ONDO STATE GOVERNMENT

2022-2024

MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

Economic and Fiscal Update (EFU),

Fiscal Strategy Paper (FSP) and

Budget Policy Statement (BPS)

August, 2021

Document Control

Document Version Number:	v1
Document Prepared By:	EFU-FSP-BPS Work Group which comprises the Ministry of Economic Planning and Budget, Ministry of Finance, Office of Accountant-General, Office of Auditor-General (State and LG), Debt Management Office, Bureau of Statistics and Ondo State Internal Revenue Service.
Document Approved By:	
Date of Approval:	
Date of Publication:	
Distribution List:	

Table of Contents

Abbreviations

BRINCS	Brazil, Russia, India, Nigeria, China, South Africa
CBN	Central Bank of Nigeria
CPIA	Country Policy and Institutional Assessment
CRF	Consolidated Revenue Fund
DMD	Debt Management Department
EFU	Economic and Fiscal Update
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FRL	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
HRM	Human Resource Management
IGR	Internally Generated Revenue
IMF	International Monetary Fund
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
MYBF	Multi-Year Budgeting Framework
NBS	National Bureau of Statistics
NNPC	Nigerian National Petroleum Company
NPC	National Planning Commission
ODA	Official Development Assistance
ODBIR	Ondo State Board of Internal Revenue
ODBPP	Ondo State Bureau of Public Procurement
ODSG	Ondo State Government
OECD	Organisation for Economic Cooperation and Development
PFM	Public Financial Management
PIB	Petroleum Industry Bill
PITA	Personal Income Tax Act
PMS	Premium Motor Spirit (Petrol)
ShoA	State House of Assembly
VAT	Value Added Tax
G11	A group of eleven countries - specifically Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam
G20	A group of 20 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union.
MINT	Mexico, Indonesia, Nigeria, and Turkey
WEO	World Economic Outlook

Section 1 Introduction and Background

1.A Introduction

1. The Ondo State Fiscal Responsibility Law (2017) makes statutory provision requiring the State Government to prepare Medium Term Expenditure Framework (MTEF). MTEF is a three-year planning tool that produces the estimates of aggregate resource envelope available to government and the allocation of those resources to meet government's economic, social and development objectives and priorities. It also details the strategies to achieve government's defined objectives, and highlights the key assumptions behind revenue projections, strategic objectives behind expenditure framework and fiscal targets over the medium term.
2. Key elements of MTEF are Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS). The Economic and Fiscal Update (EFU) provides economic and fiscal analyses that form the basis for the budget planning process. It is aimed primarily at policy makers and decision takers in Ondo State Government. EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.
3. On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in MTEF and annual budget process, and as such, they determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective.

1.A.1 Budget Process

4. The budget process describes the budget cycle in a fiscal year. Its conception is informed by the MTEF process which has three components namely:
   i. Medium Term Fiscal Framework (MTFF);
   ii. Medium Term Budget Framework (MTBF);
   iii. Medium Term Sector Strategies (MTSS).
5. It commences with the conception through preparation, execution, control, monitoring, and evaluation and goes back again to conception for the ensuing year's budget.

1.A.2 Summary of Document Content

6. In accordance with international good practice in budgeting, the production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Ondo State Government (ODSG) for the period 2022-2024.
7. The purpose of this document is three-fold:
   i. To provide a backward-looking summary of key economic and fiscal trends that will affect the public expenditure in the future - Economic and Fiscal Update;
   ii. To set out medium term fiscal objectives and targets, including tax policy; revenue mobilisation; the level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF; and
   iii. Provide indicative sector envelopes for the period 2022-2024 which constitutes the MTSS.
8. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis in order to inform the budget planning process. It is aimed primarily at budget

policy makers and decision takers in the Ondo State Government, including the State legislature. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:

- Overview of Global, Africa, National and State Economic performances;
- Trends in budget performance over the last few years.

9. The FSP is a key element in the ODSG Medium Term Expenditure Framework (MTEF) process and the annual budget process. As such, it determines the resources available to fund Government's growth, security challenges and poverty reduction programmes from a fiscally sustainable perspective.

1.A.3 Preparation and Audience

10. The purpose of this document is to provide an informed basis for the 2022 budget preparation cycle for all of the key stakeholders, specifically:

- Ondo State House of Assembly (SHoA);
- State Executive Council (ExCo);
- Ministry of Economic Planning and Budget;
- Ministry of Finance;
- All Government Ministries, Extra-Ministerial Departments and Agencies (MEDAs);
- Civil Society Organisations (CSOs).

The document is prepared prior to the 2022 Budget preparation period by Ondo State Government's MYBF (EFU-FSP-BPS) Work Group which comprises the Ministry of Economic Planning and Budget, Ministry of Finance, Office of Accountant-General, Office of Auditor-General (State and LG), Debt Management Office, Bureau of Statistics and Ondo State Internal Revenue Service using data collected from International, National and State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM[1]

11. **Legislative Framework for PFM in Ondo State** - The fundamental law governing public financial management in Nigeria and Ondo State in particular is the 1999 Constitution as amended. Sections 120 and 121 of the Constitution provide that all revenues accruing to Ondo State Government shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and no revenue shall be paid into any other fund, except as authorized by the State House of Assembly (SHoA) for a specific purpose. The withdrawal of funds from the CRF shall be authorized by the SHoA through the annual budget or appropriation process. The Governor of Ondo State shall prepare and lay expenditure proposals for the coming financial year before the SHoA, and the SHoA shall approve the expenditure proposal by passing an Appropriation Law. The Appropriation Law shall authorize the executive arm of government to withdraw and spend the amounts specified from the CRF[2].

12. Apart from the Nigerian Constitution, Ondo State has a set of laws and regulations that regulate its budget preparation and implementation. The laws are:

[1] Based on 2014 PEFA Assessment for Ondo State

[2] Sections 120 and 121 of Constitution of Federal Republic of Nigeria 1999 as amended

- Ondo State Finance Management Law, 2017 with provisions for the control and management of finances of Ondo State.
- Ondo State Government Financial Regulations and Store, 2017 issued under the Finance Management Law, 2017. The Financial Regulations and Store provides guidelines for financial authorities, sub-accounting officer's cash book and monthly accounts, revenue-general, authorization of expenditure, expenditure-classification and control, payments procedure, adjustment, bank accounts and cheques, custody of public money, stamps, security books and documents, receipts and licence books, imprest, self-accounting ministries/extra-ministerial departments or units, accounting procedure and equipment, boards of survey, loss of and shortages in public funds, deposits, advances, salaries, internal audit functions, government vehicles, store-classification and general, general instructions: books and forms of accounts, supervision and custody of stores, receipts of stores, issues of stores, returned stores, handing over stores, acquisition of stores, government contracts, tenders boards and tenders, loss of stores and unserviceable stores, stores inspection, allocated stores, unallocated stores, court accounts, pensions procedure, and miscellaneous.
- The Ondo State Fiscal Responsibility Law (FRL), 2017. The FRL was enacted in 2017 based on the Federal Fiscal Responsibility Act. The FRL provides the following: the creation of the implementation organ, medium term fiscal framework, how public expenditure may be carried out, borrowing process, transparency and accountability in governance and principles of sound financial management.
- Ondo State Public Procurement Law 2017. The Public Procurement Law was enacted based on the Federal Public Procurement Act 2007 to set the administrative arrangement, standards and procedures for procurement in Ondo State.
- Ondo State Audit Law, 2017 as amended.
- Occasional treasury circulars issued by the Commissioner for Finance of Ondo State for additional rules and guidelines to support accounting, internal audit and stores procedures.

13. **Institutional Framework for PFM in Ondo State** - The Constitution vests the executive powers of the State in the Governor. The Constitution provides that "the Governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year, estimates of the revenues and expenditure of the State for the next following financial year"[3]. The Governor of Ondo State exercises this executive power either directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, and other officers in the public service of the State.

14. Specifically, Ondo State Executive Council (EXCO) formulates the policies of the State Government, considers and recommends the State's budget to the House of Assembly. On passage, the Governor signs the appropriation bill into law.

15. The State Ministry of Economic Planning and Budget oversees the preparation of the budget, both revenue and expenditure. It is also in charge of planning (long and medium-term), setting the broad agenda for development and statistics. The Ministry of Economic Planning and Budget is the main organ of the EXCO for the formulation and execution of fiscal policies. The Ministry also coordinates and manages the State's fiscal policies and all revenue and expenditure profiles of the government.

16. The Ministry of Finance is responsible for core treasury functions of revenue and expenditure management, accounting, and fund and cash management. One of the core departments in the Ministry of Finance is the Debt Management Department. Debt

[3] Section 121 (1) of Constitution of Federal Republic of Nigeria 1999 as amended

Management Department manages Ondo State public debt as well as liaising with the Debt Management Office at the Federal level. The Ministry of Finance has an important quasi-autonomous agency, the Office of the Accountant General for the State (OAGS). Specific functions of the OAGS include to account for all receipts and payments of the State Government; supervise the accounts of the State Ministries, Extra-Ministerial Departments and Agencies (MEDAs); collate and prepare Statutory Financial Statements of the State Government and any other Statements of Accounts required by the Commissioner for Finance; maintain and operate the accounts of the Consolidated Revenue Fund, development fund and other public funds and provide cash backing for the operations of the State Government; maintain and operate the State Government's accounts; conduct routine and in-depth inspection of the books of accounts of State Ministries, Departments and Agencies to ensure compliance with rules, regulations, policy decisions and maintenance of account codes; and formulate and implement the accounting policy of the State Government.

17. The State Internal Revenue Service (IRS) coordinates the generation of government revenue in the State. The Service formulates and executes Joint Tax Board (JTB) policies on taxation, stamp duties, motor vehicle licensing, among others.

18. Another important institutional framework in the circle of financial management in the State is the Bureau of Public Procurement. The Bureau plays a significant role in ensuring that all MEDAs adhere to the best practices in procurement.

19. The State Government allows line agencies some autonomy in expenditure control. Line ministries and agencies propose their budgets based on the guidelines issued by the EXCO through the Ministry of Economic Planning and Budget. There are three main categories of expenditure: personnel costs, overhead costs and capital expenditure. The payroll is centralized under the Head of Service (HoS) and Office of the Accountant General of the State (OAGS). MEDAs receive regular monthly disbursements for general items of overhead costs. They also receive, as the need arises, funds for other specific items of overhead expenditure. MEDAs have the responsibility to execute their capital program, but capital funds are paid project by project by the OAGS.

1.B.2 Overview of Budget Calendar

20. Indicative Budget Calendar for Ondo State Government is presented below:

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
Preparation and Publication of EFU-FSP-BPS	August	MYBF WorkGroup
Update of MTSSs by 5 Pilot Sectors	August	MEDAs
Preparation and Issuance of Budget Call Circular	August	MEPB
Citizens Engagement	August	MEPB
Budget Preparation Workshop	August	MEPB and MEDAs
Preparation of MEDAs Budget and on-line Submissions	September	MEDAs
Pre-Treasury Board Meetings	September	MEPB and MEDAs
Compilation of Draft Budget	September	MEPB
Treasury Board Meeting	September	ExCo
Presentation of Draft Budget to the SHoA	September	Governor
Budget Defence by MEDAs before the House	October	SHoA
Debate and Approval of Budget by SHoA	October/December	SHoA

Signing Appropriation Bill	December	Governor

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

21. The outbreak of the coronavirus (COVID-19) pandemic has caused a global economic downturn that is worse than that experienced during the 2008-2009 financial crisis. Millions of lives have been lost since the outbreak of the pandemic and the toll continues to rise particularly due to the mutation of the virus and the resurgence of delta and other variants across the globe.

22. After the 3.5% decline in 2020, the global economy growth projection has recently been revised from the earlier projection of 5.5% in January to 6.0% (WEO, April 2021)s. The upward revision is occasioned by the relaxation of the world economies from lockdowns, additional fiscal support in a few large economies and the increase pace of vaccination in the second half of 2021. However, the renewed waves of new variants of the virus might pose a threat to the forecast. Despite the uncertainty, the global economy is projected to grow, in the medium term, by 4.4% in 2022 and beyond. This will be so if there is sustained non-pharmaceutical Covid-19 containment measures, improved therapies and greater vaccine availability and improved attitude of people to the vaccine.

23. Globally, inflation is expected to be on the rise because of the massive monetary and fiscal injections in several countries as stimulus packages to mitigate the impact of the COVID-19 pandemic. World Economic Outlook projected that the world inflation in 2021 to be 3.5%, to be reduced to 3.24%, 3.11% and 3.1% in 2022, 2023 and 2024 respectively.

24. With the high rate of vaccination progression in Europe, the GDP is projected to rebound by 4.8% in 2021 from -6.5% in 2020. The main priority is to quickly ramp up the production and administration of vaccines. At the same time, policymakers need to continue providing emergency support to households and firms. And they need to prepare measures to stimulate hiring and investment once the pandemic is under control. Such measures will foster a quicker and fuller recovery, by reducing scarring of unemployment, missed education and training, and low investment. The growth rate of 4.5% is expected in Euro area in 2022. Meanwhile, inflation in the Euro Area in 2020 was 0.3%. This is projected to be 1.9% in 2021 and 1.4% in 2022.

25. The Covid-19 pandemic dealt a big blow on the economy of Sub-Saharan Africa (SSA) in 2020 which led the growth of the continent to plummet by 1.9% in the year, leading to a large increase in poverty. Economic activities in Sub-Saharan Africa region are expected to pick up in 2021 and 2022 with 3.4% and 3.0% growth rates respectively. SSA inflation expectations are expected to remain high in 2021, owing to increased spending, higher commodity prices and country-specific factors.

26. With the commencement of trading, African countries are expected to leverage on the African Continental Free Trade Area (AfCFTA) Agreement to boost non-oil exports and increase foreign exchange inflows. As governments develop comprehensive industrial and trade strategies, offer direct incentives for businesses to produce for exports and implement port reforms, intra-African trade is anticipated to see a significant boost.

27. In Asian continent, while India is still seriously battling with the Covid-19 pandemic and its economic effects, China economy growth slowed in 2020 to 2.3%, the lowest GDP growth rate in more than a decade and has since seen a rebound, recording an unprecedented quarterly growth of 18.3% in the first quarter of 2021 compared to the same quarter last year. China is leading the global recovery from the pandemic, and it is on course for the necessary rebalancing to a sustainable growth path.

28. These are difficult times, yet there are some reasons to be hopeful. Testing has been ramped up, treatments are improving, and vaccine production and administration have

proceeded at an unprecedented pace. International solidarity has strengthened along some dimensions, from rolling back trade restrictions on medical equipment to enhancing financial assistance for vulnerable countries. And recent data suggest that many economies have started to recover at a faster pace than anticipated after reopening from the Great Lockdown.

Table 2: GDP and Inflation rates (CPI) of some selected countries in the world from 2020-2024

	Gross Domestic Product Rate (%)					Inflation (%)				
Country	**2020**	**2021**	**2022**	**20233**	**2024**	**2020**	**2021**	**2022**	**2023**	**2024**
United States	-3.51	6.39	3.52	1.41	1.48	1.36	2.34	2.46	2.52	2.43
Germany	-4.90	3.60	3.42	1.57	1.46	0.37	2.25	1.10	1.49	1.65
Swedeen	-2.82	3.06	2.96	2.35	2.07	0.66	1.50	1.25	1.63	1.84
Netherlands	-3.80	3.50	2.99	1.82	1.60	1.12	1.38	1.48	1.60	1.60
China	2.27	8.44	5.57	5.44	5.27	2.39	1.19	1.90	1.90	2.00
India	-7.97	12.55	6.93	6.82	6.69	6.20	4.89	4.07	3.91	4.01
Brazil	-4.06	3.66	2.57	2.14	2.02	3.21	4.64	4.00	3.08	3.33
Nigeria	-1.79	2.53	2.31	2.30	2.32	13.25	15.97	13.46	12.05	11.68
S/Africa	-6.96	3.10	1.97	1.40	1.30	3.27	4.28	4.47	4.50	4.50
Ghana	0.88	4.64	6.10	4.47	4.38	10.47	9.77	7.52	7.10	6.50

Source: IMF's World Economic Outlook update, April 2020.

29. All the selected countries except Ghana have negative GDP in 2020 because of the consequent effects of Covid-19 pandemic in the year. Only Nigeria and Ghana had double-digit inflation rates in 2020. Globally, GDP rates are set to be positive over the next four years as the negative effects of Covid-19 pandemic subsides, courtesy of more production and administration of Covid-19 vaccines.

2.A.2 Sub- Saharan Africa

30. Sub-Saharan Africa is a continent of over 1.1 billion population and Gross Domestic Products of over US$1.7 billion. The region is diverse offering human and natural resources that have the potential, barring the various challenges of bad leadership and corruption, to yield inclusive growth and eradicate poverty.

31. Just like the other regions of the world, Sub-Saharan Africa is facing a challenging time occasioned by the Covid-19 pandemic which started in March 2020 and has caused a global economic crises and claimed millions of lives.

32. According to the World Bank prediction, the continent, driven by the economic fallout of the pandemic, growth fell by 1.9% in 2020, pushing the region into its first recession in 25 years leading to a large increase in poverty. While East and South Africa contracted in growth by 2.1% in 2020, Western and Central Africa contracted by 1.1% in the same year, occasioned by less severe contraction in Nigeria. However, in 2021 and 2022, the region's economy is expected to resume expansion at 3.4% and 3.0% respectively.

33. This projected recovery from the worst recession in more than half a century will be underpinned by a resumption of tourism, a rebound in commodity prices, and the rollback of pandemic-induced restrictions.

34. The COVID-19 pandemic represents an unprecedented health and economic crisis for sub-Saharan Africa. Within months, the spread of the virus jeopardized years of development and decades-long gains against poverty in the region while threatening the lives and livelihoods of millions of people

35. Though the countries in the region acted swiftly to protect their people from the worst of the crisis, the combined efforts of the World Bank and African Development Bank to bring the continent out of the recession the pandemic plunged into is outstanding.

36. In its response to the crisis, the African Development Bank swiftly put in place a crisis response facility to support its Regional Member Countries in mitigating the health and

economic effects of the crisis. The Bank also launched a $3 billion Fight COVID–19 social bond on global capital markets, the largest U.S. dollar denominated social bond ever. It is now listed on the London Stock Exchange, the Luxembourg Stock Exchange and Nasdaq.

37. On its part, the World Bank Group has earmarked up to $50 billion to be deployed to protect poor and vulnerable people, support businesses and bolster economic recovery in Africa. Out of this amount, $24.7 billion was made available in March 2020 to respond to the Covid-19 crisis in the continent. These response efforts are focused on (i) saving lives (by preparing emergency vaccine financing projects in more than 30 African counties; (ii) protecting poor people (helping the continent to scale up and adapt social safety net programmes and ensure food security by supporting farmers to expand agricultural production as well as sustain food supply chain); (iii) protecting and creating jobs (by supporting the MSMEs, launching of public works and urban programmes and livelihood support programme for extremely poor and vulnerable people like women and youths); and building back better (through provision of development and budget support operations and promotion of reforms that will create the conditions for economic recovery.

38. If the vaccine deployment to African continent is sped up and deliberate credible policies taken by the continent's drivers to stimulate private investment, there would be accelerated growth of 3.0% or more predicted for the region in 2022.

2.A.3 Nigerian Economy[4]

39. Nigeria is the largest producer of oil and gas in Africa and the fourth largest producer of gas globally. There are also proven reserves and deposits of various mineral resources across the country. The country also has untapped agricultural potential; over 1,000 km of coastline and some 279 billion cubic meters of surface water that can boost irrigated farming, development of the blue economy and tourism. The rebasing of Nigerian's GDP in 2013 from US$ 270 billion to US$ 510 billion revealed structural dynamics towards the growing importance of services in the economy. Over the past four decades, the service sector assumed an increasing role as the main contributor to the domestic output, while contribution of agriculture value added has declined to about 24% of GDP in 2020, down from over 50% in the 1970s. Despite the growing importance of the services sector, growth in the economy remains captive to developments in the oil economy, which contributes about 90% of exports and nearly two thirds of fiscal revenues. The ratio of oil revenues to GDP has declined substantially, underpinned by the rebasing of GDP, which increased the tax base without commensurate increase in collection efforts. Manufacturing value added increased to 13% in 2020 from 8% in 2017. The largest contribution to this was from sector of food, beverage and tobacco which accounted for 4.75% of the country's GDP.

40. The Nigerian Government in 2017 begun addressing macroeconomic imbalances and structural impediments through the implementation of policies underpinning the Economic Recovery and Growth Plan. Supported by recovering oil prices, the new Investor and Exporter foreign exchange window increased investors' confidence and provided impetus to portfolio inflows, which have helped to increase external buffers to a four-year high and contributed to reducing the parallel market premium in 2019. However, this was short-lived as a result of the outbreak of Covid-19 in March 2020 leading to negative GDP in both second and third quarters of 2020.

41. **Real GDP –**The economy bounced back from recession to growth level in the 4th quarter of 2020, though marginally with GDP of 0.1% year-on-year (yoy). This came on the back of an improvement in the non-oil sector, as activity expanded by 1.7% year-on-year in Q4 from -2.5% in Q3. Moreover, growth in the agricultural sector accelerated, 1.4% in Q3 and 3.4% yoy in Q4, while services sector rebounded in Q4 by 5.9% yoy from -1.0% in Q3 despite the Covid-19 pandemic.

---

[4] Sources: IMF WEO, April 2021, NBS Reports, CBN Reports, NNPC Reports, OPEC Reports and US Energy Information Administration Reports.

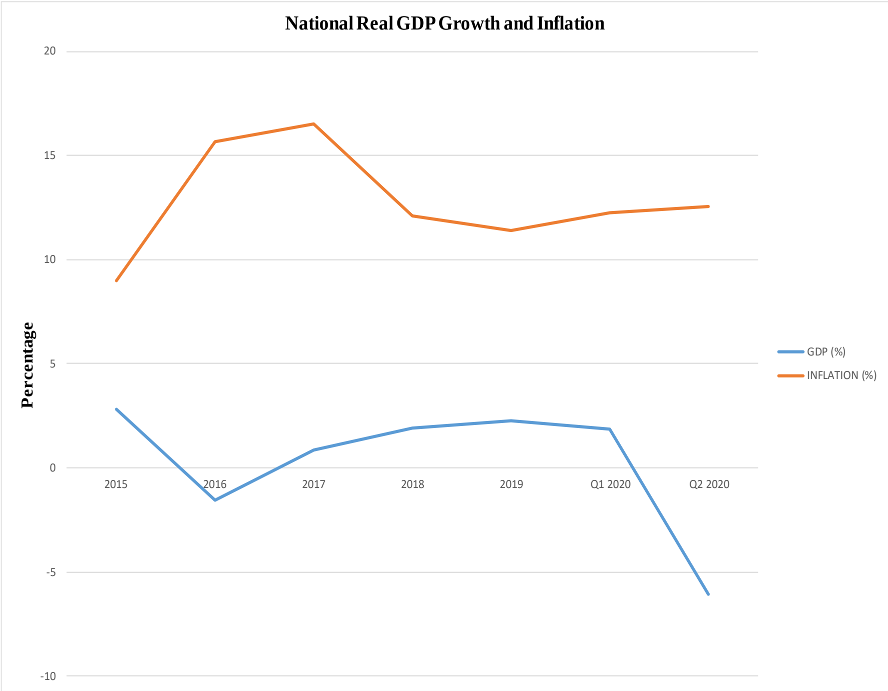
42. The oil sector's contribution was -19.8% yoy in Q4 of 2020 from -13.9% in Q3 of the same year. This deterioration was as a result of a drop in crude oil output, with production as low as 1.56 million barrels per day (mbpd) from the third quarter's 1.67 mbpd amid OPEC production cuts.

43. **Inflation (CPI)** In 2019, IMF predicted that between 2020 and 2025 Nigeria's inflation would fluctuate between 11% and 12% with the hope that it would help erode the real value of the national debt stock and increase nominal revenues. However, with the outbreak of Covid-19 in China in December, 2019 and its spread to the entire world from January, 2020, inflation in Nigeria has jumped over 12% since January 2020, being 13.71% in September 2020, from the average of 11.39% in 2019. Meanwhile, as Covid-19 pandemic continued to spread, NBS also predicted the country's inflation at 14.13% by the end of 2020. This was not the case as it rose to 15.75% in December 2020. World Bank's Nigeria Development Update revealed that rising inflation pushed an estimated 7 million Nigerians below the poverty line in 2020 alone. Notably, food prices accounted for over 60% of the total increase in inflation, as stated in the report. Despite the recovery in the economy from the recession witnessed in 2020, prices increased rapidly and this impacted Nigerian households.

44. In the current year 2021, Nigeria's rate of inflation rose steadily and reached a four-year high of 18.17% in March 2021. However, inflation rate dropped further for the second consecutive month to stand at 17.93% in May 2021 from 18.12% recorded in April 2021. The rise in inflationary pressure has been driven primarily by surging food prices reaching 22.95%, 22.72% and 22.28% in March, April and May respectively.

45. The national quarterly real GDP growth and year on year inflation rates from years 2015 to 2019 and Q1 and Q2 of 2020 are shown in figure 1 below.

Figure 1: Real GDP Growth and Inflation



Data Sources and Trends:

- CBN Year-on-Year Inflation, NBS Quarterly Real GDP Growth
- Point of initial divergence was December 2014, coinciding with global Crude Oil Price crash.
- Divergence accelerated in June 2016 which coincided with the devaluation of the Naira
- Inflation peaked at 18.72% (year-on-year) in January 2017
- Real GDP growth (decline) bottomed out at -2.24% in Q3 2016
- Significant improvement in Real GDP and Inflation in 2017 and H2 2018
- Stability in both real GDP and Inflation from 2018 Q2

Foreign Exchange Rate – Foreign exchange transactions in Nigeria are currently conducted at the Nigerian Autonomous Foreign Exchange (NAFEX) Investors' and Exporters' (I&E) window introduced by the Central Bank of Nigeria (CBN) on April 21, 2017. The NAFEX, which acts as a spot rate, was to improve dollar liquidity and encourage inflows from foreign investors that were exiting the country following the 2016 economic crisis. Nigeria suffered even more acute hard-currency scarcity last year after the Covid-19 pandemic led to a plunge in oil prices, forcing it to devalue the local unit twice.

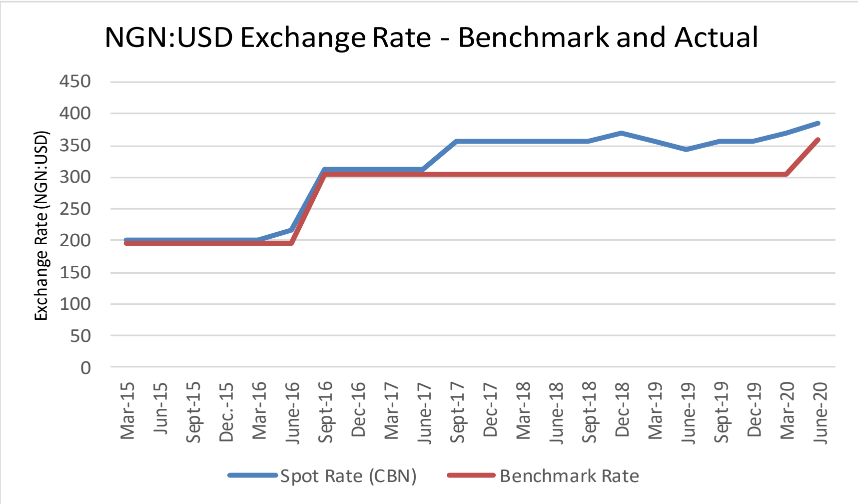
46. This was done to ensure clarity and improving market confidence with the prospects of easing the pressure on the exchange rate in the medium term. CBN has also embarked on measures to address foreign exchange supply shortage in order to maintain exchange rate stability in the I&E window and reduce speculative activities.

47. the NGN:USD rate was devalued from ₦197 to ₦305 in mid-2016 as a result of militant attacks in the Niger River delta, destroyed oil pipelines and slump in oil prices which led to a decline in government revenues and a shortage of foreign reserves. In 2020, the naira was devalued to ₦360 and later to ₦379 to a Dollar. In May 2021, the Naira was also devalued further to ₦410.25 to a Dollar The aftermath of the devaluation was increase in foreign exchange reserves in 2017 which almost doubled from a low of US $24 billion in October 2016 to a high of US $47.8 billion in June 2018 (thanks to improving crude oil prices and the FGN dollar denominated Eurobond issuances in 2017 and 2018). This helped the official NGN:USD rate to stabilise and the convergence of the various official and unofficial rates.

48. However, this has not been the case in the current devaluations. There has been decline in Nigeria's Foreign Exchange Reserves from $35.1 billion in April 2021 to US$34.2 billion at the end of May 2021. The decline is partly attributable to the intervention of the CBN in the market to stabilize the exchange rate, and low foreign exchange inflows into the country.

49. The NGN:USD exchange rate, which is a key crude oil revenue parameter, for the period of 2015 to 2019 and June 2020 along with the benchmarks assumed in the Federal Government budgets over the same period, are shown in Figure 2 below.

Figure 2: NGN:USD Exchange Rate



Data Sources and Trends:

- Data from Federal Budget documents and CBN.
- Little variation between benchmark and actual rates over last 6 years due to CBN intervention.
- NGN:USD FX rate relatively stable from 2016 to end of 2014 at around 150.
- Devaluation from 155 to 197 late 2014 and coincided with Crude Oil Price crash, further devaluation in June 2016 to around 305, stable thereafter.

50. **Crude Oil Price** – Bonny Light traded at average of $80/barrel from early 2016 to late 2018. This scenario could not continue in Q1 of 2019 through Q1 of 2020 when there was a 20% drop in the price due to an interrupted mismatch in supply and demand. The situation became worsened after Q1 of 2020 as a result of the emergence of Covid-19 pandemic and the disagreement between Russia and Saudi Arabia over production cut. After the re-opening of some oil importing economies from lockdown occasioned by Covid-19 pandemic, the world oil market has received a boost.

51. The initial crude oil benchmark for the original 2020 Budget was set at $57.0/barrel. However, this was revised, as a result of lockdowns occasioned by Covid-19 pandemic in the buyer economies, to $28.0/barrel. In whole, the average Nigeria crude oil price between January and December 2020 was $43.02 per barrel. The Brent crude

52. Prediction of the World oil price is difficult as the outlook remains highly uncertain. The World Bank forecasts that crude oil prices will average US$56 per barrel in 2021, up from an average of US$41.3 per barrel in 2020. In the medium term, the World Bank expects crude oil price to rise gradually to an average of $60.0 per barrel in 2022, rising afterwards to US$61 per barrel in 2023 and $61.9 per barrel in 2024. However, in consultation with NNPC and other stakeholders, the Federal Government in her 2022-2024 MTEF proposes a benchmark oil price of $61 per barrel for 2022 and 2023, while US$62 per barrel is proposed for 2024.

53. **Crude Oil Production**- Nigeria has not been able to meet her benchmarked crude oil production since 2013 as a result of lack of capacity, adherence to OPEC+ production quota

and some other production disruptions like pipeline vandalism, pipeline leakage repair, community protests, terminal maintenance, pump and flare management, boiler failure, etc. With recent collaborative efforts of the stakeholders, the other stated disruptions have reduced, which now gives Nigeria the capacity to produce 2.5 million barrel per day (mbpd); but in compliance with OPEC production quota, 1.8mbpd (including condensate) is now being produced.

54. Crude oil production was projected at 2.18 million barrels per day in the original 2020 budget, but later reviewed downwards to 1.8mbpd in the face of Covid-19 pandemic. The average production for the year was 1.79mbpd which was inclusive of the volumes of repayment of 2016 cash call arrears. Crude oil production of 1.86mbpd was projected for the current year, out of which average of 1.7mbpd (condensates inclusive) has been achieved from January to June 2021.

55. Since the average crude oil produced over the last 3 years was 1.93mbpd, crude oil production estimated for 2022, 2023 and 2024 in the 2022-2024 MTEF/FSP are 1.88mbpd, 2.23mbpd, 2.22mbpd respectively.

Table 4: 2022-2024 Macroeconomic Outlook

Year	**2021**	**2022**	**2023**	**2024**
National Inflation	11.98%	13.00%	11.00%	10.00%
National Real GDP Growth	3.00%	2.31%	2.30%	2.32%
Oil Price Benchmark	$40.00	$57.00	$60.00	$60.00
Oil Production Benchmark (MBPD)	1.86	1.80	1.85	1.90
NGN:USD Exchange Rate (Benchmark)	379	410.25	410.25	410.25
Mineral Ratio	36%	36%	38%	38%

56. COVID-19 pandemic has placed Nigeria at a critical juncture. The country entered the crisis with falling per capita income, high inflation, and governance challenges. Policy adjustments and reforms designed to shift the country from its dependence on oil and to diversify the economy toward private sector-led growth will set Nigeria on a more sustainable path to recovery.

2.A.4 Ondo State Economy

57. Agriculture is the mainstay of the state economy in that it provides employment for majority of the people, and the chief products are cocoa, rubber, timber (teak and hardwoods) and palm oil and kernels. Ondo is Nigeria's chief cocoa-producing state, and the produce is cultivated for export. Other crops include rice, yams, corn (maize), coffee, taro, cassava (manioc), vegetables, and fruits. Mineral deposits include petroleum, bitumen, coal, etc. Since the state has become part of the oil producing states in Nigeria, petroleum has taken over from cocoa by becoming the major source of revenue for the state. However, this narrative is expected to change going by the level industrial revolution being spearheaded by the present administration.

58. Ondo State has enjoyed impressive GDP performance over the years, although not quite as high as the national average since Ondo does not benefit directly from the mineral sector.

59. The Ondo State economy from the perspective of the GDP growth rate was 2.58, according to the National Bureau of Statistics, 2017 report. The contribution of Agriculture to the State's GDP was 42.7% while Industry and Services contributed 20.8% and 36.5% respectively. The economic fortunes of the State are heavily dependent on the national economy. The economic fundamentals of the State economy have been linked to national indices on the affected specific variables.

60. The State is still a net importer of goods and services but is a net exporter of agricultural produce to other States. The movement of agricultural produce is not well-documented and computed to register meaningful contribution to the State economy. In spite of the steady progress in economic growth and development, available data indicate that agriculture, especially crops and livestock, and fisheries as well as SMEs, which have the potential to generate large scale employment opportunities, are not currently doing so. However, these areas are undergoing transformation.

61. There is the predominance of subsistence and non-mechanized agriculture in the State. That is why the growth of the State's economy is predicated on increased transformation of the agricultural value chain (large scale agricultural production and agro-based industrial production). Concerted efforts are being made by the present administration to attract mega investments through Ondo State Investments Promotion Agency (ONDIPA). Although the trend of IGR in the State over the years has been varied, the present administration has demonstrated strong determination to change the prevailing situation of the State's IGR.

62. Following the Covid-19 pandemic, the economy of the state is affected as a result of a drop in the FAAC allocation and other sources of revenue. To nip these negative effects in the bud, government would have to improve her internally generated revenue drive; build capacity of the MSMEs and agricultural sector; and work on her industrialisation drive with a view to strengthening the economy. She must, as well, improve the healthcare facilities so as to confront the health challenges being caused by Covid-19 pandemic.

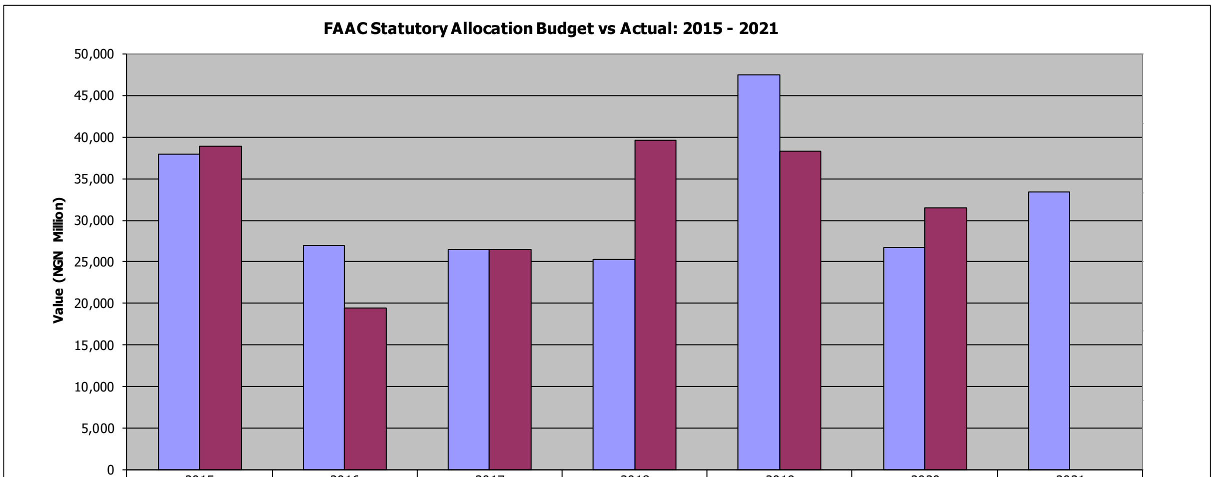
2.B Fiscal Update

2.B.1 Historic Trends

Revenue Side

63. On the revenue side, the document looks at Statutory Allocation, Value Added Tax (VAT), IGR, Mineral Derivation, and Capital Receipts – budget versus actual for the period 2015-2020 (five year historic) and 2021 budget.

64. Figure 9: Statutory Allocation



	2015	2016	2017	2018	2019	2020	2021
Budget	38,000,000,000	27,000,000,000	26,460,000,000	25,352,256,000	47,548,509,200	26,730,614,127	33,413,267,658
Actual	38,891,850,681	19,436,790,470	26,494,873,180	39,582,605,207	38,310,622,771	31,549,178,887	0
Performance	102.3%	72.0%	100.1%	156.1%	80.6%	118.0%	0.0%
Growth		-50.02%	36.31%	49.40%	-3.21%	-17.65%	0.00%

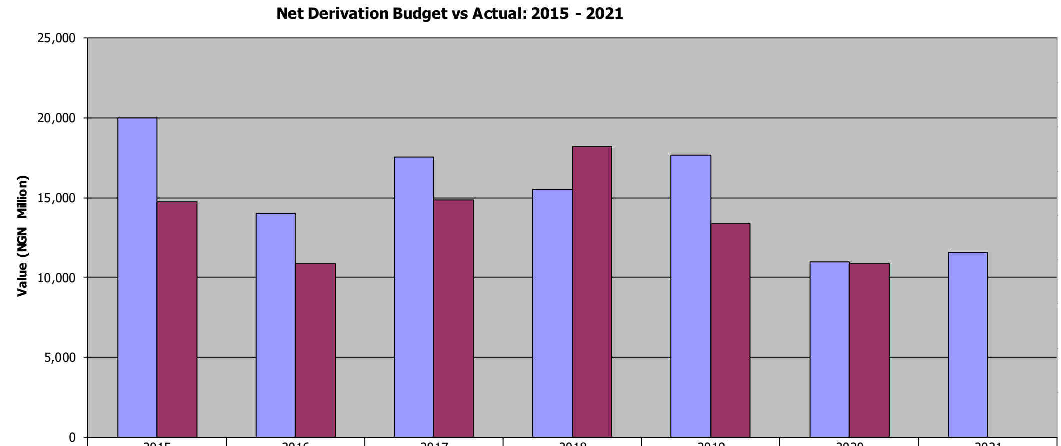
Year

65. Statutory Allocation is a transfer from the Federation Allocation Accounts Committee (FAAC) and is based on the collection of mineral (largely Oil) and non-mineral revenues (companies' income tax, custom and excise duties) at the national level, which was then shared between the three tiers of government using sharing ratios.

1. Actual receipts were beyond Budget figures in 2015, 2017, 2018 and 2020 with 102.3%, 1000.1%, 156.1% and 118.0% respectively. However, performance was below 100% in 2016 and 2019. The reason for the performance of statutory allocation was as a result of the positive or negative change in global oil price and oil production in Nigeria.

2. Going forward, it is important to take into consideration the crude oil benchmark production and prices before projection is made.

Figure 10: Mineral Derivation



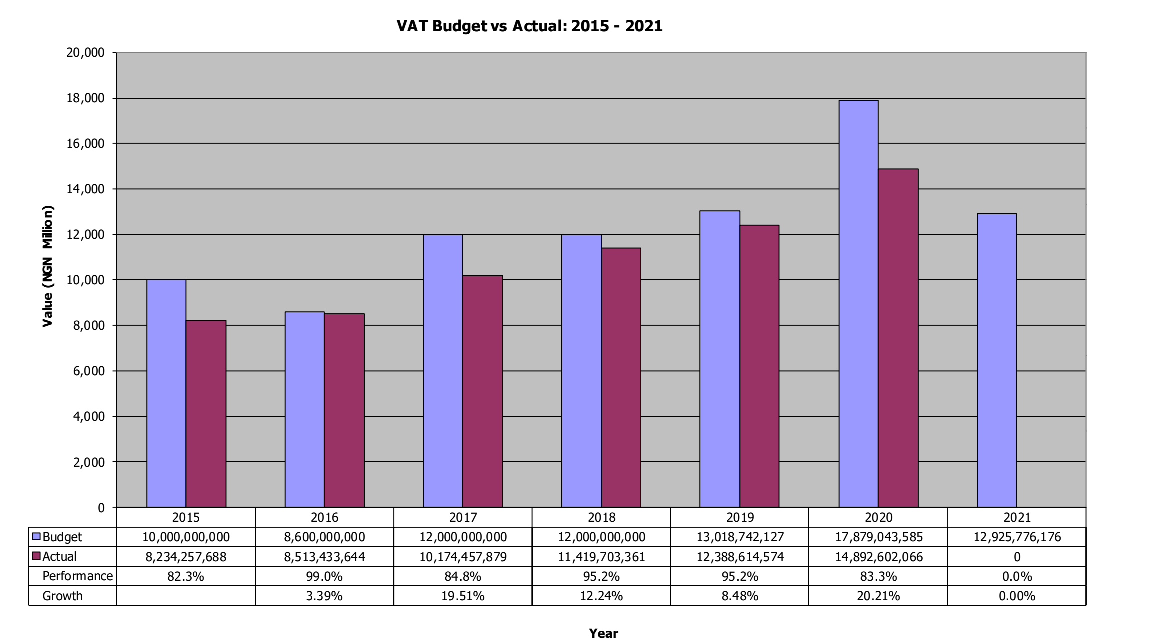
	2015	2016	2017	2018	2019	2020	2021
Budget	20,000,000,000	14,000,000,000	17,560,000,000	15,536,592,000	17,671,343,589	10,945,781,930	11,583,777,563
Actual	14,717,904,393	10,856,126,641	14,846,749,497	18,185,882,157	13,390,210,139	10,852,424,806	0
Performance	73.6%	77.5%	84.5%	117.1%	75.8%	99.1%	0.0%
Growth		-26.24%	36.76%	22.49%	-26.37%	-18.95%	0.00%

Year

79. Mineral Derivation is also a transfer from the Federation Accounts. It is also informed by the volume and prices of oil in the global market as well as actual output attributable to the State.

80. The growth rate of Actual receipts on Mineral Derivation was unstable in the period under review. While the growth rate was negative in 2016 (-26.24%), 2019 (-26.37%) and 2020 (-18.95%), it was positive only in 2017 and 2018, all attributable to instability in the price of crude oil in the global market during the period.

Figure 11: VAT



	2015	2016	2017	2018	2019	2020	2021
Budget	10,000,000,000	8,600,000,000	12,000,000,000	12,000,000,000	13,018,742,127	17,879,043,585	12,925,776,176
Actual	8,234,257,688	8,513,433,644	10,174,457,879	11,419,703,361	12,388,614,574	14,892,602,066	0
Performance	82.3%	99.0%	84.8%	95.2%	95.2%	83.3%	0.0%
Growth		3.39%	19.51%	12.24%	8.48%	20.21%	0.00%

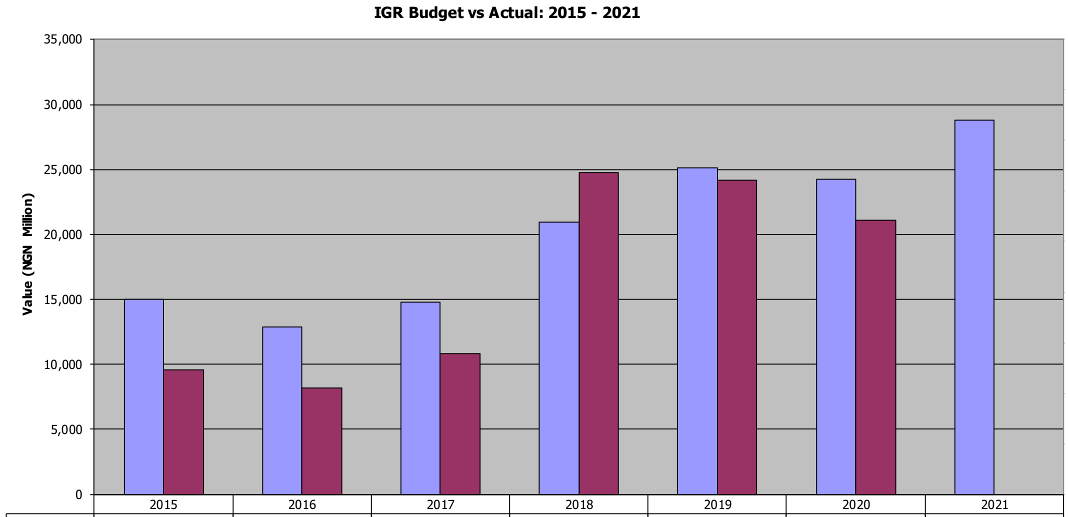
81. VAT is an ad valorem tax on most goods and services at a rate of 7.5%. It is collected by the Federal Inland Revenue Service (FIRS) and distributed between the three tiers of government on a monthly basis – partially based on set ratios, and partially based on the amount of VAT a particular State generated. States receive 50% of the total VAT collections nationally, from which Ondo gets around 2.2% of the States' allocation. Currently, there is a legal tussle between some States in the Southern Nigeria and FIRS with regard to who has the right to collect VAT.

82. VAT receipts have been on the absolute increase throughout the period under consideration (from 2015 to 2020) which made the performance and growth rates positive all through. This was largely due to the growth in nominal economic activity in Nigeria. Performance relative to budget (i.e. budget accuracy) has been good, with the least being 82.3%.

83. Meanwhile, forecast for 2022 is expected take into consideration the possible outcome of the legal tussle mentioned above.

Figure 12: IR

84. Internally Generated Revenue (IGR) also known as Independent Revenue (IR) is revenue collected within Ondo State related to income tax (PAYE represents the highest contributor to IGR), fines, levies, fees and other sources of revenue within the State.

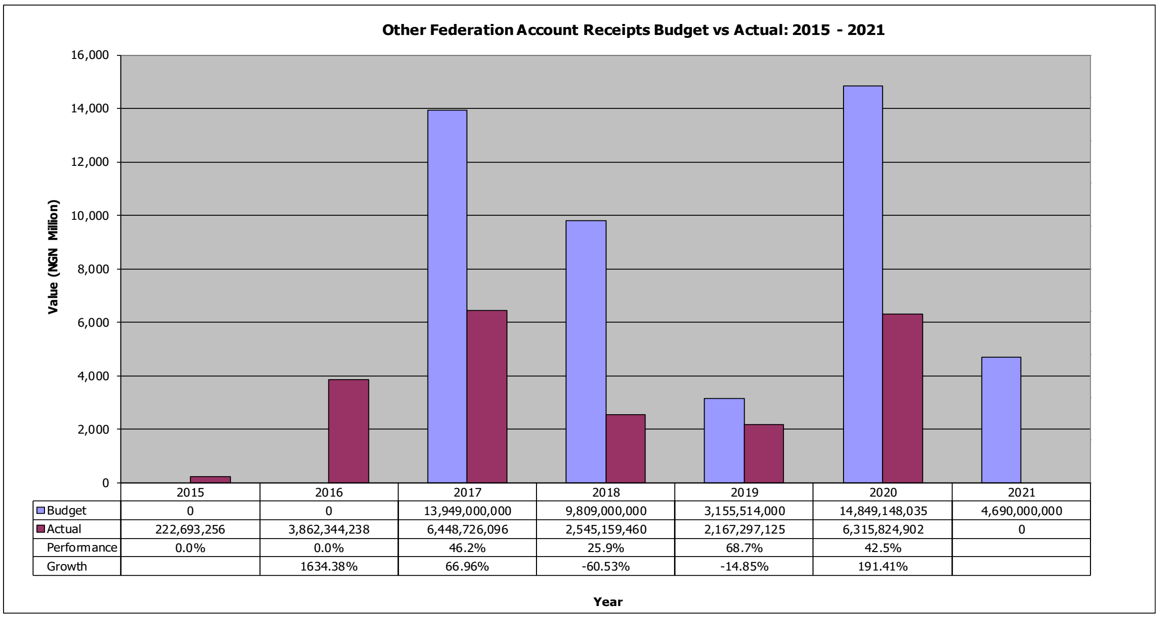


	2015	2016	2017	2018	2019	2020	2021
Budget	15,000,000,000	12,898,700,000	14,764,363,121	20,923,646,783	25,122,729,947	24,244,763,855	28,778,132,248
Actual	9,583,868,087	8,181,258,372	10,862,612,694	24,787,441,316	24,187,708,289	21,094,342,131	0
Performance	63.9%	63.4%	73.6%	118.5%	96.3%	87.0%	0.0%
Growth		-14.64%	32.77%	128.19%	-2.42%	-12.79%	0.00%

Year

85. The actual collections were lower than the budget in the period except in 2018, when it increased astronomically beyond budget at 118%. This was occasioned largely by the various reforms being carried out by the State Government in the Ondo State Board of Internal Revenue and lately the increase in economic activity and the price level in the State.

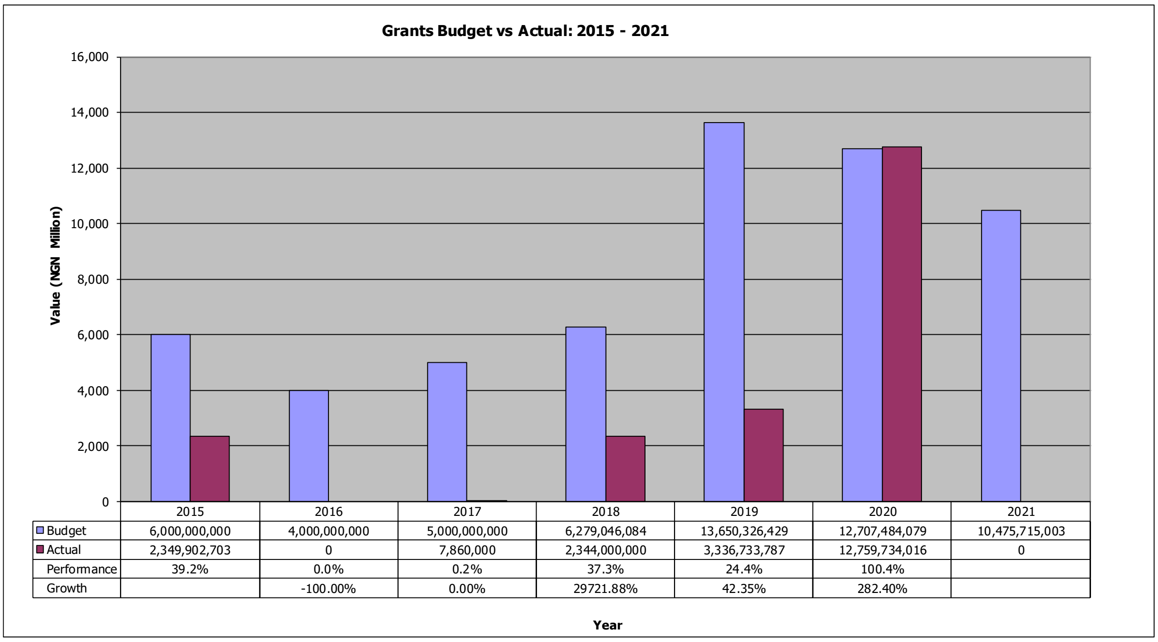
Figure 13: Other Federation Account Receipts



86. Other Federation Account Receipts are other receipts from Federation Accounts which include Exchange Gain, NNPC refund, Augmentation, etc.

87. Receipts from this source have been unsteady since 2013. In 2017, 2018, 2019 and 2020 receipts were 46.2%, 25.9%, 68.7% and 42.5% respectively. The State had receipts in 2015 and 2016 when it did not have a budget for it.

Figure 14: Grants



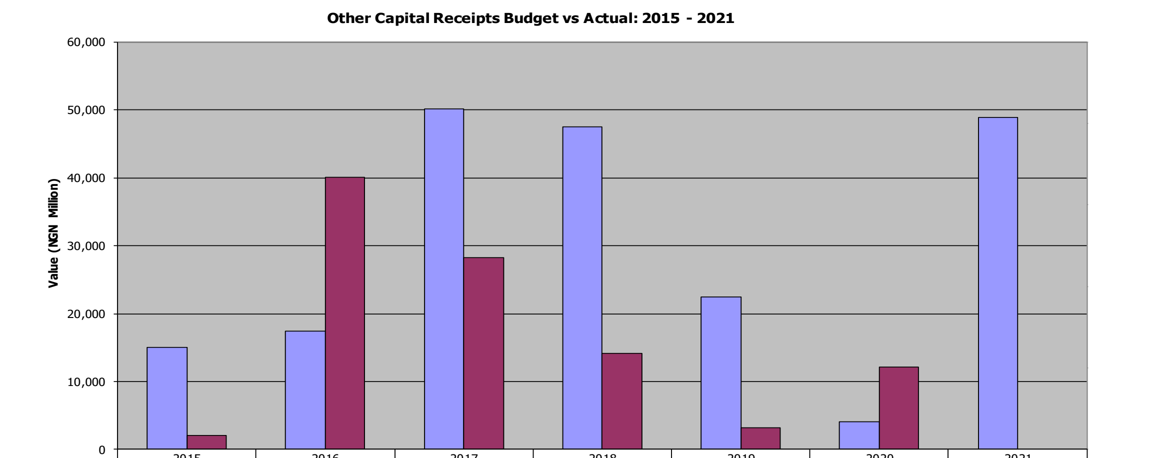
88. Grants are receipts from both internal and external sources such as Federal Government MDGs Conditional Grants Scheme, as well as grants from the international development partners (including UK - Department for International Development (DFID), European Union (EU) and United Nations Children's Fund (UNICEF). Ondo State has proactively

included as much grant expenditure "on-budget" as possible, even if the funds don't travel through the State treasury.

89. Actual receipts have been sporadic having nothing in the years 2016. In those years when there were receipts, they were far from the budget, due largely to the over-ambitiousness on the part of some MEDAs intermediating between the State and the donor partners and inconsistency in the implementation of signed agreements.

90. Grant estimates going forward should be consistent with signed agreements.

Figure 15: Other Capital Receipts

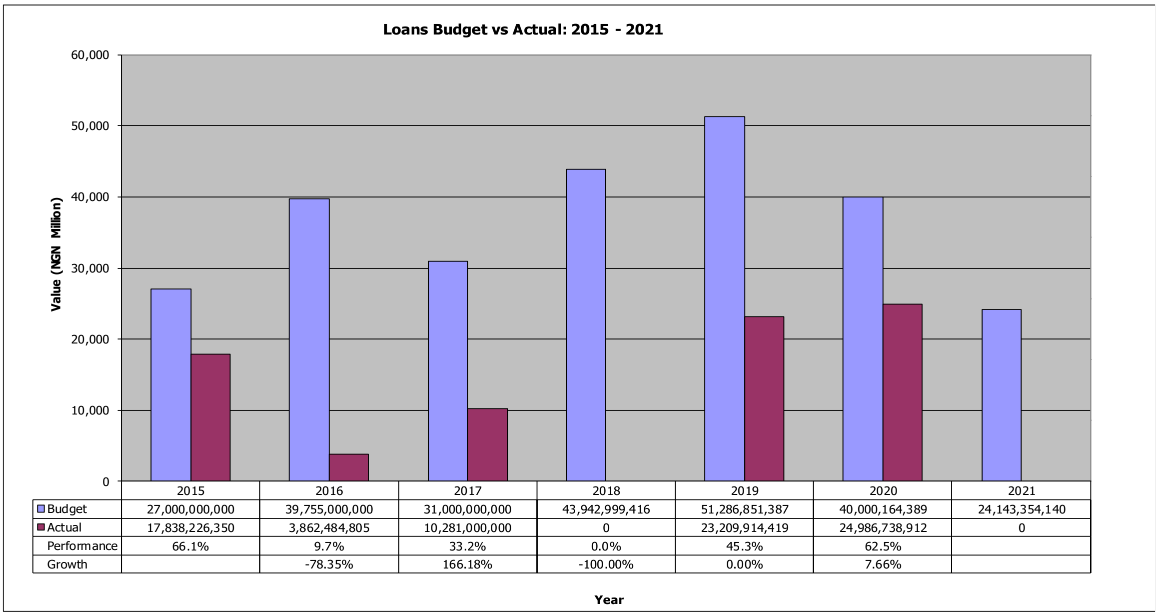


	2015	2016	2017	2018	2019	2020	2021
Budget	15,000,000,000	17,467,000,000	50,113,216,879	47,581,000,000	22,448,882,321	4,081,000,000	48,863,282,735
Actual	2,074,819,488	40,094,715,019	28,269,528,576	14,131,383,566	3,173,906,042	12,188,266,900	0
Performance	13.8%	229.5%	56.4%	29.7%	14.1%	298.7%	
Growth		1832.44%	-29.49%	-50.01%	-77.54%	284.01%	

Year

91. Other capital receipts here include refund on federal roads constructed by the State, budget support, Excess Paris Club deduction refund and refunds from withholding tax. In 2016 and 2020, the State received more than anticipated from this source, but less in the remaining years. The State could not, many times, decide when the funds were to be released; so, the inconsistency in the budget.

Figure 16: Loans/Financing



	2015	2016	2017	2018	2019	2020	2021
Budget	27,000,000,000	39,755,000,000	31,000,000,000	43,942,999,416	51,286,851,387	40,000,164,389	24,143,354,140
Actual	17,838,226,350	3,862,484,805	10,281,000,000	0	23,209,914,419	24,986,738,912	0
Performance	66.1%	9.7%	33.2%	0.0%	45.3%	62.5%	
Growth		-78.35%	166.18%	-100.00%	0.00%	7.66%	

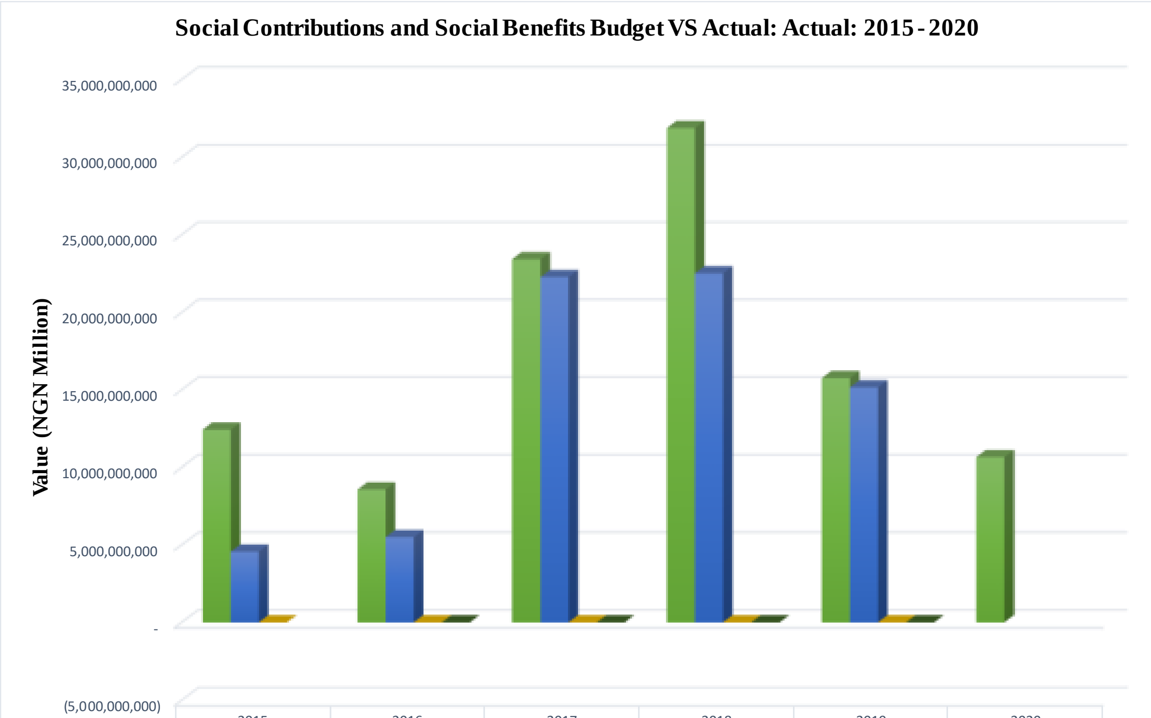
92. Besides some short-term borrowing from banking facilities, financing has come in the form of various World Bank programmes (FADAMA, Health and Education sector support).

93. The performances were below average in all the years except in 2015 and 2020. The not-too-good performance was based on non-concretized agreements reached with the creditors by the States MEDAs. The ability of the State to draw down more loans is discussed later in this chapter.

Expenditure Side

94. On the expenditure side, the document looks at Social Contribution and Social Benefits, Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2013-2018 (six years) and 2019 budget.

Figure 17: Social Contributions and Social Benefits Figure

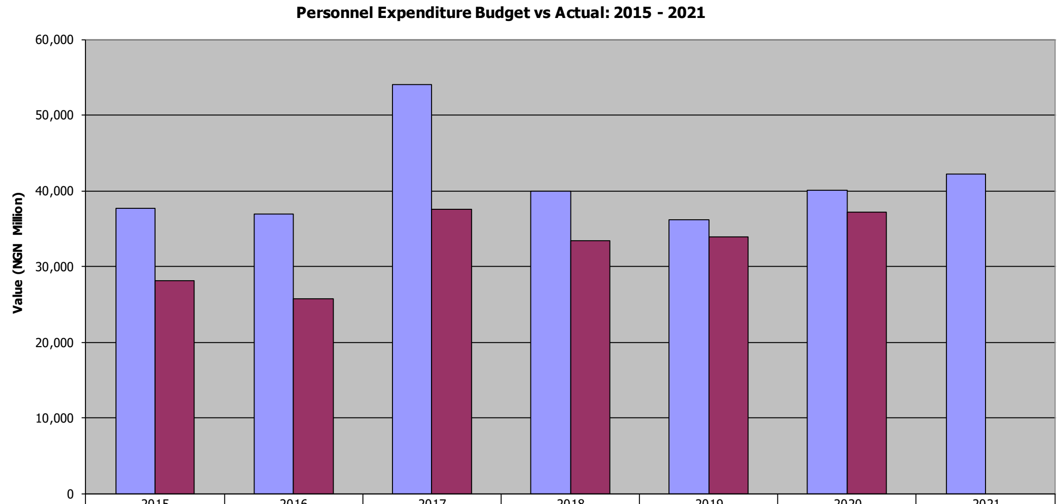


	2015	2016	2017	2018	2019	2020
Budget	12,423,124,000	8,590,000,000	23,409,578,815	31,865,547,085	15,759,449,200	10,650,800,000
Actual	4,567,337,753	5,510,259,123	22,259,194,637	22,501,900,234	15,162,491,257	
Performance	36.76%	64.15%	95.09%	70.62%	96.21%	
Growth		20.64%	303.96%	1.09%	-32.62%	

95. Social Contribution and Social Benefits for the purpose of this analysis is restricted to pension, gratuities and health insurance fund. Due to a strong public debt system the debt servicing costs have been well estimated over the period.

96. The actual figures have been on a steady increase since 2015 due largely to regular retirement of workers leading to high burden of pension and gratuities. Strong forecasting ability, to ensure equality in both budget and actuals, should provide for accurate estimates going forward assuming the debt data is kept up-to-date.

Figure 18: Salaries and Wages

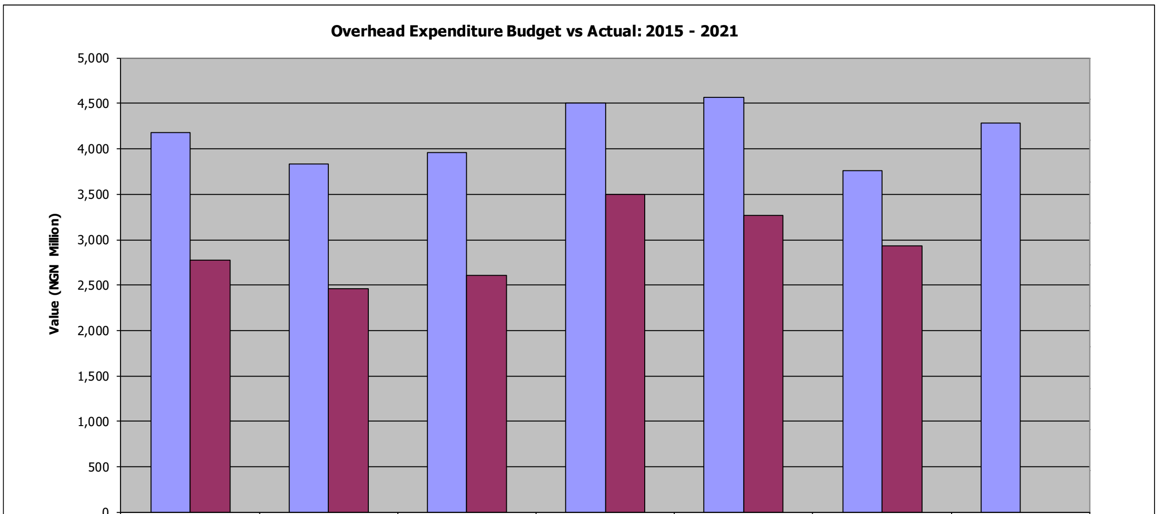


	2015	2016	2017	2018	2019	2020	2021
Budget	37,705,000,000	37,000,000,000	54,004,000,000	40,023,683,079	36,191,533,708	40,059,974,548	42,227,913,105
Actual	28,163,270,436	25,796,630,908	37,538,685,791	33,398,996,628	33,976,764,212	37,163,627,335	0
Performance	74.69%	69.72%	69.51%	83.45%	93.88%	92.77%	
Growth		-8.40%	45.52%	-11.03%	1.73%	9.38%	

Year

97. Salaries and Wages expenditure includes salaries, allowances and benefits of core civil servants of the State. This expenditure has risen year on year during the period under consideration, but with particularly large increase in 2017. This was largely due to the fact that five out of the seven months salary arrears owed workers by the immediate past administration were paid.

Figure 19: Overheads



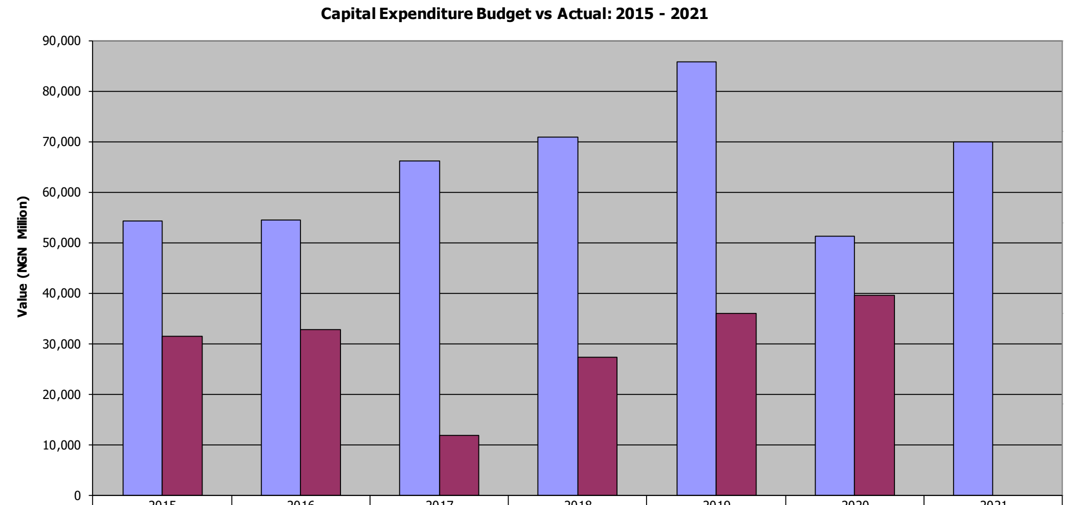
	2015	2016	2017	2018	2019	2020	2021
Budget	4,176,600,000	3,830,963,000	3,958,135,000	4,503,019,500	4,562,700,000	3,764,833,550	4,286,329,750
Actual	2,772,361,842	2,459,948,125	2,607,951,145	3,496,592,655	3,263,171,346	2,927,547,556	0
Performance	66.38%	64.21%	65.89%	77.65%	71.52%	77.76%	
Growth		-11.27%	6.02%	34.07%	-6.68%	-10.29%	

99. Overheads comprise mainly of operational and maintenance costs for running day-to-day activities of the Government. Overhead allocations are transferred to MEDAs on a monthly basis subject to warrants issued and availability of fund.

100. Overhead budget and expenditure were deliberately kept unstable in the years under review. It was a deliberate attempt by the operators to reduce cost of running government so as to free up more funds for capital projects in the State.

101. Not surprisingly, performance against budget has been poor occasioned by dwindling fortune of the revenue year-on-year. Going forward, overhead expenditure must be brought under control, to ensure that cost of governance is not more than necessary.

Figure 20: Capital Expenditure



	2015	2016	2017	2018	2019	2020	2021
Budget	54,297,050,000	54,526,375,000	66,210,681,885	70,862,511,496	85,710,575,113	51,355,288,932	69,915,484,356
Actual	31,438,538,343	32,840,740,973	11,854,732,355	27,271,729,893	35,988,072,648	39,537,366,976	0
Performance	57.90%	60.23%	17.90%	38.49%	41.99%	76.99%	
Growth		4.46%	-63.90%	130.05%	31.96%	9.86%	

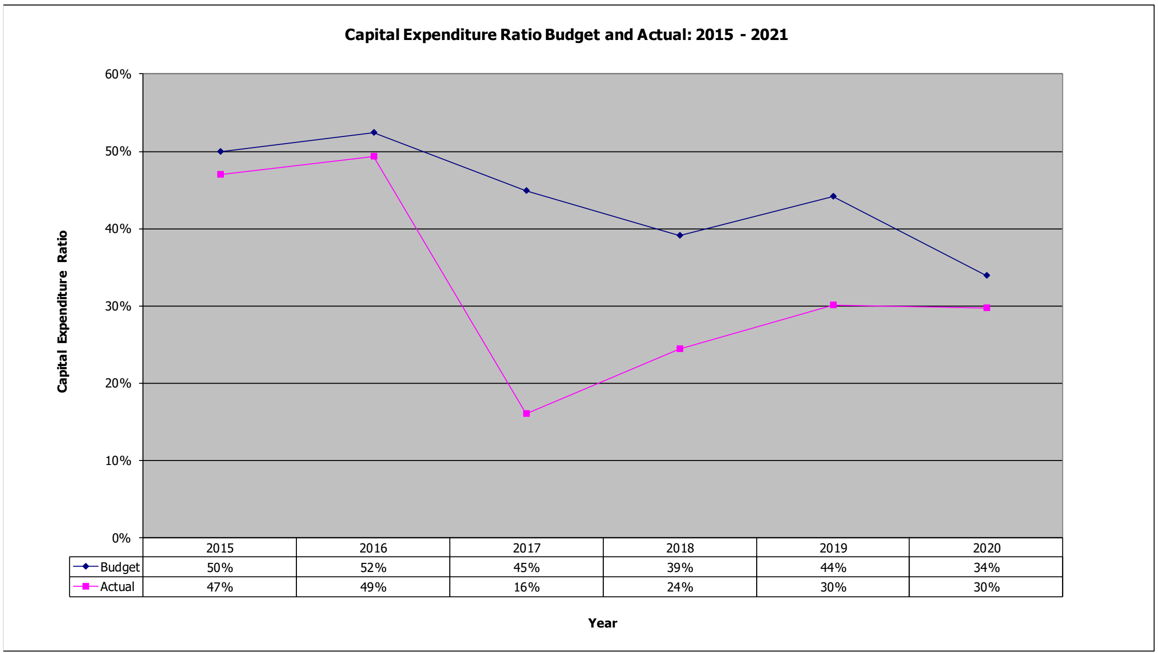
Year

102. Capital expenditure refers to projects that generate State assets (e.g. roads, schools, hospitals).

103. Except for 2015 and 2016, Capital Expenditure was below expectation in the years. This was due to increase in recurrent expenditure which could not correspondingly matched by the total revenue of the State.

104. Efforts should be made to ensure accurate forecast of revenues. Also, we must ensure capital expenditure is given better consideration in the subsequent years. There should be tight control on recurrent expenditure which will help to improve the level of actual capital expenditure performance against budget, going forward. This will also help in avoiding wasted effort in preparing detailed capital expenditure submissions that cannot, ultimately, be implemented.

Figure 21: Capital Expenditure Ratio



105. The actual capital expenditure ratio was relatively unstable during the period. The ratio dropped sharply to 16% in 2017. However, the ratio increased to 35% in 2018.

106. It will be observed that in all the years reviewed (i.e. 2013 – 2018) the actual capital expenditure ratio was lower than capital budget ratio.

By Sector

107. Performance by sector varied over the period 2015-2020 - only Infrastructural Development performed above average (i.e. 51%), while Information and Environment and Sewage Management sectors performed at the level of 48.08% and 45.45% respectively. The remaining 10 sectors did not perform well.

108. The emphasis of expenditure of the current administration has been on infrastructure which was, up till 2017, in a State of dis-repair. The allocations of high percentage of capital expenditure reflect this and the investment in this sector is expected to ultimately boost economic activity in the State.

109. The performance of personnel and overhead are detailed in table 5a and 5b while performance of capital expenditure is detailed in table 6 below.

Table 5: Sector Personnel Expenditure – Budget Vs Actual

Personnel Expenditure by Sector														
No.	Sector	2017 Budget	2017 Actual	2018 Budget	2018 Actual	2019 Budget	2019 Actual	2020 Budget	2020 Actual	Performance	Average Budget	Average Actual	2021 Budget	2021 Budget %
1	ADMINISTRATION OF JUSTICE	1,730,148,657	1,741,985,188	2,000,111,257	1,419,429,612	2,100,116,819	1,838,419,073	2,390,735,988	2,299,091,084	88.78%	4.91%	4.78%	4.85%	2,046,686,297
2	AGRICULTURAL DEVELOPMENT	1,197,548,881	1,087,688,788	1,372,349,452	1,190,401,005	1,440,966,925	1,205,370,080	1,389,728,284	1,295,629,609	88.49%	3.23%	3.13%	3.18%	1,342,332,927
3	EDUCATION	16,890,567,520	2,313,890,181	17,343,821,887	16,549,698,693	18,211,012,981	16,424,887,761	17,281,726,634	17,262,614,210	75.37%	41.67%	34.42%	38.04%	16,065,407,662
4	ENVIRONMENT AND SEWAGE MANAGEMENT	283,977,572	278,863,838	283,977,572	317,038,788	298,176,450	320,593,333	302,631,277	301,251,909	104.19%	0.70%	0.80%	0.75%	315,871,118
5	GENERAL ADMINISTRATION	18,588,960,879	27,083,316,583	6,637,515,182	5,243,270,743	1,095,489,291	873,009,309	4,962,745,875	2,678,075,823	114.68%	18.70%	23.50%	21.10%	8,908,827,314
6	HEALTH	7,866,772,912	7,984,002,376	7,866,772,912	8,404,463,870	8,341,071,055	9,289,466,439	9,358,190,518	9,261,770,713	104.51%	19.98%	22.88%	21.43%	9,050,197,675
7	INFORMATION	510,646,348	393,851,437	510,646,348	357,887,704	536,178,666	359,509,288	406,000,237	403,353,582	77.14%	1.17%	0.99%	1.08%	457,203,196
8	INFRASTRUCTURAL DEVELOPMENT	1,679,206,298	1,202,543,760	1,720,182,474	1,477,173,974	1,898,763,144	1,503,849,003	1,915,099,730	1,706,903,073	81.66%	4.31%	3.86%	4.08%	1,724,749,244
9	LEGISLATIVE ADMINISTRATION	400,448,739	365,004,433	400,448,739	377,694,699	420,471,148	373,742,839	332,590,330	331,805,595	93.20%	0.93%	0.95%	0.94%	396,351,540
10	PUBLIC FINANCE	1,099,540,817	1,105,433,641	1,230,630,879	1,100,874,853	1,292,162,423	1,056,208,474	828,349,758	772,072,447	90.65%	2.66%	2.64%	2.65%	1,119,517,530
11	REGIONAL DEVELOPMENT	0	0	0	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0
12	COMMUNITY DEVELOPMENT	489,056,563	593,563,218	445,064,262	395,725,300	374,354,587	427,045,175	468,345,754	464,435,813	105.85%	1.06%	1.23%	1.15%	484,281,767
13	TRADE AND INDUSTRY	267,124,813	239,287,238	212,162,117	331,302,298	222,770,219	304,663,439	423,230,162	386,623,474	112.14%	0.67%	0.83%	0.75%	316,486,835
	Total	**51,004,000,000**	**44,389,430,682**	**40,023,683,079**	**37,164,961,537**	**36,231,533,708**	**33,976,764,212**	**40,059,374,548**	**37,163,627,335**	**91.26%**	**100.00%**	**100.00%**	**100%**	**42,227,913,105**

Table 6: Sector Capital Expenditure – Budget Vs Actual

Capital Expenditure by Sector														
No.	Sector	2017 Budget	2017 Actual	2018 Budget	2018 Actual	2019 Budget	2019 Actual	2020 Budget	2020 Actual	Performance	Average Budget	Average Actual	2021 Budget	2021 Budget %
1	ADMINISTRATION OF JUSTICE	190,000,000	24,548,750	1,457,000,000	213,519,055	1,081,500,000	202,009,409	2,870,600,000	1,409,210,000	33.03%	1.91%	1.48%	0.017	725,554,396
2	AGRICULTURAL DEVELOPMENT	7,677,000,000	48,189,370	7,459,785,000	641,454,524	6,811,355,000	415,783,885	5,657,914,286	1,248,761,908	8.53%	9.40%	1.89%	0.056	2,415,294,501
3	EDUCATION	12,381,700,000	258,988,806	14,092,586,368	8,143,693,812	8,329,781,075	4,604,479,644	4,237,618,158	2,628,043,000	40.05%	13.29%	12.55%	0.129	5,529,992,087
4	ENVIRONMENT AND SEWAGE MANAGEMENT	220,000,000	33,931,801	1,378,000,000	173,404,837	2,549,165,000	1,020,398,220	2,271,700,000	1,763,467,610	46.60%	2.18%	2.40%	0.023	981,451,151
5	GENERAL ADMINISTRATION	3,175,000,000	823,407,721	6,597,830,083	2,212,942,470	9,660,672,400	1,833,586,648	3,537,535,000	1,900,272,345	29.47%	7.82%	5.44%	0.066	2,836,364,182
6	HEALTH	9,793,919,811	113,084,355	7,503,661,045	491,104,170	6,412,600,000	2,671,041,134	7,687,200,000	8,524,015,734	37.58%	10.69%	9.47%	0.101	4,314,147,329
7	INFORMATION	379,500,000	113,851,396	448,500,000	301,690,771	972,000,000	206,782,367	357,540,000	269,782,275	41.35%	0.73%	0.72%	0.007	310,422,981
8	INFRASTRUCTURAL DEVELOPMENT	12,279,557,006	4,143,784,503	24,183,160,000	13,291,301,476	34,411,377,004	22,620,281,604	14,895,161,800	18,030,120,754	67.72%	29.19%	46.63%	0.379	16,226,743,959
9	LEGISLATIVE ADMINISTRATION	850,500,000	5,000,000	513,489,000	44,745,051	1,001,489,000	73,649,963	1,544,500,000	82,163,136	5.26%	1.33%	0.17%	0.007	320,120,069
10	PUBLIC FINANCE	5,567,439,750	90,389,784	2,490,500,000	548,426,176	10,875,235,634	1,548,179,462	5,747,147,278	1,843,046,694	16.33%	8.40%	3.24%	0.058	2,490,099,756
11	REGIONAL DEVELOPMENT	7,024,000,000	4,062,000,000	6,214,636,800	5,318,974,573	7,068,537,435	2,022,640,905	6,378,312,772	4,900,028,153	61.10%	9.08%	13.09%	0.111	4,744,801,004
12	COMMUNITY DEVELOPMENT	4,290,065,318	41,108,141	2,433,000,000	12,834,226	1,930,400,000	599,610,220	1,137,472,411	907,952,622	15.95%	3.33%	1.25%	0.023	981,447,828
13	TRADE AND INDUSTRY	2,382,000,000	111,158,436	2,305,000,000	852,737,519	1,675,000,000	192,270,093	1,410,900,000	930,530,898	26.85%	2.65%	1.68%	0.022	924,682,700
	Total	**66,210,681,885**	**9,869,443,063**	**77,077,148,296**	**32,246,828,660**	**92,779,112,548**	**38,010,713,553**	**57,733,601,704**	**44,437,395,129**	**42.40%**	**100.00%**	**100.00%**	**100.00%**	**42,801,121,943**

2.B.2 Debt Position

110. A summary of the consolidated debt position for Ondo State Government is provided in the table below.

Table 7: Debt Position as at 31st December 2020

Debt Sustainability Analysis			
A	**DSA RATIO SCENARIOS:**	**Sustainability Thresholds**	**As at 31st December 2020**
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	88.15%
2	Total Domestic Debt/IGR	150%	353.95%
3	Total External Debt/Total Revenue	50%	39.25%
4	Total Public Debt/Total Revenue	100%	127.39%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	0.58%
7	Total Debt Service/Total Revenue	15%	16.26%
8	Domestic Debt Service/IGR	10%	63.00%
			2020 Actual
B	**PUBLIC DEBT DATA AS AT 31st DECEMBER 2020**		**Naira**
1	Total Domestic Debt		74,663,201,246
2	Total External Debt		33,244,913,274
3	**Total Public Debt**		**107,908,114,520**
4	Total Domestic Debt Service 2020		13,288,514,266
5	Total External Debt Service in 2020		487,918,089
6	**Total Public Debt Service**		**13,776,432,355**
C	**STATE GDP FOR 2020**		
1	**State GDP**		0

111. By December 2020, the State's total public debt was ₦107,908,114,520.00 broken into N74,663,201,246 for domestic debt and N33,244,913,274.00 for external debt. In general, the State is not faring well in all the analyses particularly those related to IGR. Specifically, domestic debt to IGR solvency ratio is more than double the required threshold, and domestic debt service to IGR liquidity ratio is more than six times worse. This is largely due to a low IGR base which must be increased in the short-medium term. Once IGR is at a more appropriate level compared to the level of economic activity in the State, more domestic borrowing will be possible.

112. In the interim, although foreign exchange represents a risk, foreign loans represent a more affordable solution to borrowing as far as the State is concerned.

Section 3 Fiscal Strategy Paper

113. Fiscal Strategy Paper highlights the macroeconomic and fiscal policy objectives of the State Government over the medium-term period of 2022-2024 and the strategies to be implemented to achieve the objectives.

3.A Macroeconomic Framework

114. The Macroeconomic framework is based on key macroeconomic Indicators which are usually used to evaluate the performance of an economy. The Macroeconomic framework reflects the mineral sector benchmarks (production, price and NGN:USD exchange rate) as laid out in the Federal Government Medium Term Expenditure Framework for the period 2022-2024. Real GDP growth and Inflation (CPI) are as per the IMF World Economic Outlook dated April 2021. The figures represent a prudent macro-economic framework from which the Ondo State Medium Term Expenditure Framework is drawn.

Table 8: Macroeconomic Framework

Item	2021	2022	2023	2024
National Inflation	11.98%	13.00%	11.00%	10.00%
National Real GDP Growth	3.00%	2.31%	2.30%	2.32%
Oil Price Benchmark	$40.00	$57.00	$60.00	$60.00
Oil Production Benchmark (MBPD)	1.86	1.80	1.85	1.90
NGN:USD Exchange Rate (Benchmark)	379	410.25	410.25	410.25
Mineral Ratio	36%	36%	38%	38%

3.B Fiscal Strategy and Assumptions

Policy Statement

115. Ondo State's mission is to mobilize the people of the State to harness all its God-given resources, create and use wealth for the ends of individual happiness, collective fulfilment and peaceful cohabitation in a safe and secure environment of transparent and honest leadership. The State's fiscal policy direction can be summarized to include:

i. broadening the State's revenue base to increase the internally generated revenue;

ii. institutionalization and strengthening of fiscal discipline;

iii. transparency and accountability in Public Financial Management.

Objectives and Targets

116. The key targets for Ondo State Government from a fiscal perspective are to:

- grow the State's Internally Generated Revenue by a minimum of 10% from 2022-2024;
- create efficiency in personnel and overhead expenditures as well as debt service costs to allow greater resource for capital development;
- improve the health care delivery system to combat the spread of the Covid-19 pandemic and other dreaded diseases in the State;
- consolidate the support to security agencies in the State for crime prevention and control;
- continue to give priority to completion of on-going capital projects;

- create all-inclusive and collaborative agricultural activities and community development initiatives to address current food shortage and youth unemployment;
- efficiently and effectively allocate and manage the State's scarce resources;
- sustain the current investment in infrastructural facilities;
- enhance community development through improved accessibility;
- combat gender-based violence and facilitate social inclusion through target spending on the vulnerable and seemingly marginalised group;
- improve the State's fiscal performance to enable the State increase its draw-downs on Federal Government and international performance-based grants;
- reduce the State's reliance on Federal Transfers through diversification of the State's economy;

3.C Indicative Three-Year Fiscal Framework

116. The indicative three-year fiscal framework for the period 2020-2023 is presented in the table below.

Table 9: Ondo State Medium Term Fiscal Framework

Macro-Economic Framework

Item	2021	2022	2023	2024
National Inflation	11.98%	13.00%	11.00%	10.00%
National Real GDP Growth	3.00%	2.31%	2.30%	2.32%
Oil Production Benchmark (MBPD)	1.8600	1.8000	1.8500	1.9000
Oil Price Benchmark	$40.00	$57.00	$60.00	$60.00
NGN:USD Exchange Rate	379	410.25	410.25	410.25
Other Assumptions				
Mineral Ratio	36%	36%	38%	38%

Recurrent Revenue	**2021**	**2022**	**2023**	**2024**
Statutory Allocation	33,413,267,658	33,242,755,924	33,921,792,141	34,800,434,084
Net Derivation	11,583,777,563	12,480,288,527	13,853,120,265	14,822,838,684
VAT	12,925,776,176	12,120,000,000	12,322,000,000	12,625,000,000
IGR	28,778,132,248	31,655,963,000	34,821,567,000	38,303,723,000
Excess Crude / Other Revenue	6,000,000,000	6,060,000,000	6,120,600,000	6,181,806,000
Total Recurrent Revenue	**92,700,953,646**	**95,559,007,451**	**101,039,079,407**	**106,733,801,768**
Recurrent Expenditure				
Salary and Wages	42,227,913,105	43,230,253,360	47,553,278,696	52,308,606,566
Overheads	4,286,329,750	19,251,843,783	19,444,362,221	19,638,805,843
Social Contribution and Social Benefits	10,915,880,000	12,295,400,000	12,910,170,000	13,555,678,500
Special Programmes	12,095,855,000	0	0	0
Grants and Contributions	9,558,400,000	9,961,720,000	10,160,954,400	10,364,173,488
Public Debt Charge	13,632,855,035	13,871,684,653	13,464,506,542	13,328,897,469
Transfer to Local Government	2,330,470,016	2,565,681,170	2,807,849,876	3,074,234,810
Transfer to Internal Revenue Services	5,276,607,239	5,999,151,305	6,743,068,245	7,561,374,905
Total	**100,324,310,144**	**107,175,734,270**	**113,084,189,979**	**119,831,771,580**
Transfer to Capital Account	**-7,623,356,499**	**-11,616,726,819**	**-12,045,110,572**	**-13,097,969,812**
Capital Receipts				
Grants	10,475,715,003	10,404,515,000	3,979,000,000	4,218,000,000
Other Capital Receipts	53,553,282,735	22,470,564,548	11,500,000,000	11,500,000,000
Total	**64,028,997,738**	**32,875,079,548**	**15,479,000,000**	**15,718,000,000**
Transfer to OSOPADEC	**4,633,511,025**	**4,992,115,411**	**5,541,248,106**	**5,929,135,474**
Reserves				
Contingency Reserve	0	4,223,132,636	906,909,471	866,216,509
Planning Reserve	0	955,590,075	1,010,390,794	1,067,338,018
Total Reserves	**0**	**5,178,722,711**	**1,917,300,265**	**1,933,554,527**
Capital Expenditure	69,915,484,356	**74,291,814,608**	**10,679,641,056**	**9,461,640,187**
Discretional Funds	42,801,121,943	28,079,885,608	2,496,341,056	1,039,340,187
Non-Discretional Funds	27,114,362,413	46,211,929,000	8,183,300,000	8,422,300,000
Financing	24,143,354,140	63,204,300,000	14,704,300,000	14,704,300,000
Total Budget Size	**174,873,305,525**	**191,638,387,000**	**131,222,379,407**	**137,156,101,768**

Ratios				
Growth in Recurrent Revenue	9.44%	3.08%	5.73%	5.64%
Growth in Recurrent Expenditure	7.02%	6.83%	5.51%	5.97%
Capital Expenditure Ratio	42.63%	41.87%	13.13%	12.00%
Deficit to Total Expenditure	13.81%	32.98%	11.21%	10.72%

117. The capital receipts expected in the State for the period 2020-2022 is presented in the table below.

CAPITAL RECEIPT PAGE

ITEM	2021	2022	2022 GCC	2023	2024
Internal Grants					
IG & MRU FG Conditional Grant	500,000,000	250,000,000	250,000,000	250,000,000	250,000,000
O-CARES -Public Work Fare	0	584,606,000		200,000,000	200,000,000
O-CARES Cash Transfer	0	369,225,000		150,000,000	150,000,000
O-CARES Commerce	0	215,381,000		100,000,000	100,000,000
O-CARES Micro Credit	0	246,150,000		100,000,000	100,000,000
O-CARES CSDP	0	446,147,000		150,000,000	150,000,000
O-CARES FADAMA	0	1,215,366,000		500,000,000	500,000,000
Nation Gas Expansion Programme	0	45,000,000	30,000,000	0	0
State Fiscal Transparency Accountability and Sustainability Program for Results (SFTAS)	6,719,600,000	4,000,000,000	0	0	0
SUBEB (UBEC)	3,021,329,349	2,043,140,000	2,043,140,000	1,258,000,000	1,397,000,000
Contributory Health Scheme	856,000,000	256,000,000	500,000,000	256,000,000	256,000,000
Basic Health Care Provision Fund (PHCDA)	314,375,000	0	0	0	0
Basic Health Care Provision Fund (Emergency Response Agency)	13,500,000	13,500,000	0	0	0
Sub-Total Internal Grant	**11,424,804,349**	**9,684,515,000**	**2,823,140,000**	**2,964,000,000**	**3,103,000,000**
External Grants					
UNICEF	200,000,000	230,000,000	50,000,000	200,000,000	200,000,000
National Urban Water Supply Reform Project	349,850,833				
REDD+ Project (World Bank Supported)	80,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Partnership for Expansion of Water Supply and Sanitation and Hygiene (PEWASH)	959,599,496	350,000,000	350,000,000	400,000,000	500,000,000
Malaria Control-AFDB Funded	160,000,000	0	0	150,000,000	150,000,000
Food and Agric Organisation Support (FAO)	225,000,000	100,000,000	50,000,000	225,000,000	225,000,000
Sub-Total External Grant	**1,974,450,329**	**720,000,000**	**490,000,000**	**1,015,000,000**	**1,115,000,000**
Total Grants	**13,399,254,678**	**10,404,515,000**	**3,313,140,000**	**3,979,000,000**	**4,218,000,000**
Internal Loans					
Internal Loans/Borrowings/Bond	0	44,000,000,000		0	0
Internal Loans/Borrowings	17,929,054,140	0	0	8,500,000,000	8,500,000,000
Accelerated Agricultural Development Scheme (AADS) OSAEC	100,000,000	750,000,000		200,000,000	200,000,000
AUDA NEPAD (OSAEC)		500,000,000		200,000,000	200,000,000
National Livestock Transformation Fund (OSAEC)	1,000,000,000	500,000,000		200,000,000	200,000,000
Red Gold -Oil Palm (OSAEC)		2,000,000,000		500,000,000	500,000,000
IDH The Sustainable Trade Initiative (OSAEC)		10,000,000		10,000,000	10,000,000
Cocoa Development Initiative (Cocoa Revolution)	250,000,000	250,000,000		150,000,000	150,000,000
Livestock Productivity and Resilence Support (L-PRESS)	680,000,000	600,000,000	80,000,000	200,000,000	200,000,000
LIFE-ND	594,300,000	514,300,000	80,000,000	594,300,000	594,300,000
Total	**20,553,354,140**	**49,124,300,000**	**160,000,000**	**10,554,300,000**	**10,554,300,000**
Loans 2					
Youth Employment and Social Support Operations (YESSO)/NASSCO/SOCU	-	200,000,000	40,000,000.00	100,000,000	100,000,000
French Development Agency(AFD) Water Facility	0	4,335,000,000	628,575,000		
RAAMP	2,000,000,000	1,500,000,000	500,000,000	1,500,000,000	1,500,000,000
African Development Bank (AfDB) Water Facility	1,150,000,000	5,445,000,000	816,750,000	2,000,000,000	2,000,000,000
Ondo State Erosion and Watershed Management Project (NEWMAP)	1,550,000,000	2,500,000,000	300,000,000	500,000,000	500,000,000
Ondo State Agro-Processing Productivity Enhancement and Livelihood Improvement Support (OAPPEALS)	0	100,000,000	50,000,000	50,000,000	50,000,000
Total	**4,700,000,000**	**14,080,000,000**	**2,335,325,000**	**4,150,000,000**	**4,150,000,000**
Total Loans	**25,253,354,140**	**63,204,300,000**	**2,495,325,000**	**14,704,300,000**	**14,704,300,000**
Other Capital Receipts					
Roll-Over Fund	3,100,000,000.00	2,885,915,548.38	0	5,500,000,000	5,500,000,000
Gain on Disposal of Asset (Investment Property)	5,500,000,000.00	0.00	0	0	0
Roll-Over Fund- OSAEC (CACS)	520,306,813	473,000,000			
Roll-Over Fund-Lands	0	560,824,000.00			
Roll-Over Fund- UNIMEDSTH	0	2,544,222,000.00			
Roll-Over Fund- Works and Infrastructure	0	11,216,603,000.00			
Roll-Over Fund- Water Corporation (AFD Draw down)	1,465,732,111	0			
Roll-Over Fund- Bond (Road, Treasury House and Others)	11,480,819,766	0			
Roll-Over Fund- Water Corporation (AFD- GCC)	146,573,211	0			
Roll-Over Fund- Water Corporation (National Urban Water Supply Sector Reform)-GCC	49,850,833	0			
Excess Crude	2,100,000,000	2,000,000,000		3,000,000,000	3,000,000,000
Refund on Excess Crude	26,600,000,000	0			
Exchange Gain	2,000,000,000	1,200,000,000		2,000,000,000	2,000,000,000
Contributory Health Scheme (Insurance Premium)	590,000,000	590,000,000			
Forex Account Stabilisation/Excess Bank Charges Refund	0	1,000,000,000		1,000,000,000	1,000,000,000
Total Other Capital Receipt	**53,553,282,735**	**22,470,564,548**	**0**	**11,500,000,000**	**11,500,000,000**

Assumptions

118. **Statutory Allocation –** A 3-Year Simple Average estimation is used for statutory allocation.

119. **Net Derivation** – the estimation of net derivation is based on own percentage.

120. **VAT** – is the 7.5% collection on the additional value to good and services consumed in Nigeria. Own Value estimation is used for VAT as the calculation is based on the rule of thumb owning to the ongoing legal battle between the Federal Government and some States in the Southern part of the country as to who has the constitutional right to collect the tax (VAT).

121. **Other Federation Account Distributions** – the estimation is on the current receipt (i.e. from January to June 2021). Furthermore, it is anticipated that the oil producing States will press FAAC for excess crude distributions in 2020 to assist in funding the challenges brought about by Covid-19.

122. **Independent Revenue (IR) –** the current administration introduced measures to grow IR. These measures have started yielding results as actual IR has been on the increase since 2018. It is anticipated that IR will continue to increase by 20% every year from 2022. Own Value is therefore used to forecast IGR for 2022 – 2024.

123. **Grants –** grants are both internal and external. While internal grants are grants obtained from the Federal Government or her agencies, external grants are sourced from international development agencies like UNICEF, AfDB, etc. They are based on signed agreements with the development partners

124. **Financing** – Ondo State intends to go to capital market to secure a bond to the tune of ₦44.0 billion in 2022. All other internal and external loans are projections based on signed agreements with both bilateral and multilateral partners.

125. **Wages and Salaries** – This is otherwise referred to as Personnel. It is anticipated that part of the salary arrears will be to be paid in 2022, and thus will impact on the wage bill from 2022. So, Own Value estimation is used with the projection that total wage bill will increase by 2.37% in 2022 while it will increase by 10% both in 2023 and 2024.

126. **Overheads** – Overhead in 2022 has changed from what is used to be as all Special Programmes items have been classified under Overheads in total compliance with the National Chart of Accounts. To this end, Own Value is used for the forecast, which gives the 2022 figure about 500% increase over that of year 2021.

127. **Social Contribution and Social Benefits** – A substantial amount is being owed as pension and gratuity payment. It is appropriate to make adequate provision for these items and other social commitments. Hence, the own value, representing computation for outstanding commitments as well as estimation for next medium term is used.

129. **Grants and Contributions** – Grants and contribution is estimated to increase by 4.2% in 2022, and by 2.0 both in 2023 and 2024.

130. **Public Debt Charge** – is based on the projected principal and interest repayments for 2022, 2023 and 2024. Barring any unforeseen development, it is projected to increase by 1.75% in 2022 but decrease afterwards.

131. **Transfer to Internal Revenue Services** – legally, it is 10% of total IGR for 2022, 2023 and 2024.

132. **Transfer to Local Governments** – is 10% of total IGR (after deduction of cost of collection) for 2022, 2023 and 2024.

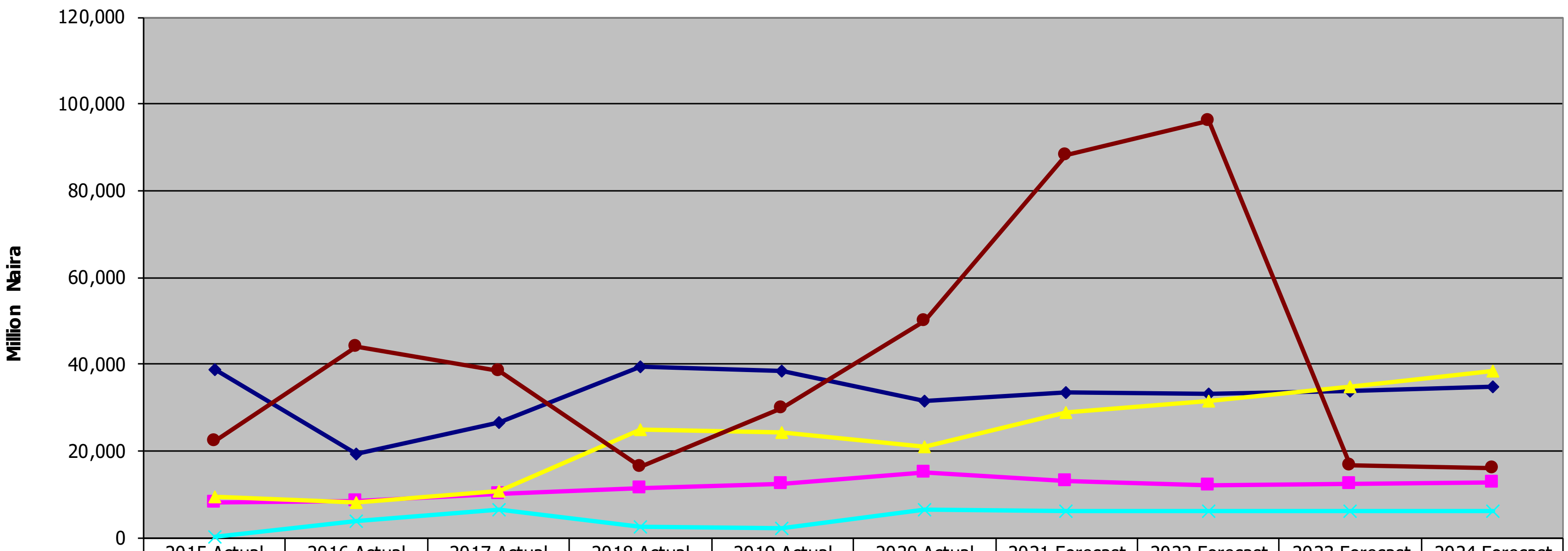
132. **Capital Expenditure** – is based on the balance from the recurrent account plus capital receipts, less contingency reserve as outlined above.

3.C.1 Fiscal Trends

133. Based on the above assumptions plus actual revenue and expenditure figures for 2015-2020 (using the same basis for forecasting as noted in the sub-sections within section 3.B) and forecast for 2022-2024, the trend from historical actual to forecast can be seen for revenue and expenditure in the line graphs below.

Figure 22: Ondo State Revenue Trend

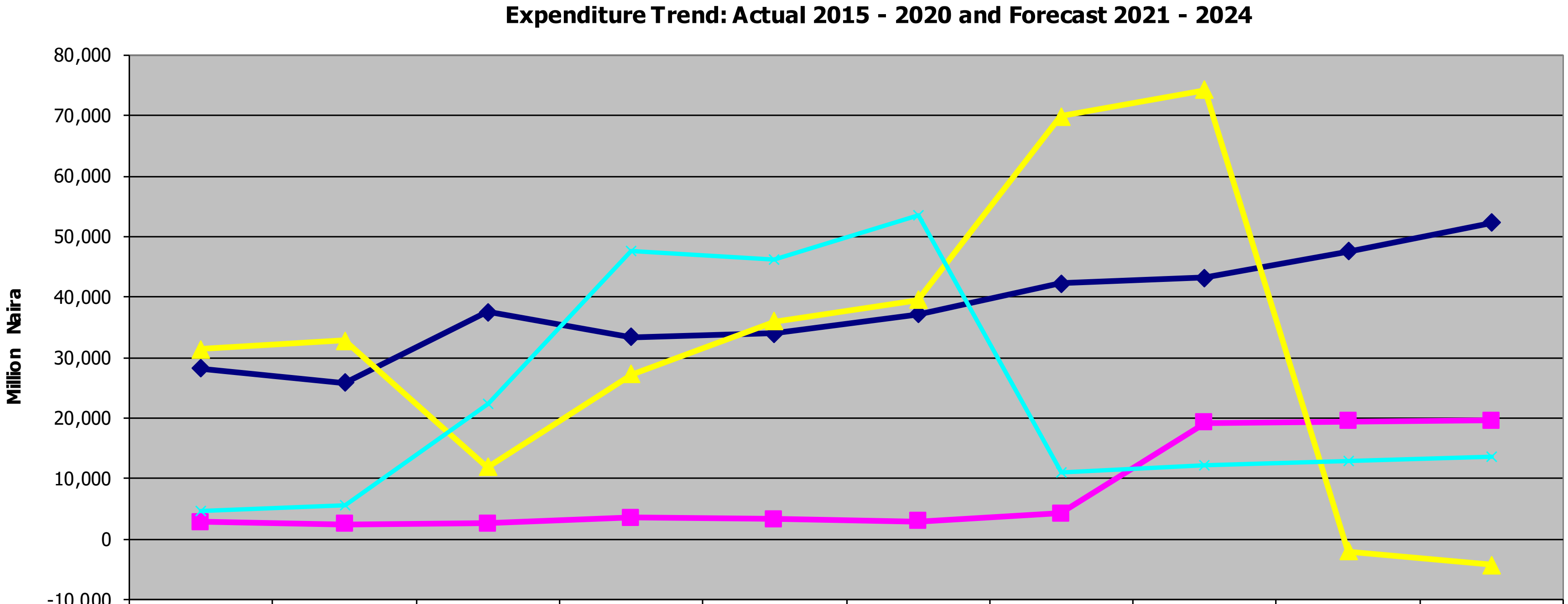
Revenue Trend: Actual 2015 - 2020 and Forecast 2021 - 2024



	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Stat.Allocation	38,891,850,68	19,436,790,47	26,494,873,18	39,582,605,20	38,310,622,77	31,549,178,88	33,413,267,65	33,242,755,92	33,921,792,14	34,800,434,08
VAT	8,234,257,688	8,513,433,644	10,174,457,87	11,419,703,36	12,388,614,57	14,892,602,06	12,925,776,17	12,120,000,00	12,322,000,00	12,625,000,00
Total IGR	9,583,868,087	8,181,258,372	10,862,612,69	24,787,441,31	24,187,708,28	21,094,342,13	28,778,132,24	31,655,963,00	34,821,567,00	38,303,723,00
Other Federation Account Receipts	222,693,256	3,862,344,238	6,448,726,096	2,545,159,460	2,167,297,125	6,315,824,902	6,000,000,000	6,060,000,000	6,120,600,000	6,181,806,000
Capital Receipts	22,262,948,54	43,957,199,82	38,558,388,57	16,475,383,56	29,720,554,24	49,934,739,82	88,172,351,87	96,079,379,54	16,784,800,00	16,023,800,00

Year

Figure 23: Ondo State Expenditure Trend



	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Personnel Costs	28,163,270,43	25,796,630,90	37,538,685,79	33,398,996,62	33,976,764,21	37,163,627,33	42,227,913,10	43,230,253,36	47,553,278,69	52,308,606,56
Overheads	2,772,361,842	2,459,948,125	2,607,951,145	3,496,592,655	3,263,171,346	2,927,547,556	4,286,329,750	19,251,843,78	19,444,362,22	19,638,805,84
Cap. Ex.	31,438,538,34	32,840,740,97	11,854,732,35	27,271,729,89	35,988,072,64	39,537,366,97	69,915,484,35	74,291,814,60	-2,048,933,94	-4,216,934,81
CRF Charges	4,567,337,753	5,510,259,123	22,259,194,63	47,641,028,27	46,266,683,73	53,654,180,12	10,915,880,00	12,295,400,00	12,910,170,00	13,555,678,50

Year

3.D Fiscal Risks

135. The analysis and forecasting basis as laid out above implies some fiscal risks, including but not limited to the following:

Table 12: Fiscal Risks

Risk	Likelihood	Impact	Reaction
Militancy/Pipeline vandalism that could lead to reduction in daily oil production	Medium	High	Dependence on Statutory allocation and Mineral derivation is crucial to the budget, however, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Security situation countrywide could affect economic activity and oil production, resulting in risk to VAT and Statutory Allocation	Medium	High	The estimates for VAT and statutory allocation are not overly ambitious. In addition, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Risks associated with debt financing	Low	Medium	Use of external borrowing to finance budget deficit
Mismanagement and inefficient use of financial resources	Medium	High	Adherence to existing and new institutional and legal/regulatory framework that will require more transparent and efficient use of financial resources.
Floods, Fulani herdsmen/ farmers crises and other natural disasters impact on economic activity and hence IGR tax base, causing increased overhead expenditure	Medium	Medium	Increased investment to increase climate resilience (flood control and irrigation), improved security situation, adaptation, and awareness

136. It should be noted however that no budget is without risk. The ongoing implementation of the 2019 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

Section 4 Budget Policy Statement

4.A Budget Policy Thrust

137. The overall policy objectives are captured by the following points:

- Create efficiencies in Personnel and overhead expenditure to allow greater resource for capital development;
- Grow IR by a minimum of 20% every year from 2021-2023;
- To harness the public, corporate and private individual grants to boost the State's revenue;
- Ensure loan facilities are used only to finance capital expenditure project;
- Give priority to cushioning the effects of coronavirus pandemic through agricultural re-engineering and provision of healthcare facilities, palliatives and economic rebound initiatives like Micro-Credit loans;
- Grow the economy through targeted spending in areas of comparative advantage;
- Sustaining the regime of peace being enjoyed in the State through provision or requite support to security agencies for Crime Control and Prevention; and
- Have a long term target of Funding all Recurrent Expenditure with Recurrent Revenue (IR, VAT and Non Mineral Compact of Statutory Allocation).

4.B Sector Allocations (3 Year)

138. The total forecast budget size for the 2022 fiscal year as explained in Section 3.C above is **₦191,638,387,000.00** of which the sum of **₦107,175,734,270.00** will be for recurrent expenditure (i.e. Salaries and Wages, Overhead, Social Contributions, Grants & Contributions, Public Debt Charge, Transfer to Internal Revenue Service and Transfer to Local Governments), **₦74,291,814,608.00** will be for capital expenditure, **₦4,992,115,411.00** as transfer to OSOPADEC and **₦5,178,722,711.00** is for both contingency and planning reserves. The capital component of the budget is derived from discretionary and non-discretionary funds. Discretionary fund of **₦28,079,885,608.00** will be distributed to all MEDAs while non-discretionary capital fund of **₦46,211,929,000.00** is specifically earmarked for special projects. The non-discretionary fund is in the form of loans and grants.

139. The indicative overhead and capital allocation (envelope) to the sectors for 2022-2024 are based on the combined proportion of budget and actual expenditure as shown in tables 12 and 13 below.

Table 12: Indicative Sector Expenditure Ceilings 2022-2024 – Overhead

Overhead Expenditure by Sector							
No.	Sector	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation
1	ADMINISTRATION OF JUSTICE	0.0151	290,078,651	1.51%	292,979,437	1.51%	295,909,232
2	AGRICULTURAL DEVELOPMENT	0.0041	78,534,100	0.41%	79,319,441	0.41%	80,112,635
3	EDUCATION	0.2055	3,955,484,127	20.55%	3,995,038,968	20.55%	4,034,989,358
4	ENVIRONMENT AND SEWAGE MANAGEMENT	0.0041	78,935,329	0.41%	79,724,682	0.41%	80,521,929
5	GENERAL ADMINISTRATION	0.1897	3,652,248,485	18.97%	3,688,770,970	18.97%	3,725,658,679
6	HEALTH	0.0105	201,212,955	1.05%	203,225,085	1.05%	205,257,336
7	INFORMATION	0.0105	202,453,399	1.05%	204,477,932	1.05%	206,522,712
8	INFRASTRUCTURAL DEVELOPMENT	0.0216	416,048,655	2.16%	420,209,141	2.16%	424,411,233
9	LEGISLATIVE ADMINISTRATION	0.0490	942,908,925	4.90%	952,338,014	4.90%	961,861,394
10	PUBLIC FINANCE	0.4240	8,162,084,331	42.40%	8,243,705,174	42.40%	8,326,142,226
11	REGIONAL DEVELOPMENT	0.0314	604,184,610	3.14%	610,226,456	3.14%	616,328,721
12	COMMUNITY DEVELOPMENT	0.0297	570,827,550	2.97%	576,535,826	2.97%	582,301,184
13	TRADE AND INDUSTRY	0.0050	96,842,666	0.50%	97,811,093	0.50%	98,789,204
	Total	**100.00%**	**19,251,843,783**	**100.00%**	**19,444,362,221**	**100.00%**	**19,638,805,843**

Table 13: Indicative Sector Expenditure Ceilings 2022-2024 – Personnel Cost

Personnel Expenditure by Sector							
No.	**Sector**	**% 2022**	**2022 Allocation**	**% 2023**	**2023 Allocation**	**% 2024**	**2024 Allocation**
1	ADMINISTRATION OF JUSTICE	4.85%	2,095,267,340	4.85%	2,304,794,074	4.85%	2,535,273,481
2	AGRICULTURAL DEVELOPMENT	3.18%	1,374,195,129	3.18%	1,511,614,642	3.18%	1,662,776,106
3	EDUCATION	38.04%	16,446,743,220	38.04%	18,091,417,542	38.04%	19,900,559,297
4	ENVIRONMENT AND SEWAGE MANAGEMENT	0.75%	323,368,773	0.75%	355,705,651	0.75%	391,276,216
5	GENERAL ADMINISTRATION	21.10%	9,120,291,144	21.10%	10,032,320,258	21.10%	11,035,552,284
6	HEALTH	21.43%	9,265,017,134	21.43%	10,191,518,848	21.43%	11,210,670,732
7	INFORMATION	1.08%	468,055,572	1.08%	514,861,129	1.08%	566,347,242
8	INFRASTRUCTURAL DEVELOPMENT	4.08%	1,765,688,648	4.08%	1,942,257,512	4.08%	2,136,483,264
9	LEGISLATIVE ADMINISTRATION	0.94%	405,759,514	0.94%	446,335,466	0.94%	490,969,012
10	PUBLIC FINANCE	2.65%	1,146,090,889	2.65%	1,260,699,977	2.65%	1,386,769,975
11	REGIONAL DEVELOPMENT	0.00%	0	0.00%	0	0.00%	0
12	COMMUNITY DEVELOPMENT	1.15%	495,776,891	1.15%	545,354,580	1.15%	599,890,038
13	TRADE AND INDUSTRY	0.75%	323,999,105	0.75%	356,399,016	0.75%	392,038,918
	Total	**100.00%**	**43,230,253,360**	**100.00%**	**47,553,278,696**	**100.00%**	**52,308,606,566**

Table 14: Indicative Sector Expenditure Ceilings 2022-2024 – Capital

Capital Expenditure by Sector		Discretionary Funds						Non-Discretionary Funds			Total Capital Envelope					
No.	Sector	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation	2022 Allocation	2023 Allocation	2024 Allocation	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation
1	ADMINISTRATION OF JUSTICE	4.00%	1,123,195,424	4.00%	99,853,642	4.00%	41,573,607	0	0	0	1.5%	1,123,195,424	0.9%	99,853,642	0.4%	41,573,607
2	AGRICULTURAL DEVELOPMENT	8.00%	2,246,390,849	8.00%	199,707,284	8.00%	83,147,215	7,352,666,000	2,869,300,000	2,869,300,000	12.9%	9,599,056,849	28.7%	3,069,007,284	31.2%	2,952,447,215
3	EDUCATION	6.00%	1,684,793,136	6.00%	149,780,463	6.00%	62,360,411	4,086,280,000	1,258,000,000	1,397,000,000	7.8%	5,771,073,136	13.2%	1,407,780,463	15.4%	1,459,360,411
4	ENVIRONMENT AND SEWAGE MANAGEMENT	2.29%	643,885,833	2.29%	57,242,350	2.29%	23,832,591	2,800,000,000	500,000,000	500,000,000	4.6%	3,443,885,833	5.2%	557,242,350	5.5%	523,832,591
5	GENERAL ADMINISTRATION	5.60%	1,572,473,594	5.60%	139,795,099	5.60%	58,203,050	1,768,831,000	700,000,000	700,000,000	4.5%	3,341,304,594	7.9%	839,795,099	8.0%	758,203,050
6	HEALTH	7.33%	2,058,255,615	7.33%	182,981,799	7.33%	76,183,636	3,313,722,000	406,000,000	406,000,000	7.2%	5,371,977,615	5.5%	588,981,799	5.1%	482,183,636
7	INFORMATION	1.50%	421,198,284	1.50%	37,445,116	1.50%	15,590,103	0	0	0	0.6%	421,198,284	0.4%	37,445,116	0.2%	15,590,103
8	INFRASTRUCTURAL DEVELOPMENT	45.28%	12,714,572,203	45.28%	1,130,343,230	45.28%	470,613,237	25,702,752,000	1,900,000,000	2,000,000,000	51.7%	38,417,324,203	28.4%	3,030,343,230	26.1%	2,470,613,237
9	LEGISLATIVE ADMINISTRATION	6.00%	1,684,793,136	6.00%	149,780,463	6.00%	62,360,411	0	0	0	2.3%	1,684,793,136	1.4%	149,780,463	0.7%	62,360,411
10	PUBLIC FINANCE	4.00%	1,123,195,424	4.00%	99,853,642	4.00%	41,573,607	280,000,000	200,000,000	200,000,000	1.9%	1,403,195,424	2.8%	299,853,642	2.6%	241,573,607
11	REGIONAL DEVELOPMENT	0.00%	0	0.00%	0	0.00%	0	0	0	0	0.0%	0	0.0%	0	0.0%	0
12	COMMUNITY DEVELOPMENT	4.00%	1,123,195,424	4.00%	99,853,642	4.00%	41,573,607	446,147,000	150,000,000	150,000,000	2.1%	1,569,342,424	2.3%	249,853,642	2.0%	191,573,607
13	TRADE AND INDUSTRY	6.00%	1,684,793,136	6.00%	149,780,463	6.00%	62,360,411	461,531,000	200,000,000	200,000,000	2.9%	2,146,324,136	3.3%	349,780,463	2.8%	262,360,411
	Total	**100.00%**	**28,079,885,608**	**100.00%**	**2,496,341,056**	**100.00%**	**1,039,340,187**	**46,211,929,000**	**8,183,300,000**	**8,422,300,000**	**100.00%**	**74,292,671,060**	**100.00%**	**10,679,717,196**	**100.00%**	**9,461,671,888**

4.C Considerations for the Annual Budget Process

140. The budget call circular should include the following instructions to MEDAs for the annual budget submissions:

- Only prioritised projects. contained in the sectors' MTSS should be in the MEDAs capital budget proposal;
- Budget submissions for capital projects must include full life-time capital investment requirements (costs) and also sources of funding (particularly if grants and/or loans are being used to partially/fully fund the project).

Section 5 Summary of Key Points and Recommendations

141. We summarise below a list of the key points arising in this document:

a. Ondo State should sustain the current Budget reform programme particularly as it relates to the preparation of a realistic budget, total alliance with National Chart of Accounts, ensuring policy-plan-budget linkages using the State MTSSs, and early passage of the budget. Efforts should be made to prepare MTSS for other sectors not yet provided for.

b. Ondo State must continue to monitor the performance of mineral-based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process. If the benchmark price of crude in the Federal FSP is lower or higher than $60 per barrel used herein and IMF, World Bank, OPEC and US Energy Information Administration Reports validates the oil price benchmark provided in Federal FSP, the State should revisit the assumptions and recalculate statutory allocation.

c. The State should also intensify more of its efforts in Independent Revenue generation, industrialisation drive and alleviating the effects of Covid-19 pandemic on the people of the State.