COMPONENT D: IMPROVEMENT IN PUBLIC FINANCIAL MANAGEMENT IN SELECTED STATES.
COST: US$ 24 MILLION (To be allocated to selected (Tier 2) states on first come first served basis).

1. **Objective:** About 13 states have formally requested for support from the Bank under this project. Only 3 of the states that met minimum criteria were selected to implement the full package of support (Components A to C). However, during identification and preparation, the Bank and the Federal Ministry of Finance agreed to provide basic PFM (including procurement) support to the ten other states. The objective of this sub-component is to help the selected states to put in place the legal and regulatory framework for PFM and procurement, and prepare them for a comprehensive reform with possible support from IDA and other development partners.

Activities will include:

(i) Diagnostic work (PER/PEFA/PEMFAR) for states where none has been undertaken.
(ii) Broadening the legal and regulatory framework for PFM by supporting enactment of Procurement Law, Fiscal Responsibility Law, Finance (Control and Management) Law that will specify roles and responsibilities for managing public funds, set out the control environment, provide framework for financial reporting and auditing. The Audit Law will further strengthen the independence of the Auditor General.
(iii) Additional support will be limited to specific interventions based on the high priority reform measures according to the action plans derived from the PFM diagnostic work. These will include business process review, developing common chart of accounts and improving budget presentation, preparing internal audit strategy and establishing appropriate internal audit structure and preparing templates to improve financial reporting towards meeting IPSAS (cash basis).
(iv) Technical assistance will also be provided to clear backlog of audit reports and establish mechanisms to follow-up on audit recommendations.
(v) Preparation and adoption of Procurement Reform Strategy
(vi) Capacity building initiatives for State House of Assembly on procurement and fiscal responsibility
(vii) Preparation of a Modern Procurement Law and development of Procurement Regulations

(viii) Establishment of an Independent Regulatory Agency
(ix) Dissemination of the new Law and Regulation
(x) Technical assistance and logistic support to the Governors Forum, including institutional arrangements for knowledge and experience sharing and support to states in reforms.

2. **The criteria** for accessing funds under this component will include: (a) willingness to complete PFM diagnostic work with agreed action plan; (b) draft fiscal responsibility bill; (c) draft procurement bill; and (d) fiduciary performance on existing Bank projects (FM and Procurement), with outstanding issues resolved. Funding will be on first come first served basis, i.e. good performing states will be able to access more funding available under this window.
3. To ensure consistency, similar activities will be jointly undertaken by using a common consultant.

4. **Expected Result:** Modern legal and regulatory frameworks for the management of public finance and procurement put in place in the selected states to improve transparency.