

## **Explanatory Note (EN) for the Revised 2020 Budget**

**Background:** Kogi State economy and, indeed, the entire global economy is witnessing significant disruptions due to the effects of COVID-19 Pandemic. In particular, the State Budget assumptions, as in the Federal Budget assumptions, have been severely affected, rendering them unrealistic and triggering the need for more realistic assumptions. The crude oil, which is still the largest contributor to the State recurrent revenue, had its price crashed from \$60 Dollars per barrel in December, 2019 to less than \$20 Dollars in April, 2020. The crude oil benchmark for 2020 Budget was projected at \$56.50 Dollars per barrel. Other assumptions such as exchange rate, volume of oil production, inflation, GDP growth rate etc. were also adversely affected. This gloomy situation necessitated a revision of Budget assumptions in line with the prevailing realities. COVID-19, as a major global health issue, has also triggered unprecedented economic crisis around the world occasioned by lock down and restrictions in travels and business activities. Some economies have already contracted by over 25% and are projected to be in recession soon, i.e. after attaining 2 quarters of negative growth. This situation largely necessitated the revision of the 2020 Budget in order to adjust the budget size within the potentially available revenues as well as re-order our priorities to address the emerging issues.

### **EN.1: Assumptions**

**EN 1.1: Crude Oil Benchmark:** We have revised the crude oil benchmark to \$20 US Dollars Per Barrel, in line with the Federal Government assumption, as the earlier assumption of \$56.50 is no longer realistic due to the significant drop in the price of crude oil over COVID-19 pandemic issues. In the period under review, the price of crude oil dropped from \$60 Dollars Per Barrel as at December, 2019, to about \$20 per barrel by April, 2020. This has rendered the earlier assumption of \$56.50 per barrel unrealistic, hence the revised benchmark of \$20 Dollars per barrel. The situation is still fluid, as any quick recovery will depend on how soon COVID-19 pandemic

is resolved. At present, vaccine is the most potent remedy to COVID-19 but experts believed that, even if effective vaccine is found for COVID-19, it would take up to next year, 2021 to be globally available. It would be recalled that, the country introduced Economic Recovery and Growth Plan (ERGP) after it briefly entered recession in 2016 over the collapse of crude oil prices. The plan was designed around growing the non-oil sectors as well as strengthening effective demand, which short-lived the recession period.

**EN: 1.2: Volume of Oil Production:** Kogi State, as in the Federal Government, revised downwards the volume of oil production from the earlier projection of 2.3MBPD to 1.7 MBPD. This is due to the fact that, the COVID-19 period is characterised by huge drop in the demand for crude oil, as the world largely witnessed lockdown, travels restrictions etc. The significant drop in demand for crude oil rendered the supply largely ineffective. In some instances, the cost of production actually outweighed the market price, which caused a lot of trouble for the supply side of crude oil.

**EN: 1.3: Exchange Rate:** Kogi State adopts a revised Exchange Rate of N360/\$ from its earlier projection of N305/\$. Between March 2020 and June, 2020, the exchange rate has been fluctuating between N360/\$ and N380/\$ and the situation is not showing sign of imminent improvement. This increase in the exchange rate is as a result of significant decline in the sales of crude oil, leading to decline in Dollars availability as well as the general contraction in external trade. This situation is worsened by lock down and restrictions aimed at combating COVID-19 pandemic. The World economy has contracted significantly, which triggers inflation and reduced the value of national currency. Again, the situation may get worse, if the COVID-19 pandemic is not quickly defeated.

**EN: 1.4: GDP Growth Rate:** The economy of the country is contracting very rapidly, due to restrictions and, in some cases, suspension of certain economic activities. Based on this worrying development, the State Government is adopting the NGF GDP contraction of -4.42%, as against the earlier projected GDP growth rate of 3.60% in the approved Budget. The State Government is putting measures in place to reflate the economy and improve livelihood. Such measures include support for MSMEs, Agricultural value chain through provision of quality inputs and extension services and marketing, women and youth inclusion, soft Agricultural Loans, World Bank CARES initiative, SFTAS Program for Results etc. Basically, this revised projection is predicated on the poor performance of the economy under a COVID regime, which is characterised by lockdown and restrictions in economic activities. Despite the series of interventions, the GDP is still projected to contract by -4.42% due to the massive disruptions being witnessed at this highly unpredictable time.

**EN: 1.5: Inflation:** The amended 2020 Budget has a projected inflation rate of 14.13% as against the earlier projection of 9.43%, which is consistent with the NGF assumption. This projection is premised on the fact that, production across board, in the country, has been adversely affected, which is expected to mount pressure on goods and services, leading to increase in the prices of goods and services (Inflation). This situation is brought about by the lock downs and partial lock downs, reducing production capacity, job losses, pay cuts etc. This will, no doubt, lead to price escalation. However, Government is diversifying the economy of the State through deliberate interventions to grow agriculture, support SMEs, improve livelihood in order to boost production and mitigate the effects of inflation in the State. The measures being put in place are not expected to totally address the huge gaps created by COVID-19 crisis.

**EN.1.6: Opening Balance:** The Opening Balance for 2020 Amended Budget is the Closing Balance of 2019 fiscal year less sinking funds of N8,033,864,039 as contained in the 2019 Audited Financial Statements.

This amount N24,422,418,732 is added to the expected revenue for 2020 as amended and used to fund activities, recurrent and capital expenditures for the year.

## **2.0: REVENUES AND GRANTS**

**EN2.1: Revenues and Grants:** The amended Budget has the revised Revenues and Grants in the sum of N69,390,673,199 as against N113,594,983,911 in the original budget. Breakdown of assumptions and rationale for each element of revenue projections are explained below:

**EN: 2.2: Gross Statutory Allocation:** The amended budget has a projected sum for Gross Statutory Allocation of N29,189,675,754 as against the original budget figure of N50,428,800,000. This situation is informed by the fact that, our earlier assumptions have been rendered unrealistic due to the effects of COVID-19, that has significantly slowed down the economic activities and curtailed the potentially available revenues. More so, the FG have revised downward its projections for National Revenue as well as allocations to the federating States. Given the projected parameters of 1.7mpbd @ a price of \$20pb, the estimated global revenue derivable by the FGN will be N4.2 trillion. According to the NGF/WB prediction, 36 States will get 24% of the global revenue (i.e. N1,001,805,966,579) while Kogi State will get 2.9% of the total States Allocations. Therefore, projected Statutory Allocation to the State will be N29.2B.

**EN: 2.3: Derivation N/A**

**EN: 2.4: Other FAAC Transfers** (Exchange Rate Gains, Augmentation, others: The revised Budget has a figure of N1,771,592,028 as against the sum of N3,971,592,028 in the original budget. Again, this is due to the general contraction in the economy that triggers reduced revenues over

the effects of COVID-19 pandemic. Other Statutory transfer include: Excess Crude N120,000,000.00, Budget Augmentation Nil, Exchange Rate Differential N200,000,000.00, Refund from Federal Government N130,893,199.00, Non-Oil Revenue N600,000,000.00, Forex Equalisation N600,000,000.00, Excess Crude Charge N120,698,829.00, Paris Club Refund Nil,

**EN: 2.5. VAT:** The amended Budget has a revised projection for VAT in the sum of N11,800,000,000 as against the earlier projected VAT figure of N17,500,000,000 in the original Budget. Even though, VAT has been revised from 5% to 7.5%, the general contraction in the economy is expected to have higher impact than the 2.5% increase in VAT. As we know, VAT is a function of economic activities and COVID regime is characterised by huge economic slowdown, with great implication on “VATABLE” services. Many planned consultancy services, civil work and goods by the State Government could not be implemented due to restrictions and, these have impact on VAT. Even those planned activities that were virtually discussed and negotiated could not be actioned due to fears associated to COVID-19 pandemic.

**EN: 2.6 Internally Generated Revenue (IGR):** The IGR projection for the amended Budget is N17,032,117,263 as against the sum of N21,032,117,213 in the original Budget. This downward revision is due to the contraction in economic activities occasioned by the lockdown of the economy, leading to job losses, pay cuts and, in some cases, “salary holiday” such as the case in many private schools. Many IGR generating businesses have been operating under lock down and partial lock down situation, which have negative consequences on profitability and taxes. Due to the effects of COVID-19, Government has granted tax holidays/reliefs to selected businesses, MSMEs, to mitigate the effects of COVID-19 and improved livelihood. It should be placed on record that, the State Government implemented several reforms that granted autonomy to BIR, now KGIRS. Based on this, the average IGR rose from N300 Million

monthly to N1.2 Billion monthly. This progress has, however, come under significant challenge, as IGR fell from over N2 Billion in March, 2020 to about N500 Million in April, 2020. This is not a good sign at all. This will, no doubt, have adverse effect on the aggregate IGR.

**EN: 2.7: Internal Grants:** Internal Grants in the revised Budget is N9,372,288,154 as against the earlier provision of N20,387,474,670 in the original budget. There are a number of sources from which grants are expected but because the amended Budget is going to be implemented under conditions of great uncertainty, we are adopting this conservative revised internal grants of N9,372,288,154. The sources of the Grants include the Federal Government/ World Bank SFTAS Programme for Results, which was a loan taking from the World Bank by the Federal Government and given to States as performance based grant. Based on 2018 assessment, Kogi State came 2<sup>nd</sup> after Kaduna State, with the sum of \$8.8 Million, amounting to N3,168,000,000.00. The CARES program, which is also a World Bank Credit of \$750 Million US Dollars to the Federal Government, expected to be given to States as grants. The State estimated Grant from SFTAS is N3,000,000,000 while the estimated grant from CARES PfR is N6,000,000,000.00. There are other sundry sources consisting pooled donations for COVID-19 support funds, which the Federal Government is expected to disburse to States. They include Dangote Foundation N100,000,000.00, Federal Government N272, 288,154.00.

**EN: 2.8: External Grants:** The revised Budget has a projected External Grant of N225,000,000 as against N275,000,000 in the original budget. There are a lot of window for improving external grants, particularly in this COVID-19 era. However, the source of N225,000,000 external grant is World Bank. Other sources are expected but the reliability of the sources are not compelling, to give definitive projection.

**EN: 3.0: The COVID-19** response expenditure are wide ranging. They include the following: Risk Communication such as Rapid Assessment of Risk Communication and community engagement activities in the LGAs (a) translation to the 3 major local languages, Radio Jingles on COVID-19 preventive measures, TV Jingles on COVID-19 preventive measures, Print materials on prevention, signs and symptoms on COVID-19, Training on Risk Communication and Community Engagement for key members of Social Mobilization Committee including media correspondent in the State. Mass mobilisation of officers in the LGAs, media orientation (Health Reporters and Editors)

IPC Training, consisting Engagement of IPC experts to provide support to the response. Another is IPC training for EOC and responders-non health facilities based training, training of health workers, training PPMV's and Pharmacies on basic IPC measures, case definition and reporting

Procurement of PPEs. This will include forecast, procure and distribute personal protective equipment and other IPC commodities to point of care

The response will also include hot spot LGAs, which include extra activities for LGAs with high burden of COVID-19. The response will also include surveillance activities such as Adapt, print and disseminate guidelines on COVI-19 surveillance to all health facilities. This will also include to disseminate current case definition for coronavirus infection and share with all relevant stakeholders. Lastly is Lab Optimization, which is the operation cost for laboratory pillar activities.

## **EXPENDITURES**

**EN: 3.1: RECURRENT EXPENDITURES:** The recurrent expenditure in the amended Budget fell to N65,525,339,509 from the originally budgeted

figure of N77,009,128,737 over the strain on the State projected revenues. The major reductions were in Over Head Cost and Capital Expenditures, as explained in EN 3.2 and EN 3.3 below. The reprioritizations were occasioned by COVID-19 situation, majorly affected movements of resources from Over Head cost and Capital projects to the relevant sectors for COVID-19 mitigation initiatives and maintenance of infrastructures.

**EN: 3.2 PERSONNEL COST:** The amended Budget has a projected Personnel cost of N38,197,592,479 from the original approved Budget of N40,969,241,596. The difference is very marginal due to the need to sustain the payment of salaries and allowances because of its impact on livelihood despite the huge revenue loss over COVID-19 pandemic. The reduction in the personnel cost is occasioned by the suspension of planned staff recruitment, hence the slight reduction. Other areas reduced in addition to the suspension of planned staff recruitment include: Recess Allowance/ Vacation allowances for Judges, Payment of Overtime, Overseas Duty Allowance, Auxiliary Staff, Allowances for Casual and IT Staff, uniform Allowance, Board Members Allowance, Furniture Allowance for Political Office Holders, Furniture Allowance for Hon. Members of the State House of Assembly and Clerk of the House of Assembly, Severance Allowance. The amended Budget for personnel has projected the sum of N1,610,331,940 is for COVID-19 responsive, consisting N1,500,000,000 hazards allowances for Health workers, N24,085,000 for Mid-Wives Service Schemes (MSS), N38,536,000 for Medical Students Allowance and N47, 710,940 for NYSC Allowance serving in the health sector.

**EN: 3.3 OVERHEAD COST:** The Overhead Cost in the amended Budget has been revised to N25,456,147,030 from the earlier approved budget of N36,039,887,139. Generally, many projected overhead costs/activities in the original budget have been significantly slashed and those that are avoidable have been totally taken off. Areas removed from the amended Budget include sponsorships of Pilgrims for Hajj in Mecca, Saudi Arabia and

Jerusalem, Israel. Other areas reduced are Local Training, Telephone Charges, Accreditation of Courses, Road Opening, External Auditors Fees, Refund of Medical Fees, Drama Expenses, Refreshments, Meals, and Hospitalities Meeting Expenses, Honorarium, Entertainment, Public Relations and Hospitalities, Water Rates, Satellite Broadcasting Access charge, Workshops, Seminars and Conferences. This is to allow attention to be focused on more urgent areas relating to COVID-19, particularly providing allowances for those on the frontline and other health related interventions as well as those badly affected by effects of COVID-19 through initiatives such as palliatives, cash transfers, growing the local economy, improving livelihood, etc.

**EN: 3.4 Public Debt Charges:** This is the sum of debt, both domestic and external, including interests on loans. The sum of the elements that constitute public debt are contractual obligations, salary arrears, pension and gratuity arrears, commercial bank loan, external loans, bond from the capital market, credit from development institutions such as the International Development Association (IDA) etc. Prior to COVID-19, the State Government, through the support of the World Bank and Debt Management Office (DMO), had put in place, a strategy to manage its debts. The strategy is anchored on the development of state debt database and a framework for settling or servicing it on a systematic basis. The overall idea of the initiative is to have a comprehensive picture of the state debt profile and put a system in place to progressively reduce and curtail fresh accumulation in order to guarantee confidence in the State public financial management systems and stimulate investment into the State.

**EN: 3.5: CAPITAL EXPENDITURE:** The COVID-19 era is characterized by changing priorities, that were not originally envisaged. Therefore, many capital projects in the original Budget have been pruned down and some entirely stepped down in the amended Budget, to embark on more urgent realities of funding the health sector, strengthening the local economy,

growing agriculture and improving livelihood, maintenance of existing rural infrastructure such as rural road etc. Some of the projects removed include: construction of Administrative Office for Local Government Service Commission, Cocoa Rehabilitation and Regeneration, Recapitalization of Kogi Savings and Loans, Reform of Budget Preparation, Renovation and Remodelling of YESSO Office, Take-Off and Recapitalization of Kogi Investment and Properties, Trade Fair Complex, Selected road construction at the Central District, Phase II of Lokoja Modern Market Abattoir, Egume-Elubi-Ogodu/Ofogu Road, adavi-eba, Ikuehi-Obeiba-Oboroke road, Karaworo-Patrick Adava road, Shintaku-Dekina Road, Kupa-Kakanda Agbaja Road, Abejukolo-Benue Boundary Road, Shuku-Akutupa-Ike Road, Ike-Taki-Iluke Road, Dualization of Idah Road, Oke-Giro Road in Kabba-Bunu etc. Other capital projects which budgeted sum have been revised downwards include: Internet Facilities for e-Compliance, Avian Influenza Control and Response, Purchase of Motorcycles for Surveillance, Supply of Fire Extinguisher, Maintenance of Staff ID Cards, Musical Equipment for Live Band, Tourism Master Plan etc. Water has been a major issue across the State. Therefore, water is one capital project that had been well discussed with the people and expectations are high, particularly due to our conviction of its impact on livelihood. Our earlier projected revenues have significantly depleted, with reduced capacity to fund large scale capital projects. Based on this, the amended capital expenditure is N36,597,752,422 as against the originally budgeted amount of N99,113,963,194. Out of this sum, N11,742,490,800 is devoted to COVID-19 responsive activities.

**EN 3.6: Administrative Sector.** The Capital expenditure for the Administrative Sector is N5,729,946,841 in the revised budget as against the sum of N16,063,837,186 in the original budget. Out of this, the sum of N500,000,000 is for Covid-19 activities, covering Social Safety Nets interventions. The Agencies consisting the Administrative Sector are: Government House, Emergency Management Agency, Christian Pilgrims Commission, State Hajj Commission, State Security Trust Fund, Deputy Governor's Office, Office of the SSG, Bureau of Public Procurement, Kogi

State HIV/AIDS Control Agency, Bureau of State Pension, Bureau of Local Government Pension, Bureau of Public Private Partnership, Kogi State House of Assembly, Kogi State Assembly Service Commission, Bureau of Information Services and Grassroots Sensitization, Kogi State Broadcasting Corporation, Kogi State Newspaper Corporation, Kogi State Fire Agency, Office of the Head of Civil service, Office of the State Auditor General, Office of the Local Government Auditor General, Civil Service Commission, State Independent Electoral Commission (SIEC), Local Government Service Commission

**EN 3.7: Economic Sector:** The sum of N16,008,188,080 for Capital expenditure in the revised budget as against the sum of N51,464,382,000 in the original budget. Out of this (N16,008,188,080), the sum of N4,603,462,000 is for Covid-19 response activities such as: -

❖ Livelihood Support Programme	₦ 688,000,000
❖ Palliative Measures Through Cash Transfer	₦ 10,000,000
❖ Programs for Crisis and Recovery Phases	₦ 46,288,000
❖ Measure to Support MSMEs	₦ 806,448,000
❖ Measure to Support Social Safety Net Programs	₦ 80,240,000
❖ Measures for Emergency Response or Mitigation.	₦ 30,240,000
❖ Measures to Address the Covid-19 Pandemic Impact on Food Security	₦ 2,942,246,000

The economic sector is composed of Ministry of Agriculture, Kogi Agricultural Development Project (ADP), Kogi Agro Allied Company, Kogi Land Development Board, Ministry of Finance, Budget and Economic Planning, Office of the Accountant General, Kogi State Internal Revenue Service, Kogi Investment and Properties Ltd, Ministry of Commerce and Industry, Kogi State Market Development Board, Ministry of Transport, Road Maintenance Agency, Kogi State Mineral Resource Development Agency, Ministry of Works and Housing, Ministry of Culture and Tourism,

Council for Arts and Culture, Hotel and Tourism Board, Bureau of Statistics, Kogi State Fiscal Responsibility Commission, Ministry of Water Resources, Kogi State Water Board, Rural Water and Sanitation Agency (RUWASA), Lands and Urban Development Bureau, Kogi State Town Planning and Development Board, Ministry of Rural Development.

**EN 3.8: Law and Justice Sector:** The sum of N1,364,604,800 is proposed for capital expenditures in the revised budget as against the sum of N2,556,000,000 in the original budget. This sector is made up of Kogi State Judicial Service Commission, Ministry of Justice, High Court of Justice, Customary Court of Appeal and Sharia Court of Appeal

**EN 3.9: Social Sector:** The sum of N13,495,012,701 in the revised budget for capital expenditure as against the sum of N29,029,744,008 in the original budget. Out of this (N13,495,012,701), the sum of N6,639,028,800 is for Covid-19 activities consisting: -

❖ Livelihood Support Programme	₦ 100,000,000
❖ Measure to Support MSMEs	₦ 24,288,000
❖ Measure to Support Social Safety Net Programs	₦ 587,700,800
❖ Measures for Emergency Response or Mitigation.	₦ 50,000,000
❖ Measures to Address the COVID-19 Pandemic Impact on Health	₦ 5,777,040,000
❖ Measures to Address the Covid-19 Pandemic Impact on Social Safety Net	₦ 100,000,000

The agencies of government that make up the Social Sector include: Ministry of Youth and Sports, Kogi State Sport Council, Ministry of Women Affairs and Social Development, Ministry of Education, Science and Technology, State Universal Basic Education Board, Kogi state Library Board, Adult and Non Formal Education Board, Kogi State Polytechnic, Lokoja, College of Education Ankpa, College of Education Technical, Kabba, Kogi State University Anyigba, Kogi State Science Technology Education and Teaching Service Commission, State Scholarship Board, Nigeria-Korea

Friendship Institutes, Ministry of Health, Primary Health Care Development Agency, Kogi State University Teaching Hospital, Kogi State Specialist Hospital, Lokoja, Kogi State University Anyigba, Kogi Hospital Management Board, College of Nursing and Midfery, College of Health, Science and Technology, Idah, Ministry of Environment and natural Resources, State Environment and College of Health Science and Technology, State Environmental Development Agency

**EN: 5.2: COMMERCIAL BANK LOANS:** Commercial Bank Loans was scaled down to N5,400,000,000 from N28,468,108,020 in the amended Budget. The loans would be sourced from CBN in the sum of N3,000,000,000, United Bank for Africa (UBA) in the sum of N1,400,000,000 and Zenith Bank in the sum of N1,00,000,000. These sources are extremely credible, as all our previous engagements spanning 4 years have been based on solid confidence. The reduction in the amount of projected commercial loan is hinged on the overall decision to prune down fresh loans accumulation in order to guarantee their sustainability, more so that, our projected revenues have substantially declined, reducing our capacity to service them post COVID.

**EN: 5.3 EXTERNAL LOAN:** The External Loans have also been reduced in the amended Budget to N2,910,000,000 from the earlier Budgeted sum of N34,060,000,000. The source of the loan is the World Bank. Again, this source is very credible, given our years of impactful engagements with World Bank. The World Bank procurement processes are based on strict guidelines. We, therefore, do not envisage that, COVID restrictions will support huge loan at this time. The available potential will be activated in 2021, when we expect the challenges of covid to have slowed down. At present, the loans are going to be sourced through NEWMAP, RAAMP, APPEALS, CSDP.

Going by the Federal Government Policy on suspension of deductions from State Statutory Allocations (FAAC) including bailouts and suspension of repayment of some Commercial Bank Loans in 2020 occasioned by the Covid-19 Pandemic, the State intends to use the relief from this source as financing gap. On fresh loans, the COVID pressure on the State revenues, imposes the need to contract new loans. However, the risks associated with it, in terms of our current debt sustainability position, constrained us not to maximize this window, in order to stay within our debt sustainability capacity. Therefore, this fresh loan (external N2.9b) and (internal N5.4b) is consistent with the State Debt Sustainability Analysis as per the Revised External and Domestic Borrowing Guidelines for Federal and States Governments. The processes of obtaining the loans are on-going and, based on our solid relationship with the affected financial institutions, we are optimistic they will materialize before the end of the year.

The financing of the amended Budget, as it were, is significantly guaranteed, having been revised on realistic assumptions over COVID related constraints, from the previously approved Budget of N176 Billion to an amended Budget of N102 Billion.