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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 87 MILLION
(US\$125 MILLION EQUIVALENT)

TO THE

FEDERAL REPUBLIC OF NIGERIA

FOR A

FISCAL GOVERNANCE AND INSTITUTIONS PROJECT

May 31, 2018

Governance Global Practice
Poverty and Equity
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2018)

Currency Unit = Nigerian Naira (NGN)

US\$1 = SDR 0.69538128

US\$1 = NGN 305

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

APC	All Progressive Congress
AfDB	African Development Bank
AFROSAI	African Organization of Supreme Audit Institutions
ASYCUDA	Automated System for Customs Data
AWP	Annual Work Plan
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CFA	Central Finance Agencies
CIT	Corporate Income Tax
COFOG	Classification of Functions of Government
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CY	Calendar Year
DA	Designated Account
DHS	Demographic and Health Survey
DFID	Department for International Development (UK)
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DMO	Debt Management Office
DPR	Department of Petroleum Resources
EEP	Eligible Expenditure Program
e-GP	Electronic Government Procurement
ERG Project	Economic Reform and Governance Project
ERGP	Economic Recovery and Growth Plan

EU	European Union
FGIP	Fiscal Governance and Institutions Project
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FM	Financial Management
FMBNP	Federal Ministry of Budget and National Planning
FMoF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FSP	Fiscal Sustainability Plan
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GHS	General Household Survey
GIFMIS	Government Integrated Financial Management Information System
GIFT	Global Initiative on Fiscal Transparency
GRS	Grievance Redress Service
HNLSS	Harmonized Nigeria Living Standard Survey
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICBF	Institutional Capacity Building Framework
ICT	Information and Communications Technology
IDA	International Development Association
IERD	International Economic Relations Department
IFR	Interim Financial Reports
IGR	Internally Generated Revenues
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPF	Investment Project Financing
IPPIS	Integrated Personnel and Payroll System
IPSAS	International Public Sector Accounting Standards
IR	Intermediate Results
ISR	Implementation Status and Results
IT	Information Technology
ITAS	Integrated Tax Administration System
IVA	Independent Verification Agent
JV	Joint Venture
KRA	Key Results Areas
M&E	Monitoring and Evaluation

MBNP	Federal Ministry of Budget and National Planning
MDA	Ministries, Departments and Agencies
MICS	Multiple Indicator Cluster Survey
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTR	Mid-term Review
MTSS	Medium-Term Sector Strategies
NAPIMS	National Petroleum Investment Management Service
NBS	National Bureau of Statistics
NCB	National Competitive Bidding
NCS	Nigeria Customs Service
NEITI	Nigeria Extractive Industries Transparency Initiative
NGN	Nigerian Naira
NIMASA	Nigerian Maritime Administration and Safety Agency
NLSS	Nigeria Living Standard Survey
NNPC	Nigerian National Petroleum Corporation
NPA	Nigerian Ports Authority
NPoPC	National Population Commission
NSC	National Steering Committee
OAuGF	Office of the Auditor General of the Federation
OAGF	Accountant General of the Federation
OBI	Open Budget Index
OGP	Open Government Partnership
OML	Oil Mining License
PAYE	Pay-as-you-go
PCU	Project Coordination Unit
PDO	Project Development Objective
PEBEC	Presidential Enabling Business Environment Council
PEFA	Public Expenditure and Financial Accountability
PEMANDU	Performance Management Delivery Unit
PFM	Public Financial Management
PIM	Public Investment Management
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
PPT	Petroleum Profits Tax
PSC	Production-sharing Contracts
RMAFC	Revenue Mobilization, Allocation and Fiscal Commission

SAI	Supreme Audit Institution
SFTAS	State Fiscal Transparency, Accountability and Sustainability
SOE	State-owned Enterprise
SORT	Systematic Operational Risk-Rating Tool
SSA	Sub-Saharan Africa
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
TOR	Terms of Reference
TSA	Treasury Single Account
TTL	Task Team Leader
UNICEF	United Nations International Children's Fund
USAID	United States Agency for International Development
VAIDS	Voluntary Asset and Income Disclosure Scheme
VAT	Value-added Tax
WB	World Bank

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BASIC INFORMATION

Country(ies)	Project Name	
Nigeria	Fiscal Governance and Institutions Project	
Project ID	Financing Instrument	Environmental Assessment Category
P163540	Investment Project Financing	C-Not Required

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input checked="" type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
21-Jun-2018	31-Dec-2022

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The project development objective (PDO) is to improve the credibility of public finance and national statistics.

Components

Component Name	Cost (US\$, millions)
Strengthening Revenue Management	34.00



Strengthening Controls, Transparency and Accountability in the Use of Public Funds	58.50
Strengthening Economic and Fiscal Statistics	27.50
Implementation Support	5.00

Organizations

Borrower:	Federal Republic of Nigeria
Implementing Agency:	Federal Ministry of Finance

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	125.00
Total Financing	125.00
of which IBRD/IDA	125.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	125.00
IDA Credit	125.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Total Amount
National PBA	125.00	0.00	125.00
Total	125.00	0.00	125.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2018	2019	2020	2021	2022	2023
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Annual	0.00	15.00	32.50	34.50	23.50	19.50
Cumulative	0.00	15.00	47.50	82.00	105.50	125.00

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment, Poverty and Equity

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

No

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category

Rating

1. Political and Governance

● High

2. Macroeconomic

● High

3. Sector Strategies and Policies

● Substantial

4. Technical Design of Project or Program

● Substantial

5. Institutional Capacity for Implementation and Sustainability

● High

6. Fiduciary

● High



7. Environment and Social	● Low
8. Stakeholders	● High
9. Other	
10. Overall	● High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

The Recipient shall, within the FMoF, establish, no later than two (2) months after the Effective Date and thereafter maintain, throughout the implementation of the Project, a Project coordination unit (PCU) with functions,



resources and staffing in adequate number satisfactory to the Association and as elaborated in the POM (Schedule 2, Section I.A.1 of the Financing Agreement).

Sections and Description

The Recipient shall within each of the Implementing Agencies, with the exception of the FMOF, establish, no later than two (2) months after the Effective Date and thereafter maintain, throughout the implementation of the Project, a Project Implementation Unit with functions, composition and resources satisfactory to the Association and as elaborated in the POM (Schedule 2, Section I.A.2 of the Financing Agreement).

Sections and Description

The Recipient, through FoOF, shall no later than one (1) month after the Effective Date, or such later date as agreed by the Association, appoint and thereafter maintain, at all times during the implementation of the Project, an independent verification agent with qualifications and experience and under terms of reference acceptable to the Association (“Verification Agent”), to verify the data and other evidence supporting the achievement of one or more DLIs as set forth in the table in Schedule 4 and recommend corresponding payments to be made, as applicable, under Category 2 (Schedule 2, Section I.C.1 of the Financing Agreement).

Sections and Description

The Recipient shall, no later than three (3) months after the Effective Date, appoint an external auditor, under terms of reference acceptable to the Association, to audit the Office of the Auditor General of the Federation (Schedule 2, Section I.E of the Financing Agreement).

Sections and Description

The Recipient shall furnish to the Association each Project Report not later than one month after the end of each calendar semester, covering the calendar semester (Schedule 2, Section II.A of the Financing Agreement).

Conditions

Type	Description
Effectiveness	The Recipient, through the Implementing Agencies, has adopted the POM acceptable to the Association for the implementation of the Project (Article IV.4.01 of the Financing Agreement)
Disbursement	Notwithstanding the provisions of Part A of Schedule 2, Section III.B, no withdrawal shall be made for: (a) for payments for Eligible Expenditures Program under Category (2) and for payments under Category (1), made prior to the date of the Financing Agreement except that withdrawals up to an aggregate amount not to exceed SDR 3,690,000 for Category 1 and SDR13,710,000 for Category 2 may be made for payments made one year prior to the



Signature Date, and in the case of payments for Eligible Expenditures Program under Category (2), the conditions set forth in sub-paragraph (b) below shall be satisfied; and (b) under Category (2), unless and until the Recipient has furnished evidence satisfactory to the Association that: (i) payments for Eligible Expenditures Program have been made in accordance, and in compliance, with the procedures set forth in the Recipient's applicable laws and regulations and the POM; and (ii) the DLIs/DLRs set forth in Schedule 4 to the Financing Agreement for which payment is requested have been met and verified in accordance with the POM.

Notwithstanding the provisions of Part A, Schedule 2 of the Financing Agreement, payments under Category (2) shall not exceed the maximum amounts allocated to the respective DLI(s)/DLRs as provided in Schedule 4 to the Financing Agreement.

Notwithstanding the provisions of paragraphs 1 and 2 of Part B of the Financing Agreement, if the Association shall determine, based on the evidence provided by the Recipient under paragraph 1 of Part B, that any DLI(s)/DLRs have not been achieved or have been partially achieved by the end of the year during which such DLI(s)/DLRs were scheduled to be met in accordance with Schedule 4 to the Financing Agreement, the Association may in its sole discretion, by notice to the Recipient:

- (a) withhold in whole or in part the amount of the Financing allocated to such DLI(s)/DLRs;
- (b) disburse in whole or in part the amount of the Financing allocated to such DLI(s)/DLRs at any later time when such DLI(s)/DLRs are met; and/or
- (c) reallocate in whole or in part any amount of the Financing allocated to such DLI(s)/DLRs to other DLI(s)/DLRs under Category (2) or to other Categories.

Notwithstanding the foregoing, if the Association determines, at any time, that any portion of the amounts disbursed by the Recipient under Category (2) was made for reimbursement of expenditures that are not eligible under the payments for Eligible Expenditures Program or not in compliance with the provisions of paragraphs 1(b) and 2 of Section IIIB of Schedule 2 of the Financing Agreement, the Recipient shall promptly refund any such amount to the Association as the Association shall specify by notice to the Recipient.



NIGERIA
NIGERIA: FISCAL GOVERNANCE AND INSTITUTIONS PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **For the first time in Nigeria’s history, the 2015 elections marked a peaceful democratic transfer of power between two political parties; however, the new administration faced a fast-deteriorating macroeconomic environment.** Gross domestic product (GDP) growth fell from 6.3 percent in 2014 to 2.7 percent in 2015, and to negative 1.6 percent in 2016 — resulting in Nigeria’s first full-year recession in 25 years. In 2016, global oil prices reached a 13-year low and oil production was severely constrained by vandalism and militant attacks in the Niger Delta. While the oil sector represents only 8.3 percent of total GDP, it provides the majority of foreign exchange (FX) earnings and three-quarters of government revenues.

2. **The Nigerian economy emerged from the recession with GDP growth of 0.8 percent in 2017.** The recovery was driven by higher oil prices and production. Agriculture and non-oil industry grew by 3.4 percent and 0.6 percent, respectively. Services, which account for over half of GDP, continued to contract (-0.9 percent). There is substantial underemployment in addition to unemployment, quantified at 21.2 and 18.8 percent respectively in the third quarter (Q3) of 2017. Inflation remained at just below 16 percent, despite monetary tightening from the Central Bank of Nigeria (CBN). The parallel exchange rate premium vis-à-vis the official exchange rate remained stable at just under 20 percent. Total government revenues performed below expectations as oil revenues remained below pre-crisis levels. Non-oil revenues largely stagnated in the absence of significant tax reforms, leading to a larger fiscal deficit. The recovery is expected to be slow and largely oil driven, with real GDP growth just over 2 percent in 2018 according to the World Bank’s medium-term baseline growth scenario.

3. **Nigeria has experienced poverty reduction in recent years, but this varies considerably across geographic areas and demographic groups due to entrenched inequalities.** After 2004, the poverty rate in Nigeria fell by almost half in urban areas. However, it barely declined in rural areas, where 50 percent of the population is currently living below the poverty line. Moreover, while the total number of poor in the south declined by almost 6 million, it increased by almost 7 million in the north. The conflicts and the recent recession have led to an increase in poverty. The percentage of people living below the US \$1.9 purchasing power parity poverty line increased from 46.8 to about 48.4 in 2016 according to the projections based on the 2010 Nigerian Living Standards Survey.

4. **In March 2017, the Government launched the National Economic Recovery and Growth Plan (ERGP) for 2017-2020 to restore macroeconomic stability in the short-term.** Over the medium- to long-term, the ERGP calls for structural reforms, infrastructure investments and social sector programs to diversify the economy and set it on a path of sustained inclusive growth. It highlights “Investing in Nigerians” as one of the three broad strategic objectives in achieving the vision of inclusive growth for Nigeria. To improve human capital, the ERGP commits to improving the accessibility, affordability and quality of health care in Nigeria.

5. **Governance is among the main pillars of the ERGP, which specifically commits to transparency and anti-corruption, public service reform, intergovernmental coordination, and delivery.**

- **Regarding transparency and anti-corruption,** the ERGP commits to: (i) “creating a public register of owners to provide transparency on the complicated web of company ownership” in the oil and



gas sectors; (ii) the Open Government agenda, including to “ensure that the Nigerian public has the information required to hold the Federal Government to account for the management of public resources”; and (iii) “increasing transparency of the Nigerian National Petroleum Corporation (NNPC) by publishing a monthly financial and operational report and closing more than 40 accounts to simplify its accounting structure”.

- **Regarding public service reform**, it commits to reducing the cost of governance and “raising productivity across all Federal Government agencies by ensuring value for money in the procurement process”.
- **Regarding intergovernmental coordination**, it commits to the Fiscal Sustainability Plan (FSP)¹, including by “using progress against the FSP as a condition for future financial relief to the states” and by “improving the system of counterpart funding”.
- **Regarding delivery of the plan**, it commits to: (i) “set targets and develop detailed action plans”; (ii) “mobilize and allocate resources to priorities”, which implies increasing revenues and rationalizing expenditures, and (iii) “monitor and drive progress” including by establishing an ERGP Delivery Unit.

B. Sectoral and Institutional Context

6. **Anti-corruption, transparency and governmental accountability to citizens rank high on the agenda of the Nigerian Government.** Governance is officially acknowledged as a significant challenge to the Government’s ability to restore growth and promote development. To date, Nigeria has fared poorly in most governance international benchmarks. According to the Open Budget Index (OBI), which ranks Nigeria in the bottom quartile for fiscal transparency, no significant improvements have occurred from 2008 to 2017. Public trust in government is at a low ebb and hampers tax revenue mobilization.

7. **The Nigerian governance and institutional framework stands out for its wealth of accountability institutions and mechanisms which can be effectively leveraged to improve fiscal governance.** At the federal level, the Nigerian institutional set-up consists of a comparatively wide range of checks and balances, which could potentially prevent the undermining of fiduciary systems and sound budget management. However, it has been ineffective in doing so to date. The effectiveness of checks and balances is constrained by the large number of oversight authorities with overlapping mandates, as well as weak interagency cooperation on fiscal management issues. Nevertheless, some of these accountability institutions are increasingly assertive (such as the Office of the Auditor General of the Federation (OAuGF)) and could be critical change agents for governance reforms.

8. **Building on previous governance reforms, the Government introduced a new package of reforms in 2015, signaling its commitment to fight corruption and strengthen governmental transparency and accountability to the people — as well as its determination to increase the fiscal space to leverage public expenditure to stimulate growth and development.** After joining the Open Government Partnership in July 2016, an ambitious National Action Plan has been adopted and is being

¹ Agreed on between the Federal and State governments in 2016, the Fiscal Sustainability Plan (FSP) aims at strengthening fiscal discipline and the intergovernmental fiscal relationship by committing both tiers of government to specific actions in pursuit of five objectives: (1) Improve Accountability and Transparency; (2) Increase Public Revenues; (3) Rationalize Public Expenditure; (4) Improve Public Financial Management; and (5) Sustainable Debt Management. Of the 22 listed actions, most are to be implemented by the state governments, and a few are to be undertaken by the federal government.



implemented under close monitoring by the Federal Ministry of Justice. Fiscal discipline is being imposed on recurrent expenditures through the streamlining of the payroll and the establishment of an Efficiency Unit at the Federal Ministry of Finance (FMoF) tasked with streamlining overheads. Fiscal accountability is being enhanced through the strengthening of external and internal auditing for both revenues and expenditures. Revenue mobilization is pursued through tax administration reforms and by imposing public scrutiny on the oil sector. A whole range of statistical information has been generated and publicly disclosed in compliance with the government commitment to open data. In addition, official data validation and harmonization is being pursued to address data inaccuracies and inconsistencies. The Federal civil service is also being professionalized.

9. **For the Nigerian government’s fiscal reform agenda to succeed, the established platform and framework for public financial management (PFM) built over the past few years² needs to be strengthened and fully operationalized, including:**

- **Oversight of revenues accruing to the Federation account is to be significantly strengthened to support domestic revenue mobilization and to restore trust in fiscal federalism between the Federal and state governments.** The fiscal space has dwindled since the return to democracy in 1999. Since 2000, the revenue to GDP ratio has decreased from 30 percent to 5 percent, and the tax revenue to GDP ratio from 12 percent to close to 3 percent. A minimum fiscal space of 15 percent of GDP is deemed necessary for a state to exercise its core functions. This requires strong intergovernmental fiscal coordination as opposed to tax competition, which has prevailed thus far. It should be informed by robust capacity for revenue forecasting and analysis, and effective oversight of revenue generating agencies (including the oil companies and other state-owned enterprises (SOEs), and the tax and customs administrations). Despite recent attempts at strengthening regulatory requirements³ to ensure that the operating surplus of income-generating agencies and SOEs is remitted to the Federation and Federal accounts, enforcement by the Accountant General of the Federation (OAGF) has proven to be only moderately effective. The Nigerian Constitution states that “the public accounts of the Federation and of all offices and courts of the Federation shall be audited and reported on to the Auditor-General”. In effect, though, the ability of the OAuGF to scrutinize revenues accruing to the Federation account is undermined by its limited jurisdiction on “government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly”. This includes the main income-generating agencies. Nevertheless, oil revenues are also audited by the Secretariat of the Nigerian Extractive Industry Transparency Initiative (NEITI), which reports massive amounts of unremitted oil revenues. Although thorough, NEITI audit reports are delayed and not yet reconciled with the audit of the OAuGF of the Federation account. A lack of adequate oversight of the Federation account fuels distrust by the lower tiers of government regarding the fiscal federalism arrangements.

² The Bank supported these efforts under the Economic Reform and Governance Project under implementation between 2005 and 2013.

³ In 2017, a circular from the FMoF framed the calculation of operating surplus and extended the jurisdiction of the OAGF and Fiscal Responsibility Commission to about one hundred income-generating agencies.



Figure 1: Revenue to GDP Ratio over the Past Two Decades in Nigeria and Sub-Saharan Africa



Source: IMF Worldwide Government Revenue Database.

Note: GDP= gross domestic product; SSA= Sub-Saharan Africa.

- **Revenue forecasting needs to be more reliable to support budget credibility and the expansionary fiscal strategy of the Nigerian government.** In 2016, the tax revenue outturn was as low as 50 percent, and the ratio of actual to appropriated independent revenue was as low as 16 percent. In 2017, the oil revenue outturn also steeply decreased, contributing to the rapid deterioration of budget performance. Low revenue outturn has two significant impacts. First, it has contributed to the deterioration of the execution rate of capital expenditures (57 percent in 2017). Second, it has inflated debt service as a percentage of revenues (to close to 70 percent in 2017). The capacity to account for and forecast oil revenues is also weak and scattered across various government agencies, without a proper mechanism for data sharing and reconciliation.

Table 1: Decrease of Federal Revenue Outturn in the Past 10 Years (actual/appropriated, US\$ million)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oil revenue	79	88	87	72	91	85	93	74	97	53
Non-oil revenue	107	80	93	87	78	72	76	68	56	70
Independent Revenues	67	24	51	80	46	60	65	66	16	19
Total Revenue	95	91	88	84	85	83	90	76	54	57

Source: World Bank staff calculations based on OAGF data.

- **The main budget management tool, the Government Integrated Financial Management Information System (GIFMIS), has been mainstreamed across federal entities for accounting and budget preparation; however, its remaining functionalities need to be operationalized to strengthen controls in the use of public funds.** Established in 2012 with substantial support from the International Development Association (IDA)-funded Economic Reform and Governance Project (ERG Project), the GIFMIS covers payments of 93 percent of expenditures. Since 2017, it has been used for budget preparation. Yet, most of its core and non-core functionalities remain idle or are used by only a few Ministries, Departments and Agencies (MDAs). Commitment controls are not mainstreamed; cash, debt, and procurement management are not



operationalized; and assets and liabilities are not captured in the system. The Budget Office is exploring with the OAGF how to make use of the GIFMIS for the monitoring of budget execution. A system audit, conducted by the OAuGF, has pointed out to weaknesses in data security, which make the GIFMIS vulnerable to tampering.

- **Payroll and personnel management have been strengthened, and the Integrated Payroll and Personnel Information System (IPPIS) is being rolled out, but has yet to be operationalized to support payroll controls and transparency in wage bill management.** It was initiated in 2007 with support from the ERG Project. So far, some 380,000 federal employees (out of an estimated total of 1.2 million) across 464 MDAs (out of over 800) have been captured under the payroll module. None have yet been enrolled under the Human Resource Management module.
- **The Treasury Single Account (TSA) is established and its coverage, compliance and design need to be further strengthened to ensure adequate cash management.** Rolled out in 2012, it is only in the past two years that the TSA held at the CBN has covered most Federal MDAs. It was mainstreamed to increase cash availability by consolidating at the CBN funds kept by the MDAs in multiple commercial bank accounts. By design, it is one of the most comprehensive institutional arrangements in the Africa Region, covering major federal receipts for oil and minerals, taxes, customs, donor funds, internally-generated revenues (IGRs), and levies. Spending against budgetary transfers is primarily routed through the TSA. But, the effectiveness of the TSA in improving cash management has been weakened in two ways. First, several MDAs, representing 45 percent of the Federal budget, have been allowed to transfer fiscal resources from their CBN account to commercial bank accounts, thereby undermining cash management by the government. Second, on the revenue side, the TSA does not ensure the automatic remittance of the MDA's revenues into the Federation account.
- **The PFM legal and institutional frameworks can benefit from improved coordination between different central financial agencies.** The legal and regulatory framework vests the FMoF with the responsibility for fiscal management, whereas the newly established institutional framework vests budget management with the Ministry of Budget and National Planning since 2015.

10. **The Nigerian government is committed to fiscal transparency and accountability under the Open Government agenda,⁴ but its implementation needs to be sustained.** Regarding fiscal transparency, the National Action Plan on Open Government specifically commits to:

- More effective citizen participation across the entire budget cycle.
- Full implementation of Open Contracting, and adoption of Open Contracting Data Standards in the public sector.
- Cooperation between all stakeholders to enhance transparency in the extractive sector through a concrete set of disclosures related to payments by companies and receipts by governments on all transactions across the sector's value chain.

⁴ The Open Government agenda is coordinated by the Federal Ministry of Justice, but it is implemented by a range of federal agencies covering their respective areas of responsibility. A National Open Government Partnership (OGP) Steering Committee (NSC), co-chaired by a representative of civil society and the Ministry of State for Budget and Planning, has been established.



- Adoption of common reporting standards and the Addis Tax Initiative aimed at improving the fairness, transparency, efficiency and effectiveness of the tax system.
- Regarding anti-corruption, the Federal Government of Nigeria (FGN) is committed to the public disclosure of beneficial ownership and to “ensure transparency in the management of recovered [stolen public or forfeited] assets”.
- With respect to citizen engagement, it is committed to “adopting a technology-based citizens’ feedback on projects and programs” (through the establishment of a dedicated web portal capturing findings from monitoring of implementation by government and Civil society Organizations at community level). In addition, the Nigerian government is committed to open data, namely “to ensure that [fiscal and statistical] data is consistent and information is regularly presented in an easy to use format - easy to find and interpret”. The National Action Plan also commits to the timely public disclosure of audit reports and budget execution quarterly reports. In 2017, the OAuGF disclosed its audit reports (from 2012 to 2015) for the first time. However, the proactive disclosure of quarterly budget execution reports is still delayed, and reporting on budget execution is not comprehensive.

11. **The expansionary fiscal policy of the Nigerian government, reflected in the significant increase of budget allocation to capital expenditure, needs to be supported by the improvement of public investment management (PIM) to effectively contribute to growth and development.** The budgeting process of capital projects lacks a formal appraisal of the social and economic costs and benefits of projects, as well as independent review. The portfolio of capital projects under implementation is underperforming, i.e. capital projects are delayed and uncompleted as a result of the over-budgeting of new projects, irrespective of the completion rate of ongoing ones. This results in an excessive number of budgeted projects and the stretching of scarce resources, which entails implementation delays and cost overruns. Since 2015, as budget allocation to capital expenditures increased and the revenue outturn dropped, the capital expenditure execution rate fell to 43 percent in 2016.

12. **Significant progress has been made in public procurement reforms following the enactment of the Public Procurement Act of 2007 and establishment of the regulatory agency, the Bureau of Public Procurement (BPP).** Procurement regulations, manuals and standard bidding documents have been developed and deployed. The annual procurement plans of the MDAs are published regularly, albeit late. Under the national procurement regulations, competitive bidding applies to procurements transactions above thresholds. In addition, records of contract awards by MDAs are published regularly on the BPP’s website. A cadre of procurement professionals has been established in the public service. Missing elements include a certification program, sustainable procurement capacity building in the country, and the establishment of the National Council on Procurement (which is supposed to decide on procurement policy issues, with the BPP ensuring policy implementation under the Public Procurement Act). Following the adoption by the Nigerian government of open contracting standards and electronic government procurement (e-GP), and based on stakeholders’ consultation, an e-GP readiness assessment was carried out with support from the World Bank. The BPP is preparing an implementation strategy with support from the African Development Bank (AfDB). The government is committed to the use of Open Contracting Data Standards across government agencies and the disclosure of beneficial ownership of contract proceeds.



13. **Civil Society Organizations (CSOs) are exercising a fair level of scrutiny on fiscal governance and institutions, including by rating their effectiveness and compliance with legal requirements; CSOs have even started to partner with federal institutions for this purpose.** For example, in 2015 the Fiscal Responsibility Commission and the Center for Social Justice jointly released a Fiscal Responsibility Index which benchmarks MDAs based on 55 performance criteria in five main categories: policy-based budgeting; budget comprehensiveness and transparency; budget credibility; budget implementation, monitoring and evaluation (M&E); and accounting, reporting and auditing. CSOs also provide simplified and focused information to the public on budget matters (for example, BudGIT supports the drafting of a federal Citizens' Budget). They also often resort to litigation (sometimes successful) to remind the government of its legal obligations (for example, on information disclosure under the Freedom of Information Act). Furthermore, CSOs actively support the implementation of the government agenda on the Open Government Partnership (OGP), including by providing technical assistance (TA) to public entities on disclosure of information, for instance the Private Public Development Centre on open contracting.

14. **Statistical information is being strengthened, but more data needs to be collected and harmonized to adequately inform policy making.** The country's National Statistical System is complex, with multiple actors involved in the production of demographic, social and economic statistics. Data consistency is a major issue, including for fiscal data. At the federal level, the National Bureau of Statistics (NBS), the apex organization since 2007, is responsible for producing major economic and social statistics. It is also responsible for coordinating the whole statistical system (including through official data validation). Several line ministries are responsible for the compilation and dissemination of statistics in their areas of responsibility, in addition to state-level entities. The statistical system needs a strong coordination mechanism to be effective. In this context, the NBS is mandated and capacitated to play this role. Over the years, it has developed technical capacity in the collection of social and economic statistics. However, lack of consistent financing for data collection has undermined the ability of the NBS to respond to the country's growing demand for timely and quality statistics. As a result, important statistical products do not have a clear release calendar, and surveys are conducted irregularly, depending on the availability of donor funding. Nigeria has not had an agricultural census or a business census for decades; both censuses will provide critical data for the government's efforts to increase agricultural productivity and job creation, including for attracting private sector investments.

15. **The project supports the implementation of the Nigerian government's fiscal and governance reform agenda,** by strengthening human, institutional, financial and technical capacity, as well as interagency cooperation.

C. Higher Level Objectives to which the Project Contributes

16. **The proposed project will support the achievement of the FGN's fiscal and governance agenda as detailed in the ERGP.** It specifically supports the following objectives:

- 1) **Regarding transparency and anti-corruption,** the project supports the Open Government commitments of the Nigerian government on fiscal transparency (budget transparency, open contracting, and "a technology-based citizens' feedback on projects and programs"), the disclosure of beneficial ownership under public procurement, enhanced financial oversight of the NNPC; and Open data.



- 2) **Regarding public service reform**, the project supports the enhanced cost effectiveness of the procurement process.
- 3) **Regarding intergovernmental coordination**, the project contributes to improving the oversight of revenues accruing to the Federation account, as well as to building trust in fiscal federalism at the state level. It does so by strengthening fiscal transparency and accountability at the federal and Federation level (including through the evaluation of fiscal transfers in health and education). It supports the following Federal Government commitments under the FSP:
 - Quarterly financial reconciliation meetings between Federal and State Governments to cover value-added taxes (VAT), pay-as-you-earn (PAYE) remittances, refunds on Government projects, Paris Club debt payments, and other accounts.
 - Review revenue-related laws and update obsolete rates/tariffs.
 - Federal Government online price guide to be made available for use by the states in procurement transactions.
 - Introduce a system of continuous audit (internal audit), including on revenue.
- 4) **Regarding the ERGP delivery**, the project supports revenue management and the strategic allocation of resources (with a focus on capital expenditures). It also strengthens the capacity of the Federal Government to monitor and evaluate the effectiveness of public expenditure.

17. **The proposed Fiscal Governance and Institutions Project is consistent with and aligned to the Bank's Country Partnership Strategy (CPS) for FY2014-2017** (proposed to be extended to end of FY19 and revised based on its second Performance and Learning Review (PLR) expected to be approved by the Board on June 27, 2018). The project contributes to the third pillar of the CPS by improving federal expenditure effectiveness through monitoring and evaluation (M&E) and alignment of fiscal resource allocation to the strategic priorities of the ERGP. It also contributes to Outcome 17 of the CPS revised results framework on budget transparency (revised as per the 2016 PLR), at the federal level. Its focus on fiscal governance at the federal level is complemented by the proposed State Fiscal Transparency, Accountability and Sustainability (SFTAS, P162009, scheduled for Board approval on June 27, 2018), which builds capacity for improved fiscal governance at state level.

18. **The proposed project contributes to the twin goals of the World Bank Group** by generating and validating economic and fiscal statistical data to inform the implementation of the Government's growth and development strategy — and by creating the necessary fiscal space and improving budget execution to help finance it. The project will also help to operationalize the IDA 18 Special Theme on Governance and Institutions: specifically, it meets the commitment to “increase the coverage of Open contracting principles” and “to enhance service delivery [through] independent audits” of SOEs (which extend to parastatals within the Nigerian institutional framework).

19. **The project promotes gender and citizen engagement.** It will generate and promote the utilization of gender disaggregated statistical evidence (in agriculture, rural and business development) to inform policy making on access to land and business. It operationalizes the Nigerian government's commitments concerning social accountability and citizen participation in fiscal management as part of its Open Government agenda. It does so by financing participatory spending reviews (that is, publicly



disclosed spending reviews incorporating citizen feedback), and by strengthening public participation in the budget cycle (as measured by the Open Budget Survey – see Annex 5).

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective

20. **The project development objective (PDO) is to improve the credibility of public finance and national statistics.** Credibility of public finance is defined as: 1) consistency between appropriated and actual revenues and expenditures (with a particular focus on non-oil revenues and capital expenditures), and 2) accuracy and transparency of fiscal data through improved budget information, planning, forecasting, and controls in the use of public funds. With regard to national statistics, credibility relates to economic and fiscal data accuracy and consistency through improved data collection, reconciliation, validation and dissemination (with a focus on agriculture, the private sector, oil and gas, and foreign trade).

21. **In order to achieve the PDO, the proposed project aims at addressing three main governance challenges and bottlenecks which have, so far, hampered the effectiveness of the Government in promoting growth and development:** poor oversight of revenues accruing to the Federation account; weak controls, transparency and accountability in the use of public funds by the Federal Government; and a dearth of information and inconsistencies in the country’s fiscal and economic statistics.

Table 2: Project’s Expected Impact on Targeted Binding Constraints

Binding Constraints	Project Interventions	Expected Results
Result area one regarding oversight of revenues accruing to the Federation account		
Massive revenue leakages	Revenue audits	Retrieved unremitted revenues
Decreasing revenue outturn	Revenue analysis and forecasting	Decreased variance in revenue outturn
Result area two regarding execution of federal expenditures		
Low overall budget performance	Strengthened commitment controls and cash management	Improved budget execution, lower expenditure arrears
Low execution rate of capital expenditures	Rationalization of budgeting process of capital projects	Streamlined capital project portfolio
Scarce budget information	Improved comprehensiveness of budget information	Improved budget transparency
High corruption risk in public procurement	Mainstreaming of e-procurement, open contracting and disclosure of beneficial ownership	Enhanced transparency, fairness and competitiveness of procurement transactions
Result area 3 regarding the quality of official statistics		
Dearth of economic statistics	Completion of two sample censuses	Enhanced availability and quality of economic data
Fiscal data inconsistencies and flaws	Data validation and reconciliation	Increased credibility of fiscal data

B. Project Beneficiaries

22. **The multiplicity of federal entities (with over 800 budgetary entities), including autonomous central financial agencies, directly accountable to the Presidency — but not to the Ministry of Finance or Budget and National Planning — represents a significant challenge for coordinated fiscal management.** Several agencies are vested with overlapping mandates. The legal framework has not been



aligned with the transfer of the Budget Office to the Ministry of Budget and National Planning in 2015. This generates conflicts of jurisdiction and weakens the effectiveness of the overall fiscal governance framework.

23. **Stringent selectivity has been applied: one or two implementing agencies, at the most, have been selected for each project sub-component, with the understanding that they will have to coordinate with other relevant agencies for project implementation.** Selected nodal agencies will be held accountable for convening other governmental entities for the achievement of collaborative results (such as the strengthening of revenue forecasting and analysis, and public expenditure reviews). The selection of implementing agencies was also informed by a readiness assessment⁵ conducted during project preparation (see summary in Annex 4). Agencies were screened based on the following criteria:

- Ability to make progress on key reforms before the next national elections, planned for February-March 2019;
- Space for progress within the existing legal framework;
- Leadership both at the helm of the beneficiary agency and within the Nigerian government as a collegial entity;
- Adequacy of the policy and legal frameworks for progress;
- Institutional effectiveness and implementation capacity;
- Demand for reform from other stakeholders, such as citizens and private sector; and
- Availability of resources to conduct reforms.

24. **The following five implementing agencies have been selected:** The FMoF (which includes the OAGF); the Federal Ministry of Budget and National Planning (which anchors the Budget Office of the Federation); the Bureau of Public Procurement; the OAuGF; and the National Bureau of Statistics (see details about their respective roles in Annex 2). The FMoF is the nodal fiscal institution and is vested with the role of coordination.

25. **Several federal agencies will benefit from the project, either through TA support or from the statistical information generated and validated with support from the project.** It will benefit the Office of the Head of Service in the completion and operationalization of the IPPIS. It will also benefit a range of departments in the Federal Ministry of Budget and National Planning (such as Macroeconomy, M&E, and so on). A full list of entities that will benefit from the TA is provided in Annex 2. The Federal Ministry of Agriculture and Rural Development and the Federal Ministry of Industry, Trade and Investment will benefit from the agricultural and business censuses.

C. PDO-Level Results Indicators

26. **Key targeted results include:**

Result Area 1 on strengthened oversight of revenues of the Federation:

PDO-Level Indicator: Non-oil revenue outturn.

⁵ United Kingdom, Department for International Development (DFID), 2018, *Readiness Assessment of Governance Reforms at Federal Level in Nigeria*.



Result Area 2 on improved execution of federal expenditures:

PDO-Level indicator: Capital expenditure execution rate.

Result Area 3 on enhanced quality of fiscal and economic statistics:

PDO-Level Indicator: Publication of reconciled fiscal and economic datasets.

III. PROJECT DESCRIPTION

27. **The project is designed as an Investment Project Financing (IPF) with Disbursement-Linked Indicators (DLIs).** The DLIs amount to over 79 percent of the project amount and will maximize incentives to the targeted results. The TA is limited to about 21 percent of the project amount. It is carefully calibrated to help implementing agencies achieve the results incentivized by the DLIs. Three main types of TA will be provided: (a) staff training and travel allowances (for data collection); (b) consulting services; and (c) hardware and software procurement to upgrade existing IT systems —when and only to the extent necessary — for their operationalization (for the achievement of targeted objectives under the DLI component). In order to maximize the incentivization of results, TA support is crafted to ensure the achievement of the results targeted in year 1 or 2, and the DLIs are priced to enable implementing agencies to build additional capacity to achieve results targeted in subsequent years. This limits the risk of financing sunken investment to no avail vis-à-vis the expected results. The TA component will also finance the activities of the Project Coordination Unit (PCU) anchored to the FMoF’s International Economic Relations Department (IERD), the four PIUs in the other implementing agencies, and the verification of project outputs and outcomes by an Independent Verification Agent (IVA).

A. Project Components

28. **The project consists of the following four components (a detailed description of activities can be found in the Annex 1):**

29. **Component 1 on strengthening revenue management (SDR 23.7 million, US\$34 million equivalent)** aims at: 1) enhancing oversight of revenues accruing to the Federation account; and 2) strengthening revenue analysis and forecasting to help retrieve unremitted revenues and improve revenue outturn.

30. **Sub-component 1.1 supports the strengthening of the oversight of Federation revenue⁶ through external and internal auditing (SDR 9.7 million, US\$14 million equivalent).** It provides for TA for capacity development to improve audit practices and reconciliation of different types of audits (e.g. internal and external). It supports regular audits through DLIs, including: revenue assurance audits of the main income-generating agencies (including the national oil company); IT audits of revenue collection IT platforms (including the Integrated Tax Administration System (ITAS) for the tax administration and Automated System for Customs Data (ASYCUDA) for the customs administration); forensic audits; and the

⁶ The Federation account is the main source of revenues for the three tiers of government in Nigeria. According to the Nigerian Constitution, “all revenues collected by the Government of the Federation” are to be remitted into “the Federation Account” and will be “distributed among the Federal and State Governments and the Local Government Councils in each State on such terms and in such manner as may be prescribed by the National Assembly” (the allocation formula).



reconciliation of audits reports (including between NEITI and OAuGF audit findings pertaining to oil revenues).

31. **Sub-component 1.2 on strengthening revenue analysis and forecasting (SDR 14 million, US\$20 million equivalent) strengthens the capacity of the FMoF and of the Federal Ministry of Budget and National Planning in revenue forecasting and analysis.** It will specifically benefit the Tax Policy Division of the Technical Services Department in the FMoF and the Budget Office of the Federation. Given their overlapping mandates, the project will finance shared forecasting tools and joint deliverables so as to promote interagency coordination and consistency of fiscal information. It will also support existing coordinating bodies, such as the Tax Policy Implementation Committee established in 2017 under the chairmanship of the Director for Technical Services of the FMoF. The TA includes a consultancy to develop methodologies for tax gap analysis, tax expenditure analysis, simplification of tax legislation, a review of customs tariffs and international taxation risks, and revenue modelling. The DLIs will support the operationalization and use of the developed revenue forecasting and analysis methodologies and models.

32. **Component 2 on strengthening controls, transparency and accountability in the use of public funds (SDR 40.7 million, US\$58.5 million equivalent) aims at:** 1) operationalizing the GIFMIS for payment controls, cash management and budget execution M&E; 2) strengthening PIM; and 3) improving transparency and efficiency in the use of public funds through enhanced procurement and the quality of budget information. It consists of three components:

33. **Sub-component 2.1 on the operationalization of the GIFMIS for budget management and reporting (SDR 20.9 million, US\$30 million equivalent).** It will finance TA for improving cash management, capacity for IT audit, IT security, and related change management activities. The DLIs will focus on increasing coverage of budget expenditures by commitment controls, cash management and GIFMIS payroll control modules.

34. **Sub-component 2.2 on strengthening PIM (SDR 9 million, US\$13 million equivalent) finances TA** for developing appraisal, selection and prioritization of budgeted capital projects, as well as fiscal risk monitoring methodology for Public Private Partnership (PPP) projects. The DLI incentivizes the adoption of a guideline to be appended to the budget circular, including its enforcement in the main spending line ministries on the appraisal and budgeting of capital projects, and the rationalization of under-performing capital projects.

35. **Sub-component 2.3 on improving transparency and efficiency in procurement, and the quality of budget information (SDR 10.8 million, US\$15.5 million equivalent) finances two streams of activities:** 1) the mainstreaming of e-procurement, open contracting and the disclosure of beneficial ownership; and 2) the enhancement of the quality and comprehensiveness of information detailed in disclosed budget documents, including the appropriation bill.

36. **Component 3 on strengthening economic and fiscal statistics (SDR 19.1 million, US\$27.5 million equivalent) aims at generating and validating economic statistics and reconciling them with fiscal data through:** 1) the improvement of economic statistics; and 2) the reconciliation, validation, archiving, and dissemination of official statistics. The TA under this component will support: staff (enumerator/supervisor/monitor, and so on) training for specific survey field work including listing; securing of information and communications technology (ICT)/survey equipment and related software; survey methodology and survey instrument development; overall survey management and coordination; data quality monitoring; and specific survey field operations/data collection.



37. **Sub-component 3.1 on the improvement of economic statistics (SDR 18.4 million, US\$26.5 million equivalent)** finances agricultural and business sample censuses, as well as one annual follow-up for each of the sample censuses.

38. **Sub-component 3.2 on reconciliation, validation, archiving, and dissemination of official statistics (SDR 0.7 million US\$1 million equivalent)** will support the validation of statistics generated by MDAs, the computation of National Accounts, and data dissemination and archiving, and the harmonization of statistics in two critical areas: a) oil and gas revenue; and b) merchandise trade statistics. It will also support the strengthening of the capacity for statistical data analysis by enabling NBS to train and transfer capacity to MDAs on the utilization of statistical evidence to inform policy making. The project will finance the statistical data dissemination and archiving to promote access to data and ensure adequate data archiving, so as to help the FGN in meeting its commitment to Open Data standards.

39. **Component 4 on implementation support (SDR 3.5 million, US\$5 million equivalent)** will finance the activities and functioning of the implementation framework. The key elements of this mechanism include the PCU anchored in the FMoF, the Project Implementation Units (PIUs) in each of the four project implementation agencies, and the Project Steering Committee, chaired by the Permanent Secretary, FMoF.

B. Project Cost and Financing

40. **The Eligible Expenditure Program (EEP) consists of recurrent expenditures of the implementing entities responsible for achieving DLI results.** Those entities are: the FMoF (headquarters), the OAuGF, the Budget Office, the OAGF, the Ministry of Budget and National Planning (headquarters), the Bureau of Public Procurement, and the NBS. Eligible expenditures include personnel costs, training, maintenance, consulting and professional services, materials and supplies, and travel. Eligible expenditures do not include any capital expenditures. Payroll management in these entities uses an IT-based, integrated Human Resource (HR) and payroll system, the IPPIS, which is integrated into the GIFMIS. Adequate accounting systems and controls are in place, and they will be strengthened as a result of the annual auditing of the payroll under the GIFMIS and the IPPIS by the OAuGF, as financed by the project. The introduction by the FGN of continuous audit of expenditures in MDAs, implemented outside the expenditure processing cycle, has strengthened the controls framework on overheads.

41. **The DLIs allocated amounts represent 45 percent of the overall EEP.** The Bank team will ensure that the eligible expenditure amount, as ascertained in the Interim Financial Report (IFR) submitted for disbursement, does not exceed the Disbursement-linked Result (DLR) allocated amount.

42. **The EEP estimation in Table 3 reflects the 2018 appropriation bill and the Medium-Term Expenditure Framework (MTEF) for 2018-2020 (which is extrapolated for another year).** Under the MTEF, recurrent expenditures do not increase in 2019 and 2020, and the projected exchange rate remains stable.



Table 3: Eligible Expenditure Program (in US\$ millions)

Results Area and Budget Line Number	DLI	CY 2018	CY 2019	CY2020	CY2021	Total
Results Area 1: Improved Oversight of Federation Accounts		18.6	18.4	18.4	18.4	73.8
<i>OAGF</i> (budget line 014000100100)	DLI 1	9.1	9	9	9	36.1
<i>FMoF Headquarters</i> (budget line 0220001001)	DLI 2	6.4	6.3	6.3	6.3	25.3
<i>Budget Office</i> (budget line 0238005001)		3.1	3.1	3.1	3.1	12.4
Results Area 2: Improved Federal Expenditure Controls		23	23	23	23	92
<i>Office of the Accountant General</i> (budget line 0220007001)	DLI 3	14.4	14.4	14.4	14.4	57.6
<i>Ministry of Budget and National Planning Headquarters</i> (budget line 0238001001)	DLI 4	4.1	4.1	4.1	4.1	16.4
<i>Bureau of Public Procurement</i> (budget line 011101000100)	DLI 5	4.2	4.2	4.2	4.2	16.8
Results Area 3: Improved Official Statistics		13.4	13.4	13.4	13.4	53.6
<i>National Bureau of Statistics</i> (budget line 0238004001)	DLI 6	13.4	13.4	13.4	13.4	53.6
Total		53.5	53.3	53.3	53.3	219.4
Total DLI Allocation		29.5	31.5	20	17.5	98.5
Total DLI Amount as a Percentage of the Overall EEP		55%	59%	37%%	33%	45%

Note: CY= Calendar Year; DLI= Disbursement-Linked Indicators; EEP=Eligible Expenditure Program; FMoF= Federal Ministry of Finance; OAGF= Office of the Auditor General of the Federation.

43. **As part of its intra-year reporting, the OAGF will prepare semi-annual Budget Execution Reports and make them available to the PCU for preparation of the EEP spending reports, which will then be used to monitor implementation progress of the EPPs.** The EEP Spending Reports will be audited annually by the Auditor General of the Federation to confirm that EEPs were incurred under the agreed budget lines and are eligible for World Bank financing. The audited EEP report will be submitted to the Bank along with the report of the IVA confirming that the DLIs have been achieved in line with the verification protocols as agreed with the Bank⁷.

⁷ The two reports can be combined into an “EEP Spending and Results Report”. This will include the incurred eligible expenditure program and DLIs achieved and verified. Together, they would form the basis of disbursements.



44. **Credit proceeds are distributed across the TA and the results-based financing components so as to ensure timely implementation.** TA activities (21 percent of credit proceeds) are aligned with the DLIs to enable the Nigerian government to meet its targeted results. However, they will be sequenced in such a way as to minimize risks to timely implementation: for example, substantive upfront procurement transactions under the TA component are only planned for the rolling out of the e-procurement platform (the preparation of this transaction being well advanced). Retroactive financing to the extent of 20 percent of the credit amount (US\$25 million equivalent) will also be made available for eligible expenditures incurred before the signing of the Financing Agreement.

Table 4: Allocation of Credit Proceeds (in US\$ million equivalent)

Project Component	TA Component	DLI Component	Total
Component 1 on strengthening revenue management	6	28	34
Component 2 on strengthening controls, transparency and accountability in the use of public funds	9.5	49	58.5
Component 3 on strengthening economic and fiscal statistics	6	21.5	27.5
Component 4 on implementation support	5	0	5
Total	26.5	98.5	125

Note: DLI= Disbursement-linked Indicator; TA= Technical Assistance.

Table 5: Sources of Funding (in US\$ million equivalent)

Project Components	Project Cost	IBRD or IDA Financing	Trust Funds	Counterpart Funding
Total Costs				
Total Project Costs	125	125	NA	NA
Front End Fees				
Total Financing Required	125	125		

Note: IBRD= International Bank for Reconstruction and Development; IDA= International Development Association; NA= not applicable.

C. Lessons Learned and Reflected in the Project Design

45. **The project design incorporates lessons learned from World Bank engagement on fiscal reforms across the world.** These lessons are:

- **Domestic revenue mobilization is a necessary pillar of a development strategy.** “Countries with some of the lowest revenue-to-GDP ratios are also those where the vast majority of the world’s extremely poor live. Bangladesh, China, India, and Nigeria all have tax-to-GDP ratios below 15 percent”⁸. A fiscal space of at least 15 percent is deemed necessary for a state to fulfill its core

⁸ World Bank, *Strengthening Domestic Resource Mobilization. Moving from Theory to Practice in Low- and Middle-Income Countries* (2017).



functions and the tipping point of growth acceleration is estimated at 12.5 percent. Revenue mobilization is also a necessary dimension of public finance management reforms: “Both sides of the fiscal equation – revenues and expenditures - need to be examined together”⁹.

- **Building capacity for revenue forecasting and analysis is a prior condition for tax policy reforms.** “Tax policy reform [...] would [...] require the existence of a tax policy unit. (...) A tax reform strategy should prioritize good revenue forecasting, analysis of the potential of the tax system, impact of changes in tax policy, and analysis of tax expenditures”¹⁰.
- **The GIFMIS needs to be adequately operationalized to support fiscal reforms, which is a medium-term endeavor, taking on average 6 to 8 years.** “GIFMIS solutions are tools that may, if well designed and implemented and supplemented by related reforms of PFM, help governments in controlling spending and deficits and achieving greater efficiencies in the budgeting process. However, if GIFMIS solutions are not combined with a commensurate strengthening of internal controls, they can increase the opportunity for fraud and the misappropriation of funds.”¹¹
- **PIM is an integral part of PFM.** In 2016, it was added to the Public Expenditure and Financial Accountability (PEFA) assessment framework, which scores PIM across four dimensions: economic appraisal, selection and prioritization, costing, and M&E¹².
- **Understanding and navigating the political economy of fiscal governance is a prerequisite to a successful engagement on fiscal reforms.** It has been observed that institutional fragmentation of central financial agencies “historically exhibits a U-shaped pattern”, and that low-income countries often have fragmented fiscal governance frameworks as a reflection of political competition between powerful groups within the government¹³. As a result, “how efficiently and effectively [those agencies] carry out their various functions depends on the political, administrative and cultural environment in which they operate”. Donor engagement should focus not only on strengthening capacity, but also on strengthening capabilities.
- **The project also builds on lessons drawn from the political economy analysis of “non-technical factors” to PFM reforms in Nigeria.** These have been hampered by three main factors so far, including oil rents, instability, and a narrow fiscal space: “Nigeria’s low performance is clearly consistent with the finding that PFM performance is lower in resource-rich countries and is well below expected levels relative to its level of income.”¹⁴
- **Strengthening transparency in the use of public resources, including through disruptive innovations, is an effective way to mitigate the risk of corruption in a context of weak institutions and systems.** Progress could be made by adopting and implementing procedures that guarantee adequate levels of openness (through open contracting), competition (through e-

⁹ Idem.

¹⁰ Idem.

¹¹ World Bank, *Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't* (2011).

¹² PEFA Secretariat, *Framework for Assessing Public Financial Management* (2016).

¹³R. Allen R. and P. Krause, “The Role, Responsibilities, Structure and Evolution of Central Finance Agencies”, in *The International Handbook of Public Financial Management* (2013).

¹⁴ World Bank, *Political Economy of Public Financial Management Reforms Experiences and Implications for Dialogue and Operational Engagement* (2017).



procurement), and a level playing field for service providers, including clear bidding procedures (including preventing direct contact between contracting agencies and bidders).

46. **The project builds on reforms implemented under the ERG Project.** The ERG Project supported the enactment of the Public Procurement Act in 2007 and the subsequent mainstreaming of competitive bidding, and the operationalization of the GIFMIS for budget preparation; launch of the IPPIS. It also helped to increase the capacity of the NBS and the OAuGF. Whereas the ERG Project focused on capacity building, the proposed Fiscal Governance and Institutions Project (FGIP) aims to build state capabilities, strengthen the effective management of existing capacity through the utilization of data and information systems, and enhance interagency coordination and collegial fiscal decision making¹⁵.

Table 6: Operationalization of ERG Project Achievements under the Proposed FGIP

ERG Project Achievements	Operationalization under the Proposed FGIP
Roll out and operationalization of the GIFMIS for budget preparation.	Operationalization of the GIFMIS for core and non-core functionalities (commitments and payroll controls, cash management, budget execution, and M&E).
Launch of the IPPIS.	IPPIS audit to strengthen data integrity and security.
Enactment of the public procurement law, establishment of the Bureau of Public Procurement, and mainstreaming of competitive bidding.	Strengthening of competitiveness, cost effectiveness and transparency of the procurement process through mainstreaming of e-procurement and open contracting.
Capacity building for NBS for data generation.	Capacity building for NBS for further data generation, analysis and validation.
Capacity building for OAuGF.	Strengthening of OAuGF audits of revenues accruing to the Federation account.
FIRS capacity building for taxpayer registration.	Strengthening of FIRS accountability through revenue forecasting and analysis (including tax gap analysis); and ITAS audits.
<i>Note:</i> ERG=Economic Recovery and Growth Project; FGIP= Fiscal Governance and Institutions Project; FIRS= Federal Inland Revenue Service; GIFMIS= Government Integrated Financial Management Information System; IPPIS= Integrated Personnel and Payroll System; ITAS=Integrated Tax Administration System; M&E= monitoring and evaluation; NBS=National Bureau of Statistics; OAuGF= Office of the Auditor General of the Federation.	

47. **The project design was also informed by lessons learned from the ERG Project.** It is more selective than the ERG Project and focuses exclusively on key interventions for improved budget effectiveness and efficiency (transparency, commitment and cash controls, capacity for revenue analysis) and only has five agencies (including the PCU). Recognizing the importance of political leadership and coordination for achieving intended results, its implementation arrangement builds on interagency

¹⁵ ““Capacity” refers to the volume or scope of inputs, such as human resources or ICT systems. “Capability” focuses on how such volumes can be converted into better performance through mechanisms such as: clarifying roles and responsibilities in performing Central Finance Agency (CFA) functions; strengthening arrangements for coordination and information sharing within and across CFAs; clarifying relations with line ministries, civil society groups, development partners, and other stakeholders; improving the management of internal business processes, such as decision-making hierarchies, corporate planning, and information systems; and strengthening the management of human resources and internal incentives. [...] The two concepts are typically linked: where capacity is low, capability is also likely to be limited.” R. Allen and and F. Grigoli, Enhancing the Capability of Central Finance Agencies, World Bank (2012).



coordination under the authority of the Minister of Finance. The project also uses DLIs to incentivize better coordination and joint implementation of key agencies.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

48. **The project will be implemented over a four-year period by five federal implementing agencies.** These nodal agencies were selected based on their statutory mandate, as well as a readiness assessment. It will cover key elements of the PFM cycle — revenue management, budget planning, control in budget execution including for the payroll, transparency and accountability, procurement, audit, and M&E, as well as the generation, reconciliation and validation of official statistics. The implementing agencies include: the FMoF's IERD, including the OAFG and the Technical Services Department; the Federal Ministry of Budget and National Planning (FMBNP), including the Budget Office, and the M&E and Macroeconomy Departments; the OAuGF; the Bureau of Public Procurement; and the National Bureau of Statistics (see agency descriptions in Annex 2).

49. **The fragmentation of the fiscal governance framework is mitigated by the selection of one or two nodal agencies for each project sub-component and project coordination by the PCU and Steering Committee.**

50. **The FMoF (IERD) will be responsible for project monitoring and coordination.** A PCU will be located under the FMoF (IERD) with the Head of PCU directly reporting to the Director of IERD and under the overall supervision of the Permanent Secretary, FMoF.

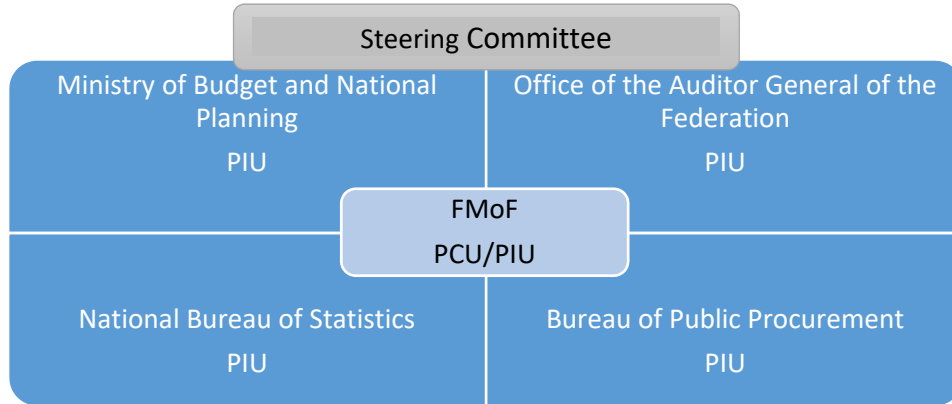
51. **A Project Steering Committee consisting of the heads of implementing agencies will be chaired by the Permanent Secretary, FMoF.** The PCU will play the role of secretariat to the steering committee.

52. **One single PIU will be established in each of the remaining nodal agencies.** The PIUs will be responsible for day-to-day sub-component management including financial management (FM), procurement and disbursements. The PIU will report to the head of the agency. However, it will also be accountable to the PCU for coordination purposes (including reporting on activities and results).

53. **The joint implementation of activities will be led by project implementing agencies in coordination with other relevant agencies.** The aim will be to foster interagency cooperation. For example, spending reviews will be jointly conducted by the Budget Office, and the Departments for M&E and Macroeconomy of the Federal Ministry of Budget and National Planning. Fiscal policy analysis will be conducted jointly by the Directorate Technical Services of the FMoF and the Budget Office. The oil revenue model will be informed and used by a number of public entities.



Figure 2: Organogram of the Proposed Implementation Arrangements



B. Results Monitoring and Evaluation

54. **Responsibility for results M&E will be vested with the PCU.** Its M&E specialist will collect and analyze data on implementation progress for all project components, subcomponents, and activities. The M&E function will be exercised on a continuous basis, and the focal points and PIUs in each implementing entity will be the primary source of data and information. M&E reports will follow the established and agreed upon project results framework. The expected project results and outcomes for the short, medium and long run are captured in the Theory of Change (see Annex 9).

55. **The DLIs will be independently verified by an IVA to be contracted by the FMoF.** Progress toward the achievement of the project objective will be verified twice a year by the IVA. The IVA will provide independent confirmation of the results reported to the World Bank. The IVA will be a firm or an agency contracted on the basis of the Terms of Reference to be drafted by the FMoF. Disbursement requests to the World Bank will be accompanied by the results verification report from the IVA.

56. **The FMoF through the PCU will also ensure that the Project Steering Committee is regularly apprised about the project implementation.** Technical assistance will be provided to IERD, which will enable it to monitor and evaluate implementation progress. During project implementation, the PCU will regularly commission detailed quantitative and qualitative reviews of progress, and investigate and address issues and bottlenecks that may arise and impede achievement of targeted outcomes. Such reviews will also inform the PCU consultation with stakeholders (including the Steering Committee). Project management and Bank review missions will discuss identified implementation challenges and plan for remediation.

C. Sustainability

57. **Reform ownership is a necessary precondition to institutional sustainability.** By building on and operationalizing institutional capacity built under the ERG Project, the project strengthens the sustainability of previous achievements which are critical building blocks for improved fiscal governance. The project leverages and strengthens institutional capacity that has not been fully operationalized or



mobilized so far. It also strengthens the institutional capabilities of the central financial agencies, including interagency coordination. Although legal reforms would strengthen further fiscal governance efforts (such as the revision of the Audit Act, the Finance Control and Management Act, and tax laws), the project is not predicated on such reforms. Rather, it is designed to perform within the existing legal and institutional framework with the flexibility to adapt to eventual changes in the future (for example, if the Budget Office of the Federation were to be transferred to the FMOF).

58. **The project supports critical fiscal functionalities under any chosen institutional framework.** This ensures the sustainability of project outputs and outcomes in case a new government decides to reshuffle the current institutional framework. The project does not support the creation of any new agency or institutional mechanism, but builds on and operationalizes existing ones. In this regard, it is more immune to political change than would be the case with the introduction of new legal and institutional reforms.

59. **The project builds on previous reforms and applies a programmatic approach to fiscal governance reforms.** The project aims to achieve incremental improvements in fiscal governance as well as urgent fixes, as opposed to a thorough overhaul of the entire fiscal governance structure. Specifically, the project will address the Nigerian government's immediate objectives and main fiscal management challenges, such as revenue oversight, analysis and forecasting, expenditure controls, transparency and accountability, and generation and harmonization of statistics.

60. **The project outputs represent systemic improvements which should garner support from a broad range of stakeholders.** The project promotes change management by supporting interagency and intergovernmental coordination beyond the reach of implementing agencies. It is expected to deepen and widen ownership of reforms within and across fiscal institutions. Broad-based staff training in technical and soft skills will reduce sustainability risks from staff turnover. Although the sustainability of supported reforms hinges on continuing political will, the project benefits should also build support on the part of the political leadership. Indeed, strengthened oversight of the revenues accruing to the Federation account respond to a strong demand from state governments which are at the receiving end of the allocation of revenues from the Federation account — and upon which they heavily depend on (except for rare outliers). In this context, state governments have limited leverage on the remittances of pooled revenues, but have strong interest in the outcome of strengthened revenue oversight (i.e. increased revenue allocation). The project will also support strengthened capacity for revenue analysis and forecasting, as well as for evaluation of public spending. In addition, it will support the improved availability and quality of statistics, which will help to enhance the effectiveness of policy decisions and government accountability. Finally, improved budget execution will make it a better policy tool, and it will enhance the state's leverage on economic growth and development through public expenditure.

D. Role of Partners

61. **Number of development partners, such as the European Union (EU), the African Development Bank (AfDB), the International Monetary Fund (IMF), and the United Kingdom's Department for International Development (DFID) — are providing TA to implementing agencies, which will contribute to strengthening their capacity in support of project implementation (see details in Annex 7).** Parallel TA will help strengthen the thrust of fiscal reforms and promote the sustainability of project results. For example, DFID is providing critical support to the OAuGF, including through a partnership with the United Kingdom's National Audit Office. It can provide quality control of the OAuGF audit reports financed under



the project. It is also supporting social demand for fiscal accountability. Further, it will support the improvement of PIM. The AfDB is financing an e-procurement readiness assessment to be conducted by the Bureau of Public Procurement. This will inform the roll out of the e-procurement system funded by the project. The project will also benefit from parallel TA to central financial agencies not supported by the project, but whose role is critical to its success (such as the Federal Inland Revenue Service for tax administration, and so on).

62. **The project will benefit from capacity building for civil society organizations**, which can best be provided independently. A few bilateral donors, such as DFID and the United States Agency for International Development (USAID), are providing direct support to civil society on fiscal governance issues, which can synergize with the project (for example, by leveraging social demand for fiscal accountability and data literacy). International organizations such as the Open Budget Partnership and the Open Government Partnership also intend to contribute to building social demand for fiscal transparency (for example, through participatory audits and public expenditure reviews).

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

63. **On the basis of the World Bank's Systematic Operational Risk-Rating Tool (SORT), the overall risk of the project is rated high.** This rating is based on several large and interrelated risks, which are elaborated below, along with the proposed mitigation measures.

64. **Political and governance risk is rated high** based on challenges in policy making and implementation, and as a result of weak interagency coordination and policy consistency. The forthcoming national elections in February-March 2019 entail political uncertainty to policy continuation. Such risk can be mitigated by institutionalizing and incentivizing reforms supported by the project, which is the main feature of the project design. Implementing agencies have been selected after their readiness was ascertained during project preparation. Political risk can also be addressed through the retroactive financing of expenses accrued in support of relevant fiscal governance reforms (to the extent of 20 percent of the credit amount or US\$25 million equivalent). The expected impact of the project on fiscal transparency and accountability, including social accountability, should also build social demand for good governance.

65. **The macroeconomic risk is rated high since recovery is expected to be slow and largely oil driven**, with real GDP growth just over 2 percent in the medium term. In the event that macroeconomic performance deteriorates, the achievement of results may be adversely affected. The project itself helps the FGN mitigate this risk somewhat through revenue mobilization, enhanced macro-fiscal forecasting, improved expenditure efficiency and effectiveness, and strategic allocation (both for the wage bill and capital expenditures).

66. **The risk pertaining to sector strategies and policies is rated substantial** given the challenges faced so far in implementation and coordination in sectoral strategies and policies (for example, regarding revenue mobilization, budget reforms, transparency and accountability). The risk is mitigated by the selection of fiscal agencies for project implementation that are deemed to be the best prepared and equipped. The leveraging of the existing coordination mechanism at the political level to foster bureaucratic coordination will also help to mitigate such risks.



67. **The risk pertaining to stakeholders is rated high**, given the level of observed resistance to the reform agenda from vested interests across government agencies. The risk is mitigated by the selection of supported reforms and implementing agencies based on a rigorous readiness assessment.

68. **The risk pertaining to institutional capacity for implementation and sustainability is also rated high**, given the lack of capacity in most implementing agencies. To address this risk, proper implementation arrangements and an implementation support plan (as elaborated in Annexes 2 and 3, respectively) have been put in place. Taken together, they will help to facilitate clear communications and better monitoring of the implementation of the project.

69. **The risk pertaining to the technical design of the project is rated substantial**, due to the number of implementing entities and beneficiaries, and the overall complex institutional setting of fiscal reforms in the country. To address these issues, the project relies on identified change agents. It will mobilize them during implementation to foster behavioral change across implementing agencies. In addition, to mitigate capacity constraints, activities funded under the TA component are carefully calibrated (including by limiting the number of complex procurement transactions) and planned (by ascertaining the readiness of critical procurement transactions) so as not to delay the achievement of results targeted by the DLIs. During implementation, enhanced implementation support will be provided by the Bank team to implementing agencies to help them expedite procurement processes.

70. **The fiduciary risk is rated high**, as instances of waste and abuse have taken place in similar operations. The proposed implementation arrangements will mitigate the fiduciary risk by allocating part of the credit to results-based financing; by strengthening implementation oversight by the PCU; and by applying a set of specific fiduciary safeguards that go beyond the usual Bank requirements (as applied across World Bank operations in Nigeria – see Annex 8). Furthermore, the project has a strong focus on strengthening the FGN’s own country fiduciary systems (GIFMIS, IPPIS, external and internal auditing, public procurement) and should also strengthen the fiduciary framework within which externally-funded projects are implemented. The Bank team will monitor the project’s FM performance and related risks. It will also conduct fiduciary reviews to examine the specific underlying elements on a need be basis.

71. **The environmental and social risk is considered low**, given the nature of reforms to be supported and expenditures to be financed.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

72. **Project Development Impact.** The project is expected to contribute to the following outcomes: (1) increase the fiscal space at all levels of government in Nigeria, thereby enabling the government to exercise its core functions, from safety and security to basic service delivery; (2) improve the quality of federal expenditures, enhancing the government’s impact on growth and development; and (3) improve the effectiveness of policy making by ensuring that it is adequately informed by statistical evidence.

73. **The fiscal sustainability of the project is grounded on its expected impact on revenue mobilization to be achieved through enhanced revenue oversight, analysis and forecasting.** Increased remittances of revenues to the Federation account and revenue outturn should contribute to the creation of additional fiscal space for all tiers of government. Although difficult to quantify, the potential for additional oil and non-oil revenue collection can be assessed based on the huge amount of unremitted



revenues uncovered through internal and external auditing. For example, in the oil sector alone, NEITI estimates that from the years 2000 to 2015, unremitted revenues amounted to around US\$ 30 billion, that is, to more than the total consolidated government revenues in 2017. Accordingly, it can be assumed that stopping even a fraction of revenue leakages under the project would significantly increase government revenues and enlarge the fiscal space. In addition, enhanced government capacity for revenue analysis and forecasting should also contribute to improving revenue mobilization by identifying the gap between actual revenues and revenue potential, especially in the case of tax revenues whose productivity is comparatively very low. Strengthened cash management under the GIFMIS should also save significant fiscal resources (by reducing public debt) and improve expenditure efficiency (by reducing arrears to contractors). The screening of PPP projects from a fiscal perspective to assess costs and contingent liabilities for the state will also contribute to strengthening fiscal sustainability.

74. **The expected impact of the project on the execution rate and quality of capital expenditures at the federal level should entail a significant economic rate of return.** A strengthened capital project appraisal and budgeting process will improve the economic value of capital expenditures and the leveraging of private investments. Moreover, the enhanced quality of capital expenditures and a targeted increase of 50 percent in its execution rate at the federal level would contribute to enhancing the leverage of public investment on economic growth, private investment and job creation. The rolling out of E-procurement will also improve capital expenditure cost efficiency through enhanced competitiveness. According to the IMF, public investment “efficiency gaps compared to the frontier suggest that, with similar inputs, the quality and quantity of infrastructure could be higher by as much as 39 percent and 87 percent, respectively.”¹⁶

75. **Rationale for public provision and financing.** The entire chain of fiscal management and PFM (from budgetary planning to accounting and auditing) is a core function of government. This is equally true for the generation and dissemination of government financial data and other economic statistics. This operation seeks to improve the oversight of Federation revenues, the effectiveness of federal expenditures, and the accuracy of fiscal and economic statistics. In addition, by improving the government’s revenue and expenditure outturn, the project will increase the fiscal space and free up more resources for infrastructure services.

76. **Value-added of the Bank’s support:** (i) Bank financing will increase the financial incentives and capacity-building support to the government as it undertakes further fiscal governance and statistical system reforms. A first reform package in these areas was implemented under the Bank-supported ERG Project from 2005-2013. The proposed project ensures the operationalization of the legal and institutional framework and capacity established and built under the earlier ERG Project. It supports the central financial and statistical agencies with the requisite resources for that purpose, and that the Nigerian government cannot afford under the present fiscal constraints. (ii) The Bank’s global knowledge and experience with implementation of fiscal, PFM and statistical system reforms will complement local expertise and ensure the benchmarking of international good practice in the reform process. The World Bank is already providing TA to some of the targeted implementing agencies (such as the Budget office, NBS, etc.), which the project leverages by building institutional capacity further (e.g. on revenue forecasting, etc.). For example, the Bank has been developing an oil and non-oil revenue forecasting framework for the Budget Office, on which sub-component 1.2. builds. It is also providing TA to the NBS

¹⁶ IMF, Nigeria Staff Report for the 2018 Article IV Consultations (2018).



for statistical data generation, which the project leverages as well. A number of development partners (such as the AfDB, DFID, the EU, and the IMF) are also providing TA to implementing agencies, which will contribute to strengthening their capacity and hence support project implementation.

B. Technical

77. **The project design is based on extensive consultations with government agencies, as well as analytical work carried out by both the Bank and other development partners.** The work included the World Bank's TA on oil and non-oil revenue forecasting; preliminary results of the Tax Administration Development Assessment Tool undertaken by the IMF; the 2012 PEFA assessment; a readiness assessment commissioned by DFID to inform project preparation; and other analytical studies. These helped inform the project design.

78. **PFM systems in Nigeria do not provide for the fiscal discipline and efficiency in service delivery, hampering overall fiscal governance performance.** The credibility of the budget is weak because of low revenue outturn, inadequate financial controls, weak fiscal transparency and oversight.

79. **Most PFM IT systems have already been launched and are now in use,** including the GIFMIS, the IPPIS, the ITAS for the tax administration and the ASYCUDA for customs administration. However, coverage is not adequate and key functionalities have not yet been implemented. Also, the IT platform for e-Procurement has yet to be rolled out.

80. **The project will help address identified binding constraints (See Table 2 above) through a combination of targeted TA, required capacity development and the financing of critical undertakings** such as revenue oversight, the operationalization of the GIFMIS/IPPIS, the launching of e-Procurement, the evaluation of expenditures, improved budget information, and the strengthening of PIM.

81. **The project finances a broad set of activities to address critical fiscal governance challenges and bottlenecks in Nigeria.** The overall coherence of such activities will require the strengthening of coordination between targeted fiscal institutions. For the expected project outcomes to materialize, adequate sequencing and synergizing of project activities is also paramount. Project implementation will rest on a significant project management component to ensure interagency coordination, including by mobilizing existing coordinating bodies, both at the political leadership and technical level. Change management will also be an integral part of project management.

C. Financial Management

82. **The responsibility for establishing and maintaining acceptable FM arrangements for the project will be vested with the Finance and Accounts Department and the Internal Audit Units of the implementing agencies.** Each implementing agency will designate an accountant, internal auditor, and other support accounting technicians for its PIU, with an appropriate segregation of duties. In addition, the Federal Project Financial Management Department in the OAGF will provide the PCU/PIU with accountants, internal auditors and other support accounting technicians for the project. The implementing agencies/PIUs will prepare annual audited financial statements and calendar semester unaudited IFRs, in the agreed upon format. They will then submit them to the Bank within the agreed timelines. The Internal Audit Units in the implementing agencies/PIUs will be responsible for the internal audit of the project on the basis of the Terms of Reference (TOR) to be agreed with the Bank. Consistent with Bank Policy and Directives, the adequacy and appropriateness of the project's FM arrangements will



be reviewed using a risk-based approach for the on-site review. In addition, a routine desk review of periodic reports will be undertaken.

83. **A computerized accounting system will be deployed** and shall be configured in line with the format of the IFRs and the annual financial statements. Project designated bank accounts will be opened with the CBN in line with the FGN directives for the TSA.

84. **The FM risk for this financing is assessed as Substantial.** The FM Assessment was conducted, and related mitigation measures agreed to regarding the strengthening of the FM system in the PIUs. Further to the recommended action plans, the FM arrangements will meet the minimum FM requirements in accordance with Bank Policy and Directives for IPF.

85. **FM Implementation Support Plan.** FM supervision will be consistent with a risk-based approach. The supervision intensity is based initially on the assessed FM risk rating, and subsequently on the updated FM risk rating during implementation. Given the Substantial risk rating, on-site supervision will be carried out at least twice a year. In addition, an on-site review will cover all aspects of FM, including internal control systems, the overall fiduciary control environment, the tracing of transactions from the bidding process to disbursements, as well as an IFR review. Additional supervision activities will include a desk review of calendar semester IFRs, quarterly internal audit reports, audited Annual Financial Statements, and management letters.

D. Procurement

86. **Procurement under the proposed project will be carried out in accordance with the World Bank procedures,** as follows: procurement for goods, non-consulting and consulting services for the project will be carried out in accordance with the procedures specified in the 'World Bank Procurement Regulations for IPF Borrowers' dated July 2016 (revised as of November 2017) and the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants' (revised as of July 1, 2016), as well as the provisions stipulated in the Financing Agreement. However, the Bank has issued clearance for the use of national procurement procedures for procurement activities up to and including the national competitive bidding (NCB) threshold under Bank-financed projects in Nigeria. Therefore, for all procurement packages below the international competitive bidding (ICB) threshold for this project, the national procedures shall apply and will only be post reviewed by the Bank.

87. **Procurement will be conducted by the FMoF, the Federal Ministry of Budget and National Planning, the OAuGF, the National Bureau of Statistics and the Bureau of Public Procurement.** The procurement arrangement has been assessed and the procurement risk is rated as High. The mitigation for the identified risks and weaknesses have been discussed and agreed with the implementing agencies. Details of the procurement arrangements are provided in Annex 2.

88. **A Project Procurement Strategy for Development (PPSD) has been prepared with Bank support.** It aims to ensure that procurement activities are packaged and prepared in such- a way that they expedite implementation, taking into account the market analysis and the related procurement trends, as well as the procurement risk analysis. The PPSD includes the recommended procurement approaches for the project that have been reflected in the approved Procurement Plan, covering the first 18 months of project implementation (see Annex 2 for more details about procurement).



89. **A procurement plan for the TA and DLI components was developed and agreed with the implementing agencies during project appraisal.** The final version was agreed during negotiations and will be disclosed on the Bank’s external website by the project effectiveness date. The Procurement Plan will be updated annually as necessary in agreement with the Bank. It will reflect the project’s actual implementation needs and improvements in institutional capacity.

E. Social (including Safeguards)

90. **A key social impact of the proposed operation is its contribution to improving domestic revenue collection, with the attendant impact of increasing available resources.** This will help the Government finance various social programs that target poverty reduction. Also, by supporting the budget rationalization process, as well as internal and external audit functions, the proposed project will simultaneously improve budget allocation and prioritization toward key service delivery improvements and social sectors. The focus on citizen engagement, through participation in and feedback on spending reviews, and on transparency in procurement and budget execution, will contribute to enabling participation of citizens in budget process.

F. Environment (including Safeguards)

91. **Given that the project will essentially focus on building institutional capacity and the provision of advisory services, environmental impact assessments are not required.** The project is, therefore, classified as Environmental Category ‘C’, and no environmental or social safeguards policies are triggered.

G. Other Safeguard Policies (if applicable)

92. N/A

H. World Bank Grievance Redress

93. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project 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/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

Project Development Objective(s)

The project development objective (PDO) is to improve the credibility of public finance and national statistics.

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets				End Target
					1	2	3	4	
Strengthened oversight of the revenue of the Federation									
Non-oil revenue outturn			Percentage	70.00	70.00	75.00	80.00	85.00	85.00
Improved execution of the federal expenditure									
Capital expenditure execution rate			Percentage	43.00	50.00	55.00	60.00	65.00	65.00
Enhanced quality of fiscal and economic statistics									
Publication of reconciled fiscal and economic datasets			Number	0.00	0.00	2.00	4.00	6.00	8.00

Intermediate Results Indicators by Components	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets				End Target
					1	2	3	4	
Strengthening Domestic Revenue Management									



Regular internal and external audit reports completed	DLI 1		Text	No external revenue audits; occasional internal audits	Revenue assur	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2018; IT audit of ITAS and ASYCUDA for 2018; Forensic Audit of main income generating agencies; Oil Revenue audit reports reconciliation by the OAuGF	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2019; IT audit of ITAS and ASYCUDA for 2019; Oil Revenue audit reports reconciliation by the OAuGF	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2020; IT audit of ITAS and ASYCUDA for 2020; Forensic Audit of main income generating agencies; Oil Revenue audit reports reconciliation by the OAuGF	Regular external and internal revenue audits completed
Revenue analyses institutionalized at FMoF	DLI 2		Text	Occasional and inadequate revenue analysis; weak revenue models	Cost-benefit analysis of tariff incentives on import and export duties; VAT gap analysis; Impact analysis of trade agreements; Taxpayers' survey of compliance cost	Analysis of tax expenditures; Roll out of track and trace system for goods subjected to excise duties; Completion of performance management framework for parastatals and SOEs	Micro-simulation for VAT forecast used in the Medium Term Fiscal Framework; Completion of tax laws review; Completion of National Oil and Gas Data Repository	Operationalization of improved revenue modelling for revenue forecasting in Medium Term Fiscal Framework for 2021-24	Eight improved oil and non-oil revenue analyses; tax law review; strengthened revenue modelling
Strengthening Controls, Transparency and Accountability in the Use of Public Funds									
Enhanced functionality of the	DLI 3		Text	GIFMIS payment controls and cash	Mainstreaming of commitment	Mainstreaming of commitment	Mainstreaming of commitment	Mainstreaming of commitment	Mainstreaming of commitment



financial management information systems			management modules not operational	controls, payroll controls and cash management GIFMIS module (to 30 percent of expenditure)	controls, payroll controls and cash management GIFMIS module (to 50 percent of expenditure)	controls, payroll controls and cash management GIFMIS module (to 75 percent of expenditure)	controls, payroll controls and cash management GIFMIS module (to 90 percent of expenditure)	controls, payroll controls and cash management GIFMIS module (to 90 percent of expenditure)
Spending reviews incorporating citizens feedback are publicly disclosed		Number	0.00	0.00	1.00	2.00	3.00	3.00
Enhanced public participation in the budget cycle		Number	13.00		15.00		20.00	20.00
Compliance with capital investment prioritization process by main spending ministries	DLI 4	Text	PIM guideline as an annex to the budget circular is not in place	Adoption of PIM guideline as an annex to the budget circular	Compliance rate with budget circular in three ministries with large-scale capital budgets (15%)	Compliance rate with budget circular in three ministries with large-scale capital budgets (25%)	Compliance rate with budget circular in three ministries with large-scale capital budgets (50%)	Compliance rate with budget circular in three ministries with large-scale capital budgets (50%)
Fiscal costs and liabilities incurred by PPP transactions are reflected in the budget		Yes/No	N	N	Y	Y	Y	Y
MDAs applying e-Procurement, open contracting standards and beneficial ownership	DLI 5	Number	0.00	3.00	4.00	6.00	10.00	10.00



disclosure									
Open Budget Survey score on comprehensiveness of information in appropriation bill			Number	11.00		15.00		20.00	20.00
Improving Economic and Fiscal Statistics									
Generated and updated statistical datasets	DLI 6		Text	No agriculture and business census	Business sample census completed	Agriculture sample census completed	Follow-up business sample census completed	Follow-up agriculture sample census completed	Sample censuses and follow-up surveys on agriculture and business completed and published
Gender-disaggregated data on land and business ownership collected and published			Yes/No	N	N	N	Y	Y	Y



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Non-oil revenue outturn
Definition/Description	The gap is measured as the difference between the originally budgeted and executed non-oil revenues.
Frequency	Annually
Data Source	Internal and external revenue audit reports
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAugF
Indicator Name	Capital expenditure execution rate
Definition/Description	Ratio of actual to appropriated capital expenditure at end of fiscal year.
Frequency	Annually
Data Source	Audited financial statements
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAugF



Indicator Name	Publication of reconciled fiscal and economic datasets
Definition/Description	fiscal data are reconciled with validated datasets on oil & gas and trade, and generated datasets from sample censuses and follow-up surveys on Agriculture and Business
Frequency	Annually
Data Source	Report of the Inter-ministerial committee on data harmonization
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	NBS



Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Regular internal and external audit reports completed
Definition/Description	Four regular audits completed annually include 1) Revenue assurance audit of main income generating agencies; 2) IT audit of ITAS & ASYCUDA; 3) Forensic Audit of main income generating agencies; and 4) Oil Revenue audit reports reconciliation by OAuGF
Frequency	Annually
Data Source	Audit reports
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAuGF/FMoF
Indicator Name	Revenue analyses institutionalized at FMoF
Definition/Description	Tax revenue and expenditure analysis; revenue forecasts; tax laws review
Frequency	Annually
Data Source	Completed revenue analysis, forecasts and legal review
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	FMoF/Budget Office



Indicator Name	Enhanced functionality of the financial management information systems
Definition/Description	Mainstreaming of commitment controls, payroll controls and cash management GIFMIS module (to 90 percent of expenditure)
Frequency	Annually
Data Source	OAGF annual report/OAuGF audit reports
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAGF/OAuGF
Indicator Name	Spending reviews incorporating citizens feedback are publicly disclosed
Definition/Description	spending reviews reports will cover infrastructure, education and health
Frequency	Annually
Data Source	Budget Office website
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	Budget Office



Indicator Name	Enhanced public participation in the budget cycle
Definition/Description	Open budget index score on public participation
Frequency	Bi-annually
Data Source	Open Budget Index Survey
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	Budget Office
Indicator Name	Compliance with capital investment prioritization process by main spending ministries
Definition/Description	Compliance rate with budget circular in the Ministry of Power, Works and Housing; Ministry of Transport; and Ministry of Agriculture, with large-scale capital budgets as measured in appropriations
Frequency	Annually
Data Source	OAugF budget execution audit report
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAugF



Indicator Name	Fiscal costs and liabilities incurred by PPP transactions are reflected in the budget
Definition/Description	Fiscal costs and liabilities incurred by PPP transactions are reflected in appropriation act
Frequency	Annually
Data Source	OAuGF budget execution audit report
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAuGF
Indicator Name	MDAs applying e-Procurement, open contracting standards and beneficial ownership disclosure
Definition/Description	Measured as the number of federal ministries, departments and agencies (MDAs) that have mainstreamed e-procurement and complied with open contracting standards and disclosure of beneficial ownership
Frequency	Annually
Data Source	BPP
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	BPP annual report



Indicator Name	Open Budget Survey score on comprehensiveness of information in appropriation bill
Definition/Description	Open Budget Survey rating on comprehensiveness of information in appropriation bill (executive budget proposal)
Frequency	Annually
Data Source	Open Budget Survey
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	OAugF
Indicator Name	Generated and updated statistical datasets
Definition/Description	Number of sample censuses and follow-up surveys completed on agriculture and business, and number of datasets validated on oil & gas and trade.
Frequency	Annually
Data Source	NBS reports
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	NBS



Indicator Name	Gender-disaggregated data on land and business ownership collected and published
Definition/Description	Description: Sample censuses and follow up surveys on business and agriculture will generate and publish gender-disaggregated datasets especially on women’s land ownership and financial inclusion
Frequency	Once (FY20)
Data Source	Agriculture and business census report
Methodology for Data Collection	PCU's M&E system
Responsibility for Data Collection	NBS

Disbursement Linked Indicators Matrix

DLI 1	Regular Internal and external audit reports completed			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Output	No	Text	12,500,000.00	10.00
Timetable	Value		Allocated Amount (USD)	Formula
Baseline	No revenue assurance or IT audit report; occasional forensic audits			
June 30, 2019	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2017 completed; IT audit of ITAS and ASYCUDA for 2017 completed; Oil		3,000,000.00	Pass/Fail



	Revenue audit reports reconciliation by the OAuGF completed		
June 30, 2020	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2018 completed; IT audit of ITAS and ASYCUDA for 2018 completed; Forensic Audit of main income generating agencies completed; Oil Revenue audit reports reconciliation by the OAuGF completed	3,500,000.00	Pass/Fail
June 30, 2021	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2019 completed; IT audit of ITAS and ASYCUDA for 2019 completed; Oil Revenue audit reports reconciliation by the OAuGF completed	3,000,000.00	Pass/Fail
June 30, 2022	Revenue assurance audit of main income generating agencies (including tax and customs administration) for 2020 completed; IT audit of ITAS and ASYCUDA for 2020 completed; Forensic Audit of main income generating agencies completed; Oil Revenue audit reports reconciliation by the OAuGF completed	3,000,000.00	Pass/Fail
DLI 2	Revenue analyses institutionalized at FMoF		
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD) As % of Total Financing Amount
Output	No	Text	15,500,000.00 12.40



Timetable	Value	Allocated Amount (USD)	Formula	
Baseline	Occasional and inadequate revenue analysis; weak revenue models			
June 30, 2019	Cost-benefit analysis of tariff incentives on import and export duties completed; VAT gap analysis completed; Impact analysis of trade agreements completed; Taxpayers' survey of compliance cost completed	3,500,000.00	Pass/Fail	
June 30, 2020	Analysis of tax expenditures completed; Track and trace system for goods subjected to excise duties rolled out; Performance management framework for parastatals and SOEs completed	5,000,000.00	Pass/Fail	
June 30, 2021	Tax Codification and Simplification Bill tabled at National Assembly for ratification; micro-simulation of the VAT forecast used in the MTF; the national oil and gas data repository completed; and validation of data in the oil revenue model completed	4,000,000.00	Pass/Fail	
June 30, 2022	Revenue modelling for revenue forecasting set out in MTF improved according to the standards detailed in the Verification Protocol	3,000,000.00	Pass/Fail	
DLI 3	Enhanced functionality of the financial management information systems			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Output	No	Text	27,000,000.00	21.60



Timetable	Value	Allocated Amount (USD)	Formula	
Baseline	GIFMIS payment controls and cash management modules not operational			
June 30, 2019	Commitment controls and cash management using GIFMIS module covering 30 percent of Federal expenditures	8,000,000.00	Pass/Fail	
June 30, 2020	Commitment controls and cash management using GIFMIS module covering 50 percent of Federal expenditures	9,000,000.00	Pass/Fail	
June 30, 2021	Commitment controls and cash management using GIFMIS module covering 75 percent of Federal expenditures	5,500,000.00	Pass/Fail	
June 30, 2022	Commitment controls and cash management using GIFMIS module covering 90 percent of Federal expenditures	4,500,000.00	Pass/Fail	
DLI 4	Compliance with capital investment prioritization process by main spending ministries			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Outcome	No	Text	12,000,000.00	9.60
Timetable	Value	Allocated Amount (USD)	Formula	
Baseline	PIM guideline as an annex to the budget circular is not in place			
June 30, 2019	Adoption by the Budget Office of the Federation	3,000,000.00	Pass/Fail	



	of a guideline for PIM, as an annex to its budget circular (the Budget Circular)			
June 30, 2020	Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the POM (15%)		3,000,000.00	Pass/Fail
June 30, 2021	Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the POM (25%)		3,000,000.00	Pass/Fail
June 30, 2022	Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the POM (50%)		3,000,000.00	Pass/Fail
DLI 5	MDAs applying e-Procurement, open contracting standards and beneficial ownership disclosure			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Number	10,000,000.00	8.00
Timetable	Value		Allocated Amount (USD)	Formula
Baseline	0.00			
June 30, 2019	3.00		2,000,000.00	Pass/Fail
June 30, 2020	4.00		3,000,000.00	Pass/Fail
June 30, 2021	6.00		3,000,000.00	Pass/Fail
June 30, 2022	10.00		2,000,000.00	Pass/Fail



DLI 6	Generated and updated statistical datasets			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Output	No	Text	21,500,000.00	17.20
Timetable	Value		Allocated Amount (USD)	Formula
Baseline	No agriculture and business census			
June 30, 2019	Business sample census completed		10,000,000.00	Pass/Fail
June 30, 2020	Agriculture sample census completed		8,000,000.00	Pass/Fail
June 30, 2021	Updated business sample census completed		1,500,000.00	Pass/Fail
June 30, 2022	Updated agriculture sample census completed		2,000,000.00	Pass/Fail



ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Nigeria

Nigeria: Fiscal Governance and Institutions Project

1. **The project is designed as an Investment Project Financing (IPF) with Disbursement-Linked Indicators (DLIs).** The DLI component amounts to 79 percent of the project amount and the TA component is limited to 21 percent of the project amount. Three main types of TA will be provided to implementing agencies: (a) staff training and travel allowances (for data collection); (b) consultancy services to build critical skills not readily available in implementing agencies; and (c) information technology (IT) support (hardware and software) to upgrade existing IT systems to the extent necessary to achieve the targeted objectives under the DLIs. Regarding project results, the TA activities are structured to build capacity to achieve results in future years or support implementation of results under DLIs in years 1 and 2 (further results being supported by pricing Disbursement-Linked Results (DLRs) adequately). The TA component will also finance the activities of the PCU anchored in the FMoF's International Economic Relations Department (IERD), the four PIUs in the other implementing agencies, as well as the verification of project outputs and outcomes by an Independent Verification Agent (IVA).

A. Project Components

2. **The project consists of four components:** Strengthening revenue management; improving controls, transparency and accountability in the use of public funds; improving economic and fiscal statistics; and implementation support.

3. **Component 1 on strengthening revenue management (SDR 23.7 million, US\$34 million equivalent)** consists of two sub-components: enhancing oversight of revenues accruing to the Federation account; and strengthening revenue analysis and forecasting.

4. **Sub-component 1.1 supports the strengthening of the oversight of Federation revenue¹⁷ through external and internal auditing (SDR 9.7 million, US\$14 million equivalent: TA – US\$1.5 million equivalent and DLI - US\$12.5 million equivalent).** The sub-component finances the revenue assurance audits of the main revenue-generating agencies¹⁸ by the Auditor General of the Federation (OAuGF). Such audits provide assurance that adequate regulations and procedures have been formulated by the revenue-collecting agencies to secure an effective check on assessment, collection and proper allocation of revenues — and that such regulations and procedures are being complied with (through adequate test checks). The objectives of revenue audits are to:

- satisfy that collection of revenues are lawfully made;
- verify that procedures and checks are properly applied;
- ascertain that accounts are duly kept;

¹⁷ The Federation account is the main source of revenues for the three tiers of government in Nigeria. According to the Nigerian Constitution, “all revenues collected by the Government of the Federation” are to be remitted into “the Federation Account” and to be “distributed among the Federal and State Governments and the Local Government Councils in each State on such terms and in such manner as may be prescribed by the National Assembly” (the allocation formula).

¹⁸ The main revenue-generating agencies are the Nigerian National Petroleum Corporation (NNPC), the Department of Petroleum Resources (DPR), the CBN, the Nigerian Ports Authority (NPA), the Nigerian Maritime Administration and Safety Agency (NIMASA), The Federal Inland Revenue Service (FIRS), Customs, Immigration, and the Federal Road Service.



- verify the efficiency of internal controls and accounting systems;
- verify the accuracy of revenue estimates, and ensure that revenue estimates are fair and based on adequate data and a sound footing; and
- review refunds and exemptions of revenues and their legality.

5. **The sub-component finances IT audits of the tax and customs administration by the OAuGF.** These IT revenue collection platforms include the Integrated Tax Administration System (ITAS) run by the Federal Inland Revenue Service (FIRS), and the Automated Systems for Customs Data (ASYCUDA) run by the Customs administration. IT audits provide assurance that appropriate processes are in place to manage relevant IT risks and vulnerabilities. They also help to ensure that the systems meet the organization’s business needs without compromising security, privacy, cost, and other critical business elements. according to International Organization of Supreme Audit Institutions (INTOSAI) standards.¹⁹

6. **The sub-component will finance forensic audits to be commissioned by the Federal Ministry of Finance (FMoF).** A forensic audit conducted in 2017 for the years 2010-2015, found that US\$22 billion (over 1 trillion Nigerian Naira (NGN)) of oil revenues should have been remitted to the Federation account. Further forensic audits will help mitigate future leakages.

7. **Finally, the sub-component supports the reconciliation of the findings of different types of audits,** such as the reconciliation of Extractive Industry Transparency Initiative (NEITI) reports on the oil and gas sector and the annual audit report of the OAuGF²⁰. It will also support the transfer of knowledge and expertise from private forensic auditors to the OAuGF. The objective is to institutionalize both internal and external audits of the Federation’s revenues.

8. **The TA (US\$1.5 million equivalent) will focus on:**

- Building the capacity of the government to improve audit practices through training and TA (US\$1 million equivalent in years 1 and 2).
- Reconciliation of different types of audits and improvements in institutional cooperation between NEITI and the OAuGF (US\$0.5 million in years 1 through 4).

9. **The TA aims at improving the quality of audits over time and does not preclude the completion of regular external and internal audits. As such, it is not a prerequisite to results supported by DLI 1.**

10. **The DLI (US\$12.5 million equivalent) to support results under this sub-component is as follows:**

DLI 1: Regular internal and external audit reports completed	FY19	FY20	FY21	FY22
	DLR 1.1: Revenue assurance audit of	DLR 1.2: Revenue assurance audit of	DLR 1.3: Revenue assurance audit of	DLR 1.4: Revenue assurance audit of

¹⁹ “Generally Supreme Audit Institutions (SAIs) perform IT Audits in conjunction with a financial statements audit, a review of internal controls, and/or as Performance Audits of IT Systems or IT Applications. In broad terms, IT audits pervade Financial Audits (to assess the correctness of an organization’s financial statements); Compliance/ Operational Audits (evaluation of internal controls); Performance Audits (including Information Systems topics); Specialized Audits (evaluation of services provided by a third party such as outsourcing, etc.); and forensic audits and Information Systems’ (IS) development projects audits. (...) the IT auditor would be required to assess the policies and procedures that guide the overall IT environment of the audited entity, ensuring that the corresponding controls and enforcement mechanisms are in place.” (INTOSAI, Handbook for IT audit for Supreme audit institutions, 2014).

²⁰ According to the NEITI act of 2007 audit reports commissioned by the NEITI are to be shared with the Auditor General which is to “publish any comments made or action taken by the Government on [NEITI] audit reports”. The auditor general is also auditing oil revenue in its annual audit report but so far though, it has not reconciled its findings with the NEITI report.



	main income generating agencies (including tax and customs administration) for 2017 completed; IT audit of ITAS and ASYCUDA for 2017 completed; Oil Revenue audit reports reconciliation by the OAuGF completed	main income generating agencies (including tax and customs administration) for 2018 completed; IT audit of ITAS and ASYCUDA for 2018 completed; Forensic Audit of main income generating agencies completed; Oil Revenue audit reports reconciliation by the OAuGF completed	main income generating agencies (including tax and customs administration) for 2019 completed; IT audit of ITAS and ASYCUDA for 2019 completed; Oil Revenue audit reports reconciliation by the OAuGF completed	main income generating agencies (including tax and customs administration) for 2020 completed; IT audit of ITAS and ASYCUDA for 2020 completed; Forensic Audit of main income generating agencies completed; Oil Revenue audit reports reconciliation by the OAuGF completed
DLI pricing (US\$ million equivalent)	3	3.5	3	3
Pricing of DLR components	Revenue assurance audit of main income generating agencies completed – US\$1 million IT audit of ITAS and ASYCUDA for 2017 completed – US\$1 million Oil Revenue audit reports reconciliation by the OAuGF – US\$1 million completed	Revenue assurance audit of main income generating agencies completed – US\$1 million IT audit of ITAS and ASYCUDA for 2017 completed – US\$1 million Oil Revenue audit reports reconciliation by the OAuGF completed – US\$1 million Forensic audit completed – US\$0.5 million	Revenue assurance audit of main income generating agencies completed – US\$1 million IT audit of ITAS and ASYCUDA for 2017 completed – US\$1 million Oil Revenue audit reports reconciliation by the OAuGF completed – US\$1 million	Revenue assurance audit of main income generating agencies completed – US\$0.5 million IT audit of ITAS and ASYCUDA for 2017 completed – US\$1 million Oil Revenue audit reports reconciliation by the OAuGF completed – US\$1 million Forensic audit completed – US\$0.5 million

11. **Sub-component 1.2 on strengthening revenue analysis and forecasting (SDR 14 million, US\$20 million equivalent: TA – US\$4.5 million equivalent and DLI – US\$15.5 million equivalent) strengthens the capacity of the FMoF and of the Federal Ministry of Budget and National Planning in revenue forecasting and analysis.** It will support the Tax Policy Division of the Technical Services Department in the FMoF and the Federation’s Budget Office in the Federal Ministry of Budget and National Planning. The project will finance shared forecasting tools and joint deliverables to promote interagency coordination



and consistency of fiscal information. It will also support existing coordinating bodies, such as the Tax Policy Implementation Committee established in 2017 under the chairmanship of the Director for Technical Services of the FMoF.

12. The TA (US\$3 million equivalent) on revenue analysis will include:

- Consultancy to develop methodology on tax expenditure analysis: stocktaking of existing tax and tariff incentives (exemptions, reductions, credits); cost-benefit analysis of current tax expenditures; and elaboration and utilization of an assessment methodology for proposed tax holidays (US\$0.5 million).
- Consultancy to develop tax gap analysis methodology: Value-added tax (VAT) gap analysis; Corporate Income Tax (CIT) capacity analysis (including informal businesses) (US\$0.4 million).
- Tax laws codification and simplification: review of all tax legal provisions for reconciliation and streamlining (US\$0.5 million).
- Consultancy support to tax reform incidence analysis: VAT (rate) policy and legal (eligibility threshold) reform incidence analysis; custom duties regional harmonization incidence analysis; impact assessment of the tax amnesty on collection of tax arrears – the Voluntary Asset and Income Disclosure Scheme (US\$0.5 million).
- Review of customs tariffs from the perspective of regional trade integration: impact analysis of the harmonization of exemptions; impact analysis of the Continental Free Trade Agreement (US\$0.6 million).
- Capacity building for international tax cooperation on transfer pricing: review of tax treaty implementation practices and risk assessment (treaty abuse, avoidance of permanent establishments, and so on) (US\$0.5 million).

13. The TA (US\$1.5 million equivalent) on revenue forecasting will include:

- Consultancy support to use oil revenue model for budget preparation based on primary data captured in the National Data Repository at the Department of Petroleum Resources (DPR) and any other databases held by relevant government agencies (US\$0.4 million).
- Consultancy support and related training to use micro-simulation models for main taxes (CIT, VAT and customs duties) to apply to the non-oil tax component of the Medium-Term Fiscal Framework (US\$0.5 million).
- Strengthen target setting for independent revenues: elaboration and use of a performance management framework for SOEs to improve their accountability for remittances of their operating surplus; to be appended to budget circular (US\$0.6 million).

14. The DLI (US\$15.5 million equivalent) to support results under this sub-component is as follows:

DLI 2: Revenue analyses institutionalized at FMoF	FY19	FY20	FY21	FY22
	DLR 2.1: Cost-benefit analysis of tariff incentives on import and export duties completed; VAT gap analysis	DLR 2.2: Analysis of tax expenditures completed; Track and trace system for goods	DLR 2.3: Tax Codification and Simplification Bill tabled at National Assembly for ratification; micro-	DLR 2.4: Revenue modelling for revenue forecasting set out in MTFE improved according to the



	completed; Impact analysis of trade agreements completed; Taxpayers' survey of compliance cost completed	subjected to excise duties rolled out; Performance management framework for parastatals and SOEs completed	simulation of the VAT forecast used in the MTF; the national oil and gas data repository completed; and validation of data in the oil revenue model completed	standards detailed in the Verification Protocol
DLI Pricing (in US\$ million equivalent)	3.5	5	4	3
Pricing of DLR components	Cost-benefit analysis of tariff incentives on import and export duties completed – US\$1 million VAT gap analysis completed – US\$0.75 million Impact analysis of trade agreements completed – US\$0.75 million Taxpayers' survey of compliance cost completed – US\$1 million	Analysis of tax expenditures completed – US\$1 million Track and trace system for goods subjected to excise duties rolled out – US\$3 million Performance management framework for parastatals and SOEs completed – US\$1 million	Tabling at the National Assembly of Tax Codification and Simplification Bill - US\$1 million Micro-simulation of the VAT forecast used in the MTF - US\$1 million Validation of data in the oil revenue model – US\$2 million	Use of improved revenue modelling for revenue forecasting – US\$3 million

15. **Component 2 on strengthening controls, transparency and accountability in the use of public funds (SDR 40.7 million, US\$58.5 million equivalent)** consists of three sub-components: (1) Sub-component 2.1. on the operationalization of the Government Integrated Financial Management System (GIFMIS) for enhanced budget management and reporting; (2) Sub-component 2.2 on strengthening Public Investment Management (PIM); and (3) Sub-component 2.3 on improving transparency and efficiency in procurement, and the quality of budget information.

16. **Sub-component 2.1 on the operationalization of the GIFMIS for budget management and reporting (SDR 20.9 million, US\$30 million equivalent: TA - US\$3 million equivalent and DLI – US\$27 million equivalent).** This sub-component will finance the following activities:

- The operationalization of the GIFMIS, developed under the ERG Project, across a range of critical functionalities which are not yet in use, namely commitment and payroll controls, cash management, as well as the monitoring and evaluation of budget execution. This will require an upgrade of the IT infrastructure during project implementation.
- The IT audit by the OAuGF of the GIFMIS and IPPIS to ensure data integrity and security. Until the personnel roll of IPPIS is fully populated, the only way of mitigating the risk of fraud in the management of the payroll is through auditing.



- The strengthened reporting on budget execution (in quarterly and annual execution reports by the Budget Office) and evaluation of expenditure effectiveness through participatory public expenditure reviews in critical sectors such as health and education and for the main budget outputs such as infrastructure.

17. The TA (US\$3 million equivalent) component will include:

- Consultancy support to improve the linkage between the cash planning and debt management functions (US\$0.5 million).
- Consultancy support to prepare an IT audit of the GIFMIS and IPPIS (US\$1 million).
- Consultant on IT security (US\$0.5 million).
- Consultancy support to improve the format of the budget execution report (US\$0.5 million).
- Change management activities, including awareness raising, communications and training as needed (US\$0.5 million).

18. The TA is supporting IT audits, improved budget reporting and change management. These will operationalize the GIFMIS functionalities supported by the DLI, but the TA is not a prerequisite for such operationalization and it does not finance substantive upgrading of the GIFMIS IT platform.

19. The DLI (US\$27 million equivalent) to support results under this sub-component is as follows:

DLI 3: Enhanced functionality of the financial management information systems	FY19	FY20	FY21	FY22
	DLR 3.1: Commitment controls and cash management using GIFMIS module covering 30 percent of Federal expenditures	DLR 3.2: Commitment controls and cash management using GIFMIS module covering 50 percent of Federal expenditures	DLR 3.3: Commitment controls and cash management using GIFMIS module covering 75 percent of Federal expenditures	DLR 3.4: Commitment controls and cash management using GIFMIS module covering 90 percent of Federal expenditures
DLI Pricing (US\$ million equivalent)	8	9	5.5	4.5

20. Sub-component 2.2 on strengthening PIM (SDR 9 million, US\$13 million equivalent: TA - US\$1 million equivalent and DLI - US\$12 million equivalent) finances the following activities:

- Improving the appraisal, selection and prioritization of capital projects through the development and adoption of guidelines to be appended to the budget circular; and enforcement in the main spending line ministries regarding capital expenditures (for example, the Ministry of Power, Works and Housing, the Ministry of Transport, and the Ministry of Agriculture and Rural Development).
- Rationalization of the portfolio of capital projects based on a screening methodology and framework, and the progressive streamlining of under-performing projects.

21. The TA (US\$1 million equivalent) will support:



- Consultancy support to develop appraisal and selection guidelines, as well as screening methodology to rationalize the existing portfolio (US\$0.4 million).
- Consultancy support to develop a fiscal risk monitoring methodology for PPP projects (US\$0.3 million).
- Change management activities and training of both the FMoF and line ministry staff in the application of appraisal and selection guidelines for capital projects (US\$0.3 million).

22. **TA for PIM is a prerequisite to achieving DLI4. However, it only entails small and simple procurement transactions, which should not delay the achievement of targeted results.**

23. **The DLI (US\$12 million equivalent) to support results under this sub-component is as follows:**

	FY19	FY20	FY21	FY22
DLI 4: Compliance with capital investment prioritization process by main spending ministries	DLR 4.1: Adoption by the Budget Office of the Federation of a guideline for PIM, as an annex to its budget circular (the Budget Circular)	DLR 4.2: Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the PIM (15%)	DLR 4.3: Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the PIM (25%)	DLR 4.4: Compliance rate with Budget Circular in three ministries with large-scale capital budgets as detailed in the PIM (50%)
DLI pricing (in US\$ million equivalent)	3	3	3	3

24. **Sub-component 2.3 aims to improve transparency and efficiency in procurement, and the quality of budget information (SDR 10.8 million, US\$15.5 million equivalent: TA – US\$5.5 million equivalent and DLI - US\$10 million equivalent).**

25. **The sub-component will support the introduction of e-procurement, open contracting and the disclosure of beneficial ownership.** It supports the scaling up and institutionalization of the piloting by the Bureau of Public Procurement of e-procurement since 2016 by mainstreaming E-Bidding. Other functionalities, such as E-Catalogue, E-Auction and E-Reverse Auction, will be added under a future expansion. The project will also support the integration of the e-Procurement system with the GIFMIS for e-Payment, and the company registration and tax administration systems. It also supports the operationalization of the government commitment to the “full implementation of Open Contracting and adoption of Open Contracting Data Standards in the public sector” under the Open Government Partnership National Action Plan, as well as a commitment regarding the disclosure of beneficial ownership in public procurement.

26. **The TA support (US\$5 million equivalent) on procurement** will include consultancy support and ICT equipment to launch the e-procurement IT platform, the establishment of the National Open Contracting Portal, the disclosure of beneficial ownership; a consultancy for the procurement baseline study; business re-engineering; the hiring of an e-Procurement Technical Adviser, business analyst and ICT advisor; and a post implementation review.

27. **The sub-component (US\$0.5 million equivalent) will support the enhancement of the quality and comprehensiveness of information contained in disclosed budget documents, including the appropriation bill.** TA will finance: consultancy services to ensure that the appropriation bill includes tax expenditures, contingent liabilities (including those entailed by PPP transactions); disaggregated sources



of tax and non-tax revenues; composition of outstanding debts; macroeconomic forecast and scenarios; impact of new policy proposals on expenditures; expenditure and revenue estimates for previous fiscal years; extra-budgetary funds; intergovernmental transfers; non-financial data on inputs to be acquired and results (outputs and outcomes); and it supports the conduct of sectoral and thematic spending reviews (for example in education, health, agriculture, and infrastructure).

28. **The TA on procurement is a prerequisite to the achievement of targeted results under the DLI component.**

29. **The DLI (US\$10 million equivalent) to support results under this sub-component is as follows:**

	FY19	FY20	FY21	FY22
DLI 5: MDAs in compliance with improved procurement standards (e-Procurement, open contracting standards, and beneficial ownership disclosure)	3	4	6	10
DLI pricing (in US\$ million equivalent)	2	3	3	2

30. **Component 3 on Strengthening economic and fiscal statistics (SDR 19.1 million, US\$27.5 million equivalent: TA- US\$6 million equivalent and DLI - US\$21.5 million equivalent) consists of two sub-components:** 1) Sub-Component 3.1. on the Improvement of Economic Statistics; and 2) Sub-component 3.2 on reconciliation, validation, archiving and dissemination of official statistics.

31. **Sub-component 3.1 on improvement of economic statistics (SDR 18.4 million, US\$26.5 million equivalent),** finances agricultural and business sample censuses. The project will also finance one round of a follow up survey for each of the sample censuses.

- The **Business Sample Census** will collect information on the number, type and location of businesses in the country with a broad coverage. Business data collected from various sectors of the economy, such as manufacturing, construction, retail trade, and health care, along with data collected from state and local governments and international trade, will provide the most up to date economic view of the country. It will be instrumental in providing a comprehensive source of statistical information for economic and social development planning; for administrative purposes; for assessing conditions in human settlements; for research purposes; and for commercial and other uses. In addition, the sample census will also serve as the logical starting point for work on the organization and construction of a computerized statistical database to serve continuing national and local needs for business data.
- **A Follow-Up Business Survey** will be designed to provide updates on the information collected during the implementation of the business sample census. The updates will be extremely useful in tracking progress made in the sector, especially with regard to economic and social development planning, and in improving tax coverage in both the formal and informal sectors.
- The **Agricultural Sample Census** will provide statistical evidence to monitor current agricultural and food supply conditions, including food poverty and security; increase food production and improve the efficiency of agricultural practices; and support decision making by governments and



other stakeholders. It will help to provide a better understanding of the role of women in agriculture, access to land, and environmental issues that affect agricultural outputs and the use of fertilizers and pesticides. More generally, it will provide a better view of the structure and overall performance of the agriculture sector. Moreover, the sample census will help Nigeria to compare and benchmark its data against the regional and global agricultural census reports. As such, it will help policymakers to see where the country stands and how improvements can be made. It can also help the agriculture dependent population of the country to increase its agricultural productivity, as well as adapt to the impact of climate change on agriculture.

- **A Follow-Up Agricultural Survey** will be instrumental in tracking progress in the agricultural sector, especially with regard to growth, improvement in the agriculture and goods supply conditions, food production and overall agricultural practices.

32. **Sub-component 3.2 on reconciliation, validation, archiving, and dissemination of official statistics (SDR 0.7 million, US\$1 million equivalent)** will support the validation of statistics generated by MDAs, computations of National Accounts, and data dissemination and archiving through:

- Supporting NBS in the harmonization of statistics in two critical areas: oil and gas revenues, and merchandise trade statistics. It will also support the strengthening of the System of National Accounts.
- Strengthening of the Secretariat of the Inter-ministerial Data Harmonization Committee, chaired by the Statistician General.
- Strengthening the capacity for statistical data analysis by enabling the NBS to train and transfer capacity to MDAs regarding the utilization of statistical evidence to inform policy making.
- Financing statistical data dissemination and archiving to promote access to data and to ensure adequate data archiving; this will help the Federal Government of Nigeria (FGN) in meeting its commitment to Open Data standards.

Table 1.1: Consistency of Economic and Fiscal Statistics

Economic Data	Fiscal Data
<ul style="list-style-type: none"> • Data on the number, type, structure, size, and location of businesses, and so on. 	<ul style="list-style-type: none"> • Tax base for the private sector • Fiscal planning for revenue mobilization • Tax revenue forecast • Subsidies in specific business areas
<ul style="list-style-type: none"> • Data on agricultural practices, land access and size, agricultural production, related inputs, employment, and so on. 	<ul style="list-style-type: none"> • Agricultural subsidies • Revenue forecasts • Tax base for agriculture
<ul style="list-style-type: none"> • Data validation pertaining to the oil and gas sector and foreign trade 	<ul style="list-style-type: none"> • Oil revenues • Fuel subsidy



	<ul style="list-style-type: none"> • Custom revenues
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33. **The TA component (US\$6 million equivalent), which is only a prerequisite to the completion of the first sample survey, will include:**

- Staff (enumerator/supervisor/monitor, and so on) training for survey specific field work, including listing (US\$1 million).
- ICT survey equipment (tablets, computers, printers, power banks, and so on) and related software (US\$0.4).
- Consultancy support for survey methodology and survey instrument development (US\$0.4).
- Consultancy support for overall survey management and coordination (US\$0.4).
- Consultancy support for data quality monitoring (US\$0.7).
- Survey specific field operations/data collection (US\$3.1).

34. **The DLI (US\$21.5 million equivalent) to support results under this sub-component is as follows:**

DLI 6: Generated and validated statistical datasets	FY19	FY20	FY21	FY22
	DLR 6.1: Business sample census completed	DLR 6.2: Agriculture sample census completed	DLR 6.3: Updated business sample census completed	DLR 6.4: Updated agriculture sample census completed
DLI pricing (in US\$ million equivalent)	10	8	1.5	2

35. **Component 4 on implementation support (SDR 3.5 million, US\$5 million equivalent) will support the PCU anchored at the FMoF and the PIU at each of the four other project implementation agencies (with the PCU playing the role of PIU in the FMoF).**

36. **Support will be provided to the PCU** through consultants who will work as specialists alongside seconded staff from IERD on project management and supervision, communications and outreach, procurement, FM, and M&E. The key support areas are:

- *Coordination of Project Activities:* The PCU will have a designated Project Coordinator who will facilitate the coordination of PIUs in the various project participating agencies. The project Coordinator will report directly to the Permanent Secretary, FMoF. A Steering Committee consisting of the heads of implementing agencies will be chaired by the Permanent Secretary, FMoF.
- *Communications and awareness:* this activity will support a regular, semi-annual program of liaison workshops with participating agencies as well as with the Steering Committee on the contents and activities of the project to ensure regular dialogue and information sharing. The Communications Specialist will assist the Project Coordinator to ensure effective and consistent communication on the project objectives and implementation.



- *Project Monitoring and Evaluation:* The project will support the PCU to put in place a robust program M&E system to select the right tools to monitor project activities. It will also provide a consistent series of checks, feedback and technical support during implementation of activities *prior* to assessment of results by the IVA. The Project Operations Manual will include: definitions and descriptions of DLIs; milestones and performance management arrangements to support an understanding of roles and responsibilities of the various stakeholders; a calendar for spot-checks to track program implementation; and a transparent and acceptable mechanism for public disclosure of information on project performance to support demand-side engagement. The M&E Specialist at the PIU will assist the Project Coordinator in coordinating these activities.

37. **Independent Verification of Project Results:** The project will support the hiring of an IVA to provide assessment and quality assurance of the results achieved by the implementing agencies. This will include support for the collection of baseline and end-of-project data across DLRs, that will then serve as inputs into the verification process. The IVA will be contracted by IERD based on a Terms of Reference (TORs) drafted at the commencement of the project. The IVA will verify results every six months. Disbursements against DLIs will be predicated on the achievement of verified results. The verification protocol will be further elaborated in the Project Operations Manual.

RELATIONSHIP BETWEEN TA AND DLIs

38. **The TA activities are aligned with the DLIs to enable the Nigerian government to meet its targeted results; however, they are sequenced to minimize risks to timely implementation.** The TA activities will be phased over the project implementation timeline to support the achievement of targeted results under the DLI component. These activities are also calibrated to address the identified need for capacity building for the achievement of intended results. In a limited number of cases, it addresses immediate needs to start implementation of reforms later supported by DLIs.

B. Project Cost and Financing

39. **Credit proceeds are distributed across the four project components, as well as between the TA and DLI components.** The balance between the TA and the DLI components (21 percent of the loan amount for the TA component) has been determined to maximize the incentivization of results.

Table 1.2: Allocation of Credit Proceeds (in US\$ million equivalent)

Project Component	TA Component	DLI Component	Total
Component 1 on strengthening revenue management	6	28	34
Sub-component 1.1 on oversight of Federation revenue	1.5	12.5	14
Sub-component 1.2 on revenue analysis and forecasting	4.5	15.5	20
Component 2 on strengthening controls, transparency and accountability in the use of public funds	9.5	49	58.5
Sub-component 2.1 on operationalization of the GIFMIS for budget and management reporting	3	27	30
Sub-component 2.2 on strengthening PIM	1	12	13



Sub-component 2.3 on improving transparency and efficiency in procurement, and the quality of budget information	5.5	10	15.5
Component 3 on strengthening economic and fiscal statistics	6	21.5	27.5
Sub-component 3.1 on the improvement of economic statistics	5	21.5	26.5
Sub-component 3.2. on reconciliation, validation, archiving, and dissemination of official statistics	1	0	1
Component 4 on implementation support	5	0	5
Total	26.5	98.5	125



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Nigeria

Nigeria: Fiscal Governance and Institutions Project

Project Institutional and Implementation Arrangements

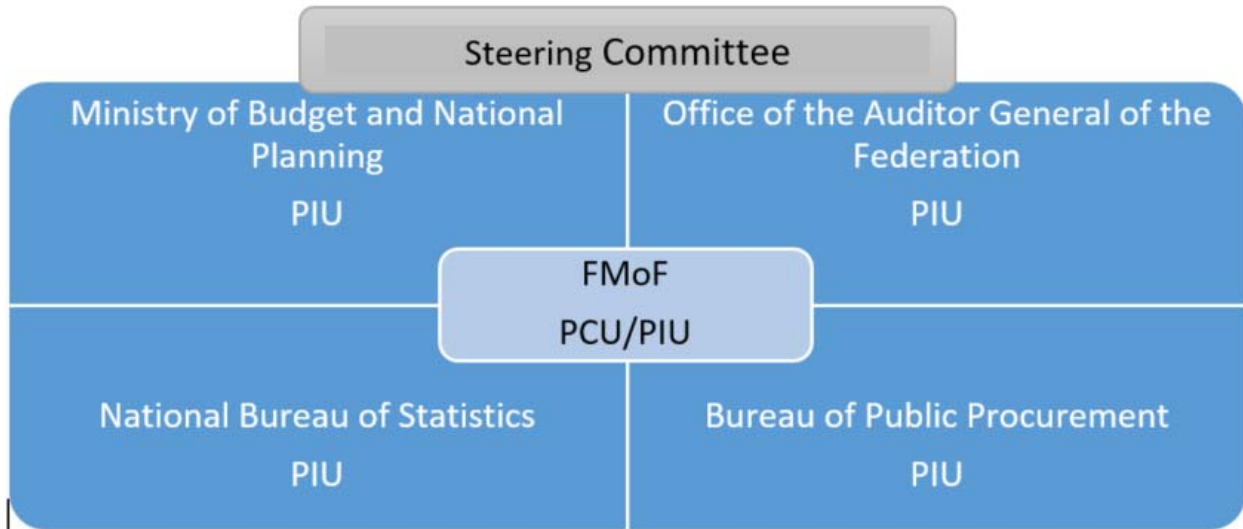
1. **The project will be implemented over a four-year period by five federal agencies.** The nodal agencies were selected based on their statutory mandate and a readiness assessment to cover key elements of the PFM cycle – revenue management, budget planning, control in budget execution including on payroll, transparency and accountability, procurement, audit and M&E, as well as the generation, validation and utilization of official statistics. Implementing agencies include the following:
 - a. The FMoF, including the OAGF and the Technical Services Department;
 - b. The Federal Ministry of Budget and National Planning (FMBNP), including the Budget Office, and the M&E and Macroeconomy Departments;
 - c. The OAuGF;
 - d. The Bureau of Public Procurement; and
 - e. The National Bureau of Statistics.
2. **The FMoF will be responsible for project monitoring and coordination.** A PCU will be established under the FMoF (IERD), with the Head of the PCU directly accountable to the Permanent Secretary, FMoF. The PCU will also be the PIU of the FMoF, responsible for the implementation of the activities conducted by its departments and agencies (while a project office will be established at the OAGF of the Federation to support the operationalization of the GIFMIS).
3. **A PIU will be established in each of the remaining beneficiary agencies.** The PIUs will be responsible for day-to-day sub-component management pertaining to financial management (FM), procurement and disbursements. They will report to the head of the agency. However, they will also be accountable to the PCU for coordination purposes (including by reporting on activities and results).
4. **The joint implementation of activities will be led by the project implementing agencies in coordination with other relevant agencies.** They will foster interagency cooperation and mitigate conflicts of jurisdiction and mandate overlaps. For example, spending reviews will be jointly conducted by the Budget Office and the departments for M&E and Macroeconomy of the Federal Ministry of Budget and National Planning. Fiscal policy analysis will be conducted jointly by the Directorate Technical Services of the FMoF and the Budget Office of the Federation (Federal Ministry of Budget and National Planning). The lead implementing agency will be fully accountable for the completion of joint activities. However, it will be incentivized through the pricing of DLIs to coordinate with other agencies to jointly and successfully achieve targeted results. In this context, more funds are disbursed against jointly completed activities, and lesser support would be granted to agencies undertaking activity on their own. Details on the incentivization of joint implementation will be provided in the Project Operations Manual.
5. **To strengthen coordination under political leadership, a Steering Committee consisting of the heads of implementing agencies will be chaired by the Permanent Secretary, FMoF.** The PCU will



convene a working group consisting of implementing agencies’ representatives to support implementation coordination.

6. The diagram below outlines implementation arrangements for the project.

Figure 2.1: Organogram of the Implementation Arrangement



Results Monitoring and Evaluation

7. **Results-based M&E will be vested with the PCU.** The PCU’s M&E specialist will collate and analyze data on implementation progress for all project components, subcomponents, and activities. The M&E function will be exercised on a continuous basis, and the focal points and PIUs in each implementing entity will be the primary source of data and information. The M&E reports will follow the established project results framework, which provides the matrix of indicators that will be assessed and the milestones to be met during project implementation. These include the intermediate and final outcome values targeted by project completion for the whole project and for each of its components. This results matrix also includes baseline and target values. The expected project results and outcomes for the short, medium and long runs are captured in the Theory of Change, included in Annex 9.

8. **The DLIs will be independently verified by an IVA to be contracted by the FMoF.** Progress toward the achievement of the project objective will be verified twice a year by the IVA. The IVA will provide independent confirmation of the results reported to the World Bank. The IVA for this project will be a firm recruited on the basis of the terms of reference to be drafted by the FMoF. Disbursement requests to the World Bank will be accompanied by the IVA’s results verification report.

9. **The PCU will also ensure that the Project Steering Committee is regularly apprised about project implementation,** both on its achievements and challenges. Technical assistance will be provided to IERD, which will enable it to monitor and evaluate implementation progress. During project implementation, the PCU will regularly commission detailed quantitative and qualitative reviews of progress to investigate and address issues and bottlenecks that may arise and impede achievement of targeted outcomes. Such reviews will also inform the PCU consultation of stakeholders (including the steering committee). Project management and Bank review missions will discuss identified implementation challenges and plan for remediation.



Financial Management and Disbursements

10. Responsibility for establishing and maintaining acceptable FM arrangements for the project will be vested with the Finance and Accounts Department and the Internal Audit Units in the implementing agencies. Each implementing agency will designate an accountant, internal auditor, and other supporting accounting technicians for its PIU, with appropriate segregation of duties. However, the Federal Project Financial Management Department in the OAGF will provide the PCU/PIU with the accountant, internal auditor and other support accounting technicians for the project. The implementing agencies/PIUs will prepare annual audited financial statements and calendar semester unaudited IFRs in the agreed format. It will then submit them to the Bank within the agreed timelines. The Internal Audit Units in the implementing agencies will be responsible for the internal audit of the project on the basis of the TORs that will be agreed with the Bank. Consistent with Bank Policy and Directives, the adequacy and appropriateness of the project FM arrangements will be reviewed using a risk-based approach for the on-site review, and a routine desk review of periodic reports will also be undertaken.

11. A computerized accounting system will be deployed and shall be configured in line with the IFR formats and the annual financial statements. The project bank accounts will be opened with the CBN in line with the FGN’s Treasury Single Account (TSA) directives.

12. The FM risk for this project is assessed as Substantial and requires a remedial action plan. To strengthen the FM system in the implementing agencies, the implementation of remedial action plans will be required. The FM Action Plan to further strengthen the project FM system is detailed below.

Table 2.1: Financial Management Action Plan

Action	Due Date	Responsibility
Train FM staff of the implementing agencies in Bank FM procedures and disbursement guidelines	Before project effectiveness	PCU and other implementing agencies
Designate a PA, PIA and support accounting technicians in each implementing agency	Before project effectiveness	PCU and other implementing agencies

13. A FM assessment of the implementing entities in line with the World Bank’s FM Manual (March 1, 2010) and the Africa Region’s FM Assessment and Risk Rating Principles (October 2010) was conducted during project appraisal. The objective was to determine whether the implementing entities have acceptable FM arrangements, which will ensure: (i) all transactions and balances relating to the project are correctly and completely recorded; (ii) the preparation of regular, timely, and reliable financial statements; (iii) the safeguarding of the entity’s assets; and (iv) the existence of auditing arrangements acceptable to the Bank.

14. The overall FM risk for the project is assessed as Substantial. The FM risks will be reassessed during project implementation and updated as appropriate.

15. General. Regarding the TA component, the World Bank will disburse the funds to a US\$ designated account (DA) opened at the Central Bank of Nigeria (CBN) for each of the implementing agencies. The funds associated with the independent verification process will be managed by the PCU. Disbursements under the TA component will be made primarily as advances based on unaudited IFRs to be submitted on a quarterly basis. The DA ceiling will be based on six-month forecast of expenditures and



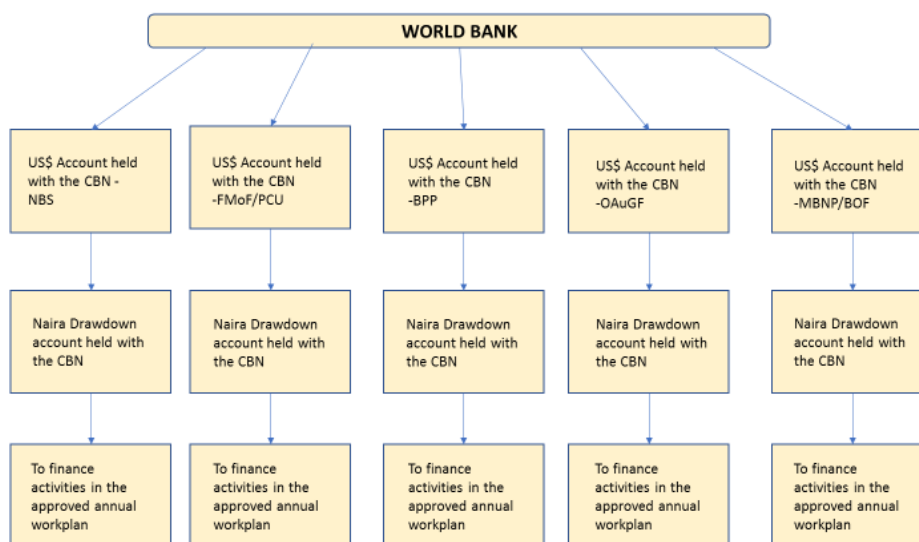
will be replenished quarterly for the same period. The detailed assessment and related arrangements are as follows.

16. **Planning and budgeting.** The designated accountant in each implementing agency for the TA component will prepare the budget for the fiscal year based on the approved annual work plans (AWP). The annual budget will be submitted to the World Bank and PCU at least two months before the beginning of the project fiscal year.

17. **Funds flow.** The World Bank will disburse the funds for the TA component into US\$ DAs opened at the CBN. The DAs will be managed by the PCU and the other implementing agencies. A Nigerian Naira (NGN) draw-down account will be established by each implementing agency, from which NGN payments will be made for eligible expenditures, as well as other service providers. To mitigate the risk of delay in payments by the implementing agencies, service standards will be established (to be included in the POM) to ensure that, among other things, payments are made within 72 hours for eligible expenditures. Advances to the DAs will be replenished quarterly, based on forecasted expenditures for the subsequent six months. Replenishment of the US\$ DA will be based on unaudited IFRs, prepared by the respective implementing agencies and submitted quarterly to the International Development Association (IDA).



Figure 2.2: Funds Flow



Note: BOF= Budget Office of the Federation; BPP= Bureau of Public Procurement; CBN= Central Bank of Nigeria; FMoF= Federal Ministry of Finance; MBNP= Ministry of Budget and National Planning; NBS= National Bureau of Statistics; OAuGF= Auditor General of the Federation; PCU= Project Coordination Unit.

18. **Disbursements.** A flexible disbursement ceiling will be applicable. The ceiling will be derived from the approved AWP and budget. It will be the equivalent to a six-month expenditure forecast.

19. **Disbursement categories.** Table B.2 sets out the amounts allocated to a single disbursement category for financing from the proceeds of the credit with respect of the TA component.

Table 2.2: Disbursement Categories

Categories	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, Operational Costs and Training under Part 4 of the Project.	18.45	100%
(2) Eligible Expenditures Program under Parts 1, 2 and 3 of the Project.	68.55	100% of each DLI amount set out in Schedule 4 (or such lesser percentage as represents the total Eligible Expenditures incurred by the Recipient under the Eligible Expenditure Program as of the date of withdrawal).
Total amount	87.00	100%

Note: DLI= Disbursement-linked indicator; SDR= Special Drawing Rights



20. **Accounting and financial reporting.** IDA funds will be accounted for by the PCU and the other implementing agencies on an accrual basis, using its computerized accounting system. The annual financial statements for the TA component will be prepared in accordance with the relevant International Public Sector Accounting Standards (IPSAS). Calendar semester unaudited IFRs will be prepared by the PCU and the other implementing agencies and submitted to IDA within 45 days of the end of each fiscal calendar semester. The primary responsibility for the final accounting and reporting of the use of the advances to carry out the TA component activities will remain with the PCU and other implementing agencies.

21. **Internal controls.** An internal auditor will be designated for the TA component. The internal auditor will prepare quarterly Internal Audit Reports and will submit the reports to IDA within 45 days of each fiscal calendar quarter. Additional controls in the form of an enhanced accountability framework will be implemented to mitigate the risk of misuse of funds for soft expenditures (especially travel, workshops, study tours, and so on). The World Bank's generic Financial Procedures Manual will be adapted for the accounting and control procedures to be implemented by the PCU.

22. **External audit.** The annual financial statements for each implementing agency, with the exception of the OAuGF, will be audited by the OAuGF. A private sector audit firm will be hired to audit the OAuGF based on a Terms of Reference acceptable to IDA. The annual audited financial statements of the TA component 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 six months of the end of the Government's fiscal year.

23. **FM Implementation Support Plan.** FM supervision will be consistent with a risk-based approach. The supervision intensity is based initially on the assessed FM risk rating, and subsequently on the updated FM risk rating during implementation. Given the Substantial risk rating, on-site supervision will be carried out at least twice a year. The on-site review will cover all aspects of FM, including internal control systems, the overall fiduciary control environment, and the tracing transactions from the bidding process to disbursements, as well as an IFR review. Additional supervision activities will include a desk review of calendar semester IFRs, quarterly internal audit reports, audited Annual Financial Statements, and management letters.

24. **Retroactive Financing.** Expenditures not exceeding 20 percent of the proposed credit amount (US\$25 million equivalent) across the four project components (for both the DLI and TA activities) incurred one year before the signing of the Financing Agreement will be reimbursed by the Bank after the project is declared effective.

Procurement

25. **Procurement under the proposed project will be carried out in accordance with the following World Bank procedures:** 'World Bank Procurement Regulations for IPF Borrowers' dated July 2016 (Procurement Regulations, revised as of November 2017) and the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants' (revised as of July 1, 2016), as well as the provisions stipulated in the Financing Agreement., and other provisions stipulated in the Financing Agreements. However, the Bank has issued clearance for the use of national procurement procedures for procurement activities up to and including the national competitive bidding (NCB) threshold under Bank-financed projects in Nigeria. Therefore, for all procurement packages below the international competitive bidding (ICB) threshold under this project, the national procedures shall apply and will only be post-reviewed by the Bank.



26. **Procurement will be conducted by the FMoF, the Federal Ministry of Budget and National Planning, the OAuGF, the National Bureau of Statistics and the Bureau of Public Procurement.** The procurement arrangement has been assessed and the procurement risk is rated as High. The mitigations for the identified risks and weaknesses have been discussed and agreed with the implementing agencies.

27. **The procurement function will be administered through a dedicated PCU in the FMoF, as well as dedicated PIUs in the Federal Ministry of Budget and National Planning, the OAuGF, the National Bureau of Statistics and the Bureau of Public Procurement.** The FMoF will be responsible for procurement for the OAGF. The assessment revealed that the implementing agencies have experience in implementing World Bank-financed projects. The FMoF is currently coordinating development finance. It was responsible for the coordination of the Public Sector Governance Reform and Development project, which recently closed. The Ministry of Budget and National Planning is acting as the coordinator for two Bank projects, namely the State and Local Government Reforms (P133045) and State Employment and Expenditures for Results (P121455) Projects. The other implementing agencies participated in the closed Emergency Recovery and Growth Project (ERG Project).

28. **The main procurement risk and weakness identified includes a lack of sustainable procurement capacity in each of the implementing agencies.** Although significant procurement training has been provided under Bank-financed projects, most of the project staff trained are not retained on the long term due to reassignment to other ministries, departments and agencies (MDAs). There were delays in taking procurement decisions and payments because of extended approval thresholds. The TA component of the project will be implemented using the World Bank Procurement Framework. However, not all implementing agencies are familiar with it. Based on the assessment, the procurement risk is rated High. After implementation of the mitigation measures, the procurement risk is expected to be reduced to Substantial.

29. **The Bureau of Public Procurement (BPP) will strengthen the procurement capacity in the other four implementing agencies.** The Procurement Officers will provide training for the project staff and will maintain a well-functioning procurement records management system. The World Bank will provide support and procurement capacity building during implementation support missions, which will take place twice a year. The World Bank will also provide training on the use of the Systematic Tracking of Exchanges in Procurement (STEP). The following mitigation measures have been discussed and agreed:

Table 2.3: Procurement Mitigation Measures

#	Tasks	Responsibility	Due Date
1	Assign a highly experienced Procurement Officer to complement the procurement capacity in the FMoF PCU and the PIUs in the Federal Ministry of Budget and National Planning, the OAuGF, and the National Bureau of Statistics.	BPP	Immediately after project effectiveness
2	Train the procurement staff of the FMoF, the Federal Ministry of Budget and National Planning, the OAuGF, the National Bureau of Statistics and the Bureau of Public Procurement about the World Bank's	World Bank	Immediately after project effectiveness



	Procurement Framework through face-to-face sessions and online.		
3	Train PCU and PIU staff on the use of Systematic Tracking of Exchanges in Procurement (STEP) tools, which is a mandatory requirement for managing procurement transactions and related documentation under Bank-financed IPF projects.	World Bank	Immediately after project effectiveness
4	Train the procurement and other key PIU staff on the contents of the Project Procurement Strategy for Development (PPSD).	World Bank	Immediately after project effectiveness
5	Develop and adopt a procurement manual to be used for the project.	PCU	Prior to project effectiveness
6	Develop a contract management strategy for each procurement activity to ensure that each contract is efficiently and effectively managed.	PCU and all PIUs	Continuously
7	Provide capacity building for the procurement staff.	BPP	Continuously

30. A Project Procurement Strategy for Development (PPSD) has been prepared with Bank support.

It aims to ensure that procurement activities are packaged and prepared in such a way that they expedite implementation by taking into account the market analysis and the related procurement trends, as well as the procurement risk analysis. The PPCSD includes the recommended procurement approaches for the project that have been reflected in the approved Procurement Plan, covering the first 18 months of project implementation.

31. A number of procurement and stakeholder risks were identified and mitigated in the PPCSD.

These include: i) Political interference in contract award, which will be mitigated by ensuring compliance with procurement procedures agreed in the Financing Agreement; ii) Procurement capacity and capability of the PIUs will be strengthened through continuous procurement capacity building of their staff. BPP will also assign highly skilled Procurement Officers to strengthen their capacity. And a Procurement Consultant will be engaged to support the Federal Ministry of Finance. The project will also strengthen the technical capacity of BPP and OAGF to manage and maintain the e-Procurement system and GIFMIS, respectively; iii) Undue internal and external influence on choice of supplier and consultants will be countered by the strengthening of the bid evaluation process; iv) Poor quality of implementation will be mitigated through adequate and clear qualifications criteria for suppliers and consultants and the use of contract management strategy for each contract.

32. Consistent with the PPCSD, an initial Procurement Plan was developed and agreed during appraisal, covering the activities under the TA and DLI components. The procurement plan for each



implementing agency was included in the negotiations packages. The final versions, which were agreed during negotiations, will be disclosed on the Bank's external website by the time of project effectiveness. The Procurement Plan will be updated as necessary in agreement with the Bank annually to reflect the project's actual implementation needs and improvements in institutional capacity.

Environmental and Social (including safeguards)

33. **Given that the project will focus on building institutional capacity and the provision of advisory services, environmental impact assessments are not required.** The project is, therefore, classified as Environmental Category 'C'. A key social impact of the proposed operation is its contribution to improving domestic revenue collection, with the attendant impact of increasing available resources. This will help the Government to finance various social programs that target poverty reduction. Also, by supporting the budget rationalization process, as well as internal and external audit functions, the proposed project will simultaneously enhance budget allocation and prioritization toward key service delivery improvements and social sectors.

Monitoring and Evaluation

34. **Results-based M&E will be vested with the PCU, which will also report on project progress to the political leadership.** The M&E specialist will collect and analyze data about implementation progress for all project components, subcomponents, and activities. The M&E exercise will be conducted on a continuous basis, and the focal points and PIUs at each of the component-implementing entities will be the primary source of data and information. The reports will be framed on the basis of the established and agreed upon project results framework. The Results Framework provides a matrix of indicators that will be assessed, as well as the milestones to be achieved during each stage of the implementation period. This includes the intermediate and final outcome values planned by project completion for the whole project, as well as for each component. This matrix also includes baseline and target values.

35. **Detailed quantitative and qualitative progress reviews will be undertaken regularly to identify and address issues and bottlenecks that may arise and impede the achievement of targeted outcomes.** This work should be initiated by the PCU in consultation with the key stakeholders who will all be part of the Steering Committee. Project management and Bank review missions will discuss any issues raised. Resulting recommendations will become action points for implementation follow-up and subsequent reviews. The Steering Committee will also receive and review strategic information about implementation progress from the PCU. It will also provide strategic guidance to enable the project to achieve its development objectives.

Role of Partners

36. **A number of development partners (such as the AfDB, DFID, the EU, and the IMF) are providing TA to implementing agencies, which will contribute to strengthening their capacity and supporting project implementation (see Annex 7).** Parallel TA will help strengthen the momentum for fiscal reforms and promote the sustainability of project results. For example, DFID is providing critical support to the OAuGF, including by leveraging a partnership with the UK National Audit Office which can provide quality control on the OAuGF audit reports financed under the project. In addition, the AfDB is financing an e-procurement readiness assessment conducted under the Bureau of Public Procurement, which will inform the launching of the e-procurement system funded by the project. The project also benefits from parallel TA to central financial agencies not supported by the project, but whose role is critical to its success (such as the FIRS for tax administration, the Office of the Head of Service for the populating of the IPPIS, and so on).



37. **The project would benefit from capacity building for civil society organizations**, which can be best provided independently. A few bilateral donors, such as DFID and USAID, are providing direct support to the civil society on fiscal governance. International organizations, such as the Open Budget Partnership and the Open Government Partnership, also intend to contribute.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Nigeria

Nigeria: Fiscal Governance and Institutions Project

Strategy and Approach for Implementation Support

1. **The implementation support strategy is based on the assessed risks of the project, as defined in the Systematic Operations Risk-Rating Tool (SORT), as well as the current capacity of the client agencies responsible for implementing project activities and delivering results under the operation.** The strategy embraces the principle of on-demand and flexible implementation support to address challenges as they arise. In addition, frequent supervision missions, and consistent collaboration with government and various project beneficiaries will be strengthened by regular communication with all actors directly involved in the project. Continuous information exchange and added implementation support flexibility will also be utilized to accommodate the specificities of the project.
2. **The implementation support will include:** (a) implementation support missions (more frequent in the first two years following effectiveness); (b) quarterly technical meetings and frequent visits to the federal implementing entities and core project beneficiaries; (c) on-demand external technical expertise; (d) a mid-term review (MTR) mission; and (e) audit and FM reporting, among others.

Implementation Support Plan and Resource Requirements

3. The World Bank will provide timely support to implementing agencies and core project beneficiaries, as well as relevant guidance regarding technical, fiduciary, social, and environmental issues. Implementation support missions and frequent visits will be carried out, and will focus on the following:
 - **Technical Inputs.** The World Bank will make available relevant specialists and consultants for all formal implementation support missions, as well as on-demand technical requests throughout the project life. In addition, team members based in the country office and headquarters will provide day-to-day supervision support of all operational aspects, as well as coordination with the client and Bank team members. Implementation support in the first two years (especially after effectiveness) will be more intensive to ensure that the project is properly launched. The Bank team will facilitate knowledge exchange and mobilize appropriate global expertise, as needed (including revenues, expenditures, statistics, and so on). Such specialists will support the task team (onsite and offsite) and assist in resolving implementation bottlenecks.
 - **Client Relations.** The Task Team Leaders (TTLs) will: (i) coordinate the overall Bank implementation support to ensure that all project effectiveness conditions are met and that the project is declared effective as soon as possible. They will also provide the necessary technical guidance and expert advice for consistent project implementation, as specified in the legal documents (that is, the Financing Agreement, the Project Operations Manual); and (ii) meet regularly with the client's senior representatives (including the members of the Steering Committee and its Secretariat) to gauge project progress in achieving the PDO and addressing implementation bottlenecks, as they arise. In addition, the TTLs will ensure regular exchange of information with other key donors supporting activities related to the public-sector reform processes. Information exchanges will also be conducted with bilateral and multilateral partners, as well as United Nations agencies.



- **Financial Management.** FM supervision and assessments will be conducted over the project's lifetime. The project will be supervised on a risk-based approach and will include reviews of audits, financial reports and advice to the task team on all FM issues. Based on the current overall risk assessment rating of Substantial, the project will be supervised at least twice a year, with the possibility to adjust the intensity of supervision, as and when the need arises. The Implementation Status and Results Report (ISR) will include a FM rating of the project under implementation. An implementation support mission will be conducted before project effectiveness to ensure that effectiveness conditions have been met. Regular onsite supervision missions and FM workshops will be undertaken with procurement monitoring, evaluation and disbursement specialists. They will ensure that the FM staff of the PCU and PIUs comprehend the Bank's FM requirements and procedures (including disbursements).
- **Procurement.** With regard to the procurement activities to be carried out under the TA, the implementation support will include prior procurement reviews. In addition to the prior reviews to be carried out by the World Bank, at least two implementation support missions will be conducted annually, including visits to the PCU and PIUs for post review of procurement actions. These missions will aim to: (a) verify that the procurement and contracting procedures and processes followed for the TA were in accordance with the Financing Agreement; (b) verify technical compliance, physical completion, and price competitiveness of each contract in the selected representative sample; (c) review and comment on contract administration and management issues as dealt with by the PCU; (d) review the capacity of the PCU in handling procurement efficiently; and (e) recommend improvements in the procurement process in light of identified weaknesses. In addition, procurement training modules will be launched for PIU and PCU procurement staff. They will focus on the Bank's procurement policies and arrangements to ensure seamless completion of all procurement activities. Support and capacity building will be provided during project supervision missions.
- **M&E and Outreach.** To facilitate the monitoring of implementation progress and DLI compliance, all project indicators (at the PDO and intermediate level) have been designed using available sources of information and reporting systems to easily gather information about their progress. In addition, TA will be provided to strengthen the monitoring systems of all implementing agencies so that progress against all DLIs can be monitored on a regular basis. A M&E specialist will provide regular TA and oversight of data collection, as well as ensure the effective flow of information between the multiple participants involved in project implementation. Further, the task team will provide support to the design, development and implementation of a communications strategy for the targeted project beneficiaries, the general public, and internal and external clients.
- **Safeguards.** Although the project is not anticipating any negative environmental and social impacts and the project is categorized as Category C, the task team will seek advice from environmental and social safeguards specialists on critical issues that may arise during project implementation. The task team will also engage and follow up with the Bank's social and environmental safeguards specialist on any safeguard issues through regular implementation support missions, during which document reviews, site visits and spot-checks will be conducted.
- **Mid-Term Review.** A Mid-Term Review (MTR) will be carried out within two years of project effectiveness. In preparation for the MTR, an independent review of implementation progress will be conducted, including audits. The results of this review will provide input to any potential



project revisions or restructuring, as deemed necessary. The MTR will cover, among other things, the review of the Results Framework, SORT, country ownership, stakeholder participation, project management, FM, procurement, disbursements, M&E, and sustainability aspects.

Time	Focus	Skills Needed	Partner Role
First 12 months	Project start-up, assessments, training for fiduciary staff, specialized support to various project beneficiaries, core project systems (including M&E).	See the skills mix table below	Implementation Support Missions
12-48 months	Supporting implementation of project activities, enhanced technical assistance in various areas.	See the skills mix table below	Implementation Support Missions

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
TTLs	16 (each)	8	Abuja and HQ-based
Procurement Specialist	8	N/A	Abuja-based
Financial Management Specialist	8	N/A	Abuja-based
M&E/Operations Specialist	6	3	HQ-based
Other staff	6	As much as needed	Abuja and HQ-based



ANNEX 4: SUMMARY OF THE READINESS ASSESSMENT

In support of project preparation, and at the project team's request, DfID commissioned a **Readiness Assessment of Fiscal Reforms to help prioritize the project objectives and interventions**²¹. The executive summary of the readiness assessment completed in February 2018 reads as follows:

1. **Since 2015, the Nigerian Government has introduced a number of significant governance reforms which are still being operationalized.** It is strengthening the anti-corruption institutional and legal framework, including the management of recovered proceeds of fraud and corruption. It is also now a member of the Open Government Partnership, with a National Action Plan for promoting transparency and social accountability. Nigeria has also continued to strengthen fiscal discipline and accountability through PFM reforms and is attempting to improve service delivery through the adoption of a National Strategy for Public Service Reforms.
2. **In order for the World Bank project to maximize the impact of its support to the reforms process, it wishes to assess the readiness of on-going or planned reforms based on a range of criteria,** such as the level of prioritization or urgency on the political agenda, the ownership and commitment from organizations responsible for the reform, the availability of enabled agents of change, and the expected impact on government effectiveness.
3. **In conducting the Readiness Assessment, the Bank started by preparing an Inception Report that set out the approach to the assignment,** the organizations and documentation that were intended to interact with, the methodology for undertaking the Readiness Assessment, the assessment indicators and rating methodology. These were discussed and agreed with the World Bank in November 2017 before the fieldwork fully commenced.
4. **In carrying out the assessment, the Bank was mindful of the following factors:**
 - Ability to make progress on key reform activities before the 2019 elections;
 - Ability to make progress on key reforms without waiting for legislative changes;
 - Leadership;
 - Policy and Legal Framework;
 - Institutional Effectiveness and Implementation Capability;
 - Demand for Reform;
 - Financing.
5. **Using these indicators, the Bank rated each component in the World Bank Concept Note and the capability of the lead organizations to drive them using the following ratings:**
 - Very Strong;
 - Strong;

²¹ The readiness assessment was conducted at the end of 2017 – early 2018 by a consulting firm contracted by DFID based on Terms of Reference agreed upon with the World Bank.



- Moderate;
- Weak;
- Absent.

6. **The Bank is mindful of the fact that in some cases, the ability of the lead organization to successfully drive the reforms will be dependent on providing at least limited support to other organizations.** As an example, the Bank recommends that any support to improve the investigation and prosecution capacity of the Economic and Financial Crimes Commission should consider providing limited support to the Independent Corrupt Practices and Other Related Offences Commission and the Technical Unit on Governance and Anti-corruption Reforms. Similarly, the ambition to put in place a public register of beneficial ownership of companies to be led by the Ministry of Justice’s OGP Secretariat will be limited in effectiveness if some support, no matter how modest, is not provided to NEITI.

7. **Regarding the various components under the FGIP, the FGN has made a lot of progress in virtually all the key areas.** Based on a previously-agreed methodology, the readiness assessment of various components and their lead organizations are as follows:

Ranking	Component	Lead Organization	Score	Rating
1	1.4 - Improving Tax Administration	Federal Inland Revenue Service	82.5 percent	Very Strong
2	3.1, 3.2, 3.3 - Improving Statistical Evidence-Based Policy Making	National Bureau of Statistics	80 percent	Very Strong
3	2.1 - Implementing Open Government	Federal Ministry of Justice	80 percent	Very Strong
4	2.4 - Institutional Accountability	Bureau of Public Service Reforms	80 percent	Very Strong
5	1.2 - Consolidating Budget Execution, Expenditure Controls and Reporting Systems	OAGF	77.5 percent	Very Strong
6	1.3 - Enhancing Public Procurement Capabilities and Transparency	Bureau of Public Procurement	77.5 percent	Very Strong
7	2.2 - Strengthening the Anticorruption Framework	Economic and Financial Crimes Commission	75 percent	Strong
8	1.1 - Strengthening Budget Planning and Fiscal Monitoring	Ministry of Budget and National Planning	70 percent	Moderate
9	2.3 - Enhancing Independent Audits	OAGF	67.5 percent	Moderate
10	1.5 - Enhancing FGN Financial Oversight of SOEs and Parastatals	OAGF	66.25 percent	Moderate

8. **The attainment of the development objectives of Nigeria’s FGIP requires that all the critical activities (that is, the activities with significant impact) of the project sub-components are activated at the same time.** In consideration of this, the decision on sub-components to be implemented should not be reliant solely on readiness of the lead implementing entities. It is proposed that the decision should take into account the degree of contribution and impact of each activity and/or sub-component to the attainment of the development objective. For example, the lead entities for sub-component 1.5 (that is,



the Enhancing of the FGN's Financial Oversight of SOEs and Parastatals) are rated as requiring additional administrative measures and amendment of existing legislation(s) to implement the reform activities. However, the impact of the sub-components activities (that is, the support for the preparation and dissemination of a corporate governance code for all SOEs; an in-depth review of existing corporate governance practices among the power sector SOEs using a scorecard methodology; and enhance the regulatory capacity for monitoring compliance with the code of corporate governance and other requirements, and evaluating the performance of SOE board members) will be significant, particularly in achieving the independent revenue target that is critical for implementation of the Federal Government's annual budgets.

9. **Furthermore, not all the reform activities of a sub-component whose lead implementing entity is rated as being not ready will be constrained by administrative and/or lack of legislative basis for reforms.** For example, implementing some of the activities of sub-component 1.5 (that is, preparation and dissemination of a corporate governance code for all SOEs and an in-depth review of existing corporate governance practices among the power sector SOEs using a scorecard methodology) will not be inhibited by the inadequacies of the Fiscal Responsibility Act (FRA), as well as contradictions between the provisions of the enabling laws of some SOEs and the FRA.

10. **In view of the above considerations, it is recommended that:**

- The implementation of all activities of sub-components 1.2, 1.4, 2.1, 2.2, 2.4, 3.1, 3.2 and 3.3 should commence since the lead implementing entities are rated as being ready.
- The implementation of the reform activities of sub-components 1.1, 1.3, 1.5 and 2.3 that will not be constrained by administrative or lack of legislation of the lead implementing agency should also commence.

11. **The Bank did not consider it necessary to present a pictorial High-Low Impact/Readiness quadrant diagram, since it considers that all the interventions will potentially have a high impact on fiscal and governance reforms in Nigeria.** Some of the impact will be in terms of increased revenues, and others will relate to improved systems and processes. Ultimately, each of the interventions will make a significant contribution to improved fiscal management and stronger governance institutions.

12. **The Bank carefully considered various options with regards to project coordination, including where the institutional home of the project should be.** Underlying considerations were the twin issues of credibility and the necessary convening power to drive the agreed reforms. In this regard, the Bank considered the FMoF, the Ministry of Budget and National Planning, the Office of the Secretary to the Government of the Federation, the Office of the Head of the Civil Service of the Federation, and the Bureau of Public Service Reforms.

13. **While there may be historical concerns about situating the project coordination of the project in the FMoF, the Bank is of the opinion that it remains the best option, given the 'Payment by Results' nature of the facility.** It was also considered that historical concerns can be addressed through improved design of the coordination arrangements.

14. **Project coordination will be anchored at the FMoF, with a full time Director-level Project Coordinator managing an inter-agency focal persons group that reports to a Steering Committee, chaired by the Permanent Secretary (FMoF).** Additional details will be provided in the Project Operations Manual.



ANNEX 5: NIGERIA RATING UNDER THE OPEN BUDGET SURVEY

1. **Under the Open Government Agenda, the Nigerian government is committed to fiscal transparency**, that is, to making “budget information accessible to all”, and specifically to “ensure more effective citizens’ participation across the entire budget cycle”, “starting with the pre-budget statement, executive budget proposal, budget debate through public hearings in the legislature, implementation, monitoring and reporting of the budget”²². In December 2017, Nigeria has also joined the Global Initiative on Fiscal Transparency (GIFT). This sub-component supports the implementation of the government’s political commitment on fiscal transparency in general, and public participation in the budget process in particular.

2. **Context:** Nigeria ranks among the worst performers on budget transparency, both in terms of the number of budget documents and the comprehensiveness of information publicly disclosed, as well as for public participation in the budget process. Its last rating under the Open Budget Index further deteriorated from 24 in 2015 to 17 in 2017²³. Nigeria provides only scant budget information and “few opportunities for the public to engage in the budget process”. Indeed, it lags behind neighboring countries, such as Ghana (rated 50) and Sierra Leone (rated 38) as well as the global average (rated 42).

3. **Observed weaknesses in the 2017 rating include the following:**

- Pre-budget statement (Medium-Term Expenditure Framework) is published late;
- The Citizen’s Budget was not published online (this has since been remedied);
- In-year quarterly budget execution reports are published irregularly and very late;
- Mid-year budget execution report for 2016 was not published at all; and
- The 2017 executive appropriation bill was far from providing comprehensive information (it was rated 11 out of 100 on comprehensiveness).

4. **According to the 2017 Open Budget Index, the executive appropriation bill was missing the following information:**

- Functional classification of expenditures²⁴
- Multi-year expenditures disaggregated by any type of classification or by program
- Disaggregated sources of tax and non-tax revenues
- Multi-year revenues disaggregated by type of revenue
- Composition of outstanding debt
- Macroeconomic forecast and scenarios
- How new policy proposals affect expenditures
- Expenditure estimates for previous fiscal years
- Actual revenues for previous fiscal years
- Public debt in previous fiscal years (outstanding debt, new borrowing, interest rate, domestic versus external debt, interest payments, maturity profile, and so on)
- Extra-budgetary funds
- Intergovernmental transfers
- Quasi-fiscal activities
- Sources of donor assistance

²² OGP National Action Plan (January 2017 – June 2019).

²³ The 2017 rating assesses public disclosure of information on December 31, 2016.

²⁴ The economic classification of expenditures is also deemed inconsistent with international standards.



- Tax expenditures
- Estimate of earmarked revenues
- Financial and non-financial assets
- Expenditure arrears
- Contingent liabilities
- Future liabilities and long-term fiscal sustainability
- Link with government policies over at least three years
- Non-financial data about inputs to be acquired
- Results (outputs and outcomes)
- “Alternative displays of expenditures to illustrate the financial impact of policies on different groups of citizens”

Table 5.1: Public Availability of Budget Documents from 2006 to 2017

Document	2006	2008	2010	2012	2015	2017
Pre-Budget Statement	●	●	●	●	●	●
Executive’s Budget Proposal	●	●	●	●	●	●
Enacted Budget	●	●	●	●	●	●
Citizens Budget	●	●	●	●	●	●
In-Year Reports	●	●	●	●	●	●
Mid-Year Review	●	●	●	●	●	●
Year-End Report	●	●	●	●	●	●
Audit Report	●	●	●	●	●	●

● Available to the Public ● Not Produced
● Published Late, or Not Published Online, or Produced for Internal Use Only

Source: International Budget Partnership, 2018.

5. Regarding **public participation in the budget process**, Nigeria scores only 13 out of 100. Its disaggregated scoring across 18 dimensions is provided in table 5.2 below.

Table 5.2: Nigeria Rating on Public Participation to the Budget Process

Q#	Score	Indicator
125	33	Does the Executive use participation mechanisms through which the public can provide input during the formulation of the annual budget (prior to the budget being tabled in Parliament)?
126	0	With regard to the mechanism identified in question 125, does the Executive take concrete steps to include vulnerable and under-represented parts of the population in the formulation of the annual budget?
127	67	During the budget formulation stage, which of the following key topics does the Executive’s engagement with citizens cover?
128	0	Does the Executive use participation mechanisms through which the public can provide input into monitoring the implementation of the annual budget?
129	0	With regard to the mechanism identified in question 128, does the Executive take concrete steps to receive input from vulnerable and under-represented parts of the population regarding the



		implementation of the annual budget?
130	0	During the implementation of the annual budget, which of the following topics does the Executive's engagement with citizens cover?
131	33	When the Executive engages with the public, does it provide comprehensive prior information on the process of the engagement so that the public can participate in an informed manner?
132	0	With regard to the mechanism identified in question 125, does the Executive provide the public with feedback on how citizens' inputs have been used in the formulation of the annual budget?
133	0	With regard to the mechanism identified in question 128, does the Executive provide the public with information on how citizens' inputs have been used to assist in monitoring the implementation of the annual budget?
134	0	Are participation mechanisms incorporated into the timetable for formulating the Executive's Budget Proposal?
135	0	Do one or more line ministries use participation mechanisms through which the public can provide input during the formulation or implementation of the annual budget?
136	33	Does the legislature or the relevant legislative committee(s) hold public hearings and/or use other participation mechanisms through which the public can provide input during its public deliberations on the formulation of the annual budget (pre-budget and/or approval stages)?
137	67	During the legislative deliberations on the annual budget (pre-budget or approval stages), which of the following key topics does the legislature's (or relevant legislative budget committee) engagement with citizens cover?
138	0	Does the legislature provide feedback to the public on how citizens' inputs have been used during legislative deliberations on the annual budget?
139	0	Does the legislature hold public hearings and/or use other participation mechanisms through which the public can provide input during its public deliberations on the Audit Report?
140	0	Does the Supreme Audit Institution (SAI) maintain formal mechanisms through which the public can suggest issues/topics to include in the SAI's audit program (for example, by bringing ideas on agencies, programs, or projects that could be audited)?
141	0	Does the Supreme Audit Institution provide the public with feedback on how citizens' inputs have been used to determine its audit program?
142	0	Does the Supreme Audit Institution maintain formal mechanisms through which the public can contribute to audit investigations (as respondents, witnesses, and so on)?

Source: International Budget Partnership.



ANNEX 6: OIL REVENUE MODELLING

- 1. Oil revenue forecasting and assessment have historically been complicated by the treatment of the Federation's equity assets in the upstream oil sector.** The Federation's assets are managed by the Nigerian National Petroleum Corporation (NNPC) in joint ventures (JVs) with private companies. A large proportion of equity oil—more than 70 percent in 2016 and 2017—is earmarked for the so-called domestic crude allocation for purchase by the NNPC. The NNPC has not transferred the full market value of the domestic crude allocation to the Federation Account. Instead, it has used a portion for extra-budgetary expenditures, including fuel price subsidies, reimbursements for oil theft, and pipeline repairs and maintenance.
- 2. Two Federal Government institutions have been raising questions about oil revenue collection.** The Nigeria Extractive Industries Transparency Initiative (NEITI), a unit within the Presidency, carries out an annual review of financial and physical flows in the oil and gas sector by collecting and reconciling data from payers and recipients. The OAuGF carried out a forensic audit into the allegations of unremitted funds by the NNPC for the period January 2012–July 2013. It also examined the 2015 annual audit report, which provided details on oil revenues for the first time. Both NEITI and the OAuGF have found evidence of failure by the NNPC and several other firms in paying what is due to the Federation, as well as diversion of Federation revenues for ineligible expenses.
- 3. Questions about the billions of US dollars that the Federation should have received but did not, have been raised but usually years after the fact.** The large time lag between the failure of the payer to pay the Federation and the discovery of non-payment or diversion to ineligible expenditures has made it difficult to recover the amounts due because they are likely to have been spent and are no longer available. NEITI's reports have appeared two years or longer after the close of the financial year in question. Similarly, the OAuGF's forensic report appeared almost two years after the end of the investigation period, and one of the key findings of the 2015 annual report—that US\$289 million paid in cash by the NNPC to the Director General of the National Intelligence Agency—occurred more than two years before the report was submitted to the National Assembly.
- 4. There are also questions about which ministry/agency is supposed to assess and collect oil revenues.** Currently, the Petroleum Profits Tax (PPT) is assessed and collected by the Federal Inland Revenue Service (FIRS), whereas royalties and other non-tax payments are assessed and collected by the Department of Petroleum Resources (DPR) in the Ministry of Petroleum Resources. However, the Federal Inland Revenue Service (Establishment) Act, 2007, assigns the FIRS the responsibility to collect all payments “collected by other Government agencies and companies including signature bonus, pipeline fees, penalty for gas flared, depot levies and licences, fees for Oil Exploration Licence (OEL), Oil Mining License (OML), Oil Production Licence (OPL), royalties, rents (productive and non-productive), fees for licences to operate drilling rigs, fees for oil pipeline licences, haulage fees and all such fees prevalent in the oil industry but not limited to the above listed.” Therefore, the FIRS Act seems to envisage the FIRS as the sole agency responsible for assessing and collecting all oil and gas revenues. Having a single point of contact for all oil and gas revenues may help the Federal Government of Nigeria (FGN) exercise greater control. However, more than a decade after the passage of the FIRS Act, its implementation has not yet begun.
- 5. The Budget Office of the Federation prepares revenue forecasts, but a more detailed revenue model is needed to enhance their quality and reliability.** Such a model should be built up from the individual project and contract level and capture all applicable fiscal provisions. Two aspects determine



the accuracy and usefulness of the model. One is the model structure. The other is the accuracy of the data in the model. Both the FMoF and the Budget Office of the Federation should have access to comprehensive and reliable data.

6. **Industry partners in JVs and production-sharing arrangements are required to submit detailed data on all current and planned future activities to the NNPC.** The National Petroleum Investment Management Service (NAPIMS), a corporate service unit of the NNPC, is the recipient of the data, which are then transferred to the National Data Repository at the DPR. The National Data Repository was established in 2005 as a repository for all data in the oil and gas sector. Access to data in the National Data Repository is critically important to the functions of the Technical Services Department of the FMoF, the Budget Office of the Federation, and the FIRS because they conduct revenue forecasting, audits, and special studies. Access to this data would form the basis for revenue analysis, risk-based audit selection methods, and modelling of oil revenues under different price, production, and cost scenarios. Revenue forecasting and scenario modelling can in turn be used to determine the most likely revenue envelope for the FGN's budgeted expenditure programs.

7. **In addition to increasing the accuracy of revenue forecasting, a more detailed oil revenue model can be used to audit past revenues, providing a check on revenue assessments and audits.** The model would estimate what should have been collected, comparing what should have been collected with what was actually collected for each revenue stream (disaggregated by revenue type, and by OML or company as appropriate). As such, it can help guide where and what to audit, and as well identifying the causes of discrepancies.

8. **A detailed oil revenue model can also test changes to the fiscal parameters.** The ongoing discussions about the proposed Petroleum Industry Fiscal Bill provide one example. The participation of the Ministries of Finance and Budget in these discussions has been hampered by limited modelling capacity and a lack of access to critical sector data. As a result, the two ministries have not been actively involved in contract negotiations, discussions on options for fiscal regimes, and other important matters that can have large and long-lasting effects on FGN revenue flows. Article 2 of the NEITI Act, 2007, gives NEITI the legal standing to request access to all the data.

9. **Even the most detailed oil revenue model cannot model discretionary deductions.** By definition, discretionary deductions are not subject to rules and formulas. However, a detailed model with accurate data can at least help estimate the magnitude of these deductions.

10. **There is a bottom-up model, but it is not based on primary data sources.** The Technical Services Department and the Budget Office of the Federation have been working with the World Bank to develop a bottom-up oil revenue model. The data in the model are from secondary sources and are reasonable. However, the data is most likely not as accurate as the data provided to the government agencies. Over time, it would be helpful to populate this model with actual industry data.

11. **There does not seem to be a single consolidated and reconciled database on production, costs, and revenues needed for a detailed oil revenue model.** The NAPIMS does not receive data from companies that are not parties to the NNPC's JVs or production-sharing contracts (PSCs). The DPR and the FIRS should be receiving data from all companies. The data collected need to be consolidated in a single database and reconciled for internal consistency. It will take a considerable amount of work for such data collection, reconciling, structuring, and formatting to be achieved.

12. **Several steps are involved in setting up a detailed model based on primary data sources.** First, all available data need to be gathered in a single platform and checked for internal inconsistencies and



data gaps. Filling data gaps would require additional data collection. While additional data are being collected, internal inconsistencies would need to be studied and all differences reconciled. The full set of reconciled and internal consistent data would then serve as the database to be fed into the oil revenue model.

13. **Regular use of the oil revenue model — especially the ability to modify it to capture changes to the fiscal regime — would require considerable capacity building.** The model has been set up to easily test different oil prices and production volumes. By contrast, modifications that require making structural changes to the model would require a thorough understanding of this complex model and sufficient spreadsheet programming skills to make the requisite changes. For long-term sustainability, the FGN needs to establish a team with highly-skilled technical staff experienced in model maintenance and modification.

14. **Transitioning to the use of the detailed model and gaining access to the data received by the NAPIMS and others are two priority areas for the FGN’s long-term goal of attaining higher competence in oil revenue forecasting and assessment.** The current model has data limitations, but its strength is that it is built up from individual projects. The model is well suited to trouble-shooting the FGN’s two budget assumptions about oil price and production volume. For comparison with the revenue outturn, the model can be run at a realistic forecast price (and not the budget price of oil) and production volume to test the accuracy of the revenue forecasting.²⁵ The model can also be run retroactively using the actual price and production statistics. If all the data in the model are accurate, the difference between the model output in the latter case and the actual revenue would be due to deductions and non-payments, helping to identify the sources of revenue losses. This is further justification for the importance of gaining access to industry data.

15. **The World Bank began working with the Budget Office of the Federation and the FMoF’s Technical Service Department in 2015 to help analyze revenues from the oil and gas sector accruing to the Federation Account.** The objective at the time was to develop a forward-looking model to help the FGN with budget planning policy. The model is built in Excel. It takes production, costs, and fiscal parameters from a proprietary database licensed by a firm that collects data from Nigerian petroleum firms and visits Nigeria every year to update the database. The model has about 90 producing OMLs and 33 crude oil streams, each with its own price. As advised by the FIRS, revenues and costs in blocks under the tax-and-royalty regime are ring-fenced by the company (that is, costs and revenues are consolidated across all projects in which the company has asset ownership), and those in production-sharing contracts are ring-fenced by the OML.

16. **The model’s outputs include the following revenue streams:**

- Royalties
- Petroleum Profits Tax
- Federation’s share of profits from oil PSCs
- Bonuses (signature, production)

²⁵ Any revenue forecasting at the budget price of oil, which is typically lower than the actual price, should not be compared with the actual revenue outturn. A fair comparison would be with the output of the model run at a realistic oil price forecast and production volume. The data would need to be adjusted to account for the fact that the model is based on accrual accounting, whereas the revenue outturn is cash-based.



- Company Income Tax
- Education Tax
- Niger Delta Development Commission fee
- Nigerian Content Development and Monitoring Board fee

17. **In line with the way oil revenues are treated by the FGN, the first four revenue streams are consolidated to represent the oil revenues for the FGN.** The next four revenue streams are shown separately.

18. **Because of its unique historical position, the NNPC is treated separately.** The model computes the total revenues expected from the Federation's equity in oil and gas. Not all of it has been transferred to the Federation Account in the past because of deductions by the NNPC for fuel subsidies, crude oil and product losses, pipeline repairs and maintenance costs, and strategic reserve holding costs. The model does not attempt to forecast these deductions, which are deducted separately by the user of the model based on reasonable assumptions.

19. **Improving the model to make this an essential tool of the FGN for the purposes outlined in this document would entail several steps:**

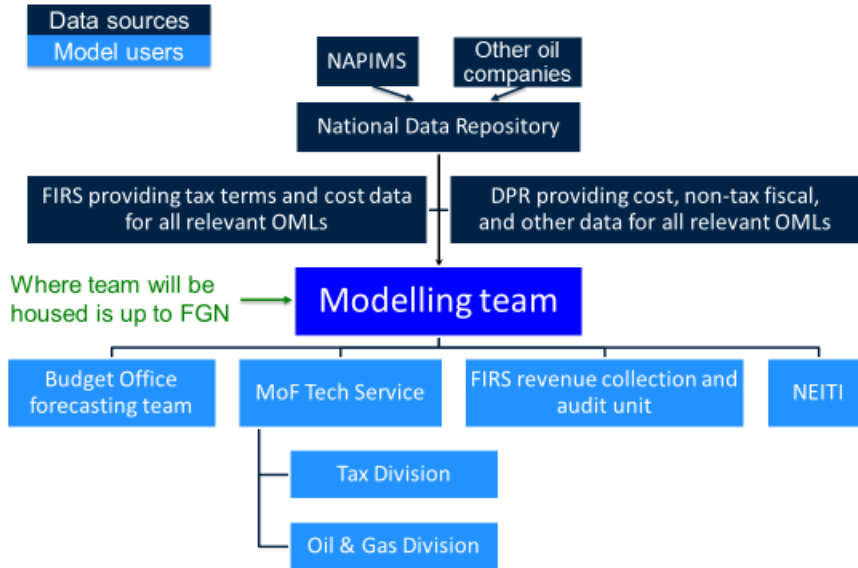
- Ensure that the relevant government agencies have access to the National Data Repository. Past data are also needed because capital expenditures are depreciated over five years, and losses are carried forward indefinitely. Ensure that the DPR and the FIRS receive all data needed to calculate royalties, PPT and other payments, and ensure that other relevant government agencies have access to the data.
- Ensure that the DPR's historical and current list of licenses and asset ownership changes is complete and accurate.
- Collect fiscal terms for each OML. The FIRS has all tax terms (including ring-fencing rules) and the DPR has the remaining terms (importantly, royalty and oil profit sharing).
- Examine all data (production, costs, revenues) from different sources and identify gaps.
- Collect additional data to fill the data gaps.
- Reconcile the full set of data where there are discrepancies.
- Develop a consolidated database with all the data needed for oil revenue modelling, and ensure that the data are up to date and internally consistent.
- Enter the data and revise the model.
- Should fiscal terms change in the future, update the model. If ring-fencing rules are changed, if two fiscal regimes exist side by side due to grandfathering of existing projects, or both, the amount of modelling revisions will be considerable.

20. **The model can potentially be used by four groups:** the revenue forecasting team at the Budget Office of the Federation, the Tax and Oil and Gas Divisions of the Technical Service Department of the FMoF, the NEITI, and possibly the audit unit of the FIRS.



Figure 6.1: Data Sources and Model Users

Data sources and model users



Note: DPR= Department of Petroleum Resources; FGN= Federal Government of Nigeria; FIRS= Federal Inland Revenue Service; MOF= Ministry of Finance; NAPIMS= National Petroleum Investment Management Service; NEITI= Nigeria Extractive Industries Transparency Initiative; OML=Oil Mining License.

21. **The work will entail both considerable additional modelling and extensive training of staff who will be using the model.** An important decision to be made is whether to hire an external consultant to staff the modelling team over the long run, or to develop in-house skills. In-house management of the model, if successfully implemented, would be a better option. However, there are two challenges: (1) the hiring of two or more individuals with high-level programming skills and a knowledge of tax modelling; and (2) the stability of the hired staff; if the staff turnover is high because the modellers will have acquired skills that are considered highly marketable, the agency that has trained the modellers may struggle to keep them. A preliminary estimated budget for hiring an outside modelling team to develop the model, train government officials, pay for the proprietary database for the first three years, and procure 20 laptops with requisite computing power is US\$1.7 million.



ANNEX 7: RELEVANT TECHNICAL ASSISTANCE BY DEVELOPMENT PARTNERS

Result Areas		Providers of Technical Assistance	Beneficiaries
Revenue management	Revenue oversight through internal and external audit	DFID (secondments to OAuGF; twinning agreement with NAO)	OAuGF
	Revenue analysis and forecasting	World Bank (oil revenue modelling, fiscal projects, transfer pricing) IMF (tax administration and policy, oversight of parastatals and SOEs)	Budget office Tax Policy division (FMoF)
Controls, transparency and accountability in the use of public funds	Operationalization of financial management information systems	EU (GIFMIS, IPPIS) World Bank (launch of GIFMIS and IPPIS enhanced functionalities)	OAGF Office of Head of Service
	PIM	World Bank (evaluation of capital project portfolio) DFID (Infrastructure advisory service) IMF (PIM Assessment)	FMBNP (Department Macroeconomy) FMoF
	Fiscal transparency (including public procurement)	AfDB (e-procurement) MacArthur Foundation (Open Contracting) DFID (Open Government) International Budget Partnership/Global Initiative on Fiscal Transparency (budget transparency and public participation in the budget process)	BPP Ministry of Justice (Open Government Secretariat) Budget Office
Statistics	Generation of statistics	UNICEF, USAID (social surveys) World Bank (economic surveys)	NBS National Population Commission



ANNEX 8: SPECIAL FIDUCIARY ARRANGEMENTS

1. **Fiduciary risk, including PFM, procurement, and fraud and corruption remain substantial across the country.** Building on lessons learned from previous projects, including in-depth reviews, the project has defined and incorporated a series of operational arrangements in its design and implementation. They will contribute to mitigating the risk of misuse of funds.
2. **The proposed project design includes well-defined activities, which are not intensive in terms international training or travel.** When required, those types of expenditures will be subject to hard budget constraints, and additional control and authorization mechanisms. The POM will include, among other standard aspects: (i) requirements for the financing of travel and training costs, (ii) authorization and approval processes; (iii) applicable criteria for the financing of per diems and other travel costs; and (iv) specific supporting documentation required under different types of expenditures, as well as filing requirements.
3. **While project implementation will require the involvement of different agencies, the PCU will also exercise a control and monitoring role** to ensure that activities and expenditures included under different activities are fully aligned to project objectives and are reasonable in terms of cost and timing.
4. **Project and line staff of all entities involved in project implementation will be trained,** not only on fiduciary aspects and Bank procedures, but also on the procedures, controls and responsibilities defined in the POM. They will also be trained in understanding the difference between and applicability of the Bank and Government rules and regulations to avoid confusion.
5. **During the FM and procurement assessments at implementation, contract management will be strengthened by agreeing on specific arrangements to ensure that up-to-date records are maintained to facilitate the control and monitoring of contract implementation,** including dates, amendments, validity of bank guarantees, contracted amounts, and paid and outstanding amounts. Said records will be used to identify some systemic deviations in terms of extension of contracts, price increase or concentration of contract in certain firms.
6. **An internal audit unit will be established in the PCU.** Among others, the internal audit reviews will involve targeted types of expenditures following a risk-based approach. They will identify potential deviations from project regulations either in terms of supporting documentation or nature of expenditures in a timely manner.
7. **To lead by example, transparency and accountability mechanisms are incorporated into the project's operational arrangements,** such as the publication of annual plans and budgets, project audited financial statements, contracts awarded, and summaries of expenditures not subject to procurement.
8. **The external audit terms of reference, to be incorporated in the POM, will require a specific opinion on Statements of Expenditures (SOEs)** covering expenditure eligibility and sufficiency of supporting documentation. In-depth reviews will be commissioned, as needed, to respond to emerging fiduciary risks. Based on the fiduciary assessments, additional measures will be considered.
9. **The Borrower and the Bank also agreed on the specific procedures** that need to be followed in case findings and/or allegations of fraud and corruption are identified during project implementation.



10. **On the Bank side, implementation support will follow an integrated and comprehensive approach** by having joint FM and procurement reviews. These will focus on assessing compliance and effectiveness in the operations of key controls, as defined in the operational manual.

11. **Two provisions are added to the special fiduciary arrangements.** These apply across the Bank portfolio in Nigeria. Both align with the government governance reform agenda and should be enforced during project implementation:

- 1) **Asset disclosure by project officials** (both in the PCU and PIUs) to the Code of Conduct Bureau as required by the Nigerian Constitution for any public officer²⁶. Project officials will be asked to sign a declaration of acknowledgement and compliance with their legal obligations regarding conflict of interest²⁷, including that they have effectively submitted their declaration of income and assets to the Bureau of Code of Conduct (and that they attach the receipt of their declaration granted to them by the Bureau of Code of Conduct).
- 2) **Disclosure of beneficial ownership by bidders to activities funded by the project.** The recently introduced regulatory requirement that corporate bidders to the competitive bidding process above a threshold will be extended to procurement transactions funded by the project.

²⁶ The Nigerian Constitution mandates that all public officers should declare to the Code of Conduct Bureau their assets and liabilities on assumption and term of office. This is to be done 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.

²⁷ Regarding conflict of interest, the law states that “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 years.” Public officers are also criminally liable for not reporting any unduly offered, promised or granted, gratification.



ANNEX 9: THEORY OF CHANGE

