c) monitoring the adequacy of systems performance and monitoring compliance with legal agreements; and (d) supporting the KDSG in monitoring changes in risk.
2. The PforR will require significant support from the World Bank team during implementation, particularly in strengthening the capacity of lead agencies to fulfil their mandate and implement the Program. The Program also needs to coordinate implementation across a broad range of MDAs. Day-to-day PforR implementation support will be provided by the World Bank Abuja office in Nigeria, with regular travel to Kaduna State. World Bank support will be provided through a supervision budget, the CIIP (which includes a focus on Kaduna State).
3. The implementation of the PforR will also benefit from support from the Federal Ministry of Finance, which will be represented in the PforR Steering Committee and involved, in particular, in the Monitoring and Evaluation of the Program.
4. Parallel DFID technical assistance will play a critical role. Close coordination with DFID is ensured with the secondment of a DFID staff to the World Bank Abuja office, within the Trade and Competitiveness Global Practice. The PforR will also leverage technical assistance provided by other development partners such as USAID and the Open Government Partnership.
5. Tables 9.1, 9.2, and 9.3 summarize the proposed implementation support.

Table 9.1 Main Focus of Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	The focus on the first 12 months will be on fast-tracking implementation of critical reforms across the two results areas and providing just-in-time technical assistance. This will involve a strong focus on capacity building of Program lead agencies. There will also be a focus on closely monitoring the environment and social risks under the Program and on ensuring that the agreed mitigation strategies are satisfactorily implemented.	Technical skills in Program areas; client engagements skills; environment and social expertise	Monthly meetings with KDSG to review progress and plans	Close coordination between the World Bank and DFID on PforR implementation and on identification of critical technical assistance to be provided by DFID
12–48 months	The focus will be on ensuring that the Program implementation has reached steady stage and that lead	Technical skills in Program areas, client engagements	Meetings with KDSG once every two months to review progress and	Close coordination between the World Bank and DFID on PforR

	agencies have the required capacity to implement the program—with the view to minimize disruptions (to the extent possible) disruptions from the electoral cycle (with presidential and gubernatorial elections in early 2019). Continuous focus on closely monitoring the environment and social risks under the Program and on ensuring that the agreed mitigation strategies are satisfactorily implemented.	skills, environment and social expertise	plans	implementation and on identification of critical technical assistance to be provided by DFID
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Table 9.2 Task Team Skills Mix Requirements for Implementation Support

Skills Needed	Number of Staff Weeks (per year)	Number of Trips (per year)	Comments
Task team leaders, from Trade and Competitiveness and Governance Global Practices	22	12	Abuja based
Business regulations reforms, with a focus on three Subnational Doing Business indicators (starting a business, dealing with construction permits, and registering property)	6	2	Technical Assistance on Doing Business reforms led from Nairobi, Kenya (with additional support from short-term consultants)
Investment promotion and retention	1	1	Global lead on investment promotion (support by videoconference)
PPP	4	2	PPP cross-cutting solutions area and Technical Assistance from Public Private Infrastructure Advisory Facility
Land administration	6	2	Global land team (SURR) and LEGEN
Social development	4	2	Washington DC based
Environment	4	2	Abuja based
Spatial development	2	-	Global lead on spatial development and growth poles (Trade and Competitiveness)
Taxes (global tax team)	2	1	Vienna based
PIM and Financial Management (Governance)	3	2	Abuja based
Procurement	3	2	Abuja based
Citizens' engagement and Open Government	1	-	Global lead Open Government

Table 9.3: Role of Partners in Program implementation

Name	Institution/Country	Role
ENABLE II LINKS (to be approved)	UK DFID	These two projects will provide support to Results Area 1: Improving the Business-enabling Environment. The proposed LINKS project focuses on attracting investments for job creation in three Northern Nigeria States: Kaduna, Kano, and Jigawa States. ENABLE II focuses on improved policy and regulatory environment for business by enhanced PPD and includes a focus on Kaduna State.
PERL	UK DFID	PERL, and in particular the Accountable, Responsive and Capable Government pillar, will support Results Area 2: Strengthening Fiscal Management and Accountability. The Accountable, Responsive and Capable Government pillar focuses on strengthening processes, practices, and capabilities within the Government to ensure more accountable and effective use of public resources—and includes a focus on Kaduna State.
Various programs	USAID	USAID programs will support Results Area 1, with a focus on (i) strengthening the agriculture sector through increased agricultural productivity of selected value chains, expanded market participation, increased access to finance and an improved business enabling environment and (ii) increasing access to and availability of power in Kaduna State.
Open Government Partnership	Multilateral initiative	Support to Open Government and citizens' engagement.