



Explanatory Note (EN) for the Review of Oyo State 2020 Budget.

1.0: Assumptions

EN 1.1: For 2020, it is expected that the prices of oil will rise from an average of US\$23 per barrel in the second quarter to US\$27 per barrel in the third quarter and US\$33 per barrel in the fourth quarter. Similarly, Nigerian Governors' Forum (NGF) has also pegged oil price at \$25 pb. Meanwhile, Oyo State pegged oil price benchmark at \$20 pb in its 2020 revised budget even before NGF's projections. This was against the backdrop of the dwindling and unstable crude oil prices at the international market occasioned by downward demand triggered by the Corona virus pandemic which culminated in lockdown of major economies and supply glut leading to a negative price for the first time in history. All these necessitated Oyo State to peg its oil price benchmark at \$20 pb in the revised 2020 Budget.

EN 1.2: The downward review was a result of the agreement reached by the OPEC members to reduce production of which Nigeria's quota was pegged at 1.4 MBPD excluding condensate. However, Oyo State aligns with revised Federal Government Assumption of 1.7MBPD as against 2.18MBPD used in preparing the Original Approved Budget as explicated in the revised 2020 MTEF which the Nigerian Senate later reduced to 1.8 MBPD recently

EN 1.3: The official exchange rate has also been amended to N360/US\$1 by the Central Bank of Nigeria (CBN). At the Importers & Exporters Foreign Exchange (IEFX) window, where the bulk of foreign exchange transactions are done, the exchange rate recently depreciated from about N362/US\$1 in January 2020 to over N385/US\$1. While the CBN continues to make concerted efforts to stabilize the exchange rate, it is further expected that the Naira will suffer devaluation as Nigeria is projected to lose about US\$26 billion in oil revenues which is the major source of foreign currency. Oyo State has no option other than to align with the benchmarked Exchange Rate at N360/\$1 approved for States by NGF and FG.

EN 1.4: The National Gross Domestic Product (GDP) has been revised from 2.93% growth To -4.42% in the revised 2020 budget owing to the threat imposed by Covid-19 pandemic and associated sharp decline in international oil prices. This implies that Nigeria is facing a recession much deeper than was witnessed in 2016/2017. The State usually uses National GDP figures in its Annual Budgets due to the fact that GDP computation at the State level has not been regular. The -4.42% was adopted from FGN and NGF projections/assumptions and advisory to states' 2020 budget review exercise developed by NGF.

EN 1.5: The Federal Government announced a lockdown in Abuja and neighbouring Lagos and Ogun States in a bid to flatten the curve of covid-19 spread. Furthermore, Oyo State announced a partial lock down while inter-State movement was restricted during the period This impacted negatively on the

prices of goods and services most especially food items jumped up due to restrictions in movement. This prompted the IMF to project inflation rate of 13.4% for Nigeria by the end of 2020. Both FGN and NGF projected 14.13% inflation rate in the review of the 2020 budget. Oyo State adopted the 14.13% inflation rate to capture current realities of the Nigerian Economy

2.0: Revenues and Grants

EN 2.1: Oyo State considers the FG's assumptions especially the non-oil revenue as too high. Consequently, the State adopted NGF's proposal of N29.63 billion in the revised 2020 Budget. NGF's State-by-State calculation puts the State's share at N29.63 billion. This presents a reduction of **N20.38 billion or 40.7%**.

EN 2.2: The State's share of VAT is put at N27.64 billion. This presents an increase of N7.5 billion or 37.4% over N20.11 billion in the original budget. The State believes the target is achievable in the light of the recommended upper band of N33 billion provided by the NGF. The implementation of the new VAT rate of 7.5% also favours achieving the target.

EN 2.3: The IGR in the State has been on steady increase especially in the last one year due to restructuring of revenue generating Agency and blocking of leakages. The State budgeted N62.64 billion in 2020 budget but reviewed it downward to N43.8 billion in the revised budget. This downward review is occasioned by the low IGR collection caused by the lockdown due to Covid-19 pandemic negatively affecting businesses and other sources of IGR. This reflection may subsist through Q2 and Q3 2020. The proposed tax relief may also present attendant reduction in IGR.

EN 2.4: Based on the agreement reached with the FGN on recovery of tax backlog, a provision for Tax refund of about N9.85b from FGN in the reviewed year 2020. Similar amount is provided in the original budget out of which a total of N4.7b, being 50% has been received.

EN 2.5: The State's projections for UBEC funds and TETFUND interventions will be fully actualized in 2020, some of which have already been drawn. The State hopes to access Global Partnership for Education (World Bank) grant before the year runs out as preparatory documentations have been done. The State is also optimistic that all Global Funds meant for health related issues would be accessed. The State is also a beneficiary of BESDA and hopes to fully access all the stipulated funds within the year 2020. Similarly, the State is benefiting from external grants as captured in the revised 2020 budget especially from UNICEF & DFID within the current year 2020. The State budgeted the sum of N5.22 billion in the 2020-revised budget for SFTAS grants. Out of this, about N1.62b had been accessed in Q1 2020 while we propose to access N3.6 billion from the New DLIs (Additional Financing).

3.0: Expenditures

EN 3.1: The increase in Personnel Costs from 38.45b in original Approved Budget to N54.5. In the reviewed Budget is as a result of domestication of the Thirty Thousand Naira Minimum wage in the State to improve the standard of living of the Public Servants and at the same time improve the Economic Growth in the State. Other factors include the movement of the subvention of Tertiary Institutions to the tune of N16.4 billion under Personnel Costs as against the previous placement under Overhead Costs. Also, in the original budget, only six months salary was provided for Ladoke Akintola University of Technology. However, with the intention to resolve the issue of take over and fully funding

of the institution before the end of the year, additional provision of six months salary was added. It is to be noted that **N5B** is provided in response to Covid19 pandemic.

EN 3.2 The pruning down of Overhead Cost from N31.168 in Approved Budget to N17.94 was a result of eliminating some activities that can be tagged "Non-Essential to pave way for the essential activities due to fall in revenue, thereby there is need to sort activities that are priority to non-priority. The State made 25% to 35% reduction across Ministries, Departments and Agencies (MDAs). The subventions to higher Institutions were also moved from Overhead to Personnel. The sum of **N1.43B** is provided as a Covid 19 Response.

EN 3.3 There is a reduction of CRFC from N40.86b in the original approved Budget to N36.37B in the bid to provide adequately for more essential services. The sum of **N2.25B** is provided as response to Covid 19 in the CFRC of the Office of the Executive Governor

EN 3.4 Capital Expenditure decreased from N103.36B in the original Budget to N65.18billion, due to prioritization of ongoing projects and projects that will probably complete in this financial year and to put on hold projects that will extend to next year. This was as a result of the obvious economic downturn caused by the Pandemic. Out of the State Capital expenditure, provisions of **N16.43B** were made to covid-19 responsive expenses

EN 3.5 In the Economic Sector , the sum of N43.55B as against N68.83 is contained in the reviewed budget. Out of the provision the sum of N10.61b is directly COVID19 responsive. Details are contained in the reviewed Approved Estimates. The MDAs in this category include:

- Ministry of Public Works, Infrastructure & Transport - N6.48b;
- Oyo State Agricultural development Program
Agric. Empowerment prog. - N3.63b;
- Ministry of Lands & Housing and Survey - N587m
- Housing Corporation of Oyo State - N283m

EN 3.6 In the Social Sector , the sum of N11.68b as against N23.71b is provided out of which N3.28b is COVID-19 responsive as detailed below:

- Ministry of Health – N2.25b;
- Ministry of Education- N1.08b

EN. 3.7 The sum of N347.5M as against N535m is provided for Law and Justice

EN. 3.8 The sum of N9.5B as against N10.28b is provided for General Administration. It is to be noted that the sum of N 2.13b is covid responsive in Governor's Office.

4.0. Financing

EN 4.1: The sum of N31,325,306,339.00 billion deficit is to be financed through the following concretized commercial facilities :

First Bank – N24b

Access Bank – N3b

Unity Bank – N2b

5. 0: Memorandum Items:

EN 5.1: Based on the revised 2020 Budget, about 14.16% of the amended budget was provided to fund COVID-19 related activities. General Explanatory Note for the Revised 2020 Budget Oyo State Government during its 2020 Budget Review exercise and towards meeting World Bank's State Fiscal, Transparency, Accountability and Sustainability Programme (SFTAS Additional Financing Disbursement Link Indicators DL) deems it fit to tag all constructions Civil works, rehabilitation, procurement, ICT and other basic health necessities especially on infectious diseases as COVID-19 Responsive.

The Building and Civil Engineering projects are designed to provide households with income and also provide the State with infrastructure that will in turn boost Internally Generated Revenue (IGR) . Likewise, all provision for the healthcare services are tagged as COVID 19 responsive in the revised 2020 Budget as they are frontline interventions towards managing and mitigating the pandemic and other similar diseases.