NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
Schedule 2, Section I.A.1., 1.1(a) The Recipient shall, no later than three (3) months after the Effective Date, establish and thereafter maintain throughout the implementation of the Operation, a National Steering Committee ("NSC") with functions, composition and resources satisfactory to the Association as detailed in the Operations Manual.

Sections and Description
Schedule 2, Section I.A.1, 1.2(a) The Recipient shall establish and thereafter maintain throughout the implementation of the Operation a Program Coordination Unit at the federal level ("PCU") within the FMFBNP, with functions, composition, staffing, and resources satisfactory to the Association.

Sections and Description
Schedule 2, Section I.D.2(a)(i) The Recipient shall engage an independent verification agency or independent verification agencies, as the case may be, under terms of reference(s) satisfactory to the Association ("Independent Verification Agent(s)" or "IVA(s)"), to be responsible for preparing and providing verifications reports in accordance with the Verification Protocol, certifying the achievement of those DLI/DLRs, other than the Prior Results, indicated to be verified by such independent verification agency or agencies in the Verification Protocol.

Sections and Description
Schedule 2, Section I.D.3(a) The Recipient shall ensure that each Participating State shall not be eligible for receiving financing under the Program in a given Fiscal Year unless and until the Recipient has furnished evidence satisfactory to the Association that the Participating State has complied with the annual Eligibility Criteria for that Fiscal Year as set out in the table in the Annex to Schedule 2 of the Financing Agreement.

Sections and Description
Schedule 2, Section V.1. No later than ninety (90) days after the Effective Date, the Recipient shall engage an environmental and social (E&S) specialist to provide technical support to the PCU for ensuring implementation of the Program Action Plan under the Program and compliance with the ESCP and ESS under the Project, on terms and conditions, and with terms of reference, satisfactory to the Association.

Sections and Description
Schedule 2, Section IA 2 2.1: (a) The Recipient shall cause each Participating State to establish and thereafter

maintain throughout the implementation of the Operation a State Steering Council (each, a “SSC”) with functions, composition and resources satisfactory to the Association.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	i. The Recipient has established the PCU and appointed or hired the PCU staff, other than the environmental and social specialist, in accordance with the provisions of Section I.A.1, paragraph 1.2 of Schedule 2 to the Financing Agreement. ii. The Recipient has adopted the Operations Manual in accordance with the provisions of Section I.B of Schedule 2 to the Financing Agreement. iii. The Recipient through FMFBNP has either engaged an IVA firm or appointed responsible PCU personnel for purposes of verifying the Prior Results.
Type	Financing source	Description
Disbursement	IBRD/IDA	i. Schedule 2, Section IV.B.1(b) Notwithstanding the provisions of Schedule 2, Section IV.A of the Financing Agreement, no withdrawal shall be made for any DLR, until and unless the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved. ii. Schedule 2, Section IV.B.1(c) Notwithstanding the provisions of Schedule 2, Section IV.A of the Financing Agreement, no withdrawal shall be made for any payment to any Participating State, until and unless such Participating State has: (i) in respect of DLRs achieved during any Fiscal Year, the Recipient, acting through the PCU, has provided evidence satisfactory to the Association that such Participating State has met the Eligibility Criteria for such Fiscal Year in accordance with Annex 2 to Schedule 2 to of the Financing Agreement; and (ii) entered into a Subsidiary Agreement with the Recipient, in accordance with Section I.C of Schedule 2 to the Financing Agreement.

I. STRATEGIC CONTEXT

A. Country Context

1. **Nigeria is the most populous country and the largest economy of Sub-Saharan Africa (SSA)**. With over 200 million people and an estimated Gross Domestic Product (GDP) of US$421 billion in 2021, Nigeria is by far the most populous country and largest economy in the region. With an estimated 80 million people living in poverty, Nigeria is central to the WBG's mission of eliminating poverty globally.

2. **Nigeria's development progress has stagnated since 2015.** Between 2001 and 2014 Nigeria was a rising growth star in West Africa, with an average growth rate of 7 percent per year, and among the top 15 fastest growing economies in the world. The rising tide stopped since 2015 due to: (1) a decline in oil prices; (2) increased insecurity; (3) a reversal of macroeconomic reforms and heightened unpredictability of economic policies; and (4) more recently, the adverse effects of the COVID-19 pandemic. As a result, growth reduced to a 1.1 percent average between 2015 and 2021. The subdued economic growth, coupled with a rapid increase in population at 2.6 percent per year, one of the highest in the region, widened the gap in real GDP per capita between Nigeria and its peers.[1]

3. **In 2021-2022, the economy recovered from the recession induced by the COVID-19 pandemic and lower oil prices and real GDP growth exceeded population growth for the first time since 2015, but welfare has continued to deteriorate.** Following the contraction of 1.8 percent in 2020, the Nigerian economy grew by 3.6 percent in 2021 and it is projected to grow by 3.2 percent in 2022. However, the recovery seen in 2021 is not enough to cover the per capita income losses of the last 6 years. By the end of 2022, a Nigerian is projected to have the same level of income per capita as in 2011 and it will take about a decade to return to the same level of GDP per capita seen in 2014. Moreover, high inflation since 2020 has pushed an estimate of 12 million Nigerians into poverty.[2]

4. **For the first time in Nigeria's history, rising oil prices are worsening Nigeria's net fiscal position.** Nigeria's fiscal position has typically improved during episodes of high oil prices thanks to higher oil revenues transferred to the Federation. However, since 2021, the increase in oil revenues has been outweighed by the increase in Nigeria's petrol (Premium Motor Spirit, PMS) subsidy. The cost of the petrol subsidy is enormous and volatile. Moreover, crude oil output declined by 8.3 percent in 2021 and reached a three-decade low because of enduring technical and security challenges as well as ageing infrastructure.

5. **The outlook for Nigeria's growth is uncertain and dependent on external factors and the government's policy response to longstanding issues.** Nigeria's growth is expected to remain above population growth in 2022-2023, averaging 3.2 percent. The country's economic outlook remains uncertain. The projected recovery is threatened by: (1) the impact of the 2022 Russian invasion of Ukraine on the global economy through lower capital flows, heightened uncertainty, higher prices of imported food and inputs for fertilizers, lower global growth, and volatile oil prices; (2) lower-than-expected oil production due to technical inefficiencies; (3) increased insecurity; (4) higher uncertainty on policy direction arising from the upcoming February 2023 general elections; and (5) worsening fiscal risks related to the PMS subsidy deductions. Even in the most

[1] World Bank. 2022. Nigeria Country Economic Memorandum (CEM).
[2] World Bank. 2022. The Continuing Urgency of Business Unusual. Nigeria Development Update (NDU).

favorable global context, the policy response of Nigeria's authorities will be crucial for a robust recovery. The authorities can boost growth by: (1) adopting a more flexible and transparent foreign exchange management regime; (2) accelerating revenue-based fiscal consolidation; (3) strengthening expenditure and debt management; and (4) improving the business enabling environment.

6. **Nigeria's vulnerability to climate shocks has increased due to a combination of political, geographic, and social factors and, specifically, the recent spike in insecurity in the country**.[3] These shocks, manifesting in the form of natural hazards, floods, storms, and ocean surges impact the economy and by extension, peoples' livelihoods. The country's exposure to climate risks varies by regions and states. States in the Niger Delta Region and those along the coastal areas face considerable risks from storm surges along the entire coast, inland flooding, and wildfires. In the northern part of Nigeria, where aridity and a changing climate are causing significant disruption, extreme land degradation generates desertification and severe cases of drought. Climate change trends in Nigeria are expected to increase the risk and intensity of flooding through increased frequency and intensity of rain while states in the central and eastern part are expected to experience increased aridity and drought. These climate-related risks can have severe implications on livelihoods and result in increased food insecurity, famine, population displacement, conflicts, and biodiversity loss. Climate inaction could cost Nigeria between 6-30 percent of GDP by 2050, equivalent to a loss of US$100-460 billion.[4]

B. Sectoral and Institutional Context

7. **Catalyzing private investment is needed to boost growth and create jobs; however, Nigeria's ability to attract domestic and foreign investment is low compared to its peers**. The contribution of investment (domestic and foreign) to GDP growth has been small, due to limited fiscal space and a weak business environment: between 2015 and 2021, investment contributed 0.1 percentage points to the average GDP growth rate of 1.1 percent. FDI to Nigeria was 0.6 percent of GDP on average between 2016 and 2019, compared to 1.8 percent for SSA and 3.3 percent for lower-middle-income countries.[5]

8. **Low investment in a context of low competitiveness has resulted in a decline of medium-sized and productive firms, critical for economic growth and good jobs.** Low productivity is pervasive across several sectors in the Nigerian economy.[6] Large firms in Nigeria are concentrated in telecommunications, oil production, and the financial sector, and are the most productive, but have not been able to generate productivity spillovers. Nigeria has approximately 41.5 million micro, 71,000 small, and 1,800 medium-sized enterprises. Out of these micro firms, only 2.1 percent are formally registered.[7] Informal firms are only a third as productive as formal firms, yet employ over three times more workers in total, pointing to informality as a potential source of labor misallocation. Between 2013 and 2017, the number of medium-sized firms declined

[3] Insecurity is also an important aspect affecting Nigeria's business-enabling environment; it falls outside the scope of the areas being supported by the SABER Program.
[4] World Bank. 2021. Climate Risk Profile: Nigeria. The World Bank Group; World Bank Group. 2020. Country Partnership Framework (CPF) for the Federal Republic of Nigeria for the Period FY21-FY25. World Bank, Washington, D.C.
[5] World Development Indicators 2020. Washington, D.C.: The World Bank, based on UNCTAD and IMF data.
[6] IFC. 2020. Country Private Sector Diagnostic (CPSD): Creating Markets in Nigeria: Crowding in the Private Sector. Washington, D.C.: World Bank Group; World Bank. 2022. Nigeria CEM.
[7] Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (NBS) 2017.