

EXPLANATORY NOTES (1)

1.1 Oil Price Bench Mark: The outbreak Covid-19 pandemic and the price war between Russia and Saudi Arabia led to the review of the approved oil price bench mark of \$56pb in 2020 approved budget to \$20pb. Similarly, the price bench mark was adopted in line with the NGF bulletin as it has difference of \$5 with that of FGN which gives space for eventual fiscal shock to the State.

Oil Production Bench Mark: The glut in oil market that resulted from the incidence of Covid-19 outbreak and the agreement of oil producing countries to cut down production by an agreed percentage brought about the reduction on oil production bench mark and the consequent review of the approved bench mark from 2.10m in approved 2020 budget to 1.7m.

Exchange Rate: The over dependence on oil revenue by Nigeria and the fluctuations in volume of sales as well as the drop on price of crude oil negatively affected our foreign exchange earnings and reserves that has resulted in devaluation of the Naira and a concomitant rise in exchange rate of US\$ to NGN. Hence, the review of the official exchange rate from N305 to N360

GDP Growth: The growth rate under 2020 Approved Budget was estimated at 2.74%, however, following the outbreak of the global Pandemic and the downtown of economic activities, the rate was reviewed to -4.42. The State aligned its projection with that of NGF guidelines as all entities are impacted negatively with the pandemic.

INFLATION RATE: The outbreak of Covid-19 resulted into general lockdown, which affected economic activities negatively and increase in consumer prices. Thus, inflation rate hitherto estimated at 11.25% for 2020 Approved Budget Has been reviewed to 15% in line with the macro fiscal assumptions of Nigeria Governors Forum (NGF) advisory bulletin.

1.7 OPENING BALANCE: The balance in the State accounts as at 1st June, 2020 was to the tune of N1.44b with the following breakdown:

ACCOUNT	AMOUNT (Nb)
- VAT Account	0.149
- IGR	0.001
- FCMC (Bridge Finance)	1.294

The opening balance was allocated to rehabilitation of township road.

1.2 Statutory Allocation (SA): The sum of N66.79b was estimated for 2020 Approved Budget based on 2020-2022 MTEF which was derived using elasticity-based forecasting method. The indices used for the assumption are as follows:

- i. Inflation Rate = 11.25%;
- ii. GDP Growth =2.74%;
- iii. Production Bench Mark =2.10m;
- iv. Price Bench Mark =\$56 and;
- v. Exchange Rate =N305.

Following the outbreak of Covid-19 and the price war between Russia and Saudi Arabia, the indices were reviewed as follows:

- i. Inflation rate 15%;
- ii. GDP Growth -4.42;
- iii. Production Bench Mark 1.7m;
- iv. Oil price bench mark \$20; and
- v. Exchange rate N360.

Other component of the SA is the Non-mineral that was projected by inputting 2-year (2017-2018) actuals of the non-mineral revenue into the excel template, which automatically generates 3-year estimates.

Accordingly, the sum of N41.77b was estimated for one year. However, since the revised budget covers only 7-month, the sum of N24.37b was arrived at for the period (June-December 2020).

1.4 Value Added Tax (VAT): The 2020 Approved figure was arrived at using 3-year moving average, with the assumption that VAT will rise from 5% to 7.5% by February, 2020. With the outbreak of COVID-19 and lockdown on economic

activities, a downward trend (reduction) of 23.08% was factored in the projection of VAT. Hence, the review of the original projection from N18.69b to N14.38b.

1.5 Internally Generated Revenue (IGR): Just like VAT, the State IGR has a direct relationship with economic activities in the State. Some of the key items of IGR include Taxes, fees, sales etc.

With reforms and the review of existing rates, a positive improvement was anticipated in 2020 thus the sum of N11.27b was estimated. However, the outbreak of COVID-19 necessitated the government to review some of its tax policies so as to provide incentives/reliefs to businesses in form of palliatives to cushion the economic impact of Covid-19 pandemic.

Some of the incentives/reliefs which took effect from 24th June, 2020 to 31st March, 2021 include:

- Filing date of annual tax returns by individual and businesses extended to 30th September, 2020 from 30th June, 2020.
- Filing date of monthly PAYE returns by businesses extended from 10th to 20th day of every month.
- 50% reduction on all the rates contained in the Harmonized Agricultural Produce and Livestock Fees collection Regulation 2019.
- Tax payers in the SMEs and informal sectors granted concession of four (4) installment payments of taxes due which elapses by 31st March, 2021 etc.

Consequently, some key components of internal revenue items were reviewed leading to a total reduction of 41.70% from the approved 2020 IGR of N11.27 that translates to N6.57b for the revised.

1.6 Internal Grants: An internal grant of N7.67b was estimated for 2020 Approved Budget and following the outbreak of Covid-19, it was reviewed to N13.78b. Below are some of the sources, 2020 approved and revised amounts:

Source		2020 Approved	2020 Revised
TETFUND	=	N1.77b	N1.77b
UBEC	=	N1.15b	N1.15b
SDGs	=	N.400b	N.320b
PEPFAR	=	N.155b	N.125b
NPFS	=	N.105b	N.105b
SCTU	=	N1.50b	N1.50b
BHCPF	=	N.750b	N.750b

FGN-HGSF	=	-	N7.05b
FG Covid-19 Grant		-	N1.00b
NCDC Grant	=	-	N.010b

Following the review of the approved amount of 2020, the sum of N0.11b was reduced from the initial budget, and an addition of N8.15b was made to the grants representing 79.66% increment. The increase resulted from HGSF, FG Covid-19 grant and NCDC grants that were added to the revised estimates.

So far, over N5b has been accessed from partners such as UBEC, TETFUND, HGSF, SCTU and others. Efforts are been made by the State Planning Commission and implementing Agencies towards ensuring that considerable amount is accessed before the year runs out.

1.8 External Grants: The sum of N9.50b was captured as external grant in 2020 approved budget. A review of the grants items revealed that Value Chain Programme earlier classified as grants is a loan to the state leading to reduction of the amount to N8.95b for year 2020 budget. Under the revised budget, the sum of N13.69b is estimated as external grants. Below are some of the key components of the grants as 2020 approved and revised:

Source	2020 Approved	2020 Revised
- RF& Roche	= N2.00b	N1.00b
- World Bank	= N1.95b	N1.95b
- IDB	= N1.31b	N.306b
- UNICEF	= N.696b	N.696b
- USAID	= N.530b	N.230b

See attached Capital Receipts (Annex I) for details.

So far, the State has started accessing some grants from partners such as GEP, World Bank, BMGF, Doctors without borders/WHO and RF & Roche.

However, the expected grants have increased by 52.96% due to the inclusion of 2018 SFTAS grant of N2.88b to the State and estimated sum of N5b made up of N2.5b Covid-19 additional financing and 2019 SFTAS expected grant.

The State Planning Commission as the coordinating body in collaboration with the implementing Agencies have been making frantic efforts to ensure that substantial amounts of the grants are received before the end of the year.

1.8A OTHER CAPITAL RECEIPTS (Refunds and Dividends)

The sum of N7.71b was estimated as expected refunds and dividends in 2020 approved budget. Under the revised budget, the same amount of N7.71b was maintained since the State has some level of confidence in realizing the said amount before the end of the year. Below are the details of the various components of the refunds and dividends:

Dividend From North-South Power: In year 2012, the State government bought a share of 16% from BPE on North-South Power. 6% of the share was later divested leaving 10%. The State on annual basis receives an average of N400m to N500m as dividend which informed the estimated sum of N400m in 2020 approved budget. The estimate was maintained in the revised budget as the impact of covid-19 outbreak on power generation and distribution was not too significant.

Refund From NELCO: The estimate of N3.83b is an expected refund from Nigeria Electricity Company as ground rent negotiated with the Federal Ministry of Power. The first trench has been paid. The State has been assured of the payment of the said sum within the year.

Refund From Federal Roads: The estimated sum of N.133b represents 40% of the total amount due to Niger state as refund for the repairs of Federal Roads in the State. A promissory note to this effect has been issued by FGN through DMO and is expected to mature within the year 2020.

Refund From Pension Fund Administrators The review of pension policy by the State led to the re-categorization of workers into old and new pension schemes. To this end, categories of workers initially classified under the new scheme were reverted to the old scheme and the PFAs are in this regard expected to refund their earlier contributions. This informed the estimate of the sum of N3.35b in 2020 budget that was maintained in the revised budget.

EXPLANATORY NOTES (2) – RECURRENT

General Guide to Explanatory Notes: The classification of recurrent and capital expenditure for the 2020 revised budget strictly adhered to the NGF guidelines. Hence, 2.1 referred to critical projects (essential), 2.2 is Covid-19 responsive and 2.3 is none critical (non-essential). However, it is worthy to state that the cutting of allocations from the initial budget that now form the revised budget was done across all budget items regardless of their classifications. In essence, only personnel cost was not affected by the reduction, but was estimated for 7-month (June-December, 2020). After providing for other first line charges, though with reduction in most cases, only the sum of N4.23b was left for capital expenditure. Funds from other sources such as grants, loans, and refunds are tie to some specific projects and programme.

2.2 PERSONNEL COST: The sum of N70.00b was approved `as recurrent expenditure in the initial budget out of which N37.64 or 53.77% was personnel cost. Other components are Overhead cost of N14.43b and N17.93b of Consolidated Fund Charges (CRF).

Under the revised budget, payment of salaries by MDAs was classified as one of the essential components of the budget except for Ministries of Health, Education, Information, Government House and Office of the Secretary to the State Government that were considered as Covid-19 responsive MDAs. In this regard, only the expenditure incurred by all MDAs (salaries paid between January-May) before the commencement of the revised budget exercise was deducted from the original budget leaving a balance of N20.82b as personnel cost of the revised budget for a period of 7-month.

2.1, 2.2 & 2.3 OVERHEAD COST: The outbreak of Covid-19 resulted in a general shortfall in revenue inflow to the State. For meaningful impact or achievements to be made, deliberate steps must be taken to cut cost of governance. To this end, the overhead cost of 2020 approved budget estimated at N14.43b was reviewed to N10.59b indicating 26.6% reduction. The review was done across all MDAs, except for Ministries that are covid-19 responsive, such as Health, Education, Information Government House, Office of Secretary to the State Government, etc that were accorded some preferences. However, none of the MDAs maintained 100% overhead allocation as approved in the original budget.

Similarly, some of the MDAs that are key in driving growth and developmental processes of the State and referred to as essential MDAs (none covid-19 responsive MDAs) in the revised budget had a total overhead allocation reduction of N3.84b compared with the initial budget. However, the saved cost of N9.77b on various Recurrent Costs tagged non-essentials formed part of the Recurrent Expenditure Budget of N6.59b of which covers COVID Responsive. The total saved budgeted expenditure (Recurrent and Capital) of N25.76b made part of COVID Responsive total expenditure budget of N25.94b and this represents 99.3% of the cost. Also, COVID Responsive Budgeted expenditure represents 16.6% of the revised total budgeted expenditure for the year 2020 but 19.91% of the revised total budgeted expenditure excluding COVID Responsive Budgeted expenditure.

2.4 Consolidated Fund Charges (CFC): This comprises of items such as pension, gratuity, Health Insurance, payment to revenue consultants, interest on loans etc. under the 2020 approved budget, estimate for pension was made for all the staff. After a thorough review and engagement with the implementing Agency, it was revealed that categories of staff in the old pension scheme need not to be provided for, except as in this case, for the 2% addition to the bond redemption fund. The earlier provision of 10.5% employer contribution was thus deducted, leaving only those in the new scheme. Coupled with the fact that the revised budget covers only seven months, the new amount of CFC is N8.10b as against N17.93b representing 54.82% reduction.

2.4 Public Debt Charges (Interest Payment on Debts)

The sum of N5.99b was estimated by DMO as interest to be paid on loans for the year 2020. Although, it was not captured in the original budget, the sum of N2.09b has been paid leaving a balance of N3.90b that was reflected in the revised budget.

Notes 2 – Capital Expenditure

The 2020 approved capital allocation was to the tune of N85.46, but following the outbreak of covid-19 with its attendant impact, it was reviewed to N67.97b representing 20.47% reduction. Though the expenditure line items are categorized into essential, covid-19 responsive and non-essential project, the reduction of allocations was done across all items of expenditure due to drastic fall on recurrent revenue. Accordingly, even projects that were tagged essential

or covid-19 responsive in some cases have their allocations reviewed downward. Below is the sectorial breakdown:

Sector	Original Budget(Nb)	Revised Budget(Nb)	Covid-19 Resp(Nb)
Admin.	8.05	4.08	2.17
Economic	55.65	45.75	13.47
Law & Justice	1.78	0.91	-
Social	19.98	17.23	3.71
Total	85.46	67.97	19.35

2.1 The capital component of every budget is that which addresses the infrastructural needs of the society. Impacts of government are mostly felt through the implementation of capital projects. However, in line with our general guide on explanatory notes, virtually all expenditure line items of the initial 2020 budget were reduced due to insufficient balance for capital development projects. Thus, the following are what constitute critical projects (essential) in the revised budget:

- On-going projects that have attained 70-90% level of completion
- Projects that can improve the general wellbeing of the populace
- Programmes/activities that promote accountability, transparency and value for money
- Projects that have return on investment
- Projects are meant to meet accreditation requirements of tertiary institutions.

Road infrastructure is critical to the developmental stride of every economy which thus informed the deliberate efforts being made by the state to ensure adequate provisions for the construction and rehabilitation of state and township roads across all zones. Under the approved 2020 budget, a total sum of N13.62b was provided for both state and township roads, but in spite of the current economic challenges only 3.45% of the original allocation was reduced. This is to allow for completion of projects that have attained 70-90% level of completion. Such projects when completed will propel growth and development of other sectors and by extension the entire State.

2.2 Covid-19 Response Expenditure

The outbreak of Covid-19 in Nigeria no doubt received immediate and rapid attention from all quarters in order to curb the spread of the disease. At the early stage of the pandemic in Niger State, the response was towards control and prevention. However, when the State began to record number of cases, the expenditure pattern takes a different dimension with shift towards provision of infrastructure and equipment. Below are covid-19 responsive expenditure in the State:

- Sensitization and enlightenment campaign on the control and spread of the pandemic
- Purchase of hand sanitizers, face mask, hand gloves and latex
- Distribution of palliatives such as rice, beans, millet etc
- Procurement of PPE and Non-contact thermometer
- Establishment of Molecular Laboratory
- Rehabilitation and equipping of isolation/quarantine centers
- E-learning programme for continuous education
- Support to Small and Medium Scale Enterprises
- Social Security Safety net programme
- Re-uniting of *Almajiris* with their families
- Provision of diesel and transformers for constant water supply

Under the Administrative sector of the revised budget, priority was given to advocacy and enlightenment through the provision of N.177b from the FG Covid-19 support to States. A lot of efforts have been made in the recent past in sensitizing the general public towards curbing the spread of the menace, yet cases are reported on daily basis. It thus became imperative to redouble the efforts to ensure total compliance of the general public to the protocols of the pandemic.

Buffer stock programme in the approved 2020 budget had nil provision, but following the outbreak of the pandemic and the intervention by government through distribution of palliatives, expenditure was incurred from the vote. In the revised budget, the sum of N.340b was allocated to the expenditure line item for subsequent requirements. This provision will be complemented by the N.105b FG support on food security programme.

Fertilizer procurement that was classified as covid-19 responsive had an allocation of N.100b in the approved 2020 budget, but as pointed out earlier, the vote was reviewed to nil allocation in the revised budget. However, in view of the critical nature of the project and the urgent need to meet the requirements of the farmers, CBN loan for Accelerated Agricultural Development is charged for the provision of fertilizer to sustain food sufficiency in the State.

The outline of the State covid-19 responsive activities/programme above clearly indicated that the responses took a cross-cutting dimension. However, health related issues are more prevalent. Under this dimension, the sum of N.894b out of FG intervention was earmarked to public health programmes . Recent interventions carried out in this direction involved recurrent and capital expenditure such as payment of allowances and duty tour to frontline workers, taskforce committee and other ad hock staff; all these were considered in making the provision.

Social security safety net, youth and women empowerment/ livelihood programme were all accorded greater priority in both initial and the revised budget. Substantial amounts have been expended towards providing safety net and up-lifting the social status of the downtrodden. The allocation of N1.5b in the original budget was maintained even in the revised budget. Similarly, the revised allocation of N7.05b for HGSF was nil in the approved 2020 budget, but was captured in the revised budget. All these are social security safety nets for the less privileged.

2.3 Non –Essential Expenditure

The outbreak of covid-19 brought about changes in different dimensions. Individuals, firms and corporate entities had to re-strategize and also shift priorities. In the case revised budget, funds were redistributed from less essential to more essential and covid-19 responsive votes respectively. Hence, non-essential items of the revised budget are:

- Expenditure items that originally have allocation, but reviewed to nil
- Budget lines that have nil allocation and their requirements are not taken care in a different or related vote; yet they are in the budget to be used when their need arise.

EXPLANATORY NOTES (3) – FINANCING GAP

3.1: Domestic Bonds- The outbreak of Covid-19 and the resultant lockdown impacted negatively on the resource inflow to the State. In order to be able to implement some capital projects, the state had planned to raise funds to the tune of N15b by way of Sukuk/Bond. However, due to the downward trend of revenues, this has been revised to a N10.5b private bond made up of N5.0b bridge finance that has been disbursed prior to the outbreak of COVID-19 and a further N5.5b to be raised in July/August from Nigeria Capital Market. The fund will be used to provide road infrastructure in the State.

3.1: Commercial Bank Loans- As an immediate measure to bridging financing gap, a commercial bank loan which was N5.28b in 2020 approved budget was increased to N8.991. Below are the sources and amounts involved:

Source	2020 Approved	2020 Revised
- CBN	N1.5b	N1.5b
- FCMB	N.616	N.616
- FHTL	-	N2.0b
- Zenith Bank	N3.0b	N2.71b
- CBN/FBN	-	N2.0b
- MECA	N.165b	N.165b

The FHTL loan is a FG housing initiative for which MOU of 1,200 housing units was signed to the tune of N6b, but only 400 units were considered in 2020 budget. Though the amount involved (N2b) was initially captured as recurrent revenue in 2020 approved, but now re-classified under loan in the revised budget.

Similarly, the sum of N.616b expected from FCMB was negotiated prior to the outbreak of covid-19. So far, N.246b has been accessed leaving a balance of N.370b captured in the revised. The CBN Accelerated Agricultural Development Scheme estimated at N1.5b has also been accessed and currently under the custody of MOF for disbursement to implementing agencies. In essence, the State has the confidence of accessing the estimated loans.

3.2: External Loan- The external loan component of 2020 approved budget was N11.53b, but with the outbreak of Corona Virus, the amount was reviewed to N9.14 representing 20.72% reduction. Sources and amounts involved are as follows:

Source	2020 Approved	2020 Revised
IDB	N1.2b	N1.3b
World Bank	N 6.3b	N5.8b
IFAD/FGN	N4.0b	N2.3b

The N6.0b loan under World Bank which was reviewed to N5.8b is meant for programmes such as YESSO, Fadama, RAMP, CSDP, Nigeria for Women etc. However, the sum of N1.6b has so far been accessed; where efforts are been made to ensure that the balance is received.

3.4 Contractor Financing: As part of the efforts in bridging financing gaps towards provision of infrastructure that will make life more meaningful to the citizenry, the State complemented its funding arrangements with an agreement on contractor financing to the tune of N2.5b from UBA and Access bank which did not exist at the initial approved year 2020 Budget, except, for the revised. Under this arrangement, the account of the contractor is credited with the required amount for a project and releases are made based on verified and certified certificate by the State. Meanwhile, an agreed amount is established between the State and the Bank for repayment which is hinged on IGR.

Generally, analysis of the total loan package showed that the initial 2020 approved budget was N31.83b, but reviewed to N30.63b indicating a reduction of 3.77% but has N12.96b excess funding, that is a budget surplus or positive Financing Gap. However, the encouraging factors are:

- The debt sustainability analysis carried out by DMO indicated that the State still has fiscal space that can accommodate additional facilities
- The restructuring of the existing bonds and loans by extending their maturity periods with new coupon rates
- Suspension of deductions by FG on some loans being repaid by States.

It is also worthy to note that for all loans and agreements entered into by the State, Council Resolutions are issued, approvals are given by the State House of assembly and clearance letters are equally issued by the State Fiscal Responsibility Commission.