Gombe State Nigeria

Multi-Year Budget Framework Document:

Economic and Fiscal Update (EFU),

Fiscal Strategy Paper (FSP) and

Budget Policy Statement (BPS)

To Cover Period: 2020 - 2022

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Abbreviations

BRINCS	Brazil, Russia, India, Nigeria, China, South Africa
CBN	Central Bank of Nigeria
DMD	Debt Management Department
EFU	Economic and Fiscal Update
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
IGR	Internally Generated Revenue
IMF	International Monetary Fund
MDA	Ministry, Department and Agencies
GMSG	Gombe State Government
BPDPC	Budget, Planning and Development Partners Coordination
MINT	Malaysia, Indonesia, Nigeria and Turkey
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
NBS	National Bureau of Statistics
NNPC	Nigerian National Petroleum Company
OAG	Office of the Accountant General
PFM	Public Financial Management
PITA	Personal Income Tax Act
SHoA	State House of Assembly
VAT	Value Added Tax
WEO	World Economic Outlook

Section 1 Introduction and Background

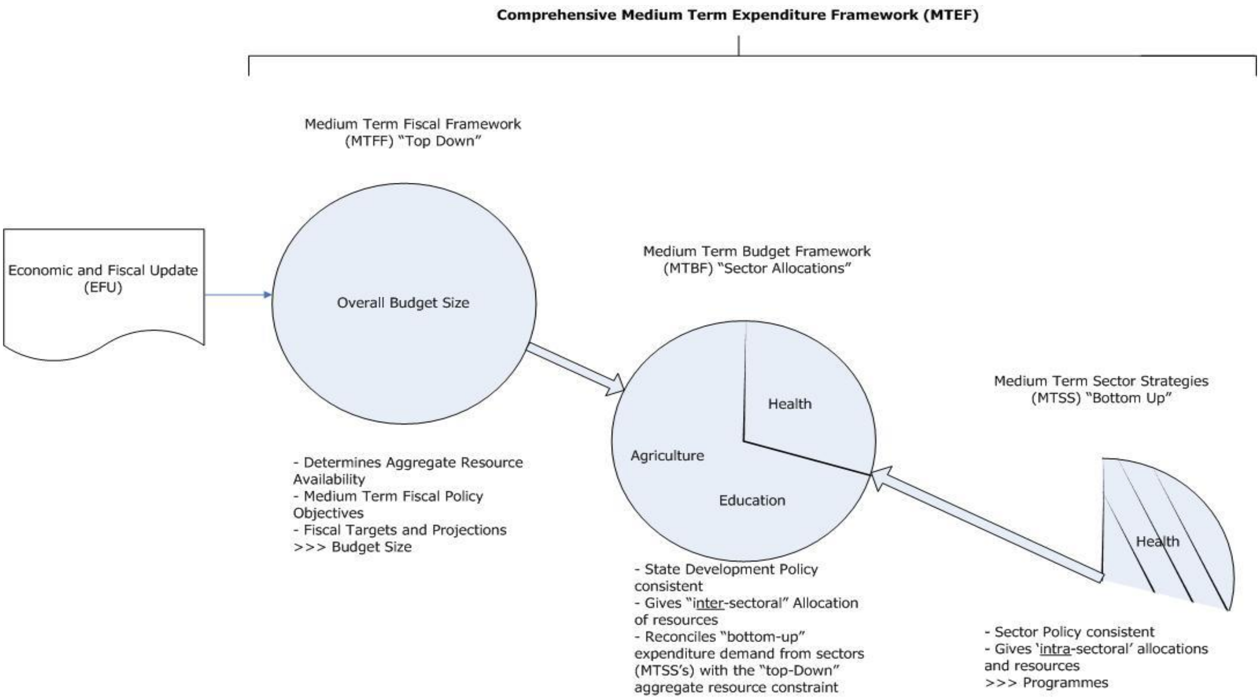
1.A Introduction

1. The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process. It is aimed primarily to provide guidance to the policy makers and decision takers in Gombe State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.
2. On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in Medium Term Expenditure Framework (MTEF) and the annual budget process, and as such, they determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective.
3. Gombe State Government decided to adopt the preparation of the EFU-FSP-BPS for the first time in 2018 (to cover the period 2019-2021) as part of the movement toward a comprehensive MTEF process. This is the second iteration of the document and covers the period 2020 - 2022.

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 four components namely:
   i. Medium Term Fiscal Framework (MTFF);
   ii. Medium Term Budget Framework (MTBF); and
   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.
6. The MTEF process is summarised in diagram below:

Figure 1: MTEF Process



1.A.2 Summary of Document Content

7. 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 Gombe State Government (GMSG) for the period 2020-2022.

8. The purpose of this document is three-fold:

   i. To provide a backwards 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; level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF; and

   iii. Provide indicative sector envelopes for the period 2020-2022 which constitute the MTBF.

9. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis to inform the budget planning process. It is aimed primarily to provide guidance to the policy makers and decision takers in Gombe State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:

   - Overview of Global, National and State Economic Performance;
   - Overview of the Petroleum Sector;
   - Trends in budget performance over the last six years.

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

1.A.3 Preparation and Audience

11. The purpose of this document is to provide an informed basis for the 2020-2022 budget preparation cycle for all the key Stakeholders, specifically:

   - State House of Assembly (SHoA);
   - Executive Council (ExCo);
   - Budget, Planning and Development Partners Coordination;
   - Ministry of Finance;
   - Office of the Accountant General;
   - All Government Ministries, Departments and Agencies (MDAs); and
   - Civil Society.

12. The document is prepared within in the first two quarters of the year prior to the annual budget preparation period. It is prepared by Gombe State Budget, Planning and Development Partners Coordination in collaboration with Ministry of Finance, Office of Accountant General, State Bureau of Statistics, Board of Internal Revenue, and Debt Management Office using data collected from International, National and State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM

13. **Legislative Framework for PFM in Gombe State** - The fundamental law governing public financial management in Nigeria and Gombe State is the 1999 Constitution as amended. Section 120 and 121 of the Constitution provides that all revenues accruing to Gombe State Government shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and revenue cannot 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 Gombe 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[1].

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

- Finance (Control and Management) Act, 1958 reproduced as Chapter 108 of the Laws of Northern Nigeria, 1963 and later reproduced as Gombe State Finance (Control and Management) Law.
- Gombe State Government Financial Regulations issued under the Finance (Control and Management) Act.
- Gombe State Fiscal Responsibility Law 2012; Gombe State FRL established the Fiscal Responsibility Agency and a Governing Board that will provide general policy guidelines for the discharge of the functions of the Agency. Section 47 of Gombe State FRL states that "any person who willfully or negligently fails to perform his/her obligations under the FRL, or who knowingly or recklessly makes a false statement in the discharge of his obligation under the law, commits an offence and is liable on conviction to one year imprisonment or a fine of N100,000.00, while some offences have imprisonment of not less than 3 years or N250,000.00". In addition, the head of an institution that fails to ensure performance will be punished as if he/she personally committed the offence.
- Gombe State Public Service Rules.
- Occasional treasury circulars issued by the Accountant General of Gombe State for additional rules and guidelines to support accounting, internal audit and stores procedures.

15. **Institutional Framework for PFM in Gombe state** - The Constitution vests 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"[2]. The Governor of Gombe State exercises his executive powers either directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, and other officers in the public service of the State.

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

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

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

17. The Ministry of Finance is the main organ of the EXCO for formulation and execution of fiscal policy. The Ministry of Finance coordinates and manages the state's fiscal policies and all revenue and expenditure profile of government. Ministry of Finance is also responsible for core treasury functions of revenue and expenditure management, accounting, and funds/cash management. The Ministry of Finance has two important quasi-autonomous agencies, the Office of the Accountant General for the State (OAGS) and the Board of Internal Revenue (BIR).

18. 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 (MDAs); 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. The OAGS equally function to 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 of Government to ensure compliance with rules, regulations, policy decisions and maintenance of account codes; and formulate and implement the accounting policy of the State Government. The OAGS also deploys and posts accounting staff to MDAs.

19. The Board of Internal Revenue is responsible for generation of government revenue. The Board formulates and executes Joint Tax Board (JTB) policies on taxation, stamp duties and motor vehicle licensing.

20. The State Budget, Planning and Development Partners Coordination oversees preparation of the budget, both capital and recurrent. It is also in charge of planning, setting the broad agenda for development and statistics.

21. Another important institutional framework in the circle of public financial management in the State is the Due Process Office. This Office plays a significant role in ensuring that all MDAs adhere with the best practice in procurement as well as monitors the execution of all capital projects.

22. As required by 1999 Constitution as amended Gombe State has appointed an Auditor General whose appointment and removal shall be subject to the approval of the State House of Assembly. The Office of the Auditor General carries annual audit of public accounts prepared by the Accountant General and publishes audit reports. The audit of the financial statements of Gombe State Local Governments is overseen by the Auditor General of Local Governments. Audit reports from both the Auditor General of the State and Auditor General for Local Governments are submitted to the SHA.

23. 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 State Planning Commission. There are three main categories of expenditure: personnel costs, overhead costs and capital expenditure.

24. The payroll is centralized under the Head of Service (HoS) and Office of the Accountant General of the State (OAGS). MDAs 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. MDAs have the responsibility to execute their capital program, but capital funds are paid project by project by the OAGS.

1.C Overview of Budget Calendar

25. Indicative Budget Calendar for Gombe State Government is presented below:

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
Preparation of EFU-FSP-BPS Document	September 2019	EFU-FSP-BPS Preparation Team
Submission of EFU-FSP-BPS to EXCO for Review and Approval	September 2019	Budget, Planning and Development Partners Coordination
Issuance of FY 2020 Budget call Circular	Sept. 3, 2019	Permanent Secretary – Budget
Preparation of Budget Proposals by MDAs	Sept. 9 - Oct. 4, 2019	Accounting Officers/Budget Officers in MDAs
Stakeholder Consultation (MDAs, CSO's, other stakeholders)	October 2019	Budget, Planning and Development Partners Coordination
Bilateral Budget Discussions with MDAs	Oct.07–18, 2019	Permanent Secretary – Budget
Consolidation of MDA's Proposals	October 2019	Ministry of Planning and BPDPC
Submission of Draft 2020 Budget to State Executive Council	Oct. 23, 2019	Special Adviser on Budget
EXCO Review and Approval of Draft Budget	October 2019	EXCO
Presentation of the Budget to State House of Assembly	Oct. 30/31, 2019	Executive Governor
Budget Defence by MDA's before House of Assembly	November 2019	Appropriation and Sector Committees of House of Assembly
Debate and Approval of Budget by House of Assembly	Dec.10, 2019	State House of Assembly
HE, The Governor's Assent FY 2020 Appropriation Law	Dec. 20, 2019	Executive Governor
Dissemination of 2020 Budget	January 2020	Budget Planning and Development Partners Coordination

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

26. The International Monetary Fund's (IMF's) April 2019 World Economic Outlook (WEO) Update[3], projects a decline in growth in 2019 for 70 percent of the global economy. The IMF's highlighted that one year ago, economic activity was accelerating in almost all regions of the world and the global economy was projected to grow at 3.9 percent in 2018 and 2019. One year later, much has changed: the escalation of US-China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, tighter credit policies in China, and financial tightening alongside the normalization of monetary policy in the larger advanced economies have all contributed to a significantly weakened global expansion, especially in the second half of 2018.

27. The WEO also projects a decline in growth in 2019 for 70 percent of the global economy. Global growth, which peaked at close to 4 percent in 2017, softened to 3.6 percent in 2018, and is projected to decline further to 3.3 percent in 2019. Although a 3.3 percent global expansion is still reasonable, the outlook for many countries is very challenging, with considerable uncertainties in the short term, especially as advanced economy growth rates converge toward their modest long-term potential.

28. While 2019 started on a weak footing, a pickup is expected in the second half of the year. This pickup is supported by significant policy accommodation by major economies, made possible by the absence of inflationary pressures despite closing output gaps. The US Federal Reserve, in response to rising global risks, paused interest rate increases and signalled no increases for the rest of the year. The European Central Bank, the Bank of Japan, and the Bank of England have all shifted to a more accommodative stance. China has ramped up its fiscal and monetary stimulus to counter the negative effect of trade tariffs. Furthermore, the outlook for US-China trade tensions has improved as the prospects of a trade agreement take shape.

29. These policy responses have helped reverse the tightening of financial conditions to varying degrees across countries. Emerging markets have experienced a resumption in portfolio flows, a decline in sovereign borrowing costs, and a strengthening of their currencies relative to the dollar. While the improvement in financial markets has been rapid, those in the real economy have yet to materialize. Measures of industrial production and investment remain weak for most advanced and emerging economies, and global trade has yet to recover. With improvements expected in the second half of 2019, global economic growth in 2020 is projected to return to 3.6 percent.

30. This return is predicated on a rebound in Argentina and Turkey and some improvement in a set of other stressed emerging market and developing economies, and therefore subject to considerable uncertainty. Beyond 2020 growth will stabilize at around 3½ percent, bolstered mainly by growth in China and India and their increasing weights in world income. Growth in advanced economies will continue to slow gradually as the impact of US fiscal stimulus fades and growth tends toward the modest potential for the group, given ageing trends and low productivity growth. Growth in emerging market and developing economies will stabilize at around 5 percent, though with considerable variance between countries as subdued commodity prices and civil strife weaken prospects for some.

31. While the overall outlook remains benign, there are many downside risks. There is an uneasy truce on trade policy, as tensions could flare up again and play out in other areas

[3] https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019

(such as the auto industry) with large disruptions to global supply chains. Growth in China may surprise on the downside, and the risks surrounding Brexit remain heightened. In the face of significant financial vulnerabilities associated with large private and public sector debt in several countries, including sovereign-bank doom loop risks (for example, in Italy), there could be a rapid change in financial conditions owing to, for example, a risk-off episode or a no-deal Brexit. With weak expansion projected for important parts of the world, a realization of these downside risks could dramatically worsen the outlook. This would take place at a time when conventional monetary and fiscal space is limited as a policy response.

32. It is therefore imperative that costly policy mistakes are avoided. Policymakers need to work cooperatively to help ensure that policy uncertainty doesn't weaken investment. Fiscal policy will need to manage trade-offs between supporting demand and ensuring that public debt remains on a sustainable path, and the optimal mix will depend on country-specific circumstances. Financial sector policies must address vulnerabilities proactively by deploying macroprudential tools. Low-income commodity exporters should diversify away from commodities given the subdued outlook for commodity prices. Monetary policy should remain data-dependent, be well communicated, and ensure that inflation expectations remain anchored.

33. Across all economies, the imperative is to take actions that boost potential output, improve inclusiveness, and strengthen resilience. A social dialogue across all stakeholders to address inequality and political discontent will benefit economies. There is a need for greater multilateral cooperation to resolve trade conflicts, to address climate change and risks from cybersecurity, and to improve the effectiveness of international taxation.

34. The economic outlook (GDP growth rate and inflation rate) of some countries are shown in tables 2 and 3 below.

35. Countries selected are chosen to represent G20, BRINCS, MINT, N-11, Petro-economies and other large African countries.

Table 2: Real GDP Growth - Selected Countries

Country	Actual				Forecast		
	2015	2016	2017	2018	2019	2020	2024
Mexico	3.3	2.9	2.1	2.0	1.6	1.9	2.7
Indonesia	4.9	5.0	5.1	5.2	5.2	5.2	5.3
Turkey	5.2	6.1	3.2	7.4	-2.5	2.5	3.5
United States	2.9	1.6	2.2	2.9	2.3	1.9	1.6
Germany	1.5	2.2	2.5	1.5	0.8	1.4	1.2
United Kingdom	2.3	1.8	1.8	1.4	1.2	1.4	1.6
China	6.9	6.7	6.8	6.6	6.3	6.1	5.5
Ghana	2.2	3.4	8.1	5.6	8.8	5.8	3.8
South Africa	1.2	0.4	1.4	0.8	1.2	1.5	1.8
Brazil	-3.5	-3.3	1.1	1.1	2.1	2.5	2.2
Angola	0.9	-2.6	-0.2	-1.7	0.4	2.9	3.9
Nigeria	2.7	-1.6	0.8	1.9	2.1	2.5	2.6

Source: IMF's World Economic Outlook, April 2019.

36. BRICS and MINT countries show an average higher growth than G20 and G7 countries over the period, with Ghana also being particularly better performing. Brazil, Angola and Nigeria were in recession in 2016. Brazil and Nigeria moved out of recession in 2017 but Angola had three years of recession (i.e. 2016 – 2018).

Table 3: Inflation (CPI) - Selected Countries

Country	Actual				Forecast		
	2015	2016	2017	2018	2019	2020	2024
Mexico	2.7	2.8	6.0	4.9	3.8	3.1	3.0
Indonesia	6.4	3.5	3.8	3.2	3.3	3.6	3.0
Turkey	7.7	7.8	11.1	16.3	17.5	14.1	12.4
United States	0.1	1.3	2.1	2.4	2	2.7	2.2
Germany	0.7	0.4	1.7	1.9	1.3	1.7	2.2
United Kingdom	0.0	0.7	2.7	2.5	1.8	2.0	2.0
China	1.4	2.0	1.6	2.1	2.3	2.5	3.0
Ghana	17.2	17.5	12.4	9.8	9.1	8.4	6.0
South Africa	4.6	6.3	5.3	4.6	5	5.4	5.5
Brazil	9.0	8.7	3.4	3.7	3.6	4.1	4.0
Angola	9.2	30.7	29.8	19.6	17.5	11.1	6
Nigeria	9.0	15.7	16.5	12.1	11.7	11.7	11.0

Source: IMF's WEO, April 2019

37. Ghana and Turkey both experienced high inflation rates together with their high real GDP growth while Angola experienced recession and high inflation rate. Globally, inflation rates are set to decrease over the next five years as mineral and agriculture prices stabilise.

2.A.2 Africa

38. The African Economic Outlook, 2018[4] provides that Africa's economic growth continues to strengthen, reaching an estimated 3.5 percent in 2018, about the same as in 2017 and up 1.4 percentage points from the 2.1 percent in 2016. East Africa led with GDP growth estimated at 5.7 percent in 2018, followed by North Africa at 4.9 percent, West Africa at 3.3 percent, Central Africa at 2.2 percent, and Southern Africa at 1.2 percent. In the medium term, growth is projected to accelerate to 4 percent in 2019 and 4.1 percent in 2020. And though lower than China's and India's growth, Africa's is projected to be higher than that of other emerging and developing countries. But it is insufficient to make a dent in unemployment and poverty. Of Africa's projected 4 percent growth in 2019, North Africa is expected to account for 1.6 percentage points, or 40 percent. But average GDP growth in North Africa is erratic because of Libya's rapidly changing economic circumstances.

39. East Africa, the fastest growing region, is projected to achieve growth of 5.9 percent in 2019 and 6.1 percent in 2020. Between 2010 and 2018, growth averaged almost 6 percent, with Djibouti, Ethiopia, Rwanda, and Tanzania recording above-average rates. But in several countries, notably Burundi and Comoros, growth remains weak due to political uncertainty. Growth in Central Africa is gradually recovering but remains below the average for Africa as a whole. It is supported by recovering commodity prices and higher agricultural output. Growth in Southern Africa is expected to remain moderate in 2019 and 2020 after a modest recovery in 2017 and 2018.

40. The drivers of Africa's economic growth have been gradually rebalancing in recent years. Consumption's contribution to real GDP growth declined from 55 percent in 2015 to 48 percent in 2018, while investment's contribution increased from 14 percent to 48 percent. Net exports, historically a drag on economic growth, have had a positive contribution since 2014 But despite the rebalancing trend, most of the top-growing countries still rely primarily on consumption as an engine of growth. Inflationary pressures have eased.

[4] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019

Africa's average inflation fell from 12.6 percent in 2017 to 10.9 percent in 2018 and is projected to further decline to 8.1 percent in 2020.

41. Double-digit inflation occurs mostly in conflict-affected countries and countries that are not members of a currency union. Inflation is highest in South Sudan, at 188 percent, due to the lingering economic crisis. Inflation is lowest, at 2 percent or less, in members of the Central African Economic and Monetary Community and the West African Economic and Monetary Union and particularly in members of the CFA zone because of its link to the euro.

42. Fiscal positions are gradually improving between 2016 and 2018, several countries achieved fiscal consolidation by increasing tax revenue and, at times, lowering expenditures. Revenue increases were due partly to higher commodity prices and increased growth, but several countries also implemented tax reforms. Domestic resource mobilization has improved but falls short of the continent's developmental needs. Although current account deficits have been deteriorating, total external financial inflows to Africa increased from $170.8 billion in 2016 to $193.7 billion in 2017, which represents a 0.7 percentage point increase in net financial inflows as a ratio of GDP (from 7.8 percent in 2016 to 8.5 percent in 2017). Remittances continue to gain momentum and dominate the other components of capital flows, at $69 billion in 2017, almost double the size of portfolio investments.

43. Meanwhile, FDI inflows have shrunk from the 2008 peak of $58.1 billion to a 10-year low of $41.8 billion in 2017. Underlying factors include the global financial crisis and the recent rebalancing of portfolios due to rising interest rates among advanced economies. Official development assistance (ODA) to Africa peaked in 2013 at $52 billion and has since declined to $45 billion in 2017, with fragile states receiving more ODA as a percentage of GDP than nonfragile states. All regions saw ODA increase between 2005–10 and 2011–16; East Africa and West Africa remain the highest recipients.

44. Africa's debt is rising, but there is no systemic risk of a debt crisis by the end of 2017, the gross government debt-to-GDP ratio reached 53 percent in Africa, but with significant heterogeneity across countries. Of 52 countries with data, 16 countries — among them Algeria, Botswana, Burkina Faso, and Mali — have a debt-to-GDP ratio below 40 percent; while 6 countries — Cabo Verde, Congo, Egypt, Eritrea, Mozambique, and Sudan — have a debt-to-GDP ratio above 100 percent. The traditional approach to estimating debt sustainability classifies 16 countries in Africa at high risk of debt distress or in debt distress. Debt situations in some countries have thus become untenable, requiring urgent actions whose range and modalities depend on the precise diagnosis of the source of debt distress. Even so, while debt vulnerabilities have increased in some African countries, the continent as a whole is not exposed to a systemic risk of debt crisis.

45. External imbalances have implications for long-term growth Africa's external imbalances have worsened, measured by both the current account and the trade balance. The weighted average current account deficit was 4 percent of GDP at the end of 2017 (the median was 6.7 percent) and, despite recent improvement, has been deteriorating since the end of the 2000s. This could threaten external sustainability and require sharp adjustments in the future. Based on the balance-of-payments constraint theory (that external financing gaps must turn into surpluses in the long run to avoid external default or sharp consumption adjustments), Africa's current external deficits may be justified if they sow the seeds for future surpluses. This will be the case as long as higher imports are consistently associated with rising capital formation, followed by an increased share of manufacturing and tradable industries in value added, an improved position in global value chains, and a gradual repayment of external liabilities.

2.A.3 Nigerian Economy[5]

46. The Nigerian Government has 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 have increased investor 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.

47. Fitch Ratings has affirmed Nigeria's long-term foreign-currency Issuer Default Rating (IDR) at 'B+' with a negative outlook. Fitch, a global rating agency, explained in a statement on 9th May 2019 that the 'B+' rating it assigned to the country reflected Nigeria's position as Africa's largest economy and most populous country, its net external creditor position and its well-developed domestic debt market, low levels of domestic revenue mobilisation and GDP per capita, and low ranking on governance and business environment indicators. Fitch stated that the negative outlook further reflected uncertainty about the sustainability of Nigeria's economic growth momentum as the impact of earlier shocks ease and progress in addressing high-interest service ratios.

48. Also, persisting structural and policy challenges continue to constrain growth to levels below those needed to reduce vulnerabilities, lessen poverty and improve weak human development outcomes, such as in health and education. A large infrastructure gap, low revenue mobilization, governance and institutional weaknesses, continued foreign exchange restrictions, and banking sector vulnerabilities are dampening long-term foreign and domestic investment and keeping the economy reliant on volatile oil prices and production as explained in subsequent paragraphs.

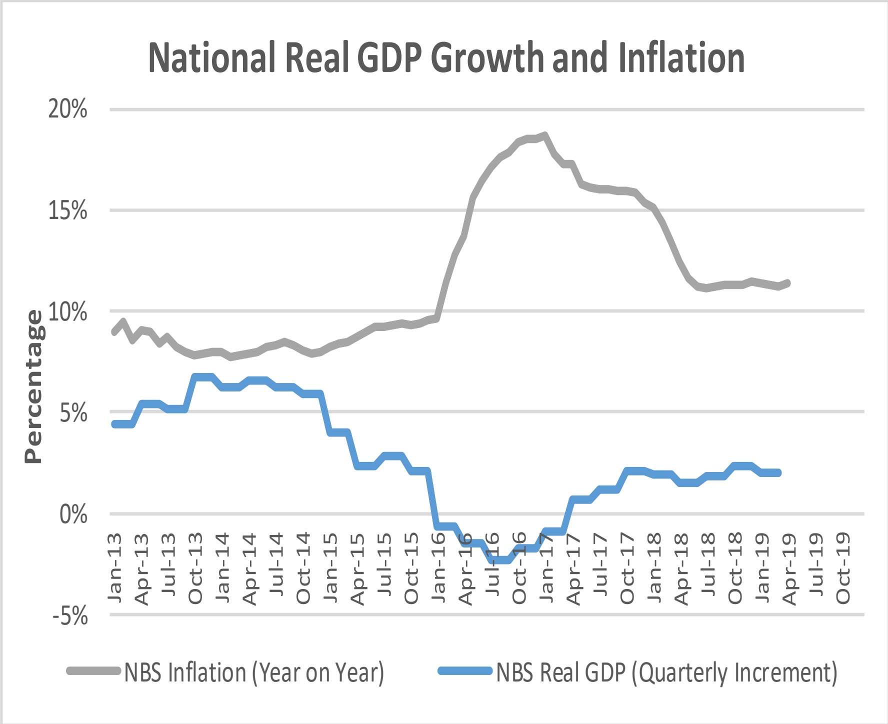
49. **Real GDP -** after five quarters of negative growth (Q1 2016 to Q2 2017), the Nigerian economy has returned to positive real growth albeit significantly lower than the rates observed pre-2016 and some way off the rates envisaged under the ERGP (it should also be noted that real GDP growth is still negative when viewed per capita). Going forward, the IMF sees room for a small improvement, increasing from the current (Q1 2019) rate of 2.0% to 2.7% by 2022, but with downside risks outweighing potential upside. Again, this outlook is somewhat lower than ERGP and the 2019 FG budget assumptions.

50. **Inflation (CPI)** has been stable at 11-11.5% for the last 11 months as broad money supply (M3) continues to expand. This is after a profound spike in 2016 as a result of the devaluation of the NGN: USD rate from 197 to 305 and significantly higher rates on the parallel market. IMF sees the current rate persisting over the next five years (fluctuating between 11% and 12%). Whilst this will help erode the real value of the national debt stock and increase nominal revenues, it will also contribute to higher expenditure inflation.

51. The national quarterly real GDP growth and year on year inflation rates from January 2013 and April 2019 are shown in figure 2 below.

[5] Sources: IMF WEO, April 2019, NBS Reports, CBN Reports, NNPC Reports, OPEC Reports and US Energy Information Administration Reports.

Figure 2: 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

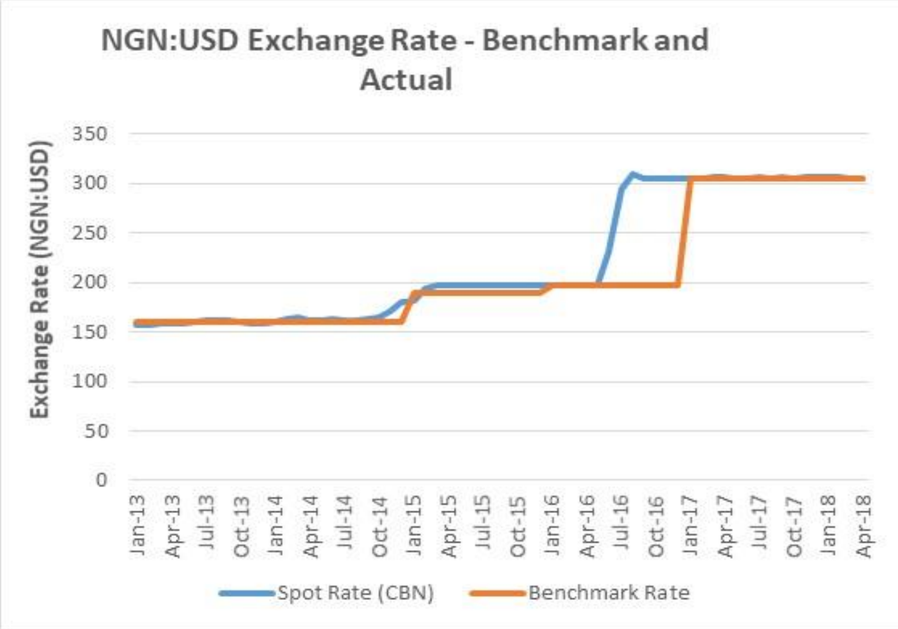
52. **Foreign Exchange Rate** – after the devaluation of the NGN:USD rate from 197 to 305 in mid-2016, foreign exchange reserves have increased considerably, almost doubling from a low of US $24 billion in October 2016 to a high of US $47.8 billion in June 2018 (thanks to improving crude oil prices and 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 (the difference is now less than N60).

53. The convergence of foreign exchange windows accelerated in 2017 and 2018 resulted in moving the retail and wholesale rate closer to the rate in the Investor and Exporter window. This window represents 70-80 percent of the transactions and stayed relatively stable at around N360-N365 to a dollar. The CBN's increasing intervention in the market—effectively moving from being a net purchaser earlier in the year to selling in the latter part of 2018 about 35-40 percent of the foreign exchange traded in the Investor and Exporter window—helped keep the rate in check. However, market segmentation remains through the CBN's official window of N305 per dollar (mainly for petroleum imports and in limited predetermined quantities for some banks), increased sales to invisibles, SMEs, and Bureau de Change (BDCs) (mainly at N360 to a dollar) and the retail SMIS window (N330-N345 to a dollar), distorting economic decision making.

54. Notwithstanding the 20% drop in crude oil prices in late 2018 and small shock to production that led to a marked decline in reserves, highlighting the ongoing dependencies of the Nigerian economy to crude oil and its susceptibility to external shocks. It is envisaged that Federal Government will be motivated to avoid any further significant devaluations as it implements its strategy to move towards a 60:40 Domestic to Foreign debt portfolio, attract foreign investment and bring inflation back below 10%.

55. The NGN:USD exchange rate, which is a key crude oil revenue parameter, for the period January 2013 to April 2019, along with the benchmarks assumed in the Federal Government budgets over the same period, are shown in Figure 3 below.

Figure 3: NGN:USD Exchange Rate



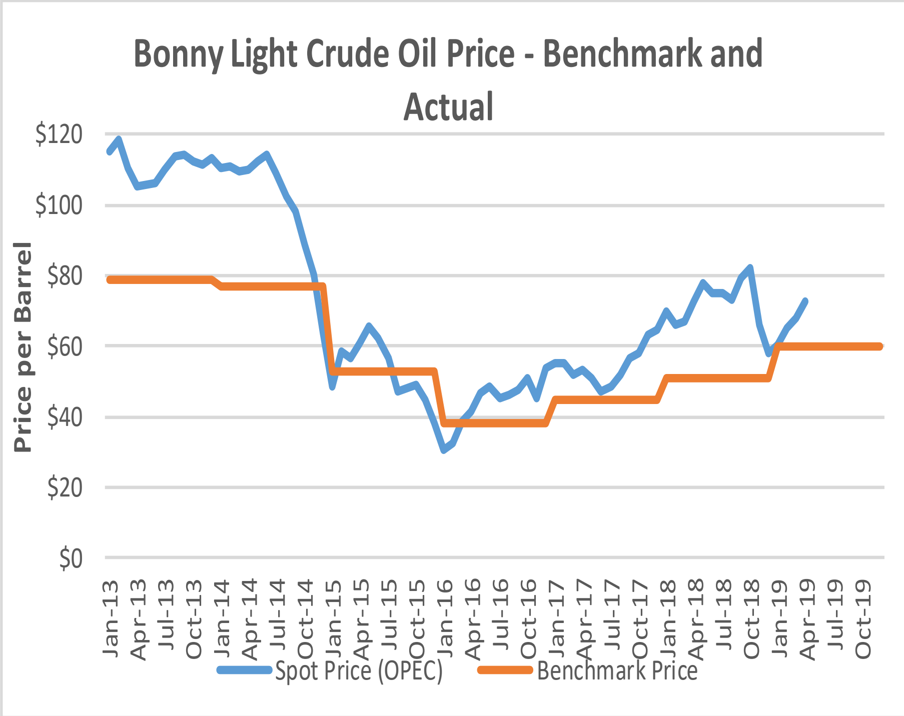
Data Sources and Trends:

- Data from Federal Budget documents and CBN.
- Little variation between benchmark and actual rates over last 6 years.
- NGN:USD FX rate relatively stable from 2011 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.
- Recent closing of gap between IFEM, BDC (Bureau de Change) and parallel market rates.

56. **Crude Oil Price** – global crude oil prices fluctuate based on the delicate balance of supply and demand today and in the future. A combination of oversupply (including substitutes like US shawl gas) and a global demand slump (slowing growth in China and Europe) caused the prices to crash from well over $100 in late 2014 to less than $30 in January 2016. Thereafter, cuts in supply and an improvement in global economic prospects (decreased downside risk) helped prices recover. After a sustained increased in prices over the 30 months from early 2016 to late 2018 (bar a small blip in mid-2017), Bonny Light was trading at marginally more than $80 per barrel. Another unanticipated supply and demand mismatch caused a 20% drop in prices in January-August 2019. However, with recent drone attack on oil facilities of Saudi Arabia (which knocked off more than 40% of Saudi Arabia production capacity) the price oil is increasing marginally. The constant fluctuation only serves to remind authorities of the delicacies and unpredictability's that reinforce the rationale for a benchmark that is set significantly below the current / forecast price.

57. Crude Oil (Bonny Light) Price (spot price and benchmark for the period of January 2013 to April 2019 are presented in Figure 4 below.

Figure 4: Bonny Light Crude Oil Price



Data Sources and Trends:

- Data from Federal Budget documents and OPEC monthly reports.
- Price per barrel dropped from $114 in June 2014 to $48 in January 2015, then to $30 by January 2016
- High point in October 2018 of $82.09, but prices dropped by more than $20 to under $60 in last two months of 2018, highlighting need for buffer when setting benchmark 2019 FG budget based on $60
- Significant factors affecting both supply and demand of crude oil mean outlook is uncertain

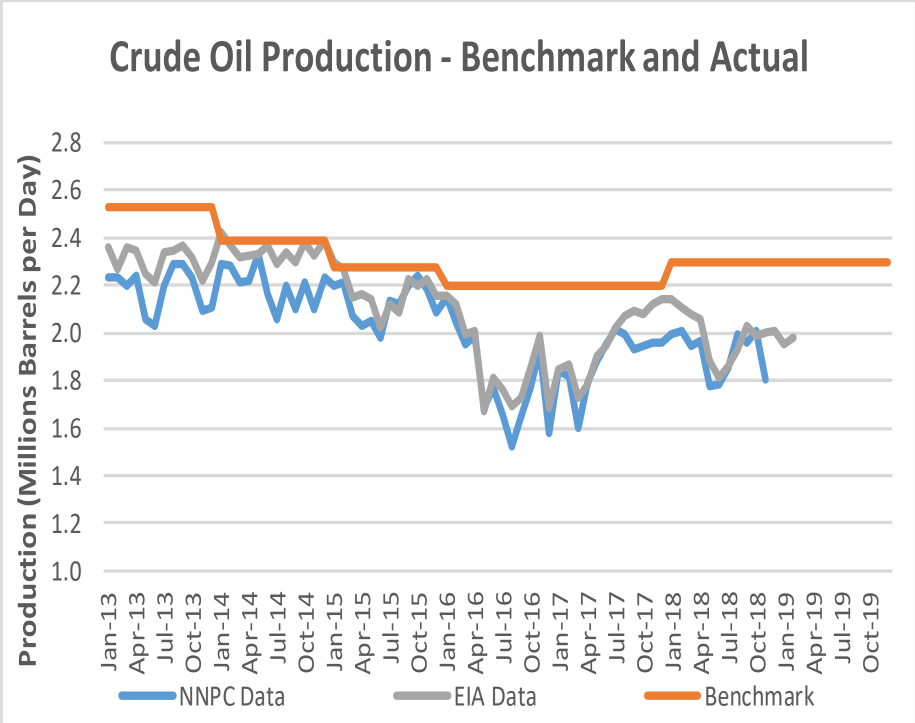
58. As indicated in figure 4 above the current price of about $70 is some way off the high of $114 per barrel recorded in June 2014 – and the outlook into 2020 is that the current price will be maintained. However, it would be unwise to budget on anything higher than $60 in 2020 and into the medium term. The EIA short-term forecast (June 2019) for 2019 and 2020 (spot prices for Brent Crude and Western Texas Intermediate) implies a price for Bonny Light of $68.45 and $70.63 respectively. This offers a buffer of less around 15% compared to the benchmark for 2019 which is lower than the 25% recommended rate. Price and outlook movements over the next six months should be monitored closely and benchmark expectations adjusted should another significant drop in prices materialise.

59. **Crude Oil Production** continues to fall below the potential (believed to be around 2.4 million barrels per day) (MBPD) and it has done for the last four years. Whilst up to date production data is not readily available (the latest official figures from NNPC are for December 2018, DPR has not reported since it's 2017 Annual Report), recent press articles suggest the rate is around 2.0 MBPD at present, and averaged 1.92 MBPD in 2018 according to NNPC (including condensates).

60. Given the lack of buffer against price shocks, a rate of 2.0 seems more reasonable as a basis for 2019 budget estimates, potentially increasing to 2.1 in 2020 (full passage and implementation of the PIB should help encourage more investment in the crude oil sector).

61. Crude Oil Production (including Condensates) for the period January 2013 to Dec 2018 along with the benchmark is presented in figure 5 below.

Figure 5: Crude Oil Production



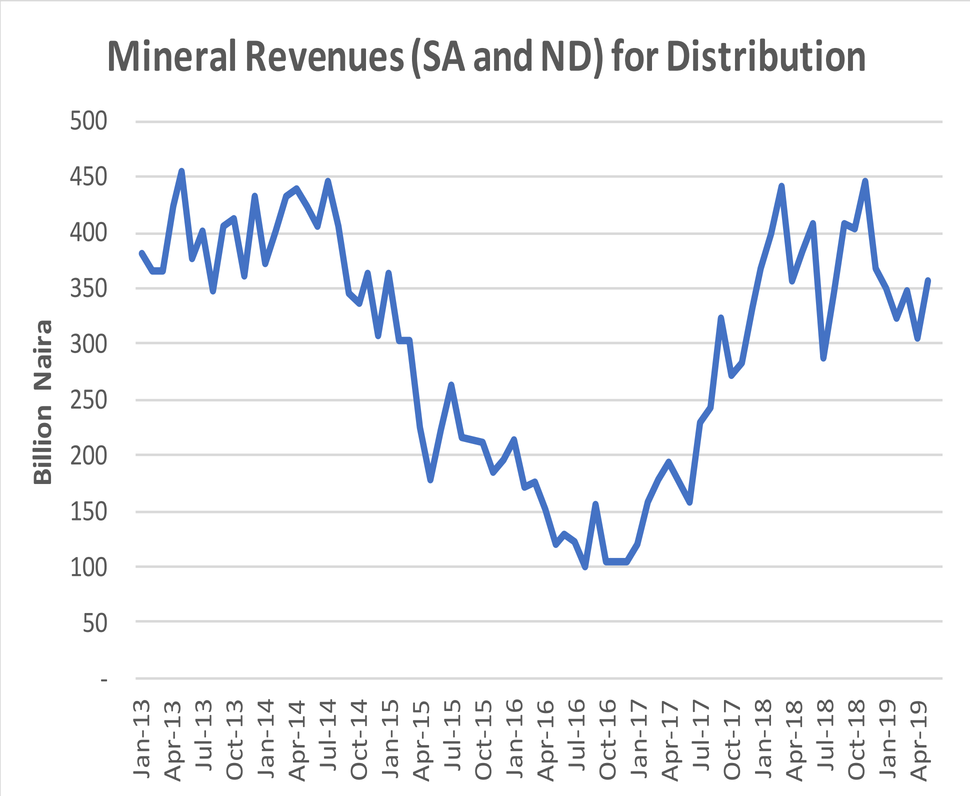
Data Sources and Trends:

- Data from Federal Budget documents and NNPC monthly reports (production includes condensates).
- Production has been below the benchmark throughout the period.
- Fluctuations relatively minimal up to end of 2015, but high degree of variance in 2016, 2017 and 2018.
- Data from NNPC is not up-to-date – but latest newspaper reports suggest 2.0 MBPD – some way off 2019 FG Benchmark of 2.3

62. The Federal MTEF/FSP 2019-2021 and draft MTEF/FSP 2020-2022 documents projected 2.3 MBPD for 2019 and 2.18 MBDP for 2020 – these levels of production have never been sustainably achieved before. And bringing extra production online may also involve additional costs (exploration) and involve production sites that incur higher costs.

63. Monthly distributed Mineral Revenues (Statutory Allocation (SA) and Net Derivation (ND)) to the three tiers of government from January 2013 to April 2019 inclusive are shown in figure 6 below.

Figure 6: Distributed Mineral Revenues



Data Sources and Trends:

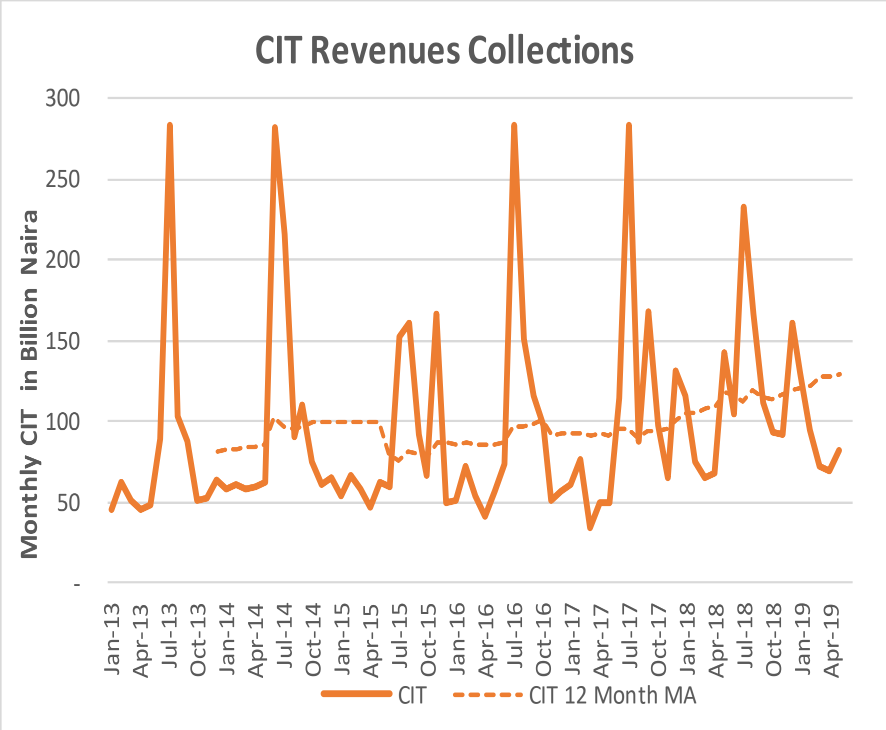
- Data from FAAC summary sheets (OAGF).
- Distributed Mineral Revenues fell to a record low of less than N100 billion in late 2016.
- Strong growth in 2017 and early 2018 with a high of almost N450 billion in March 2018 and has been fluctuating between N300 billion and N450 billion.
- Increases are as a result of price and production increases and devaluation of naira.

64. The increase in distributable revenues (this is after deduction of excess crude) over the last 18 months is significant – from around N105 billion in December 2016 to N442 billion in March 2018. The combination of increasing production, price and devaluation of naira have all contributed to the increase.

65. The distribution of N442 billion in March 2018 has only been surpassed on three previous occasions (October 2011, May 2013, July 2014). However, for the first four months of 2019 the distributable mineral revenue hovered around N300 billion and N350 billion lower than around N400 billion for corresponding months in 2018.

66. Gross Companies Income Tax (CIT) revenues, which are distributed as part of Statutory Allocation, from January 2013 to May 2018 inclusive are shown in Figure 7 below. The graph also includes linear trend.

Figure 7: CIT Revenues



Data Sources and Trends:

- Data from FAAC summary sheets (OAGF).
- CIT trend of an annual spike in collections in June (distributed in July) continued in 2018 at approximately the same level as previous years.
- Over 40% of the annual collected revenue flows in the three months from June to August.
- Quite significant variability in receipts over the last nine months, including large distributions in December 2018.
- Linear trend added to graph to smooth large fluctuations.

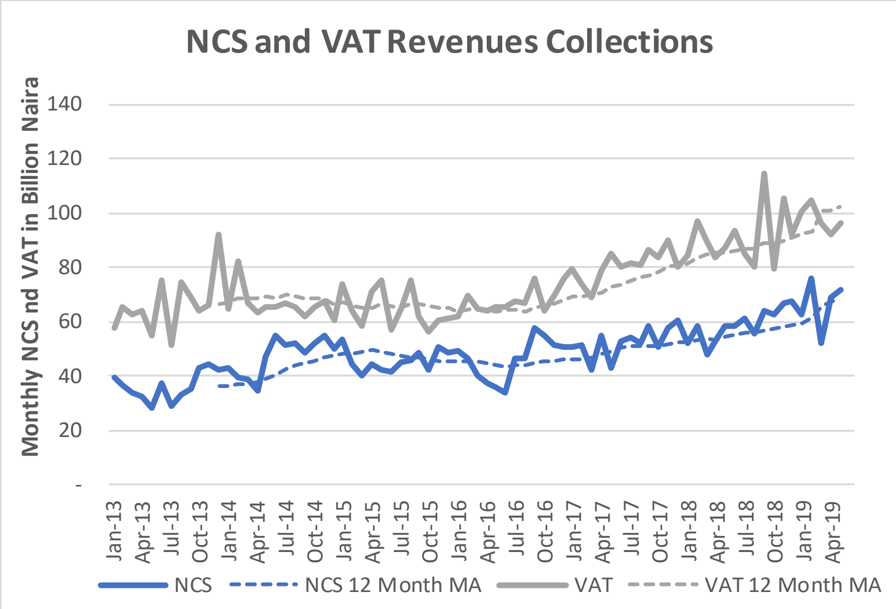
67. The graph shows the annual spike in distributions (collections from the previous month) that is in line with the annual tax returns and payment cycle in FIRS. This generally happens in July. However, the level of collections since the July 2017 spike has been variable and on average, significantly higher than in previous years (i.e. distributions from August to May).

68. The total collection from August 2017 to April 2019 is 35% higher than the collections from August 2016 to April 2017. This may be due to one off collections as part of the FIRS amnesty programme (which ended in December 2017, and has been extended to end of June 2018), but these should also result in more corporate taxpayers being brought into the net which will boast tax collections in subsequent years.

69. There is also a clear upward trend in CIT as shown by the linear trend line (which is useful given the level of fluctuation). Forecast of CIT for full-year 2019 and 2020 is still difficult, it will be easier once the mid-year collections are known.

70. Customs and Excise duties (NCS), which is distributed as part of Statutory Allocation, and VAT (which is distributed in its own right), for the period January 2013 to May 2018 are shown in Figure 8 below.

Figure 8: NCS and VAT Revenues



Data Sources and Trends:

- Data from FAAC summary sheets (OAGF).
- Data from online FAAC summary sheets (www.oagf.gov.ng)
- NCS Distributed as part of Statutory Allocation, Subject to a 7% cost of collection deduction
- VAT Distributed on it's own, Subject to a 4% cost of collection deduction
- Both on upward trend over last three years, VAT more so than NCS
- Inflation has significant impact on VAT

71. VAT shows a clear upward trend since late-2015. This is to be expected as the general price level rose quite significantly over the same period, which should transfer straight into additional VAT (for VAT-able items). There is still a level of monthly volatility that makes it slightly difficult to forecast. However, with the economy returning to positive real growth and inflation staying slightly above 10% for some time, it is anticipated that VAT will continue to grow in nominal terms.

72. It is important to note that the Federal Executive Council at its meeting of 11th September 2019 approved an increase in VAT rate from 5% to 7.2% (increase of 44%) to effect from 1st January 2020. However, this is subject to amendment of Value Added Tax Act, 1991 by the National Assembly. If the new VAT rate takes effect in January 2020 as proposed, there will be a major upward jump in VAT collections in 2020 and beyond.

73. Exchange rate controls import policy and devaluing Naira may have affected some Customs receipts. However, there are still some short-term volatility and Federal Revenue reforms should increase collections in the medium term, but the timing of impact uncertain.

74. Based on the above historical trend and projections by various agencies (NBS, CBN, IMF, EIA, etc.), an outlook for the remainder of 2019 and 2020-2022 is provided in

75. Table below.

Table 4: 2019-2022 Macroeconomic Outlook

Year	2019	2020	2021	2022	2023	2024
National Inflation (CPI)	11.70%	11.70%	11.30%	11.40%	11.10%	11.00%
National real GDP Growth	2.30%	2.60%	2.40%	2.70%	2.60%	2.60%
GDP Deflator	9.6%	8.8%	8.4%	8.4%	8.4%	8.4%
GDP Nominal (Trillion NGN)	144.6	161.2	179.1	199.5	199.5	199.5
Implied Growth in NCS	11.73%	11.39%	11.31%	13.77%	13.81%	13.85%
Implied Growth in CIT	11.74%	11.39%	11.31%	13.77%	13.81%	13.85%
Implied Growth in VAT	10.10%	9.81%	55.00%	11.85%	11.89%	11.92%
Oil Price (Benchmark)	$60	$55	$60	$60	$60	$60
Oil Production MBPD (Benchmark)	2.00	2.10	2.20	2.20	2.20	2.20
NGN:USD Exchange Rate (Benchmark)	305.00	305.00	305.00	305.00	305.00	305.00
Mineral Ratio	0.32	0.34	0.36	0.38	0.40	0.42

2.A.4 Gombe State Economy

76. The dominant economic activities in Gombe State are agriculture, public service and trading. It is estimated that subsistence agriculture accounts for about 70% of total employment and the civil service provides the bulk of paid employment. A small proportion of total employment is provided by commercial enterprises while the rest of the population embarks on self-employment through commercial and other activities.

77. The State is endowed with vast arable and grazing land stretching through three vegetation zones comprising sudan savannah in the northern part, guinea savannah in the central part and forest savannah in the southern part. The ecological conditions of the State hold out enormous prospects for the abundant production of a variety of crops. It produces cash crops such as groundnut, cotton, cowpea, etc as well as food crops like maize, guinea corn, millet, rice, etc and other types of vegetables. A large number of the farmers involved in crop production are women. The expansive and rich grazing land encourages the rearing of cattle, goats, sheep, donkeys and horses.

78. Gombe State has enormous water resources comprising rivers, inland lakes and dams. There are three dams that are considered to be among the largest dams in Nigeria. The presence of these masses of water presents great opportunities for fishery and tourism development activities. The irrigation potentials of the water resources could also be harnessed for all year-round crop and fish production.

79. There are rich deposits of solid minerals in commercial quantities spread across the State. These include clay, limestone, uranium, columbite, talc, silica sand, gypsum, halites, dotomite, coal, zircon, agatey, dolomite, granite, quartz, galena, amethyst, mica, bentonite, tourmaline, opal, topoz, iron ore, sand and kaolin among others. The State has several cultural and heritage sites in different communities. These include the Kanawa forest and Bima hill in Yamaltu Deba Local Government. These sites and the mild weather condition, hilly and undulating physical landscape perennially covered by green grass, endow the State with good tourism potentials.

80. There is one large industrial enterprise in the State, i.e. Ashaka Cement Company, as well as a few medium size enterprises and several cottage industries and business concerns. The private sector in the State is dominated by informal sector activities such as trading, transportation, subsistence farming, agro-processing, poultry and animal production as well as production of local arts and crafts.

81. The size of the organised and formal private sector is small and highly concentrated in the few urban centres, particularly the State Capital, Gombe Town. The major activities undertaken by most enterprises in the formal private sector are services, finance, insurance and general commerce.

82. Like most States in Nigeria, the State depends largely on statutory allocations and other transfers from the Federation Account for recurrent revenue used to finance its annual budgets. In its drive to improve internally generated revenues, in addition the State has embarked on the reform and modernization of its Internal Revenue Service, and the upgrading of its revenue generating assets.

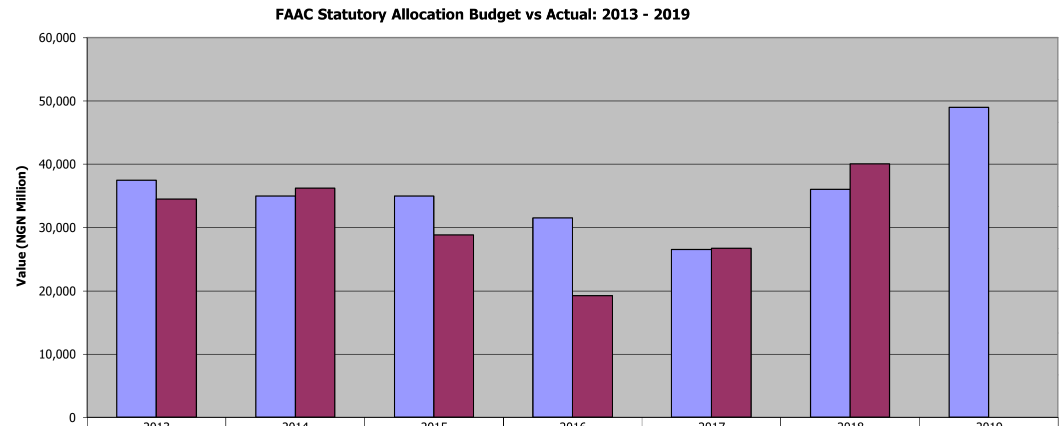
2.B Fiscal Update

2.B.1 Historic Trends

Revenue Side

83. On the revenue side, the document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – budget versus actual for the period 2013-2018 (six years historic) and 2019 budget.

Figure 9: Statutory Allocation



	2013	2014	2015	2016	2017	2018	2019
Budget	37,500,000,000	35,000,000,000	35,000,000,000	31,500,000,000	26,500,000,000	36,000,000,000	49,000,000,000
Actual	34,496,656,091	36,222,919,851	28,801,451,268	19,201,195,433	26,707,628,707	40,051,555,731	0
Performance	92.0%	103.5%	82.3%	61.0%	100.8%	111.3%	0.0%
Growth		5.00%	-20.49%	-33.33%	39.09%	49.96%	0.00%

Year

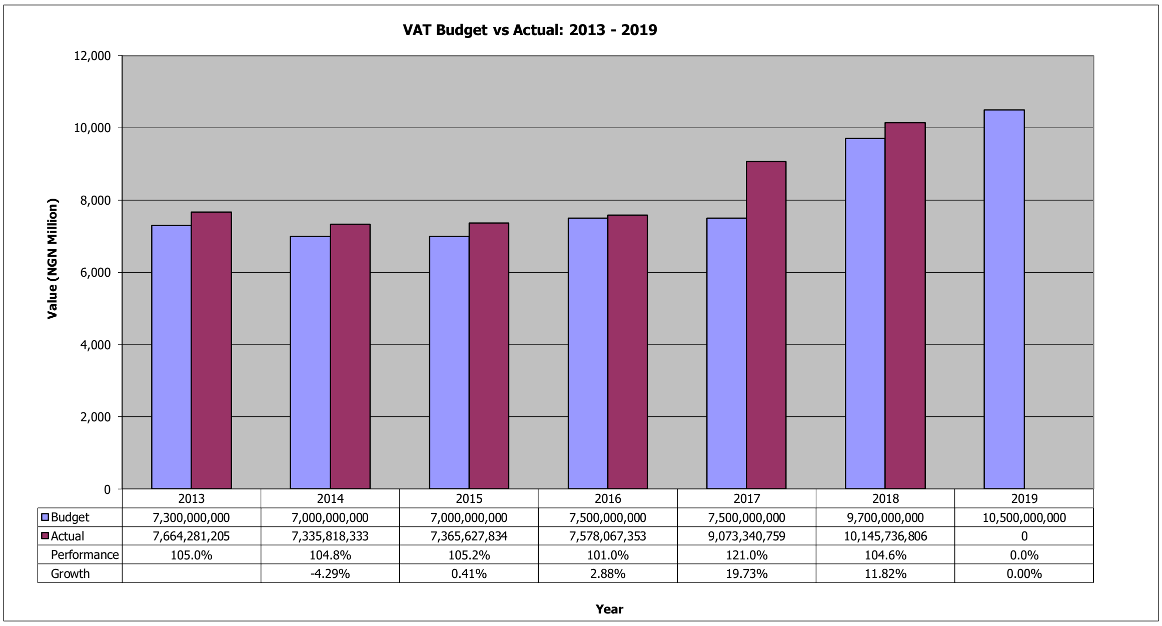
84. Statutory Allocation is a transfer from Federation Account that is distributed to all three tiers of government based on vertical (percentage to each of the three tiers) and a horizontal (e.g. Equity, land mass, population, etc) sharing formula. The revenue that flows into the Federation Account as Statutory allocation comes from the mineral and non-mineral sources (company income tax and custom and excise duties).

85. FAAC Statutory Allocations make up a significant portion of Gombe State Government's recurrent revenues (almost 70% in 2018), consequently, realistic forecasting that would ensure strong performance is of great importance.

86. Actual performance has been relatively stable, over the period 2013-2018. In 2013, the performance of statutory allocation was 92%, while in 2014 the performance was 103% (i.e. 3% more than budget). The performances in 2015 and 2016 were as impressive as the preceding years. But in 2017, Statutory Allocation actual performance was 100.8% and 111.3% in 2018.

87. Statutory Allocation increased by 5% in 2014 but declined by 20% in 2015 and further declined by 33% in 2016. However, Statutory Allocation grew by 39% in 2017 and additional 49% in 2018.

Figure 10: VAT



	2013	2014	2015	2016	2017	2018	2019
Budget	7,300,000,000	7,000,000,000	7,000,000,000	7,500,000,000	7,500,000,000	9,700,000,000	10,500,000,000
Actual	7,664,281,205	7,335,818,333	7,365,627,834	7,578,067,353	9,073,340,759	10,145,736,806	0
Performance	105.0%	104.8%	105.2%	101.0%	121.0%	104.6%	0.0%
Growth		-4.29%	0.41%	2.88%	19.73%	11.82%	0.00%

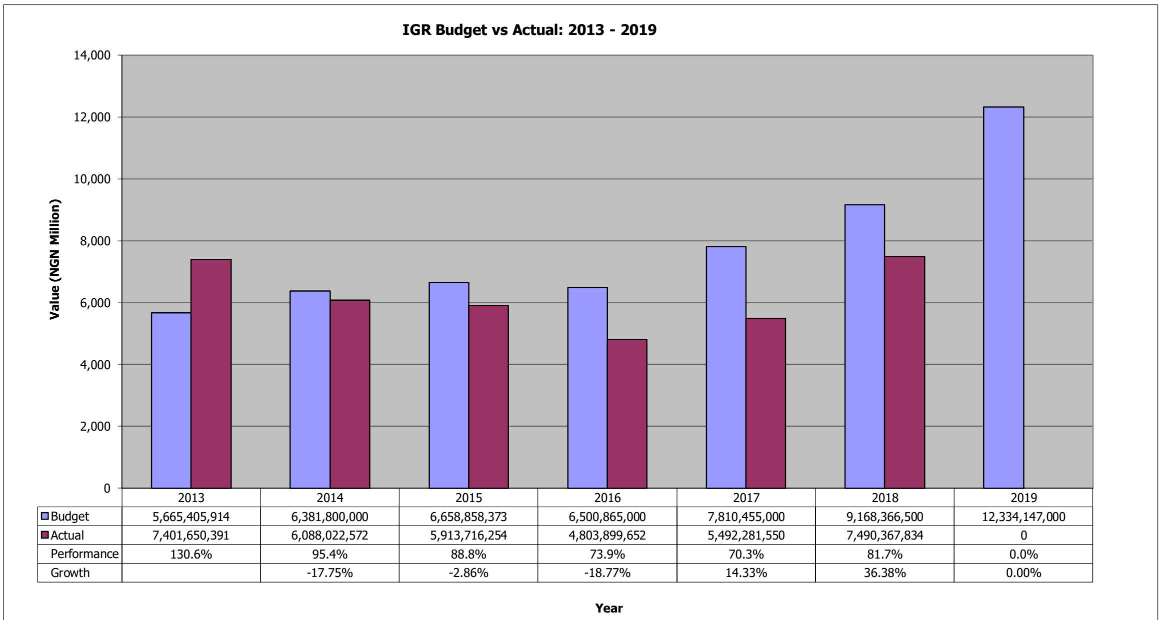
88. Value Added Tax (VAT) is an ad-valorem tax applied to sales of almost all goods and services within the Nigerian economy which is applied at a rate of 5%. VAT is collected by FIRS and distributed across the three tiers of government. The distribution to each state is based on a set of criteria slightly different from statutory allocation distribution.

89. The VAT receipt in Gombe State decreased by 4.29% in 2014 from figure of N7.66 billion in 2013; and has fluctuated between N7.33 billion and N7.57 to billion for three consecutive years (2014-2016). In 2017, due to exit from recession with the resultant increase in the level of economic activity, the VAT receipts grew by 19.73% and increased 11.82% in 2018.

90. The VAT revenue forecasting over the period 2013-2016 and 2018 has consistently been close to actual (less than 6% variance) while in 2017 the actual was higher than budget by 21%.

91. Going forward, Gombe State should monitor closely whether new VAT rate of 7.2% is approved by the National Assembly and the commencement date for the new rate.

Figure 11: IGR

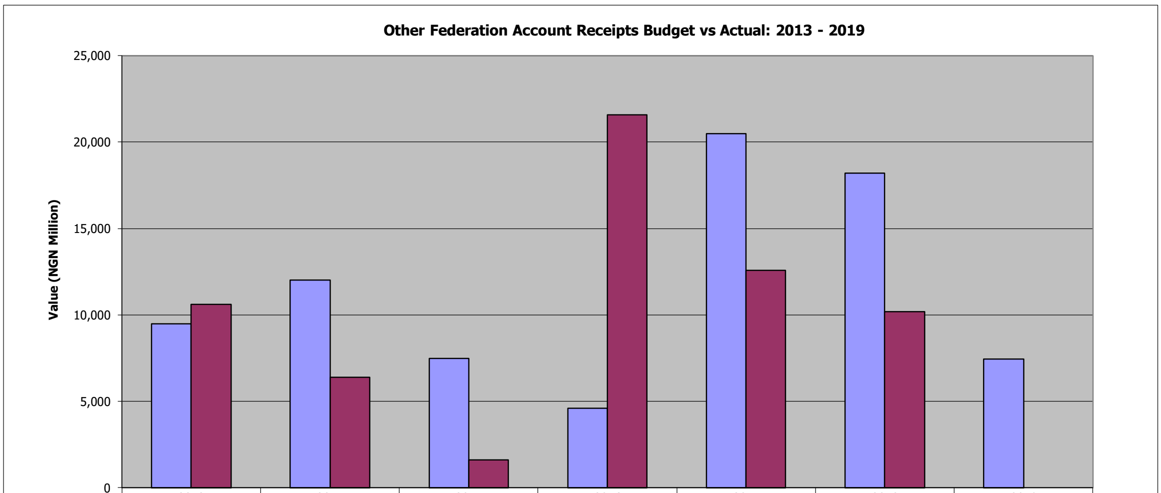


	2013	2014	2015	2016	2017	2018	2019
Budget	5,665,405,914	6,381,800,000	6,658,858,373	6,500,865,000	7,810,455,000	9,168,366,500	12,334,147,000
Actual	7,401,650,391	6,088,022,572	5,913,716,254	4,803,899,652	5,492,281,550	7,490,367,834	0
Performance	130.6%	95.4%	88.8%	73.9%	70.3%	81.7%	0.0%
Growth		-17.75%	-2.86%	-18.77%	14.33%	36.38%	0.00%

92. Internally Generated Revenue (IGR) is collected by BIR and revenue collecting MDA's. The major sources of IGR are PAYE, lands and land Services, withholding tax, fine, fees, licenses and other sources.

93. Over the last five years (2014 - 2018), actual IGR collection has been lower than the budgeted. Actual IGR collection declined by 17.75% in 2014, while in 2015, Gombe State recorded a marginal decline in IGR collection (of 2.86%) from N6 billion in 2014 to N5.91 billion and further declined by 18.77% in 2016. IGR performance recovered slightly, increasing by 14.33% from N4.8 billion in 2016 to N5.49 billion in 2017. Gombe State also maintained a positive IGR growth rate of 36.38% in 2018.

Figure 12: Other FAAC Receipts



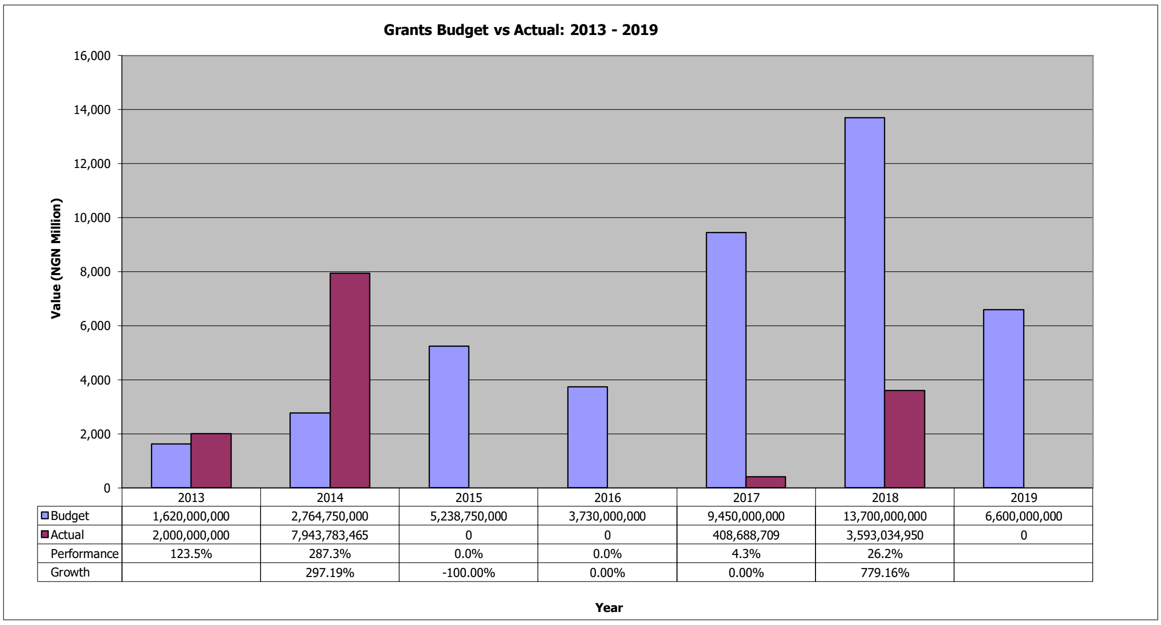
	2013	2014	2015	2016	2017	2018	2019
Budget	9,500,000,000	12,000,000,000	7,500,000,000	4,600,000,000	20,500,000,000	18,200,000,000	7,450,000,000
Actual	10,615,649,049	6,395,811,400	1,597,984,910	21,569,212,805	12,567,010,380	10,181,292,947	0
Performance	111.7%	53.3%	21.3%	468.9%	61.3%	55.9%	
Growth		-39.75%	-75.02%	1249.78%	-41.74%	-18.98%	

Year

94. Other FAAC receipts include all FAAC distributed revenue accruing from other sources such as Excess crude, exchange gains, refunds from NNPC and FIRS, augmentations and any other excesses.

95. The actuals, over the period 2013-2018, have varied greatly in real terms, and against the budget, underperforming in all the years, except 2013 and 2016. The 2016 receipts have included the bailout fund, which explains the performance of 1249% while in 2017, other FAAC receipts, declined by 41.74% and further declined by 18.98% in 2018. Due to their ad-hoc nature, budgeting for other Federation Accounts receipts should be done prudently and the assumptions around them need to be addressed in the fiscal risks section.

Figure 13: Grants

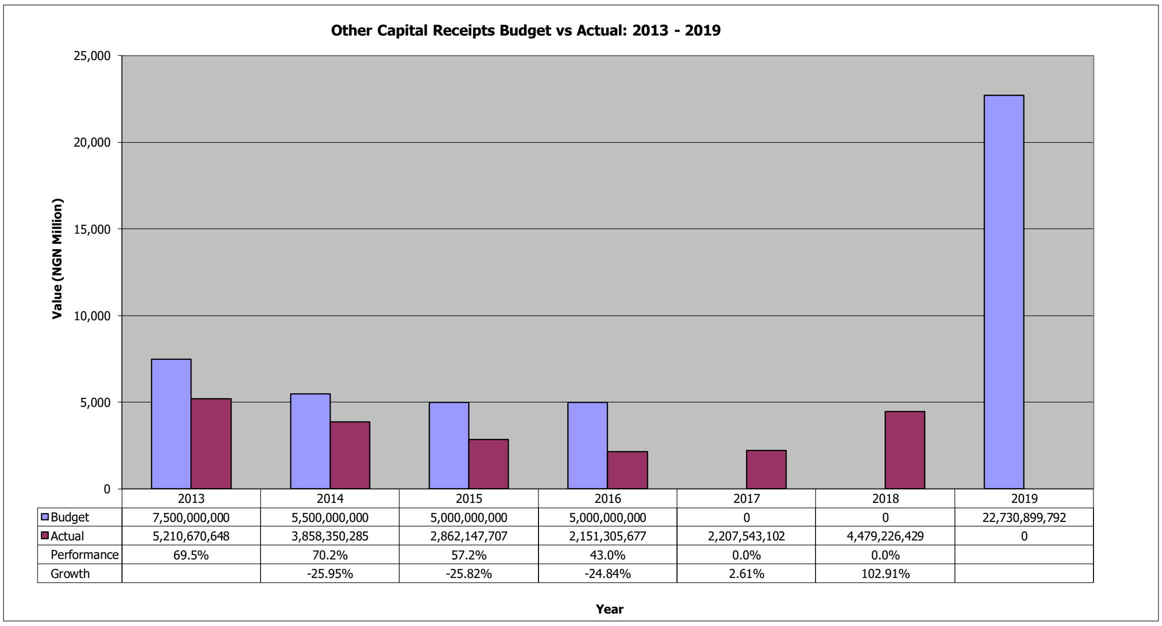


	2013	2014	2015	2016	2017	2018	2019
Budget	1,620,000,000	2,764,750,000	5,238,750,000	3,730,000,000	9,450,000,000	13,700,000,000	6,600,000,000
Actual	2,000,000,000	7,943,783,465	0	0	408,688,709	3,593,034,950	0
Performance	123.5%	287.3%	0.0%	0.0%	4.3%	26.2%	
Growth		297.19%	-100.00%	0.00%	0.00%	779.16%	

96. Grants are receipts from federal government and development partners such as Federal Government Conditional Grant Scheme, Federal Government Universal Basic Education Scheme, UNICEF, etc.

97. Gombe State needs to provide more information about grants as significant receipts on grants are shown in the budget over the period 2013-2019, but the accounts only show minor actuals in 2013, 2017 and 2018. In 2015 and 2016. Huge amount of grants was budgeted but actual grants accruing to the State was zero during the two fiscal years. The extreme deviation of actual vs budgeted across the board implies that there might be some inconsistencies in recording and reporting actuals, rather than attributing the deviation to the difference in expectation of receipts, and what the donors provide.

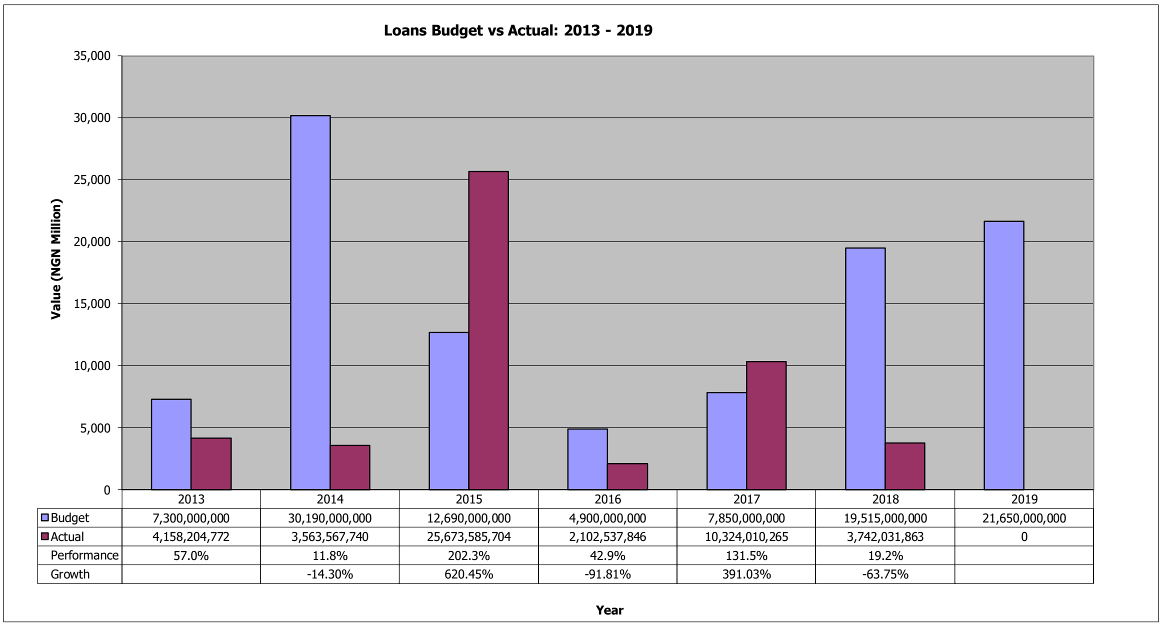
Figure 14: Other Capital Receipts



	2013	2014	2015	2016	2017	2018	2019
Budget	7,500,000,000	5,500,000,000	5,000,000,000	5,000,000,000	0	0	22,730,899,792
Actual	5,210,670,648	3,858,350,285	2,862,147,707	2,151,305,677	2,207,543,102	4,479,226,429	0
Performance	69.5%	70.2%	57.2%	43.0%	0.0%	0.0%	
Growth		-25.95%	-25.82%	-24.84%	2.61%	102.91%	

98. Significant other capital receipts have been budgeted over the last six years. In some instances, these receipts have not materialised, in others there are receipts without corresponding budget as in 2017 and 2018. Budgeting and recording of actual receipts and performance levels are misleading in some years.

Figure 15: Loans / Financing



	2013	2014	2015	2016	2017	2018	2019
Budget	7,300,000,000	30,190,000,000	12,690,000,000	4,900,000,000	7,850,000,000	19,515,000,000	21,650,000,000
Actual	4,158,204,772	3,563,567,740	25,673,585,704	2,102,537,846	10,324,010,265	3,742,031,863	0
Performance	57.0%	11.8%	202.3%	42.9%	131.5%	19.2%	
Growth		-14.30%	620.45%	-91.81%	391.03%	-63.75%	

99. Loans include both Internal and External loans. Internal loans include, development bond, short term commercial loan, contractual obligations etc. External loan are receipts from World Bank, African Development, etc.

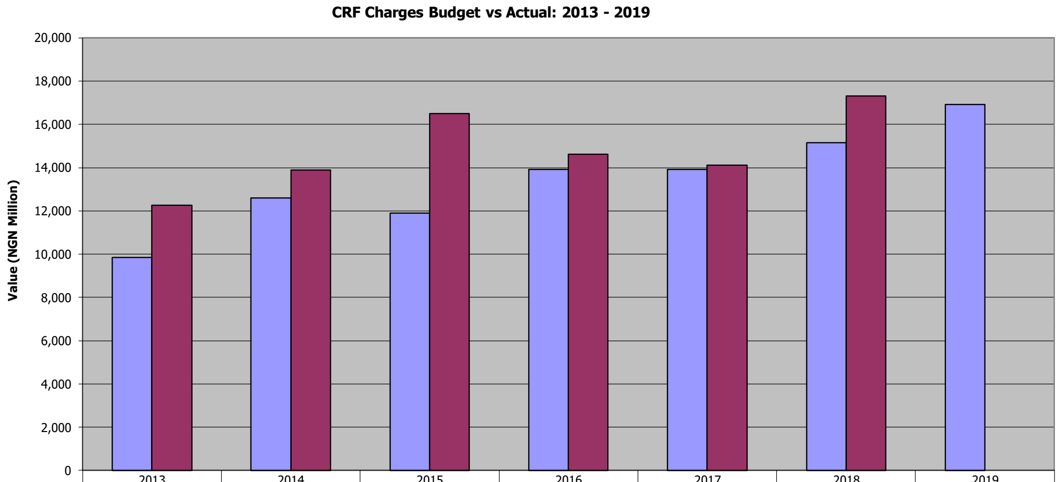
100. The budget for 2014 was N30.19 billion with only N3.56 billion as actual receipt (i.e. 11.8% performance). In 2015, Gombe State budgeted N12.69 billion with N25.67 billion actual receipt (i.e. 202.3% performance). The budgeted and actual have been fluctuating up and down.

101. The loan receipt has some degree of uncertainty over its timing or actual materialisation. Going forward, the funds should be ringfenced for specific activities so that, in the event the funds do not materialise, the expenditure does not happen. The use of the Source of Funds classification in the National Chart of Accounts will assist in this ringfencing.

Expenditure Side

102. On the expenditure side, the document looks at Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2013-2018 (six years) and 2019 budget.

Figure 6: CRF Charges



	2013	2014	2015	2016	2017	2018	2019
Budget	9,839,275,000	12,597,977,000	11,890,225,000	13,918,750,000	13,916,650,000	15,148,250,000	16,934,240,000
Actual	12,261,694,431	13,878,849,149	16,509,972,990	14,610,483,918	14,125,701,779	17,306,909,109	0
Performance	124.62%	110.17%	138.85%	104.97%	101.50%	114.25%	
Growth		13.19%	18.96%	-11.51%	-3.32%	22.52%	

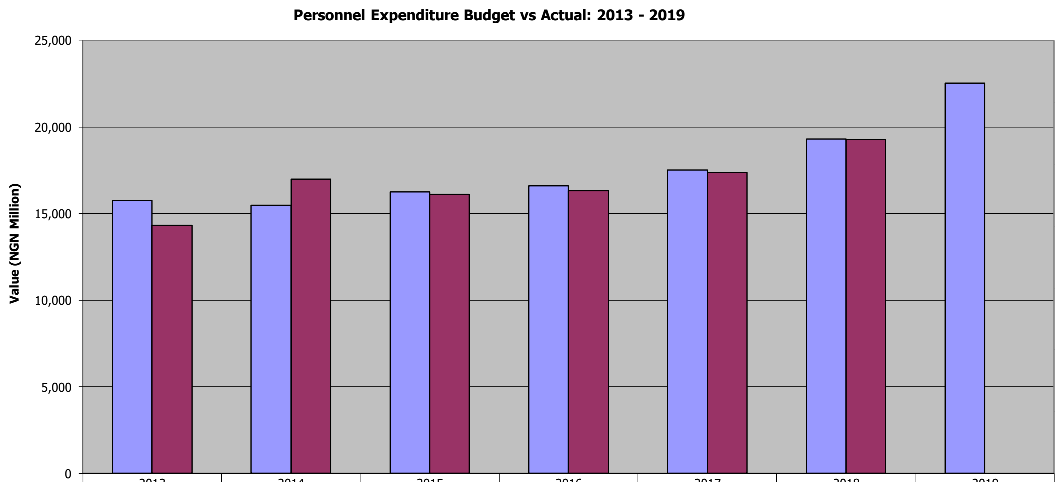
Year

103. Consolidated Revenue Fund (CRF) charges include Public Debt Charge, Pensions and Gratuities, other social contribution items. Salaries of Judicial Officers, Political Office holders, Permanent Secretaries, Accountant General, Auditor Generals of state, Auditor Generals of Local Government and members of Statutory Commission are captured under personnel costs.

104. The targets and performance in all the years indicated a good projection particularly in 2016, 2017 and 2018 with variance of less than 5%. The graph indicated that actual were higher than budget in all the years. CRF grew in 2014 and 2015 and declined in 2016 and 2017 and recorded growth in 2018.

105. Strong forecasting ability, to maintain equality in both budget and actuals, should provide for accurate estimates going forward as well as ensuring that debt data is kept up-to-date and regularly reconciled with the federal Debt Management Office (DMO).

Figure 7: Personnel



	2013	2014	2015	2016	2017	2018	2019
Budget	15,773,000,000	15,491,023,841	16,275,883,677	16,598,084,921	17,515,054,409	19,320,916,074	22,528,719,208
Actual	14,328,864,071	17,015,961,497	16,120,994,826	16,340,961,715	17,396,484,632	19,276,643,132	0
Performance	90.84%	109.84%	99.05%	98.45%	99.32%	99.77%	
Growth		18.75%	-5.26%	1.36%	6.46%	10.81%	

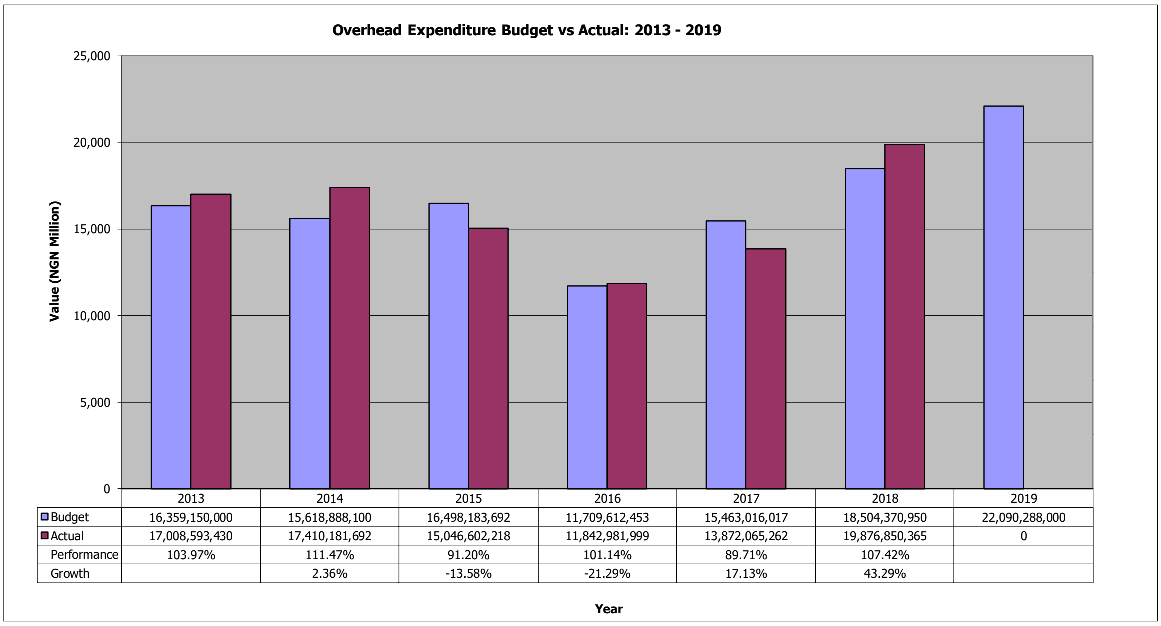
Year

106. Personnel Cost comprised of salaries and allowances of civil servants, public servants in government agencies and parastatals, members of the State House of Assembly, Judicial

Officers, Political Office holders, Permanent Secretaries, Accountant General, Auditor Generals of state, Auditor Generals of Local Government and members of Statutory Commissions.

107. Over the period 2013 - 2018, the actual personnel expenditure as a percentage of the budget has been between 90% and 110% with some years recording variance of less than 2% (i.e. 2015, 2016, 2017 and 2018). Personnel cost grew at minimal rate from N14.32 billion in 2013 to 19.27 billion in 2018. However, the 2019 personnel expenditure budget increased from N19.32 billion in 2018 to N22.52 billion. This exponential increase needs to be investigated and possibly factored into the 2020 personnel forecast.

Figure 8: Overheads

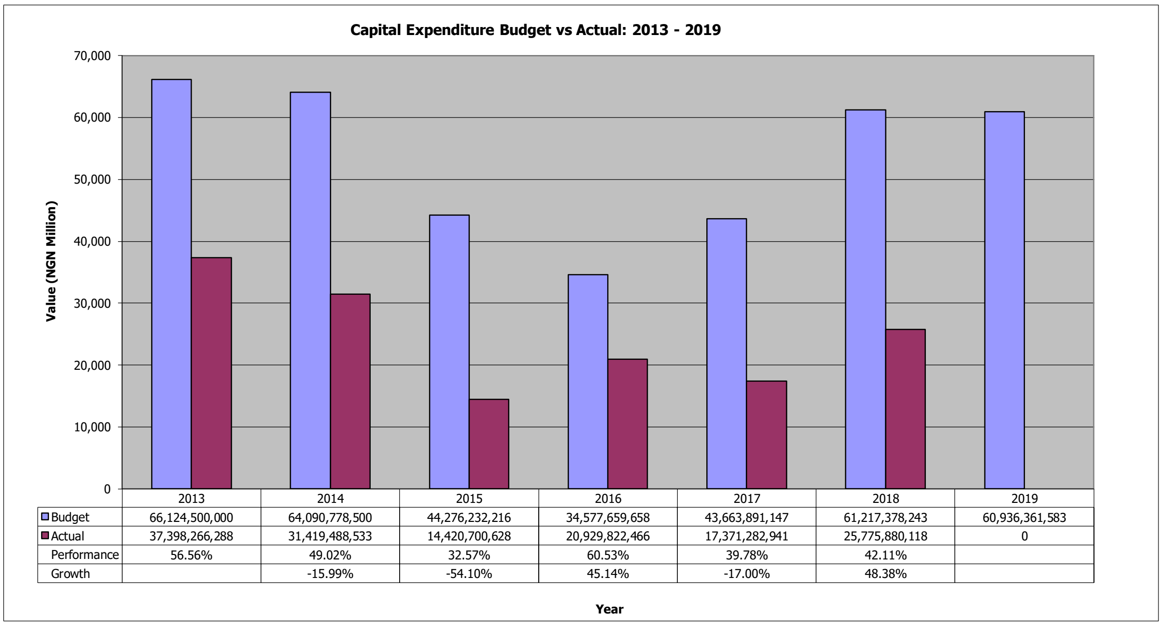


	2013	2014	2015	2016	2017	2018	2019
Budget	16,359,150,000	15,618,888,100	16,498,183,692	11,709,612,453	15,463,016,017	18,504,370,950	22,090,288,000
Actual	17,008,593,430	17,410,181,692	15,046,602,218	11,842,981,999	13,872,065,262	19,876,850,365	0
Performance	103.97%	111.47%	91.20%	101.14%	89.71%	107.42%	
Growth		2.36%	-13.58%	-21.29%	17.13%	43.29%	

108. Overhead expenditure comprises of operational and maintenance cost for running day-to-day Government activities.

109. Overhead expenditure has been relatively volatile, with a downward trend over the period 2014-2016, and a recovering upward trend over the period 2017 - 2018. However, performance over budget has been stable over the period as actual performance has been close to budget with variance of between 2% and 11% in all the years.

Figure 9: Capital Expenditure



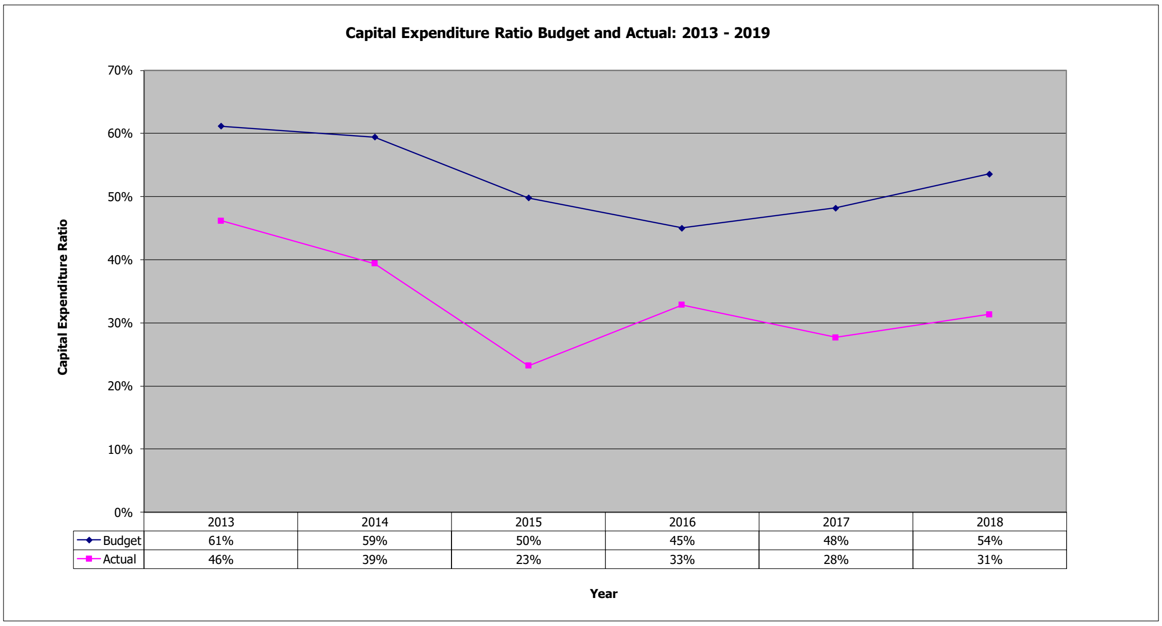
	2013	2014	2015	2016	2017	2018	2019
Budget	66,124,500,000	64,090,778,500	44,276,232,216	34,577,659,658	43,663,891,147	61,217,378,243	60,936,361,583
Actual	37,398,266,288	31,419,488,533	14,420,700,628	20,929,822,466	17,371,282,941	25,775,880,118	0
Performance	56.56%	49.02%	32.57%	60.53%	39.78%	42.11%	
Growth		-15.99%	-54.10%	45.14%	-17.00%	48.38%	

110. Capital Expenditure includes the main investment and implementation of programmes and projects of government.

111. The capital expenditure for the period (2013 – 2018) has been highly unstable, with the actual capital expenditure deviating significantly from the budget performance during this period, only performing above 50% in 2013 and 2016. The trend expectation for budgeted and actual capital expenditure has been linear, with actual falling as budgeted figure declines.

112. Over the period 2013-2018, the actual capital expenditure has consistently underperformed against the budget. The expected levels of grants and loan drawdowns were over ambitious and far from reality thereby affecting capital spending and the delivery of capital projects. Forecasting trends show the need for a more conservative capital expenditure budgeting.

Figure 10: Capital Expenditure Ratio



	2013	2014	2015	2016	2017	2018
Budget	61%	59%	50%	45%	48%	54%
Actual	46%	39%	23%	33%	28%	31%

113. The budgeted Capital Expenditure ratio for the period 2013 – 2018 has been between 45% and 61% but has failed to reach these levels in terms of actual expenditure. The significant

drop in 2015 (23%) was largely due to revenue short falls as global crude oil prices dropped and Nigeria went through its election cycle (resulting in some economic and tax slow down).

114. Stronger revenue drive (particularly IGR), better reporting on loan and grant receipts and expenditures, and more efficient in overhead expenditure can all contribute to a higher level of actual capital expenditure in future years.

By Sector

115. Analysis of both personnel, overhead and capital budget and actual expenditure with performance indicators for all sectors from 2015 to 2018 are presented in tables below.

Table 11: Sector Expenditure Trend – Personnel

Personnel Expenditure by Sector								
No.	**Sector**	**2015 Budget**	**2015 Actual**	**2016 Budget**	**2016 Actual**	**2017 Budget**	**2017 Actual**	**Performance**
1	**Economic Sector**	0	0	0	0	0	0	0.00%
2	**Agriculture**	825,690,230	905,577,477	860,923,072	757,942,170	883,041,502	747,358,904	93.82%
3	**Trade, Industry & Co-operatives**	265,716,959	206,957,736	247,489,379	264,503,857	272,901,220	271,855,283	94.56%
4	**Infrastructure**	418,935,199	373,573,035	397,889,059	387,744,390	442,121,880	348,838,895	88.18%
5	**Water**	360,093,982	387,422,241	363,384,849	357,363,777	369,546,284	331,824,270	98.50%
6	**Rural & Community Development**	63,224,948	155,976,274	48,645,776	44,263,974	157,345,426	138,171,191	125.70%
7	**Finance & Economic Planning**	442,837,422	405,690,146	420,430,178	415,259,971	473,267,310	419,335,346	92.80%
8	**Science, Technology, Energy & Mineral Res**	30,197,822	29,348,587	32,933,387	38,704,183	50,662,745	31,900,351	87.84%
9	**Social Sector**	0	0	0	0	0	0	0.00%
10	**Education**	4,906,041,119	4,063,239,056	5,026,235,987	5,492,192,435	5,670,096,853	5,110,558,463	94.00%
11	**Health**	4,096,754,952	4,015,957,974	4,456,188,448	4,481,847,863	4,022,966,789	4,793,724,845	105.69%
12	**Social Development & Youth Empowermen**	542,775,880	364,879,840	492,317,600	217,850,632	496,720,000	332,458,133	59.75%
13	**Environment**	121,888,694	152,220,435	140,600,000	136,381,668	156,010,214	140,771,001	102.60%
15	**Law & Justice**	1,589,735,460	1,767,023,175	1,758,107,000	1,726,611,924	2,114,586,871	1,894,508,482	98.64%
16	**Administrative Sector**	0	0	0	0	0	0	0.00%
17	**Governance**	2,611,991,010	3,293,128,850	2,352,940,186	2,020,294,871	2,405,787,315	2,835,179,468	110.55%
	Total	**16,275,883,677**	**16,120,994,826**	**16,598,084,921**	**16,340,961,715**	**17,515,054,409**	**17,396,484,632**	**98.95%**

Table 12: Sector Expenditure Trend – Overheads

Overhead Expenditure by Sector								
No.	**Sector**	**2015 Budget**	**2015 Actual**	**2016 Budget**	**2016 Actual**	**2017 Budget**	**2017 Actual**	**Performance**
1	Economic Sector	0	0	0	0	0	0	0.00%
2	Agriculture	150,150,000	20,246,220	77,100,000	57,785,651	136,200,000	107,750,308	51.12%
3	Trade, Industry & Co-operatives	93,620,000	8,524,652	122,046,000	34,909,488	177,596,000	74,950,047	30.10%
4	Infrastructure	192,050,000	24,846,673	105,822,000	27,563,286	163,022,000	128,395,488	39.23%
5	Water	78,740,000	52,634,187	77,640,000	44,479,421	124,290,000	50,624,757	52.64%
6	Rural & Community Development	41,700,000	1,607,933	13,500,000	0	40,937,950	11,723,528	13.87%
7	Finance & Economic Planning	2,206,426,692	1,621,511,240	1,799,940,000	1,438,605,303	3,075,853,000	1,711,747,031	67.38%
8	Science, Technology, Energy & Mineral Res	30,750,000	2,645,000	14,450,000	0	187,550,000	39,447,275	18.08%
9	Social Sector	0	0	0	0	0	0	0.00%
10	Education	1,636,592,500	1,286,970,179	1,362,481,153	1,086,254,508	1,854,836,000	1,801,221,012	86.00%
11	Health	262,856,000	195,728,503	320,217,800	232,664,608	465,105,061	348,440,279	74.11%
12	Social Development & Youth Empowermen	490,810,000	99,711,018	215,665,000	180,979,541	387,600,000	376,475,343	60.07%
13	Environment	35,100,000	8,409,925	22,350,000	15,696,234	159,801,506	59,920,694	38.68%
15	Law & Justice	287,300,000	345,952,553	682,400,000	263,501,890	543,365,000	446,827,231	69.81%
16	Administrative Sector	0	0	0	0	0	0	0.00%
17	Governance	10,992,088,500	11,377,814,135	6,896,000,500	8,460,542,069	8,146,859,500	8,714,542,269	109.67%
	Total	**16,498,183,692**	**15,046,602,218**	**11,709,612,453**	**11,842,981,999**	**15,463,016,017**	**13,872,065,262**	**93.34%**

Table 13: Sector Expenditure Trend – Capital

Capital Expenditure by Sector													
No.	**Sector**	**2015 Budget**	**2015 Actual**	**2016 Budget**	**2016 Actual**	**2017 Budget**	**2017 Actual**	**2018 Budget**	**2018 Actual**	**Performance**	**Average Budget**	**Average Actual**
1	Economic Sector	0	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
2	Agriculture	3,297,685,800	1,306,407,245	2,101,700,000	2,494,492,675	2,200,552,000	1,728,168,983	3,112,500,000	1,915,599,162	69.50%	5.83%	9.46%
3	Trade, Industry & Co-operatives	644,000,000	0	1,038,000,000	12,132,007	1,293,500,000	10,000,000	472,000,000	169,022,716	5.54%	1.88%	0.24%
4	Infrastructure	13,471,888,140	6,251,277,812	10,030,826,040	9,594,286,122	12,713,500,000	8,374,435,080	21,578,154,545	12,463,992,571	63.47%	31.46%	46.64%
5	Water	3,679,574,088	402,119,043	3,023,695,072	888,476,384	3,219,400,000	837,946,900	3,171,000,000	1,118,296,922	24.80%	7.13%	4.13%
6	Rural & Community Development	1,020,000,000	1,550,863,522	1,220,000,000	44,682,451	1,643,000,000	684,067,805	3,417,750,000	68,867,794	32.17%	3.97%	2.99%
7	Finance & Economic Planning	4,530,000,000	953,583,184	3,623,702,370	1,131,718,792	2,881,000,000	898,112,770	2,659,500,000	919,089,067	28.50%	7.45%	4.96%
8	Science, Technology, Energy & Mineral Res.	230,000,000	0	135,000,000	0	660,000,000	3,282,000	840,000,000	3,465,000	0.36%	1.02%	0.01%
9	Social Sector	0	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
10	Education	8,498,876,982	1,115,360,940	5,928,019,887	3,300,608,689	9,812,519,147	1,711,046,285	12,708,002,780	5,344,271,632	31.05%	20.11%	14.58%
11	Health	3,361,908,289	808,364,331	2,725,016,289	1,202,083,394	3,369,920,000	448,714,277	4,166,200,000	775,690,537	23.75%	7.41%	4.11%
12	Social Development & Youth Empowerment	992,700,000	83,712,800	1,210,700,000	554,880,775	1,012,000,000	1,097,894,840	2,891,000,000	1,453,706,664	52.24%	3.32%	4.06%
13	Environment	967,700,000	1,074,412,511	1,328,500,000	1,246,460,958	1,402,000,000	1,189,217,969	1,528,200,000	1,592,883,157	97.64%	2.84%	6.49%
15	Law & Justice	539,000,000	31,080,683	670,500,000	25,882,975	1,054,000,000	97,954,813	1,589,052,000	75,009,601	5.97%	2.10%	0.29%
16	Administrative Sector	0	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
17	Governance	3,042,898,918	843,518,557	1,542,000,000	434,117,244	2,402,500,000	290,441,219	3,084,018,918	34,421,553	15.91%	5.48%	2.04%
	Total	**44,276,232,217**	**14,420,700,628**	**34,577,659,658**	**20,929,822,466**	**43,663,891,147**	**17,371,282,941**	**61,217,378,243**	**25,934,316,376**	**42.81%**	**100.00%**	**100.00%**

116. Personnel Expenditure has averaged between 90% and 110% in all the sectors except Rural and Community Development with 125% over the period 2015-2017. The average Overhead expenditure performance over the period 2015-2017 was 93%, with significant variation across sectors as some sectors performed below 50% on the average.

117. For Capital Expenditure, overall performance has been poor as noted elsewhere. The only sector that has received more than 70% of its budgetary allocations is Environmental sector but Infrastructure had both the highest budget and actual disbursement over the period 2015-2018.

2.B.2 Debt Position

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

Table 6: Debt Position as at 31st December 2018

	Debt Sustainability Analysis		
A	**DSA RATIO SCENARIOS:**	**Sustainability Thresholds**	**As at 31st December 2018**
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	74.22%
2	Total Domestic Debt/IGR	150%	672.52%
3	Total External Debt/Total Revenue	50%	17.03%
4	Total Public Debt/Total Revenue	100%	91.26%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	0.64%
7	Total Debt Service/Total Revenue	15%	8.78%
8	Domestic Debt Service/IGR	10%	73.77%
			2018 Actual
B	**PUBLIC DEBT DATA AS AT 31st DECEMBER 2018**		**Naira**
1	Total Domestic Debt		50,373,962,597
2	Total External Debt		11,561,362,821
3	**Total Public Debt**		**61,935,325,418**
4	Total Domestic Debt Service 2018		5,525,508,062
5	Total External Debt Service in 2018		432,049,930
6	**Total Public Debt Service**		**5,957,557,992**
C	**STATE GDP FOR 2018**		
1	**State GDP**		0

119. The domestic and foreign debt ratio (both liquidity and solvency) for the 2018 fiscal year did not exceed recommended sustainability thresholds except for the ratio of total domestic debt and IGR, and domestic debt service to IGR.

120. Based on the above ratios, future debt drawn down should be focused on foreign concessional rate debt rather than higher interest domestic debt.

Section 3 Fiscal Strategy Paper

3.A Macroeconomic Framework

121. The Macroeconomic framework reflects the mineral sector benchmarks (price and NGN: USD exchange rate) as laid out in the draft Federal Government MTEF/FSP for the period 2020-2022. We have adopted price of $55 per barrel for 2020 and $60 per barrel for 2021 and 2022. Real GDP growth and Inflation (CPI) are as per the IMF World Economic Outlook dated April 2019. The figures represent a prudent macro-economic framework from which the Gombe State Medium Term Fiscal Framework are drawn.

122. Recent press reports suggest that as at December 2018, the average crude oil production was 1.9 MBPD which is still well below the federal benchmark of 2.3 MBPD for 2019 and 2.18 for 2020 (provided in the draft FGN MTEF/FSP 2020-2022). A rate of 2.1 MBPD seems to be prudent for 2020 although this might be updated based on any production quota changes from OPEC and/or updated official production data from NNPC. There is also the possibility that the move away from JV arrangements may also bring in efficiencies in the market which may also increase production.

Table 7: Gombe State Macroeconomic Framework

Macro-Economic Framework

Item	2020	2021	2022
National Inflation	11.70%	11.30%	11.40%
National Real GDP Growth	2.50%	2.40%	2.70%
Oil Production Benchmark (MBPD)	2.1000	2.2000	2.2000
Oil Price Benchmark	$55.00	$60.00	$60.00
NGN:USD Exchange Rate	305	305	305
Other Assumptions			
Mineral Ratio	35%	36%	38%

3.B Fiscal Strategy and Assumptions

Policy Statement

123. Gombe state policy statement is based on its fiscal responsibility law which advocates "sound public expenditure and financial management in the state" specifically this is achieved through:

    a. Aligning state government's income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;

    b. Boosting IGR in accordance with the recently submitted business case of BIRS;

    c. Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;

    d. Ensuring that the budget process is pursued with a framework that support strategic prioritization and rational resource allocation and in accordance with the overall development policy objectives of the state; and

    e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.

124. This strategy is anchored by the state government on the newly introduced PFM Reform programs.

Objectives and Targets

125. The key targets from the fiscal perspective are:

a. To have higher proportion of capital expenditure compared to recurrent expenditure.

b. Increments in personnel expenditure of between 2.5% to 5% annually.

c. Limited or no increment in overhead expenditure.

d. Certain parastatals cover overhead expenditure from the revenue they generate.

e. Long term target of IGR covering overhead expenditure.

3.C Indicative Three-Year Fiscal Framework

126. The indicative three-year fiscal framework for the period 2020-2022 is presented in the table 8 below.

Table 8: Gombe State Medium Term Fiscal Framework

RECURRENT REVENUE	2020	2021	2022
Statutory Allocation	48,362,041,464.00	57,077,329,394.00	63,715,455,931.00
VAT	18,714,242,639.00	21,131,443,923.00	23,576,101,438.00
IGR	12,548,394,488.00	14,741,943,800.00	15,353,235,369.00
Excess Crude/Other FAAC Revenue	16,665,489,476.00	17,832,144,371.00	18,000,465,814.00
Total Recurrent Revenue	**96,290,168,067.00**	**110,782,861,488.00**	**120,645,258,552.00**
RECURRENT EXPENDITURE			
CFR Charges	17,782,175,076.00	17,401,549,507.00	17,096,985,381.00
Personnel	26,592,918,776.00	27,922,564,716.00	29,318,692,950.00
Overheads	22,101,090,155.00	22,653,617,409.00	23,219,957,844.00
Total	**66,476,184,007.00**	**67,977,731,632.00**	**69,635,636,175.00**
Transfer to Capital Account	**29,813,984,060.00**	**42,805,129,856.00**	**51,009,622,377.00**
CAPITAL RECEIPTS			
Grants	9,231,250,000.00	9,865,000,000.00	10,840,000,000.00
Other Capital Receipts	9,150,000,000.00	9,800,000,000.00	10,450,000,000.00
Total	**18,381,250,000.00**	**19,665,000,000.00**	**21,290,000,000.00**
CAPITAL EXPENDITURE	**65,114,734,059.00**	**69,064,629,853.00**	**80,568,732,375.00**
Discretional Funds	54,474,734,059.00	58,424,629,853.00	69,928,732,375.00
Non-Discretional Funds	10,640,000,000.00	10,640,000,000.00	10,640,000,000.00
Net Financing	**16,919,500,000.00**	**6,594,500,000.00**	**8,269,110,000.00**
Total Budget Size	**131,590,918,066.00**	**137,042,361,485.00**	**150,204,368,550.00**
Ratios			
Growth in Recurrent Revenue	7.62%	11.86%	7.98%
Growth in Recurrent Expenditure	2.80%	3.07%	4.05%
Capital Expenditure Ratio	37.10%	35.22%	36.41%
Deficit to Total Expenditure	15.01%	5.35%	4.35%

3.C.1 Assumptions

127. **Statutory Allocation** – the estimation for statutory allocation is based on an elasticity forecast taking into consideration the macro-economic framework (National) and the mineral assumptions in the draft FGN MTEF/FSP 2020-2022. It is also based on historical

mineral revenues flows and elasticity-based forecast using national Real GDP and Inflation data. The budgeted figures for Statutory Allocation do not include any excess crude or other Federation Account receipts.

128. **VAT** - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2020-2022 is in line with the current rate of collections which is 5%. This forecast should be revisited when the National Assembly approves the 7.2% VAT rate proposed by the Federal Executive Council.

129. **Other Federation Account Distributions** – the estimation is based on the current receipt (i.e. from January to May 2019). Furthermore, it is anticipated that new administrations will press FAAC for excess crude distributions in 2020 to fund the new minimum wage.

130. **Internally Generated Revenue (IGR)** – the estimation is own percentage taking into consideration the growing economic activity of the State and reform of revenue administration. Despite progress with implementation of treasury single account, IGR projection in the immediate term are not expected to surpass 2019 approved estimate which was indeed very ambitious as only 30% of budget has been achieved from January to June 2019. Actual collections are largely from traditional sources such as PAYE, fees, etc. It is believed that current effort to establish taxpayer database by BIR, perfection of the TSA and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, collection will improve. IGR is expected to grow annually by 20% in 2019 and 2020 and 15% in 2021 and 2022.

131. **Grants** – internal grants are largely Local Government contributions to state infrastructure and social sector projects and UBEC, and these are included across the period 2020-2022. It is important that the relevant institutions in Gombe State Government put in place the necessary requirements to draw down UBEC funds. The World Bank States Fiscal Transparency, Accountability and Sustainability Program for Results is expected to commence by end 2019. Accordingly, N1 billion is being expected to be drawn from SFTAS in the budget for 2020, and N1.5 billion annually in 2021 and 2022.

132. **Financing (Net Loans)** – Gombe State has completed the required mechanism to issue bond of about N8.2 billion in 2020 which will be ringfenced to finance infrastructure projects in the State. The State will in addition continue to make use of short to medium term commercial bank facility to fund critical capital projects.

133. **Consolidated Revenue Fund Charges** – This includes public debt charges and pensions and gratuities. The current growth rate excluding outliers will continue in the medium term. Therefore, the estimation is based on 5-year moving average with outliers (i.e. removing the highest and least growth rates).

134. **Personnel** – The personnel bill is anticipated to grow by 3% as result of promotion, notch movement and retirement. Payment of new minimum wage is expected to commence in 2020 and the new wage bill will increase the current wage bill by about 7%. Own percentage is used to estimate the personnel cost at 3% for 2019, 10% for 2020 and 3% for 2021 and 2022.

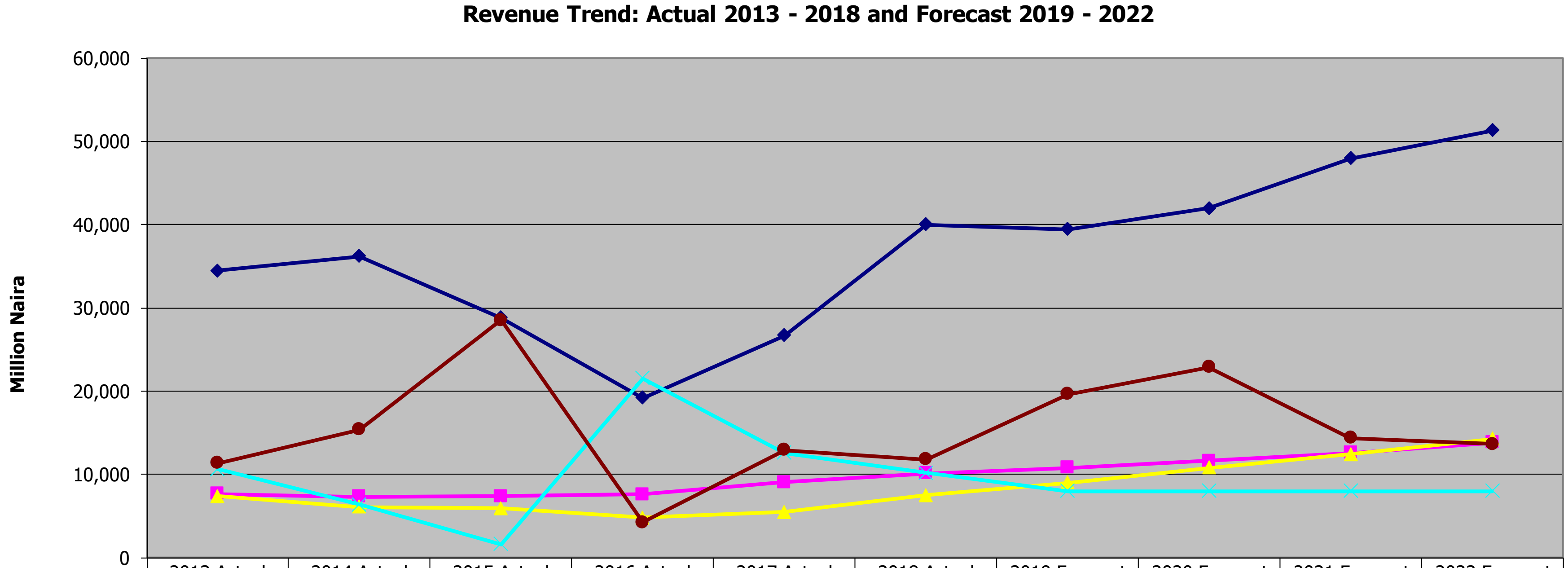
135. **Overheads** – The overhead costs increased exponentially in 2017 and 2018 (i.e. by 17.13% and 43.29% respectively). The current administration plan is to reduce cost of governance in order to release fund for capital investment. Therefore, overheads are set to decrease by 2% in 2019, 10% in 2020 and remain constant for the period 2021 – 2022.

136. **Capital Expenditure** – is based on the balance from the recurrent account plus capital receipts, less planning (though planning reserve will be added back to capital expenditure) as outlined above. It is presented in terms of discretional and non-discretional capital expenditure.

3.C.2 Fiscal Trends

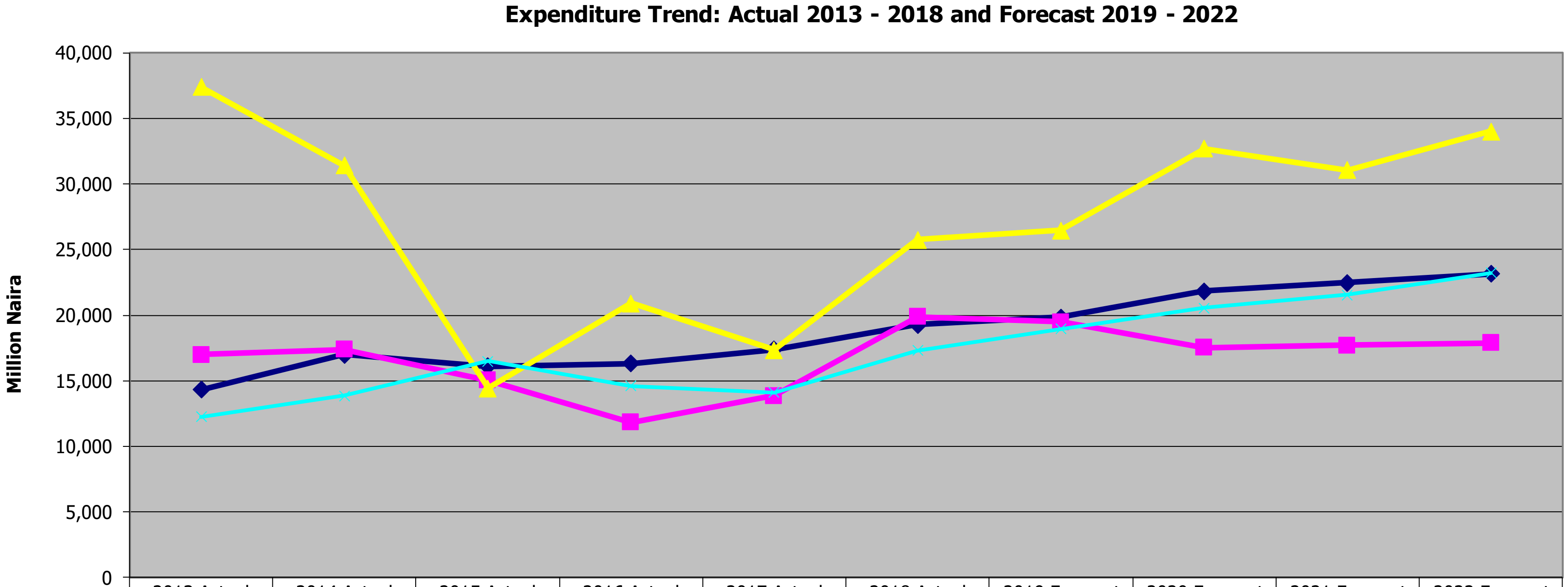
137. Based on the above envelope, plus actual figures for 2013-2018 and 2019 budget, the trend from historical actual to forecast can be seen for revenue and then expenditure in the line graphs below.

Figure 21: Gombe State Revenue Trend



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Stat.Allocation	34,496,656,09	36,222,919,85	28,801,451,26	19,201,195,43	26,707,628,70	40,051,555,73	39,467,498,75	41,970,833,34	47,956,323,78	51,331,397,59
VAT	7,664,281,205	7,335,818,333	7,365,627,834	7,578,067,353	9,073,340,759	10,145,736,80	10,803,314,80	11,628,531,20	12,608,223,49	13,831,195,62
Total IGR	7,401,650,391	6,088,022,572	5,913,716,254	4,803,899,652	5,492,281,550	7,490,367,834	8,988,441,400	10,786,129,68	12,404,049,13	14,264,656,50
Other Federation Account Receipts	10,615,649,04	6,395,811,400	1,597,984,910	21,569,212,80	12,567,010,38	10,181,292,94	8,000,000,000	8,000,000,000	8,000,000,000	8,000,000,000
Capital Receipts	11,368,875,42	15,365,701,49	28,535,733,41	4,253,843,523	12,940,242,07	11,814,293,24	19,650,000,00	22,900,000,00	14,400,000,00	13,650,000,00

Figure 22: Gombe State Expenditure Trend



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Personnel Costs	14,328,864,071	17,015,961,497	16,120,994,826	16,340,961,715	17,396,484,632	19,276,643,132	19,854,942,426	21,840,436,669	22,495,649,769	23,170,519,262
Overheads	17,008,593,430	17,410,181,692	15,046,602,218	11,842,981,999	13,872,065,262	19,876,850,365	19,479,313,358	17,531,382,022	17,706,695,842	17,883,762,801
Cap. Ex.	37,398,266,288	31,419,488,533	14,420,700,628	20,929,822,466	17,371,282,941	25,775,880,118	26,459,612,948	32,696,039,273	31,071,992,728	34,039,191,824
CRF Charges	12,261,694,431	13,878,849,149	16,509,972,990	14,610,483,918	14,125,701,779	17,306,909,109	18,970,012,212	20,566,606,059	21,574,907,310	23,223,841,365

Year

3.D Local Government Forecasts

138. Based on the Macroeconomic assumptions in section 3.A, the forecasting techniques noted in section 3.B and the vertical and horizontal sharing ratios from May 2018, the Federation Account revenues have been forecasted for the 11 Local Governments (LGs) of Gombe State. In addition, LG share of the IGR estimate is contained in the State Fiscal Framework (Table above).

139. Forecasts for 2020 for the 11 Local Governments are provided in table below.

Table 4 Local Government FAAC and IGR Share Estimates 2020-2022

Local Government Council	Statutory Allocation Share	VAT Share	IGR Share	2020				
				Statutory Allocation	VAT	Other Federation Account	Share of State IGR	Total Transfer
AKKO	0.0992%	0.1515%	10.05%	1,292,307,748	630,435,251	246,324,916	108,364,993	2,277,432,907
BALANGA	0.0959%	0.1247%	8.84%	1,249,614,381	518,714,423	238,187,195	95,342,499	2,101,858,498
BILLIRI	0.1346%	0.1225%	10.30%	1,753,154,842	509,437,343	334,166,316	111,083,599	2,707,842,099
DUKKU	0.0775%	0.1235%	8.06%	1,009,870,199	513,936,347	192,489,902	86,892,663	1,803,189,112
FUNAKAYE	0.1073%	0.1297%	9.50%	1,397,742,401	539,700,862	266,421,663	102,436,798	2,306,301,724
GOMBE	0.0773%	0.1366%	8.57%	1,006,927,232	568,154,438	191,928,947	92,427,492	1,859,438,109
KALTUNGO	0.1296%	0.1112%	9.65%	1,687,936,725	462,771,981	321,735,184	104,072,157	2,576,516,047
KWAMI	0.0857%	0.1210%	8.28%	1,117,018,347	503,333,461	212,913,256	89,345,797	1,922,610,861
NAFADA	0.1018%	0.1088%	8.44%	1,326,628,668	452,411,609	252,866,777	91,009,545	2,122,916,599
SHOMGOM	0.0868%	0.1116%	7.95%	1,130,767,937	464,301,072	215,534,045	85,747,046	1,896,350,100
YAMALTU/DEBA	0.1251%	0.1338%	10.37%	1,629,207,695	556,784,777	310,540,929	111,890,379	2,608,423,780
Total	**1.12085%**	**1.37499%**	**100%**	**14,601,176,176**	**5,719,981,564**	**2,783,109,128**	**1,078,612,968**	**24,182,879,836**

3.E Fiscal Risks

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

Table 5: Fiscal Risks

Risk	Likelihood	Impact	Reaction
Risks to Statutory Allocation based on Oil Price or Production shock	Medium	There is higher likelihood that there will not be shortfall in FAAC revenue in the short to medium term (Medium)	In the long term, Gombe State would have to be less dependent on Statutory Allocation to fund its expenditure. This would be achieved through higher IGR collections. In the short term, capital projects would be prioritized, and overhead expenditure should be made flexible for reduction if short term falls are further experienced.
Threat to security in Gombe and neighbouring States which could reduce economic activity by taxpayers.	Medium	Reduced IGR and increased overhead (Medium)	Collaborative strategic approach to stem the tides of civil crimes among communities in the State and neighbouring States.
Adverse climate change effects that might negatively affect farm output and other economic activities	High	Reduced IGR and increased overhead (Medium)	Increased investment to raise the level of climate resilience (other sources of water for farming e.g. irrigation) adaptation and awareness.
None materialisation of Capital Receipts	Medium	Short-Fall in Capital Receipts (Low)	Loans that are at risk of not materialising must be ring fenced to specific activities and the risk should be spread reasonably across sectors to the extent possible, and on lower priority projects.
Implementation of the Minimum Wage policy significantly impacts personnel costs	High	Highly anticipated increases in personnel costs (High)	Implementation of the Personal Income Tax (Amendment) Act 2011; undertake employee audit, and proper implementation of the TSA to block loopholes.

141. 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

142. The current administration of Gombe State will focus on the following strategic areas:

- Internal Security and Order – The State will actively collaborate with ll security agencies and other stakeholders in order to attack the root of all insecurity and ensure safety and security of lives and property of all communities across the State.
- Education - Policies and programmes aimed at eradicating illiteracy in Gombe State by giving priority to enhancing teaching standards by ensuring appropriate support from basic to tertiary levels of education for an improved outcome.
- Health care - Proactively implement strategies to achieve Universal Health Coverage in Gombe State using Primary Health Care as the corner stone by increasing access to efficient, qualitative and affordable healthcare services and ensure availability of essential drugs and vaccines throughout the state.
- Agriculture – Stimulate the economic development of the state and improve the living conditions of Gombe people by revamping the agriculture sectore.
- Good Governance – Promote transparent, accountable and all-inclusive government in conformity with best practice.
- Infrastructural Development – Address the issues of uneven development by ensuring that investments in infrastructure are tailored to meet the needs of all citizens as this would go a long way in making Gombe State a suitable destination for investment and promoting rural income growth.
- Women Empowerment – Raising the level of women participation in socioeconomic activities including political participation.

4.B Sector Allocations (3 Year)

143. The total revenue forecast (recurrent revenue and capital receipts) and budget size for 2020 fiscal year as explained in Section 3.C above is **₦131,590,918,066.00** of which the sum of **₦66,476,184,007.00** will be for recurrent expenditure, **₦65,114,734,059.00** will be for capital expenditure.
144. The capital expenditure component of **₦65,114,734,059.00** is in two parts the discretionary capital expenditure of sum of **₦54,474,734,059.00** that will be spent across all MDAs and non-discretionary capital expenditure of **₦10,640,000,000.00** which is specifically earmarked for projects and programmes in Health, Education, Infrastructure, and Agriculture sectors. The non-discretionary amount is in the form of loans and grants.
145. Presented in the table below are the indicative three-year (2020-2022) envelopes for sectors. The basis for the envelopes is as follows:
    - Non-Discretional capital expenditure is allocated automatically to the relevant sectors.
    - Discretional capital expenditure is allocated using the average trend from (2015-2019 budget, 2015-2018 actuals).
    - These are combined to give the total sector envelopes.

Table 6: Indicative Sector Capital Expenditure Ceilings 2020-2022

Capital Expenditure by Sector		Discretionary Funds						Non-Discretionary Funds		
No.	Sector	% 2020	2020 Allocation	% 2021	2021 Allocation	% 2022	2022 Allocation	2020 Allocation	2021 Allocation	2022 Allocation
1	Agriculture	7.65%	2,171,615,314	7.65%	2,093,300,337	7.65%	2,377,576,831	0	0	0
2	Trade, Industry & Co-operatives	1.06%	300,908,266	1.06%	290,056,609	1.06%	329,447,171	0	0	0
3	Infrastructure	39.05%	11,087,759,119	39.05%	10,687,901,192	39.05%	12,139,350,381	0	0	0
4	Water	5.63%	1,597,883,913	5.63%	1,540,259,415	5.63%	1,749,431,285	500,000,000	500,000,000	500,000,000
5	Rural & Community Development	3.48%	988,079,415	3.48%	952,446,300	3.48%	1,081,791,378	0	0	0
6	Finance & Economic Planning	6.21%	1,762,642,109	6.21%	1,699,075,935	6.21%	1,929,815,567	0	0	0
7	Science, Technology, Energy & Mineral Res.	0.51%	145,334,592	0.51%	140,093,390	0.51%	159,118,494	0	0	0
8	Education	17.35%	4,925,742,053	17.35%	4,748,104,986	17.35%	5,392,911,952	1,900,000,000	2,000,000,000	2,000,000,000
9	Health	5.76%	1,636,627,376	5.76%	1,577,605,672	5.76%	1,791,849,277	1,900,000,000	1,200,000,000	450,000,000
10	Social Development & Youth Empowerment	3.69%	1,047,722,362	3.69%	1,009,938,344	3.69%	1,147,091,015	0	0	0
11	Environment	4.67%	1,324,991,952	4.67%	1,277,208,759	4.67%	1,450,657,557	0	0	0
12	Law & Justice	1.19%	339,207,286	1.19%	326,974,451	1.19%	371,378,567	0	0	0
13	Governance	3.76%	1,067,525,516	3.76%	1,029,027,336	3.76%	1,168,772,350	0	0	0
	Total	**100.00%**	**28,396,039,273**	**100.00%**	**27,371,992,728**	**100.00%**	**31,089,191,824**	**4,300,000,000**	**3,700,000,000**	**2,950,000,000**

Table 9: Indicative Sector Expenditure Ceilings 2016-2018 – Total Capital Envelope

Capital Expenditure by Sector		Total Capital Envelope					
No.	Sector	% 2020	2020 Allocation	% 2021	2021 Allocation	% 2022	2022 Allocation
1	Agriculture	6.6%	2,171,615,314	6.7%	2,093,300,337	7.0%	2,377,576,831
2	Trade, Industry & Co-operatives	0.9%	300,908,266	0.9%	290,056,609	1.0%	329,447,171
3	Infrastructure	33.9%	11,087,759,119	34.4%	10,687,901,192	35.7%	12,139,350,381
4	Water	6.4%	2,097,883,913	6.6%	2,040,259,415	6.6%	2,249,431,285
5	Rural & Community Development	3.0%	988,079,415	3.1%	952,446,300	3.2%	1,081,791,378
6	Finance & Economic Planning	5.4%	1,762,642,109	5.5%	1,699,075,935	5.7%	1,929,815,567
7	Science, Technology, Energy & Mineral Res.	0.4%	145,334,592	0.5%	140,093,390	0.5%	159,118,494
8	Education	20.9%	6,825,742,053	21.7%	6,748,104,986	21.7%	7,392,911,952
9	Health	10.8%	3,536,627,376	8.9%	2,777,605,672	6.6%	2,241,849,277
10	Social Development & Youth Empowerment	3.2%	1,047,722,362	3.3%	1,009,938,344	3.4%	1,147,091,015
11	Environment	4.1%	1,324,991,952	4.1%	1,277,208,759	4.3%	1,450,657,557
12	Law & Justice	1.0%	339,207,286	1.1%	326,974,451	1.1%	371,378,567
13	Governance	3.3%	1,067,525,516	3.3%	1,029,027,336	3.4%	1,168,772,350
	Total	**100.00%**	**32,696,039,273**	**100.00%**	**31,071,992,728**	**100.00%**	**34,039,191,824**

4.C Considerations for the Annual Budget Process

146. The budget call circular should include the following instructions to MDA's for the annual budget submissions:

- Only prioritised projects that is consistent with the prioritized strategies of the current administration as provided above should be in the MDAs capital budget proposal;
- Budget submissions for capital projects must include full life-time capital investment requirements (costs) and 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

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

a. The aggregate envelope (particularly the capital receipts) should be reviewed by the Gombe State ExCo prior to submission of the document to SHoA.

b. Sector envelopes should be issued as soon as possible. This should form the basis for the 2020 annual budget preparation.

c. A more in-depth review of current debt portfolio (particularly domestic debt) should be undertaken and a longer-term debt strategy should be developed.

d. The State should continue to monitor the ongoing review of VAT rate in order to take appropriate prompt action.