

SPARC Briefing Note – November 2015

Guidance on the Preparation of Financing section in State Development Plans

Introduction and Overview

Following the gubernatorial elections in most states in April 2015, the newly elected (or in some instances second term) administrations now have a four-year window to implement the policy priorities from their manifesto. The State Development Plan (SDP) or its equivalent should be the high level document that provides detail about how the policy priorities will be cascaded down both to a sector strategy level and also how they will influence the level and allocation of resources.

The Financing Section of the SDP should identify what can realistically be achieved, financially. As such, it is critical to future annual budgeting process and should be subject to thorough preparation.

The SPARC produced 'How to prepare realistic budgets: A step-by-step guide' is very relevant to the production of the financing section of the SDP and should be referred to in addition to this briefing note, as should the SPARC 'EFU-FSP-BPS (GREAT) Manual'. The Policy and Strategy 'How to Guide 2 - Preparing a State Development Plan' also briefly mentions financing in the following stages and steps:

- Stage 1, Step 6 - Liaise with Finance MDA to obtain fiscal projections;
- Stage 4, Step 4 - Establish revenue projections (and fiscal policy) and assess impact on ambition;
- Stage 5, Step 3 - Recognise fiscal and human resource constraints on policy options; and
- State 5, Step 4 - Consider capital/recurrent budget balances.

This briefing note provides additional guidance on what should be included in the Financing Section of the SDP, and also gives some timeframe specific guidance for the period 2016-2020. The following areas are considered key for inclusion either within the Financing Section or other parts of the SDP, and are covered in more detail in the sub-sections below:

- An overarching Fiscal Policy Statement;
- Indicative Macro-Fiscal Framework for the period 2016-2019 at least (the term of the current Administration) or longer (maybe to 2020), and to at least cover recurrent revenue;
- Guidelines on maximum increments for salaries and overheads (taking into consideration inflation), and a realistic target for Recurrent : Capital Expenditure ratio;
- Ring fencing of revenues / source of funds - should the state look to be funding certain types of expenditure through certain revenue streams – for example funding recurrent expenditure through recurrent revenue streams (i.e. VAT and IGR)?
- Current Debt position (at least at the end of 2014, the later the better), and some indication of the solvency and liquidity ratios that will bind the current administration (perhaps looking to the end of 2019 and consider what debt position the state should have at the end of the administration);

- Strategy for drawing down loans and grants – will financing be through issuance of bonds, bank loans, overdrafts, Federal bail-outs, external debt or other sources? What kind of interest rates, administrative charges, foreign exchange risk, or other risks would each type of financing instrument attract?
- Relationship / financial contribution to and from Local Government;
- A detailed section on IGR (it could be that “Public Finance” itself considered a Sector and hence may have its own MTSS or is included within governance / public administration);
- Any key reforms to the PFM system and processes envisaged during the term of the current administration that might have significant impact on resources – for example TSA, IGR reforms, Public Procurement Reforms, Payroll Audits, etc. (as above, this might be part of a broader “Finance” sector MTSS);
- From a finance/budgeting perspective, the section should clearly define the relationship between the SDP, the “Finance” sector MTSS, the EFU-FSP-BPS documentation and the annual budget; and
- Some key consideration for Sector Envelopes.

This briefing note provides some guidance for SPARC state teams on the financing section of the SDP, specifically what it should include and how it should be developed. It can also be shared with State Governments.

An example SDP financing section is also provided (for Wazobia state) at the end of this briefing note as an Annex.

It should be noted that this note provides more detail than would be necessary in the SDP financing section itself, but the detail is needed in order to guide policy decisions.

Fiscal Policy Statement

Fiscal Policy can be defined as “the means by which a government adjusts its spending levels and tax rates to monitor and influence the economy”. The policy statement might talk broadly about priorities, principles (prudence, borrowing etc.) and may also include defined ratios / ranges, some of which are discussed in the following sub-sections. The key thing is that it guides the annual budget preparation and its implementation, and that it can be used as a reference point to civil society. Since many of the revenue sources are partially of fully exogenous to the state, tax rates would refer only to IGR (and only to the extent allowed under federal legislation).

Within the context and suggested format of the EFU-FSP-BPS document, the Budget Policy Statement focussed on the sector distribution of expenditure whereas the Fiscal Policy Statement focused on aggregate budget size and composition of expenditure between the four main classifications – Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital.

The Fiscal Policy Statement will be supplemented by the annual EFU-FSP-BPS documents.

Macro-Fiscal Framework

The Macro-Fiscal framework may just include the same macro-economic variables as the EFU-FSP-BPS plus recurrent revenues, or it may include more detailed fiscal forecasts (full recurrent account – i.e. revenue and expenditure, plus transfer to capital account). It is recommended that capital account is not considered beyond the transfer to Capital Development Fund.

As noted above, the Macro-Fiscal framework should really cover the period 2016-2019 at least (maybe five years, taking it up to 2020), but clearly states that it will be **superseded by the three year Macroeconomic and Fiscal Frameworks in the annual iterations of the EFU-FSP-BPS document**. For this reason, it is not required to go into huge amounts of detail, but must be realistic given the current economic and fiscal climate, and this is what is covered below).

There are two main ways that the fiscal estimates can be generated:

1. Adding additional columns onto the existing EFU-FSP-BPS template; or
2. Using the Revenue Tool (this will only look at revenue items, not expenditure).

Support can be provided to adapt the EFU-FSP-BPS MS Excel template to accommodate more out-years if this is the preferred route.

Crude Oil Outlook (price and production) – the assumption made about the crude oil benchmarks will play a large part in estimating the resources available to implement the SDP. Analysis of the current situation as well as the short and medium term outlook is provided below.

2015 Price Movements – according to CBN, the average price for Bonny Light for the first half of 2015 was \$57 per barrel although as at 13th November 2015 the price has dropped to \$46.67 per barrel.

Short-term Outlook - According to the US Energy Information Administration (EIA) November 2015 Short-Term Energy Outlook, average price for Brent Crude in 2015 of \$53.82 and 2016 of \$56.24 can be anticipated. Historically (over the last ten years), Bonny Light has traded at 2.5 percent or \$2.00 above Brent Crude – this would suggest an average price of \$55.50 for 2015 and \$58 for 2016.

Longer-term outlook – The EIA’s 2015 Annual Energy Outlook “reference case” forecasts reflect global oil market events through the end of 2014 and the current global economic outlook. It forecasts an average price for 2015 of \$56 per barrel, \$76 per barrel by 2018 and around \$80 by 2020 for Brent Crude. As above this would suggest \$78 per barrel for Bonny Light in 2018, and \$82 by 2020.

Based on this, states should not anticipate a benchmark above the current rate of \$53 for 2016 for 2017, in fact the benchmark for 2016 should be well below \$50 (\$45 would be a conservative estimate).

Production – the current production benchmark of 2.2782 is fractionally higher than the average production level over the last eight years (2007-2014) of 2.2084 (CBN data). January to June 2015 production has average 2.08 mbpd, although it has been falling and the production level in June (latest figure available from CBN) was 1.97 mbpd. It would be unwise to benchmark much above the current benchmark production rate, and even this might be revised downwards if the current production level continues.

NGN:USD Foreign exchange rate – this has been depreciating year on year over the last 5-10 years, either through deliberate monetary policy or through increased demand and increased crude oil prices (on average), and a depreciating foreign exchange rate relative to major world currencies (i.e. the USD). At the same time, foreign exchange rates are notoriously hard to forecast, so the previous trend should not necessarily be taken as a robust indicator for future movements. Therefore it is advised that the current rate of around 197 per dollar (CBN official rate as at 13th November 2015) is the safest rate to use for 2016 onward. The 2015 budget as approved by the National Assembly was based on 190.

Inflation and Real GDP Growth – As with the EFU-FSP-BPS, national real GDP growth and inflation are key to the FAAC revenues (Statutory Allocation and VAT), so there is a need to make some assumptions. Again as with the EFU-FSP-BPS, the sources of these estimates are either the IMF World Economic Outlook – which provides forecasts up to 2020), the NBS or the CBN.

All states should be encouraged to compute state level GDP estimates – These are useful both in terms of monitoring the impact of the government’s economic growth policies and can also be used, in time, to support elasticity based forecasting of IGR.

Statutory Allocation and VAT – These should both be based on elasticity forecasting that all SPARC states have adopted as part of the EFU-FSP-BPS process. These will be based on the macroeconomic and mineral (crude oil benchmark) assumptions as discussed above.

Other Federal Transfers – As at September 2015, the balance in the Excess Crude account was reported to be approximately USD 2.5 billion which equates to no more than NGN 5.0 billion to any non-oil producing state. There has been very little accrual into the Excess Crude account during 2015 – most monthly excesses are generated from exchange gains and these are being distributed straight away (particularly since the actual prices and production are tending to fall below the benchmarks). It is strongly advised not to include any other FA distributions in the SDP financing.

Further to this, there should be some indication made on how revenue excesses of short-falls will be dealt with – which sectors will benefit (or suffer), or will it be split evenly.

An indicative estimate of Federation Account transfers for SPARC states is provided in Table 2 at the end of this paper and is based on the following macroeconomic and mineral assumptions – IMF projections (from October 2015 World Economic Outlook) for real GDP growth and inflation (both national) and the current crude oil benchmarks for 2015.

Table 1 – Indicative Macroeconomic and Mineral Assumptions 2016-2020

Year	2016	2017	2018	2019	2020
Macroeconomic and Mineral Benchmarks					
National Inflation	9.70%	9.00%	8.30%	7.60%	7.00%
National Real GDP Growth	4.30%	4.50%	4.70%	4.90%	5.10%
Oil Price (Benchmark)	\$45.00	\$50.00	\$53.00	\$55.00	\$55.00
Oil Production (Benchmark)	2.2782	2.2782	2.2782	2.2782	2.2782
NGN:USD Exchange Rate	197	197	197	197	197

IGR – The state’s internal revenue generation, IGR, is an important, if somewhat under developed in most states, source of revenue for financing the State Development Plan. As noted above, very few states have their own real GDP and/or inflation data (historical, let alone forecast) so estimating IGR cannot be done in the same way (elasticity forecasts) as Statutory Allocation and VAT.

Recurrent Expenditures – As noted above and to be discussed in further detail below, these are, to a large extent, controllable by government (although in the short-term it is difficult to make substantial changes to personnel costs). The more prudent a state is with its recurrent expenditure, the larger the recurrent account surplus which can be transferred to the capital account.

Many states have experienced a rationing of overhead expenditure in 2015 as a result of the “fiscal crunch” – the new “base” level of Overhead Expenditure may well be somewhere between the 2014 levels and the current rate of expenditure in 2015 – this must be taken into consideration when forecasting the indicative annual increments going forwards. The SDP should also give consideration to the cost of maintaining and operating any newly

created assets but at the same time place emphasis on Value for Money (VfM) in terms of economy, efficiency and effectiveness.

CRF charges will be dependent on the cost of debt servicing (this should be based on the current debt portfolio and also the planned additional financing (if any) planned over the period of the SDP. Pension liabilities may actually drop as a higher proportion of retired civil servants have pay-as-you-go pensions (although the full effect of this may take many years). Payments to statutory office holders are likely to be stable in real terms (but increase based on any annual cost of living / index based salary increments).

Finally, there may be a temptation to provide a backwards looking review of prior fiscal performance in the state – it is recommended that if this is included, it is brief (for example, in line with the EFU-FSP-BPS Executive Summary Fiscal Performance section). The SDP can always refer back to the analysis provided in the EFU-FSP-BPS (or equivalent) document.

Maximum Increments/ Ratios and Revenue Ring Fencings / Source of Funds

Personnel and overheads may be subjected to fixed maximum increments, or increments linked to the inflation rate. There might also be some policy of partial carry-over of unspent resources. This type of policy is critical to avoid crowding out of capital expenditure. In essence, a state should be looking to try and ensure that the growth in its recurrent revenue exceeds the growth in its recurrent expenditure, thus leaving an increasing balance/transfer for the Capital Development Fund (in nominal terms at the very least).

Recurrent-Capital expenditure ratios are often mentioned in budget discussions and are usually not achievable judging by prior performance. Long-term targets, or a “range” for the ratio, might also be considered. A fiscal deficit (or surplus) might be used to help ensure that the expenditure composition stays within the predefined range – for example:

“if capital expenditure falls below 40% we will borrow to supplement the Capital Development Fund, but if it exceeds 60% we will save or repay existing debts”

There may also be discussions around planning and/or contingency reserves – the percentage and the revenue base.

Ring-fencing - Traditionally states have classified VAT as a capital receipt – not because VAT revenue is capital in nature (it is not a one off, or dependent on the sale of an asset) but because it reduced the available funds for the recurrent account and provided a “guaranteed resource) for capital expenditure. A more prudent approach would be to look at funds that are recurrent in nature (i.e. VAT, IGR and the non-mineral component of Statutory Allocation that comes from Customs and Excise and Companies Income Tax) and attempt to fund recurrent expenditure with revenues that are of a recurrent nature.

Excess Crude and the mineral component of statutory allocation, which might be considered “capital” in nature since they are based on the sale of a, in the long term, finite asset (crude oil) might therefore be ring-fenced for capital expenditure. Practically it is hard to clearly distinguish between the mineral and non mineral components of Statutory Allocation (without analysis of the FAAC pack) so this may be difficult – but such policies may be considered as long-term targets for the any state.

Debt and Loans / Financing

There is little doubt that state governments will have ambitions beyond the scope of their recurrent revenue resource. However, this should not lead to any immediate decisions to take on debt. Some of the issues around loans / financing are:

1. Has the source of funding been identified and is it realistic to expect actual drawdown?
2. Are current liquidity and solvency ratios, based on the current debt portfolio, sufficiently below the upper thresholds (these thresholds should actually be clearly defined in the above mentioned Fiscal Policy Statement and/or ratios)?
3. The state should take on a balanced portfolio in terms of foreign / domestic, long and short term maturities and at competitive interest rates;
4. The return on the borrowing should show a positive net present value through economic and/or financial appraisal.

As noted above, the Fiscal Policy Statement might also dictate maximum annual budget deficits.

Finally, and this also applies to grants as discussed below, the state should be clear whether some matched funding is required from the state in order for it to draw down financing from the creditor.

Grants

Grants should be considered both within the main financing section but also, and probably to a larger extent, within the sectors. MDAs should be actively seeking grants from any potential sources, corresponding with the NPC, and assessing what grants have been made available to other states, etc. It is in effect “free resources”. Luckily grants are usually ring fenced for certain activities, so the recipient MDA can be assured of receiving the funds as long as the meet all conditionalities (including matching funds as necessary). Grants should be calculated before allocations to sectors are made. They should not be included in the overall resource envelope for allocation to sectors, but should be taken into consideration when looking at the total allocations to sectors.

On a wider point, states should also work together with development partners to ensure that grants are properly captured in the budget and accounts. This can be difficult, particularly when the grant is received in kind (for example Technical Assistance from SPARC), but ultimately the figures will be available from the origin of the funding.

Finally, and as noted above, sector MDAs must be clear as to whether some matched funding is required from the grantee (the state) in order for it to draw down financing from the grantor (development partners / federal government / local government).

IGR

New administrations may be tempted to anticipate large increases in IGR based on some new policies, reforms and the appointment of new Chairman to the BIR. In practice however, any sustainable increase in IGR takes time and large one-off annual increases are very rarely seen, other than, for example improving collection and transfer processes. In normal circumstances, anything more than a 10-15% annual increment (assuming IGR has been relatively stable) is highly unlikely to be achieved, and certainly not for a sustained period.

Local Government Contributions

Many states rely on local government (LG) contributions for capital expenditure – particularly roads and sometimes education and other sectors. These are usually deducted at source from the LG’s FAAC Allocations and/or the 10% IGR share that is legally due to LGs, and sometimes not in a totally transparent way. The financing section, or sections for individual sectors, should clearly state where local government contributions are expected,

and be clear that collectively they are leaving local governments with sufficient funding after these “contributions” in order to perform their own mandated functions (if useful, a summary of total LG FAAC allocations by state by year can be provided, or can be generated through the Revenue Tool (for each LG individually)). It should also demonstrate that LGs have been consulted / involved within the preparation of the SDP.

PFM Reforms

As with IGR, there may be a section within the SDP specifically on finance as a “Sector” in which case PFM reforms should form part of the Sector plan and then the MTSS. This should cover any institutional, legal, business process, systems and other reforms that are likely to have an impact on resource availability and VfM in terms of both revenue collection and expenditure.

Relationship between SDP, “Finance” Sector MTSS, EFU-FSP-BPS process and the Annual Budget Process

The SDP is an ideal location for a clear statement on the relationship between these documents. At the very least, there should be reference to the annual EFU-FSP-BPS process and that it supersedes the estimates in the Macro-Fiscal framework within the SDP.

It might then go into further detail to define the relationship between the EFU-FSP-BPS document and the MTSSs (is the EFU-FSP-BPS issued as an MTEF or MTSS call circular?); what is included within the envelopes in the EFU-FSP-BPS - capital only; recurrent and capital separately; personnel, overheads and capital all separately; or a single envelope covering both recurrent and capital but some upper limits on increments to personnel and overheads. It should also define whether non-discretionary loans and grants are considered as part of the envelope setting process, or if these are left to sectors to determine.

Finally it might define the relationship between the envelopes in the EFU-FSP-BPS document and the envelopes in the annual budget call circular (or, like Lagos, leave it to a “Sector Champion” to make the intra-sectoral allocations).

Sector Envelopes

Sector Envelopes are one of the most important outputs of the financing section (and the EFU-FSP-BPS documents), as they provide the basis for sectors to prepare the MTSSs. The allocations to each sector should reflect policy priorities of government and must have buy-in from the Executive Council (ExCo) and the State House of Assembly (SHoA) in order to avoid “manipulation of budgets during the approval process”.

Sector envelopes must also reflect the current spending commitments of government – this is both the costs to complete all ongoing capital projects (assuming they fit within the current policy priorities) as well as, in the short-term, the current levels of recurrent expenditure (it would take time (maybe 2-3 years) for a sector or MDA to adjust to a significant decrease or increase to their current levels of recurrent expenditure). This leaves only “Fiscal Space” to be allocated - fiscal space being the difference between total resources and the resources that already committed.

For most states, estimating “Fiscal Space” could prove difficult as the MoF and MEPB (or equivalent) do not typically ask for the full life-cycle costs of capital projects in the annual budget call circular, hence they do not know what their out-year commitments are.

Finally, consideration must be given to the level of non-discretionary (grant and loan) financing available to some sectors. For example, roads sector may be given a 25% allocation from general government funds but may also be able to draw on considerable

additional financing (say from Local Government, or development partner grants), so ultimately the proportion of total expenditure may be significantly higher than 25%.

Indicative Estimates of Federation Account distributions to States

Indicative FAAC transfers for the period 2016-2020 for all states are presented in Table 2 below. These are based on the macroeconomic framework in Table 1 above and the current sharing ratios (as at August 2015). It assumes zero distributions from Excess Crude accounts or any other ad hoc distributions. SPARC is also producing a simple MS Excel template and brief instructions to enable states to make their own calculations for the period of 2016-2020 for state recurrent revenue and expenditure, and LG FAAC distributions.

Table 2 – Indicative Five Year Federation Account Forecasts for States

State	Revenue Item	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Abia						
Abia	1. Statutory Allocation	27,545,805,980	30,562,126,451	32,804,818,213	34,842,858,417	36,167,178,382
Abia	2. Net Derivation	4,353,856,507	4,837,618,341	5,127,875,442	5,321,380,176	5,321,380,176
Abia	3. VAT	8,673,351,719	9,122,940,595	9,524,750,550	9,857,063,500	10,255,209,753
Abia	Total FAAC	40,573,014,206	44,522,685,387	47,457,444,204	50,021,302,093	51,743,768,311
Adamawa						
Adamawa	1. Statutory Allocation	29,304,000,610	32,512,846,886	34,898,685,252	37,066,809,555	38,475,658,260
Adamawa	2. Net Derivation	-	-	-	-	-
Adamawa	3. VAT	8,959,367,812	9,423,782,519	9,838,842,728	10,182,114,170	10,593,389,862
Adamawa	Total FAAC	38,263,368,422	41,936,629,405	44,737,527,981	47,248,923,726	49,069,048,121
Akwa Ibom						
Akwa Ibom	1. Statutory Allocation	29,576,320,384	32,814,986,217	35,222,995,992	37,411,268,504	38,833,209,528
Akwa Ibom	2. Net Derivation	118,147,032,226	131,274,480,251	139,150,949,066	144,401,928,276	144,401,928,276
Akwa Ibom	3. VAT	9,902,759,349	10,416,075,375	10,874,840,039	11,254,256,819	11,708,838,468
Akwa Ibom	Total FAAC	157,626,111,959	174,505,541,843	185,248,785,097	193,067,453,599	194,943,976,273
Anambra						
Anambra	1. Statutory Allocation	29,249,103,015	32,451,937,895	34,833,306,674	36,997,369,252	38,403,578,644
Anambra	2. Net Derivation	-	-	-	-	-
Anambra	3. VAT	9,784,223,168	10,291,394,794	10,744,668,038	11,119,543,193	11,568,683,493
Anambra	Total FAAC	39,033,326,183	42,743,332,689	45,577,974,712	48,116,912,445	49,972,262,137
Bauchi						
Bauchi	1. Statutory Allocation	35,187,650,886	39,040,768,555	41,905,634,982	44,509,074,767	46,200,791,779
Bauchi	2. Net Derivation	-	-	-	-	-
Bauchi	3. VAT	10,239,647,519	10,770,426,365	11,244,798,031	11,637,122,428	12,107,168,775
Bauchi	Total FAAC	45,427,298,406	49,811,194,920	53,150,433,013	56,146,197,195	58,307,960,554
Bayelsa						
Bayelsa	1. Statutory Allocation	26,028,860,191	28,879,072,085	30,998,258,954	32,924,064,413	34,175,454,162
Bayelsa	2. Net Derivation	70,712,911,910	78,569,902,122	83,284,096,250	86,426,892,334	86,426,892,334
Bayelsa	3. VAT	7,664,227,097	8,061,507,336	8,416,567,622	8,710,216,721	9,062,039,569
Bayelsa	Total FAAC	104,405,999,198	115,510,481,543	122,698,922,825	128,061,173,469	129,664,386,065
Benue						
Benue	1. Statutory Allocation	32,990,697,378	36,603,244,273	39,289,241,744	41,730,134,840	43,316,228,898
Benue	2. Net Derivation	-	-	-	-	-
Benue	3. VAT	9,678,036,307	10,179,703,667	10,628,057,598	10,998,864,283	11,443,130,123
Benue	Total FAAC	42,668,733,685	46,782,947,940	49,917,299,342	52,728,999,123	54,759,359,022
Borno						
Borno	1. Statutory Allocation	36,548,964,665	40,551,148,896	43,526,849,154	46,231,008,890	47,988,173,797
Borno	2. Net Derivation	-	-	-	-	-
Borno	3. VAT	9,589,465,461	10,086,541,693	10,530,792,406	10,898,205,566	11,338,405,602
Borno	Total FAAC	46,138,430,126	50,637,690,589	54,057,641,560	57,129,214,455	59,326,579,399
Cross River						
Cross River	1. Statutory Allocation	29,581,364,371	32,820,582,529	35,229,002,970	37,417,648,672	38,839,832,197
Cross River	2. Net Derivation	-	-	-	-	-
Cross River	3. VAT	8,781,118,398	9,236,293,430	9,643,095,887	9,979,537,836	10,382,631,070
Cross River	Total FAAC	38,362,482,768	42,056,875,959	44,872,098,856	47,397,186,509	49,222,463,266
Delta						
Delta	1. Statutory Allocation	29,868,923,909	33,139,630,408	35,571,463,030	37,781,384,491	39,217,393,018
Delta	2. Net Derivation	89,002,011,956	98,891,124,395	104,824,591,859	108,780,236,835	108,780,236,835
Delta	3. VAT	10,323,504,099	10,858,629,706	11,336,886,192	11,732,423,490	12,206,319,235
Delta	Total FAAC	129,194,439,964	142,889,384,510	151,732,941,081	158,294,044,816	160,203,949,088

State	Revenue Item	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Ebonyi						
Ebonyi	1. Statutory Allocation	26,317,860,706	29,199,718,731	31,342,435,100	33,289,622,932	34,554,906,960
Ebonyi	2. Net Derivation	-	-	-	-	-
Ebonyi	3. VAT	7,930,747,794	8,341,843,308	8,709,250,686	9,013,111,326	9,377,168,684
Ebonyi	Total FAAC	34,248,608,500	37,541,562,039	40,051,685,786	42,302,734,257	43,932,075,645
Edo						
Edo	1. Statutory Allocation	27,506,382,386	30,518,385,895	32,757,867,913	34,792,991,272	36,115,415,868
Edo	2. Net Derivation	10,518,681,404	11,687,423,782	12,388,669,209	12,856,166,160	12,856,166,160
Edo	3. VAT	9,084,556,910	9,555,460,877	9,976,320,715	10,324,388,683	10,741,411,123
Edo	Total FAAC	47,109,620,700	51,761,270,554	55,122,857,837	57,973,546,115	59,712,993,151
Ekiti						
Ekiti	1. Statutory Allocation	26,303,009,690	29,183,241,499	31,324,748,747	33,270,837,791	34,535,407,828
Ekiti	2. Net Derivation	-	-	-	-	-
Ekiti	3. VAT	8,027,999,904	8,444,136,545	8,816,049,317	9,123,636,098	9,492,157,771
Ekiti	Total FAAC	34,331,009,595	37,627,378,045	40,140,798,064	42,394,473,890	44,027,565,599
Enugu						
Enugu	1. Statutory Allocation	29,583,917,442	32,823,415,167	35,232,043,470	37,420,878,068	38,843,184,336
Enugu	2. Net Derivation	-	-	-	-	-
Enugu	3. VAT	9,464,770,137	9,955,382,706	10,393,856,664	10,756,492,216	11,190,968,171
Enugu	Total FAAC	39,048,687,579	42,778,797,873	45,625,900,134	48,177,370,284	50,034,152,507
Gombe						
Gombe	1. Statutory Allocation	27,708,587,764	30,742,733,164	32,998,678,100	35,048,762,092	36,380,908,118
Gombe	2. Net Derivation	-	-	-	-	-
Gombe	3. VAT	8,218,301,067	8,644,302,094	9,025,030,939	9,339,908,966	9,717,166,326
Gombe	Total FAAC	35,926,888,831	39,387,035,258	42,023,709,039	44,388,671,057	46,098,074,444
Imo						
Imo	1. Statutory Allocation	30,585,415,024	33,934,578,724	36,424,745,769	38,687,678,483	40,158,133,760
Imo	2. Net Derivation	4,003,652,943	4,448,503,269	4,715,413,466	4,893,353,596	4,893,353,596
Imo	3. VAT	9,467,274,950	9,958,017,358	10,396,607,356	10,759,338,879	11,193,929,815
Imo	Total FAAC	44,056,342,917	48,341,099,351	51,536,766,591	54,340,370,958	56,245,417,172
Jigawa						
Jigawa	1. Statutory Allocation	32,897,451,090	36,499,787,332	39,178,192,988	41,612,187,041	43,193,798,096
Jigawa	2. Net Derivation	-	-	-	-	-
Jigawa	3. VAT	10,156,382,023	10,682,844,748	11,153,358,977	11,542,493,119	12,008,717,201
Jigawa	Total FAAC	43,053,833,114	47,182,632,079	50,331,551,965	53,154,680,160	55,202,515,298
Kaduna						
Kaduna	1. Statutory Allocation	38,543,190,269	42,763,746,165	45,901,809,918	48,753,517,050	50,606,558,360
Kaduna	2. Net Derivation	-	-	-	-	-
Kaduna	3. VAT	11,646,254,258	12,249,945,486	12,789,480,957	13,235,698,433	13,770,314,420
Kaduna	Total FAAC	50,189,444,527	55,013,691,652	58,691,290,875	61,989,215,483	64,376,872,780
Kano						
Kano	1. Statutory Allocation	46,660,822,830	51,770,275,616	55,569,251,149	59,021,560,112	61,264,872,916
Kano	2. Net Derivation	-	-	-	-	-
Kano	3. VAT	15,716,120,407	16,530,775,817	17,258,855,784	17,861,007,122	18,582,448,458
Kano	Total FAAC	62,376,943,236	68,301,051,433	72,828,106,932	76,882,567,234	79,847,321,374
Katsina						
Katsina	1. Statutory Allocation	36,160,809,728	40,120,490,223	43,064,588,142	45,740,029,336	47,478,532,915
Katsina	2. Net Derivation	-	-	-	-	-
Katsina	3. VAT	11,576,100,093	12,176,154,834	12,712,440,276	13,155,969,848	13,687,365,440
Katsina	Total FAAC	47,736,909,821	52,296,645,057	55,777,028,418	58,895,999,184	61,165,898,355
Kebbi						
Kebbi	1. Statutory Allocation	31,062,315,965	34,463,701,264	36,992,696,065	39,290,913,399	40,784,296,647
Kebbi	2. Net Derivation	-	-	-	-	-
Kebbi	3. VAT	8,885,754,545	9,346,353,460	9,758,003,390	10,098,454,396	10,506,350,903
Kebbi	Total FAAC	39,948,070,509	43,810,054,724	46,750,699,456	49,389,367,795	51,290,647,550
Kogi						
Kogi	1. Statutory Allocation	32,512,867,400	36,073,090,963	38,720,185,040	41,125,724,779	42,688,846,201
Kogi	2. Net Derivation	-	-	-	-	-
Kogi	3. VAT	8,927,252,934	9,390,002,946	9,803,575,371	10,145,616,355	10,555,417,828
Kogi	Total FAAC	41,440,120,334	45,463,093,909	48,523,760,411	51,271,341,134	53,244,264,029
Kwara						
Kwara	1. Statutory Allocation	26,185,740,708	29,053,131,330	31,185,090,911	33,122,503,538	34,381,435,633
Kwara	2. Net Derivation	-	-	-	-	-
Kwara	3. VAT	8,111,146,398	8,531,592,992	8,907,357,687	9,218,130,164	9,590,468,638
Kwara	Total FAAC	34,296,887,106	37,584,724,322	40,092,448,598	42,340,633,702	43,971,904,271

State	Revenue Item	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Lagos						
Lagos	1. Statutory Allocation	39,408,091,903	43,723,356,247	46,931,837,535	49,847,536,416	51,742,159,609
Lagos	2. Net Derivation	-	-	-	-	-
Lagos	3. VAT	80,950,479,911	85,146,601,136	88,896,790,190	91,998,346,970	95,714,341,812
Lagos	Total FAAC	120,358,571,814	128,869,957,383	135,828,627,725	141,845,883,386	147,456,501,421
Nassarawa						
Nassarawa	1. Statutory Allocation	27,128,483,640	30,099,106,486	32,307,821,193	34,314,984,838	35,619,241,193
Nassarawa	2. Net Derivation	-	-	-	-	-
Nassarawa	3. VAT	7,633,146,238	8,028,815,380	8,382,435,785	8,674,894,044	9,025,290,139
Nassarawa	Total FAAC	34,761,629,878	38,127,921,866	40,690,256,977	42,989,878,882	44,644,531,332
Niger						
Niger	1. Statutory Allocation	34,845,329,367	38,660,962,149	41,497,957,848	44,076,070,183	45,751,329,401
Niger	2. Net Derivation	-	-	-	-	-
Niger	3. VAT	9,498,582,386	9,990,947,635	10,430,988,012	10,794,919,055	11,230,947,145
Niger	Total FAAC	44,343,911,753	48,651,909,784	51,928,945,860	54,870,989,238	56,982,276,546
Ogun						
Ogun	1. Statutory Allocation	27,329,966,936	30,322,652,603	32,547,771,438	34,569,842,291	35,883,785,360
Ogun	2. Net Derivation	-	-	-	-	-
Ogun	3. VAT	9,667,153,588	10,168,256,836	10,616,106,603	10,986,496,325	11,430,262,599
Ogun	Total FAAC	36,997,120,524	40,490,909,439	43,163,878,041	45,556,338,616	47,314,047,959
Ondo						
Ondo	1. Statutory Allocation	27,384,110,661	30,382,725,174	32,612,252,218	34,638,329,020	35,954,875,158
Ondo	2. Net Derivation	14,519,435,367	16,132,705,964	17,100,668,321	17,745,976,560	17,745,976,560
Ondo	3. VAT	9,085,722,059	9,556,686,421	9,977,600,237	10,325,712,847	10,742,788,773
Ondo	Total FAAC	50,989,268,087	56,072,117,559	59,690,520,777	62,710,018,427	64,443,640,490
Osun						
Osun	1. Statutory Allocation	26,828,954,319	29,766,778,109	31,951,106,093	33,936,108,368	35,225,964,249
Osun	2. Net Derivation	-	-	-	-	-
Osun	3. VAT	9,017,492,323	9,484,919,953	9,902,672,893	10,248,171,332	10,662,115,202
Osun	Total FAAC	35,846,446,642	39,251,698,062	41,853,778,985	44,184,279,700	45,888,079,451
Oyo						
Oyo	1. Statutory Allocation	32,994,342,457	36,607,288,495	39,293,582,738	41,734,745,523	43,321,014,826
Oyo	2. Net Derivation	-	-	-	-	-
Oyo	3. VAT	12,209,392,269	12,842,274,126	13,407,898,064	13,875,691,750	14,436,158,331
Oyo	Total FAAC	45,203,734,726	49,449,562,622	52,701,480,802	55,610,437,273	57,757,173,157
Plateau						
Plateau	1. Statutory Allocation	30,718,820,119	34,082,591,942	36,583,620,405	38,856,423,404	40,333,292,399
Plateau	2. Net Derivation	-	-	-	-	-
Plateau	3. VAT	9,085,810,079	9,556,779,004	9,977,696,898	10,325,812,880	10,742,892,846
Plateau	Total FAAC	39,804,630,198	43,639,370,946	46,561,317,303	49,182,236,284	51,076,185,245
Rivers						
Rivers	1. Statutory Allocation	31,725,272,392	35,199,252,738	37,782,223,339	40,129,491,038	41,654,747,248
Rivers	2. Net Derivation	72,067,109,827	80,074,566,475	84,879,040,463	88,082,023,122	88,082,023,122
Rivers	3. VAT	12,706,150,831	13,364,782,494	13,953,419,742	14,440,246,359	15,023,516,415
Rivers	Total FAAC	116,498,533,051	128,638,601,707	136,614,683,545	142,651,760,520	144,760,286,785
Sokoto						
Sokoto	1. Statutory Allocation	32,420,348,278	35,970,440,814	38,610,002,279	41,008,696,777	42,567,370,156
Sokoto	2. Net Derivation	-	-	-	-	-
Sokoto	3. VAT	9,241,292,545	9,720,321,006	10,148,441,928	10,502,515,105	10,926,732,422
Sokoto	Total FAAC	41,661,640,823	45,690,761,820	48,758,444,208	51,511,211,882	53,494,102,578
Taraba						
Taraba	1. Statutory Allocation	28,336,738,947	31,439,668,150	33,746,755,153	35,843,314,364	37,205,660,020
Taraba	2. Net Derivation	-	-	-	-	-
Taraba	3. VAT	8,103,142,283	8,523,173,978	8,898,567,867	9,209,033,672	9,581,004,721
Taraba	Total FAAC	36,439,881,230	39,962,842,128	42,645,323,021	45,052,348,036	46,786,664,741
Yobe						
Yobe	1. Statutory Allocation	29,211,540,282	32,410,261,968	34,788,572,509	36,949,855,921	38,354,259,409
Yobe	2. Net Derivation	-	-	-	-	-
Yobe	3. VAT	8,030,854,294	8,447,138,894	8,819,183,901	9,126,880,046	9,495,532,748
Yobe	Total FAAC	37,242,394,576	40,857,400,862	43,607,756,411	46,076,735,967	47,849,792,157
Zamfara						
Zamfara	1. Statutory Allocation	29,273,752,333	32,479,286,362	34,862,662,011	37,028,548,325	38,435,942,783
Zamfara	2. Net Derivation	-	-	-	-	-
Zamfara	3. VAT	8,946,491,061	9,410,238,294	9,824,701,962	10,167,480,041	10,578,164,631
Zamfara	Total FAAC	38,220,243,394	41,889,524,656	44,687,363,973	47,196,028,366	49,014,107,414

Annex -- Example SDP Financing Section for Wazobia State

Fiscal Policy Statement - Achieving long-term financial viability and sustainability is a strategic objective of the financing strategy for the State Development Plan. It is expected that greater investment in economic development (as envisaged in the SDP) would improve the productive sectors of the state's economy and subsequently to its GDP and IGR. However, a major challenge to be addressed is to maintain a balance between social and economic investment, to ensure continuous delivery of affordable public services that contribute to pro-poor growth and development, poverty reduction and overall socioeconomic wellbeing of the people.

Long-term financial viability and sustainability will be achieved through generating sufficient revenues from recurrent sources (IGR, VAT and other non-mineral based federal transfers) to cover the running costs of government without reliance on crude oil revenues, and ensuring Value for Money (VfM) in expenditure.

Capital expenditure should be framed within clear financial/economic/social cost-benefit analysis and be clearly linked to the Governor's policy priorities.

The latest PEFA assessment, conducted in 2015, identified a number of weaknesses that have compromised allocative efficiency, resource availability as well as the core VfM principles of economy, efficiency and effectiveness related to expenditure – these all impact on the ability of the state to achieve the above targets. Wazobia State Government (WZSG) will proactively tackle the issues identified in the PEFA through the Public Finance MTSS and it is assumed that these will have positive impact both on both revenue and expenditure sides of the budget.

Objectives and Targets – WZSG proposes a number of fixed criteria that will govern the medium term expenditure framework (MTEF) and annual budget preparation processes over the course of the current administration:

- Any federation account distributions above and beyond the estimates in the annual budget will be used for short-term financing (in-year) only, and should represent a Treasury Opening Balance for the following year so the related expenditure can be properly planned;
- IGR growth should out-perform inflation by at least 5% per annum on average over the period;
- Envelopes will be provided to sectors at an aggregate figure to cover all recurrent and capital expenditure. Any capital expenditure commitments beyond a one year time frame must be presented with full lifetime costings;
- With sector's aggregate budget submission, personnel expenditure increments should be capped at the current inflation rate, and sectors should be encouraged to make efficiencies, particularly as civil servants retire. Overhead expenditure increments should not exceed ½ of the national inflation rate based on economy and efficiencies from improved public procurement. Increases to any economic item beyond this rate must be fully justified in budget submissions;
- Maximum fiscal deficit of 5% of recurrent revenue. However this is conditional on positive financial and economic internal rate of return on capital expenditure projects compared to the borrowing costs, and the creation of a sinking fund to repay the principle;
- A contingency reserve of 5% of the capital development fund should be retained for emergencies. If unspent, it should be added to the CDF in the subsequent year.

Current Debt Portfolio – Wazobia State took advantage of the Federal Government bail-out to restructure its NGN 7.2 billion of domestic debt (largely capital expenditure vouchers and some short-term high interest overdrafts) into a ten year fixed rate bond – the repayment of this bond will cost the state N93 million per month for the aforementioned period (average interest of N33 billion per month). All other existing debt is from foreign institutions with long-term grace periods and low interest rates. Based on this current debt portfolio and the desires of the new administration to make significant social and economic reforms, the state is in a position to draw down new debt based on valid positive net present value of investments of significant positive economic / social impact appraisals.

Indicative Macro-Fiscal Framework (2016-2020) – Based on the current economic and fiscal outlook, and borrowing from analysis from the most recent EFU-FSP-BPS document (2016-2018), the below indicative five-year macro-fiscal framework will inform the initial allocations to sectors. It will be superseded by the three-year envelopes in the EUF-FSP-BPS documents.

Table 3 – 2016-2020 Indicative Macro-Fiscal Framework – State Resources

Year	2016	2017	2018	2019	2020
Macroeconomic and Mineral Benchmarks					
National Inflation	9.70%	9.00%	8.30%	7.60%	7.00%
National Real GDP Growth	4.30%	4.50%	4.70%	4.90%	5.10%
Oil Price (Benchmark)	\$45.00	\$50.00	\$53.00	\$55.00	\$55.00
Oil Production (Benchmark)	2.2782	2.2782	2.2782	2.2782	2.2782
NGN:USD Exchange Rate	197	197	197	197	197
Recurrent Revenue					
Statutory Allocation	43,800,033,880	49,323,960,584	54,034,810,198	58,561,010,521	62,234,498,905
VAT	15,071,666,003	16,432,464,649	17,967,517,705	19,553,340,939	21,252,937,211
Other Federation Account Distributions	0	0	0	0	0
IGR	4,799,042,603	5,504,501,866	6,275,132,127	7,109,724,700	8,005,550,012
Total Recurrent Revenue	63,670,742,486	71,260,927,098	78,277,460,030	85,224,076,160	91,492,986,128
Recurrent Expenditure					
CRF Charges	3,165,762,327	3,301,842,191	3,455,347,497	3,613,929,820	3,783,889,448
Personnel Expenditure	29,973,730,735	31,322,548,618	32,622,434,385	33,862,086,892	35,047,259,933
Overhead Expenditure	21,128,207,444	22,078,976,779	22,995,254,315	23,869,073,979	24,704,491,569
Total Recurrent Expenditure	54,267,700,505	56,703,367,588	59,073,036,198	61,345,090,692	63,535,640,949
Transfer to CDF	9,403,041,981	14,557,559,510	19,204,423,832	23,878,985,468	27,957,345,178
Net Financing	3,183,537,124	3,563,046,355	3,913,873,001	4,261,203,808	4,574,649,306
Total Discretionary CDF	12,586,579,105	18,120,605,865	23,118,296,834	28,140,189,276	32,531,994,485

Assumptions behind Indicative Macro-Fiscal Framework – Given the current instability in global oil prices, the proximity of the current benchmark to the actual market price and the muted outlook for growth, it is assumed that the Crude Oil price benchmark will need to drop from the current \$53 per barrel to \$45 in 2015 and then gradually increase to \$55 per barrel by 2020. The current NGN:USD exchange rate (CBN) and crude oil production levels are also used for the period concerned. The latest IMF estimates (October 2015), which are available up to 2020, are used for the national real GDP growth and inflation rates. These assumptions are used to estimate the Statutory Allocation and VAT revenues. Variations to this will be captured in the annual EFU-FSP-BPS document whose resource estimates will supersede those captured in this document.

IGR, Personnel and Overhead expenditure estimates are governed by the objectives and targets stated previously, although sectors and MDAs are free to propose a higher level of capital expenditure in favour of recurrent.

Net Financing – WZSG has entered into an agreement with a financing institution for a N20 billion facility with a 10-year maturity at a fixed interest rate of 10% per annum. A sinking fund, funded through the CRF charges, will accumulate to repay the principle at the maturity of the facility.

The assumptions and figures above will be updated on an annual basis through the EFU-FSP-BPS document (for a three year rolling time fame) and by the annual budget call circular.

Other Sources of Financing – The above fiscal framework reflects the discretionary resources of WZSG. In addition, sectors are strongly encouraged to identify additional funding through the development partners (both grants and loans), federal government grants (e.g. MDG/SDG grants), local government contributions, Public-Private Partnerships (PP) and other sources. The state will guarantee to provide any required matched funds within the discretionary sector envelopes in order to draw down any such grants / loans.

Local Government is also a clear partner to the state government in achieving the SDP. In relation to LG join contributions, the aggregate resources of the 14 LGAs under WZSG are estimated in the table below. The same macroeconomic and crude oil benchmark assumption have been used as the state Macro-Fiscal framework above.

Table 4 – Wazobia LG Resources (2016-2020)

Year	2016	2017	2018	2019	2020
Recurrent Revenue					
Statutory Allocation	30,660,023,716	34,526,772,409	37,824,367,139	40,992,707,365	43,564,149,233
VAT	6,028,666,401	6,572,985,860	7,187,007,082	7,821,336,376	8,501,174,884
IGR Transfer	479,904,260	550,450,187	627,513,213	710,972,470	800,555,001
LG Revenue	959,808,521	1,100,900,373	1,255,026,425	1,421,944,940	1,601,110,002
Total	38,128,402,898	42,751,108,828	46,893,913,859	50,946,961,150	54,466,989,121

Any sectors requiring joint funding from LGAs must ensure that the level and mechanisms for funding is discussed at JAAC meetings and is also clearly included in budget discussions between MoF, MEPB and the LG finance departments. LGs must also be left with sufficient resources to fund their own expenditures and provide the services they are mandated to provide.

Sector Envelopes – Based on policy priorities already discussed in this document and current expenditure commitments, the following indicative envelopes are provided for the 14 sectors of WZSG.

Table 5 –Indicative Sector Envelopes (Excluding Non-Discretionary Funds and LG Contributions) (2016-2020)

Year	2016	2017	2018	2019	2020
Sector Envelopes					
Economic					
Infrastructure and Roads	13,370,855,922	14,964,794,691	16,438,266,606	17,897,055,994	19,213,527,087
Water	3,342,713,981	3,741,198,673	4,109,566,652	4,474,263,998	4,803,381,772
Commerce	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Agriculture, Forestes and Fisheries	3,342,713,981	3,741,198,673	4,109,566,652	4,474,263,998	4,803,381,772
Power	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Urban and Regional Development	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Social					
Education	13,370,855,922	14,964,794,691	16,438,266,606	17,897,055,994	19,213,527,087
Health	8,356,784,951	9,352,996,682	10,273,916,629	11,185,659,996	12,008,454,429
Social Development	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Women, Youth and Sports	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Administrative					
General Government	10,028,141,942	11,223,596,018	12,328,699,955	13,422,791,995	14,410,145,315
Public Finance	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Information	1,671,356,990	1,870,599,336	2,054,783,326	2,237,131,999	2,401,690,886
Law and Justice					
Law and Justice	3,342,713,981	3,741,198,673	4,109,566,652	4,474,263,998	4,803,381,772
Total	66,854,279,610	74,823,973,453	82,191,333,031	89,485,279,968	96,067,635,434