PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: AB7294

Project Name	Additional Financing for State Employment and Expenditure for Results Project
Region	AFRICA
Sector	Public administration- Financial Sector (40%), Vocational training (40%), Public administration- Other social services (20%)
Project ID	P133071
Borrower(s)	THE FEDERAL REPUBLIC OF NIGERIA
Implementing Agency	Federal Ministry of Finance/National Planning Commission, and Governments of Balyesa, Delta, Edo and Rivers States of Nigeria
Environment Category	[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)
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1. Country and Sector Background

Nigeria is a federation of 36 states, a Federal Capital Territory and 774 local government councils (LGCs). The constitution assigns significant autonomy to states with exercise of residual powers, while the federal government is assigned the exclusive powers and both exercise the concurrent powers. The federal government on behalf of the states and local governments collects the most important taxes and revenues which are shared regularly among the three tiers of government. Under the current revenue sharing formula, about 54.68%, 24.72% and 20.60% of federation account revenues are allocated to the federal, state and local tiers of government respectively. Sub-national governments (state and local governments) control almost half of the national revenue and are constitutionally responsible for the provision of several social services that impact on poverty directly, such as primary and secondary education, health care services, water and sanitation, rural infrastructure and community services. Thus the quality of their public expenditure at the sub-national level will have significant impact not only on the overall fiscal management and macro-economy of Nigeria, but also on the ability to improve service delivery, create jobs and reduce poverty.

Socio economic situation and poverty: Nigeria is the most populous country in Africa with a population estimated at 168 million about 39% of which are below the age of 15 years (NBS, 2011). With a Gross Domestic Product (GDP) of US$237 billion (2011) Nigeria is also the second largest economy in Africa. While official statistics place Nigeria among the fastest growing economies in the world (averaged over 8% over the last decade), direct indicators of social welfare of the population would appear to tell another story. Estimated poverty rates declined only marginally between 2003-2004 and 2009-2010 and the poverty level is significantly high with 62.6% of the population living in poverty in 2008-09 (NBS). Two primary products, oil and agriculture, have persistently dominated sectoral contributions to Nigerian GDP and exports. Agriculture which is largely subsistent, accounts for more than 50 per cent of employment while the oil sector accounts for over 95 per cent of foreign exchange

earnings and 85 per cent of government revenues, with the most production centered in the Niger Delta region. Given Nigeria's dependence on oil, the economy is highly vulnerable to oil price shocks and interruptions in oil production due to violence in the Niger Delta region.

Economic growth has improved with no significant impact on unemployment. Despite relatively high and sustained economic growth, especially in the non-oil sector, unemployment in Nigeria has not declined since 1999. Overall unemployment rate is about 21.4% and youth (15-24 years) unemployment is about 25.2% and has been rising (NBS, 2011). There is a slight gender variation in unemployment rate with female unemployment rate at 23.5% and male unemployment rate at 19.6% in 2010 (NBS, 2011). A recent World Bank (2009)[1] study which examined growth and employment during 1999 to 2006 suggests that growth performance have not responded to the employment aspirations of Nigeria's population as a whole, especially the younger generation. The report noted that job creation had not grown in proportion with the labor force even though there were slight improvements in self-employment in agriculture. Strong growth has not led to expansion in employment because agriculture, which remains the main driver of growth in the non-oil sector, is still predominantly subsistence while manufacturing, which should gradually displace agriculture, has been relatively stagnant. Consequently, there has been limited value addition and so has the employment effect (ibid.). The service sector which also grew significantly by the average of 9.8% between 2001 and 2007 did not generate sufficient employment as most of the private investment which propelled the growth in the sector was more focused on capital-intensive rather than labor-intensive industries (World Bank, 2009).

Political stability and improved democratic space since 1999 provide opportunities for improving public sector governance: Nigeria's poor economic situation and poverty has been largely attributed to lack of good governance and management of its huge resources. Several years of military rule had its toll on governance and development in the country, being characterized by flagrant abuse of office, weak accountability and probity, and widespread corruption. Some progress has been made since 1999 in improving public sector governance, but there is still a long way to go. Overall, the quality of public administration may have slightly deteriorated as suggested by the Bertelsmann-transformation index which shows very limited transformation index of 4.63 and a drop in overall and economic and political transformation ranking between 2008 (66), 2010 (84) and 2012 (89). The 2012Mo Ibrahim Index which measures African countries on a number of governance indicators also ranked Nigeria 43 out of 53 countries which is a drop since 2010.

A major step in fiscal management reform was the introduction of the oil price fiscal rule in 2004 under which the government introduced a system of basing the budget on a conservative reference price for oil and saving the surplus in a special account (the Excess Crude Account, ECA). Given the volatility in world oil prices, this step successfully de-linked expenditure from oil receipts and avoided massive increases in public expenditures. Alongside the ECA, the Federal Government in 2011 created a Sovereign Wealth Fund (SWF) with an initial deposit of $1 billion. It is expected that the SWF will eventually replace the ECA.

[1] Nigeria: Employment and Growth Study. Report No. 51564-.NG, November 2009.

Profile of the Niger Delta Region: The Niger-Delta region consists of nine states (Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo and Rivers)[2] and 185 local governments. The estimated regional population is about 30 million people, accounting for about 20% of Nigeria's total population. The Niger Delta is also the location of massive oil deposits[3]. The Nigerian economy largely depends on oil revenue which accounts for more than 85% of the government earnings and constitute 25% of GDP

Youth unemployment is a major development challenge with implications for conflict in the Niger Delta: The oil producing states of the Niger Delta Region have some of the highest levels of youth unemployment in Nigeria (e.g. about 38.4% in Bayelsa and 27.9% in Rivers) compared to the national average of 21.1%. Like other parts of the world, youth unemployment in the Niger Delta is driven by demographic, educational and economic factors. Two-thirds of the population of the Niger Delta is below the age of 30. With pervasive poverty and unemployment in the region, many youths are susceptible to being recruited into militant groups and criminal activities such as armed robbery, oil bunkering, prostitution and hostage taking for ransom. The persistent tension in the region further encouraged more youths to prefer quick gains from crime and conflict over longer term and frequently unavailable returns to investments in education and training. Youth restiveness and persistent conflict in the Niger Delta hurt both the national economy and the local people. At the height of the conflict, the volume of oil production and export fell from over 2 million barrels to about 700,000 barrels a day with significant losses in foreign exchange earnings.

The above background notwithstanding, and with the declaration of amnesty for the militants in 2007 and the return to relative peace, some states have initiated job creation and training schemes, including the 'Quick Win' Initiative in Bayelsa and the 'Rapid Response' initiative in Edo state, all of which have job creation as one of the key objectives.

Recent reviews of the state of public financial management (PFM) systems in the selected states suggest that PFM systems are weak, though this varies across states in some respects.[4] These weaknesses undermine the three levels of budgetary outcomes: (i) aggregate fiscal discipline (i.e. effective controls of the budget totals and management of fiscal risks); (ii) strategic allocation of resources in line with government priorities; and (iii) efficient service delivery through the management of budgeted resources. A major PFM challenge relates to the credibility of the budget in states. All four states are characterized by significant levels of expenditure deviations from the budget over key MDG areas such as health and education, averaging 92 percent in Bayelsa state. In Edo, on average, aggregate primary spending deviated from the original budget by an average of 23.9 percent over three years. In the case of Delta, actual expenditure deviated from budgeted expenditure in each year by an amount equivalent to more than the benchmark of 15% of budgeted expenditure during 2007-2009. In Bayelsa, while annual financial statements are submitted for audit within six months of the year, the audit reports take more than six months from receipt of the statements to be submitted to the state Legislature for which there is no evidence of public hearings or recommendations for executive action. In Rivers and Delta states

[2] http://www.mpp9.org – Micro Project Programme in the Nine Niger Delta States; Niger Delta Development Commission
[3] The oil producing states are Abia, Akwa Ibom, Bayelsa, Delta, Imo, Ondo and Rivers.
[4] Refer to the PEMFAR reports for Bayelsa (2009), Rivers (2010), Edo (2010) and Delta (2010).

there are sector strategies but there is no multi-year costing in the context of a comprehensive MTEF.

This PID is for Additional Financing for the SEEFOR project. Additional Financing will support small modifications and scaling up of the activities being undertaken in the project. The AF will be funded by the European Commission (EC) through a trust fund. The grant will be administrated though a hybrid trust fund, which allows for both Recipient and Bank Execution.

2. Objectives

The proposed Additional Financing is consistent with the development objective of the project. No changes are proposed to the Project Development Objective, design or implementation arrangements of the original project.

The Project Development Objective (PDO) of the project is to enhance opportunities for employment and access to socio-economic services, while improving public expenditure management systems in the participating states (Bayelsa, Delta, Edo and Rivers).

3. Rationale for Bank Involvement

The proposed Additional Financing will fund minor adjustment for enhanced component sustainability and scale-up of activities of the original project as describes in section 4 below. The rationale for providing additional financing is the possibility to enhance suitability of the activities and objectives of the project and to scale up activities and thus increase activity targets.

4. Description

The project has following three components.

Component A: Youth Employment and Access to Socio-Economic Services

Sub-component A.1 - Youth Employment through small public works contracts and institutional strengthening*:* Additional Financing will fund the expansion of activities supported by component A.1 of the project. Furthermore, funds will be allocated to strengthen the sustainability of the component activities and to mitigate risks of conflicts arising from beneficiary targeting under the component, including through the following activities:

- Capacity enhancement of youths including life skills, numeracy, employability and livelihood skills.
- Strengthening of social accountability mechanisms and social safeguards in the existing component activities, including through support for social development expertise in implementing agencies particularly around beneficiary targeting, grievance redressal mechanisms, conflict mitigation and resolution and effective community mobilization etc.
- Support for gender inclusion and women friendly work sites and training courses etc.

***Sub-component A.2 - Grants to technical, vocational and agricultural training institutions**:* The Additional Financing will fund expansion of activities supported by component A.2. Furthermore, additional resources will be used for the following activities:

- Needs assessments, including labor-market demand studies.
- Support for additional beneficiary institutes such as polytechnics, mono-technics and non-state institutions such as Innovative and Vocational Enterprise Institutions, private sector training providers, CSO/professional associations and trade/craft centers, etc.
- Establishment of collaborative platforms involving government, educational/training institutions, professional associations and industry.
- Support for revised curricula and approaches in educational institutions based on market and industry needs.
- Capacity building training to the officials at TVTs in areas such as procurement, financial management, professional development, entrepreneurship and project management.

***Sub-component A.3 - Grants for CDD initiatives**:* The Additional Financing will fund the scaling up/expansion of CDD activities using the CSDP and FADAMA Structures. The Additional Financing will continue to fund the activities using the CSDP and FADAMA structures even if these projects close before the closing of SEEFOR.

Component B: Public Finance Management Reforms: The task team carried out several PFM targeted missions in 2012. Based on these missions and in consultation with the beneficiary states, it was concluded that the cost estimations had to be revised to achieve targets stated in PAD. Therefore, Additional Financing has been allocated.

Component C: Project Implementation Support and Coordination: This component will support both federal and state levels institutions in implementation support and coordination. No Additional Financing is allocated to the states as the amount allocated in the original project is expected to cover the cost of project support and coordination. The additional financing allocated to the National Project Coordination Unit will be used for following activities: i) Impact Evaluation ii) Enhanced M&E capacity iii) Policy dialogues and high level outreach events and community of practices.

5. Financing

Source:	($m.)
European Union	94
Total	94

6. Implementation

Implementing Arrangements under the proposed Additional Financing will remain the same. As this will be a multi-state project, there will be a NPCU at the Federal level to be located at the National Planning Commission (NPC). The Federal Project Financial Management Division (FPFMD) located in the office of the Accountant General of the Federation is responsible for financial management for all Bank-funded projects implemented at the federal level and will assign relevantly qualified accountant and internal auditor to the NPCU. Each state will have the

primary responsibility for the implementation of the project in the state. The Ministry responsible for Budget and/or Economic Planning and/or Finance will be the parent ministry with the overall responsibility for supervision of the project activities within its jurisdiction and will be accountable to the State Steering Committee of the Project.

7. Safeguard Policies (including public consultation)

Safeguard and Exception to Policies	
Safeguard policies triggered: Environmental Assessment (OP/BP 4.01) Natural Habitats (OP/BP 4.04) Forests (OP/BP 4.36) Pest Management (OP 4.09) Physical Cultural Resources (OP/BP 4.11)[5] 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)	 [X]Yes [ ] No [X]Yes [ ] No [X]Yes [ ] No [X]Yes [ ] No [X]Yes [ ] No [ ]Yes [X] No [X]Yes [ ] No [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No
Does the project require any waivers of Bank policies? Have these been endorsed or approved by Bank management?	[ ]Yes [X] No [ ]Yes [ ] No

8. Contact point

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[5] This policy is being added as part of this restructuring in light of preliminary selection of project sites for the project which was not known at the time of PAD preparation.