TARABA STATE GOVERNMENT

MODERNIZE BUDGET IMPLEMENTATION REPORT: SECOND QUARTER YEAR 2019

1.0 INTRODUCTION

The budget process of the year 2019 describes the budget cycle in the fiscal year. Its conception is informed by the Medium Term Expenditure Framework (MTEF) process which has three components namely: Medium Term Fiscal Framework (MTFF), Medium Term Budget Framework (MTBF) and Medium Term Sector Strategies (MTSS).

The Economic and Fiscal Update (EFU) and the Medium Term Budget Framework (MTBF) provide the basis for annual budget planning intended to facilitate a number of important outcomes: greater macroeconomic balance; improved inter- and intra - sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public monies.

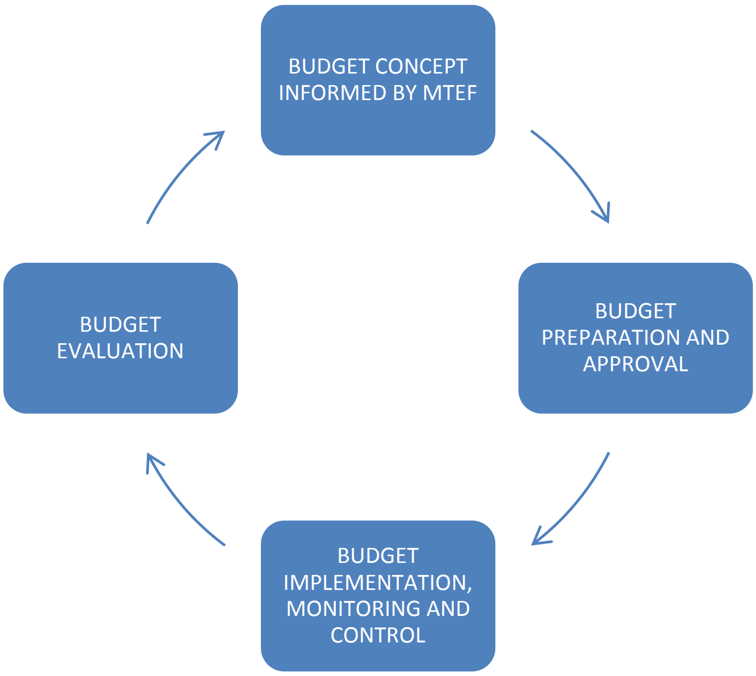
They consist of a macroeconomic framework that indicates fiscal targets and estimates of revenues and expenditures, including government financial obligations in the medium term. It Improve macroeconomic balance, including fiscal discipline, aids attainment through good estimates of the available resource via the EFU analysis which are then used to make budgets that fit squarely within the envelope.

The EFU also set out the underlying assumptions for the realization of the projections, provide an evaluation and analysis of the previous budgets and present an overview of the debt position and potential fiscal risks if there is any. The EFU produces a number of important information including the macroeconomic outlook; fiscal balance; and other key indicators.

The Medium Term Expenditure Framework (MTEF) provides Government with a tool to manage the pressure between competing policy priorities and budget realities. This helps to reprioritize expenditure and make informed policy choices that are affordable in the medium term. Hence, it provides a platform for the State Executive Council (EXCO), to make decision over the allocation of resources in the 2019 budget and the Long Term Development Plan (The Rescue Plan “2016-2025).

The budget framework commences from conception through preparation, execution, control, monitoring and evaluation and goes back again to conception for the ensuing year's budget, as shown in Figure 1.1 below.

Fig 1:1 Budgeting Cycle



The 2019 budget which is tagged "Budget of Consolidation" in this report captures the detail budget performance for the first quarter of 2019 which is presented on charts and graphs.

2.0 MACROECONOMIC DEVELOPMENT AND ANALYSIS OF THE SECOND QUARTER GLOBAL ECONOMY.

2.1 Global Economic Overview

Global growth remains subdued. Since the April World Economic Outlook (WEO) report, the United States further increased tariffs on certain Chinese imports and China retaliated by raising tariffs on a subset of US imports.

Additional escalation was averted following the June G20 summit. Global technology supply chains were threatened by the prospect of US sanctions, Brexit related uncertainty continued, and rising geopolitical tensions roiled energy prices.

Against this backdrop, global growth is forecast at 3.2 percent in 2019, picking up to 3.5 percent in 2020 (0.1 percentage point lower than in the April WEO projections for both years). GDP releases so far this year, together with generally softening inflation, point to weaker-than anticipated global activity. Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-term spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remains sluggish. The projected growth pickup in 2020 is precarious, presuming stabilization in currently stressed emerging market and developing economies and progress toward resolving trade policy differences.

Risks to the forecast are mainly to the downside. They include further trade and technology tensions that dent sentiment and slow investment; a protracted increase in risk aversion that exposes the financial vulnerabilities continuing to accumulate after years of low interest rates; and mounting disinflationary pressures that increase debt service difficulties, constrain monetary policy space to counter downturns, and make adverse shocks more persistent than normal.

Multilateral and national policy actions are vital to place global growth on a stronger footing. The pressing needs include reducing trade and technology tensions and expeditiously resolving uncertainty around trade agreements (including between the United Kingdom and the European Union and the free trade area encompassing Canada, Mexico, and the United States). Specifically, countries should not use tariffs to target bilateral trade balances or as a substitute for dialogue to pressure others for reforms. With subdued final demand and muted inflation, accommodative monetary policy is appropriate in advanced economies and in emerging market and developing economies where expectations are anchored. Fiscal policy should balance multiple objectives: smoothing demand as needed, protecting the vulnerable, bolstering growth potential with spending that supports structural reforms, and ensuring sustainable public finances over the medium term. If growth weakens relative to the baseline, macroeconomic policies will need to turn more accommodative, depending on country circumstances. Priorities across all economies are to enhance inclusion, strengthen resilience, and address constraints on potential output growth.

2.2 Overview of the Nigerian Economic Performance

Nigeria is in 'marriage' with the Organization of the Petroleum Exporting Countries (OPEC), and therefore cannot pump any amount of crude oil that it desires outside the dictates of OPEC. In addition, Nigeria has no control over the price of crude oil. Therefore, the best Nigeria can do is to ensure that it maintains the current peace in the oil-producing regions so that it can continue to produce crude oil that meets its production quota. These developments may mean that the country's efforts to move the sector out of recession are limited. Nigeria should, however, continue to encourage the establishment of business that will promote the growth of solid mineral development. This, in turn, will stimulate activities in the Mining and Quarrying sector of the economy.

Urgent intervention in the education and real estate sectors are required. These are labour-intensive sectors that can generate jobs for both skilled and unskilled labour. The expansion in these sectors can also promote economic activities in other sectors of the economy and help to generate jobs while growing the economy.

Nigeria’s gross domestic product advanced to 2.0 percent year-on-year in the first quarter of 2019, easing from a 2.4 percent expansion in the previous period and below market expectations of 2.1 percent, mainly due to a steeper contraction in the country's oil sector.

The oil sector shrank 2.4 percent in the three-months to March of 2019, after contracting 1.6 percent in the prior period. The country produced 1.96 million barrels of crude oil per day, lower than 1.98 mbpd in the same period a year earlier. As a result, the oil sector accounted for 9.1 percent of GDP compared to 9.6 percent a year ago. The non-oil sector rose to 2.5 percent, slowing from a 2.7 percent growth in the prior quarter.

Output increased at a softer pace for manufacturing (0.8 percent from 2.4 percent in Q4 2018); internal trade (0.8 percent from 1 percent); information and communication (9.5 percent from 13.2 percent) and education. Also, production fell further for public administration (-14.2 percent from -0.3

percent); financial and insurance (-7.6 percent from -1.8 percent) and mining and quarrying (-2.3 percent from -1.2 percent). On the other hand, output advanced faster for agriculture (3.2 percent from 2.5 percent); electricity, gas, steam and air conditioning supply (8.5 percent from 0.9 percent); water supply, sewerage, waste management (3.8 percent from 1.8 percent); construction (3.2 percent from 2 percent); accommodation and food services (4.2 percent from 2.1 percent); professional, scientific and technical services (1.7 percent from 0.5 percent) and administrative and support services (1.4 percent from 0.8 percent). Additionally, real estate activities rebounded 0.9 percent, after declining 3.8 percent.

2.3 TARABA STATE ECONOMIC PERFORMANCE

The State which is blessed with so much natural resources and having most of the populace involved in agricultural activities which contributes in a large extent to the Internally Generated Revenue (IGR) of the State. The state is also endowned with many other resources such as mineral deposits which are yet to be exploited for the benefit of the state. As a result of this, the State still relies heavily on the Federation Account Allocation which accounted for over 80% of its total income. There is therefore the need for the state to harness these resources in order to boost the IGR and reduce the dependant on the external source which the state has no control over.

3.0 FINANCIAL ANALYSIS OF THE 2019 BUDGET IMPLEMENTATION

3.1 Key Assumptions and Projections

The 2019 Budget document is based on some key Macro-economic assumptions such as Exchange rate, IGR growth, oil production, prevailing Crude Oil price which determines the State share from FAAC and VAT.

Table 1: Key Parameters, Assumptions and Indicators

FISCAL ITEMS	**2019 Budget**	**Actual April-June 2019**
1. KEY PARAMETERS, ASSUMPTIONS & INDICATORS (As Determined by the National Government)		
Average Budget Price Per Barrel (In US$)*	**$60pb**	*
Average Exchange Rate*	**1$/N305**	*

Total Production (Mbpd)*	**2.3mbpd**	*
2. OTHER ASSUMPTIONS		
IGR Growth Rate	**5.5%**	*
State Share from FAAC Growth Rate	**2.5%**	*
State Share from VAT Growth Rate	**0.88%**	*
State GDP Growth Rate	**N.A**	**N.A**
3. GROSS STATE COLLECTIBLE REVENUE		
State Share from Statutory Allocation	53,821,313,638.18	7,991,235,383.49
State Share of VAT	10,227,089,431.00	2,703,256,408.83
State Internally Generated Revenue (IGR)	6,353,554,840.00	1,717,768,933
4. TARABA STATE BUDGET REVENUE (INFLOWS)		
Unspent Balance from Previous Financial Year	**N.A**	**N.A**
State Allocation from Federation Account	53,821,313,638.18	7,991,235,383.49
Internally Generated Revenue (IGR)	6,353,554,840.00	1,717,768,933
TOTAL	**60,174,868,478.18**	**9,709,004,516.65**
5. TARABA STATE GOVERNMENT BUDGET	**146,073,726,882.10**	**13,181,469,869.32**
6. MDA SPENDING		
Personnel Cost (MDAs)	30,141,412,193.64	5,390,681,407.00
Overhead Costs	3,904,000,000.00	5,228,074,016.00
Consolidated Revenue Fund (CRF) Charges	24,539,375,164.57	2,017,539,295.00
Sub – Total	**58,584,787,358.21**	**12,636,294,718.00**
Total Recurrent Expenditure		
8. CAPITAL SPENDING	**72,826,433,910.37**	**2,005,253,768.00**
9. AGGREGATE EXPENDITURE		
10. FISCAL DEFICIT/SURPLUS		
11. DEFICIT/GDP		

Aids and Grants		**69,209,144.00**
Domestic Borrowing		
Foreign Borrowing		
Miscellaneous Receipts		
Total		

Source: AG Office & MDAs

Table 2. Below shows the sources of revenue in the second quarter of 2019 with statutory allocation taking the lead and also demonstrated in fig.2

Table 2: Revenue Inflow

Sources	**Budget 2019**	**Quarterly Estimates**	**Actual (Apri - June) 2019**	**% Performance**
Statutory Allocation (Excess PPT, Excess Bank Charges, Forex Equal. Acct. & Ex. Rate Diff)	53,821,313,638.18	13,455,328,409.55	7,991,235,383.49	59.39
Value Added Tax	10,227,089,431.00	2,556,772,357.75	2,703,256,408.83	105.73
FG Budget Support to States	-	-	700,000,000.00	-
Independent Revenue (IGR)	6,353,554,840.00	1,588,388,710.00	1,717,768,933.00	108.15
Aids & Grants	10,878,715,309.90	2,719,678,827.48	69,209,144.00	2.54
Internal Loans	15,134,276,114.21	3,783,569,028.55		
External Loans	10,343,777,549.29	2,585,944,387.32		
FGN Refund	34,315,000,000.00	8,578,750,000.00		
Paris Club Refund	5,000,000,000.00	1,250,000,000.00		
Grand Total	**146,073,726,883.58**	**36,518,431,720.65**	**13,181,469,869.32**	

Source: Office of the Accountant General

The 2019 budget approved figure of N 146,073,726,882.10 is to be generated from the sources stated in the table 2.1 above. Since this is a quarterly report, for the purpose of convenience of the analysis, we decided to project all items (revenue and expenditure) from the total approved estimate evenly though the propensity to generate and or expend may not be the same in the quarters.

The bulk of the revenue expected for this quarter is from the statutory allocation of N 13,455,328,409.55 out which the sum of N 7,991,235,383.49 (59.39%) was generated thereby leaving a shortfall of N 5,464,093,026.06. On the contrary, the sum of N 2,556,772,357.75 was expected from VAT for the period but the sum of N 2,703,256,408.83 (105.73%) was generated with N 146,484,051.08 higher. The IGR performance was higher than the expected target of N1,588,388,710.00 to N1,717,768,933(108.15) with an increase of N 129,380,223.00. Aids and Grant generated the sum N 69,209,144.00 (2.54%) of the expected N 2,719,678,827.48 thereby allowing a shortfall of N 2,650,469,683.48.

From the above, the total revenue performance for the period under review stood at N 13,181,469,869.00 (36.10%) as against N36,518,431,720.65 having a shortfall of N23,336,961,851.65 against the expected.

Fig. 1: Revenue Performance

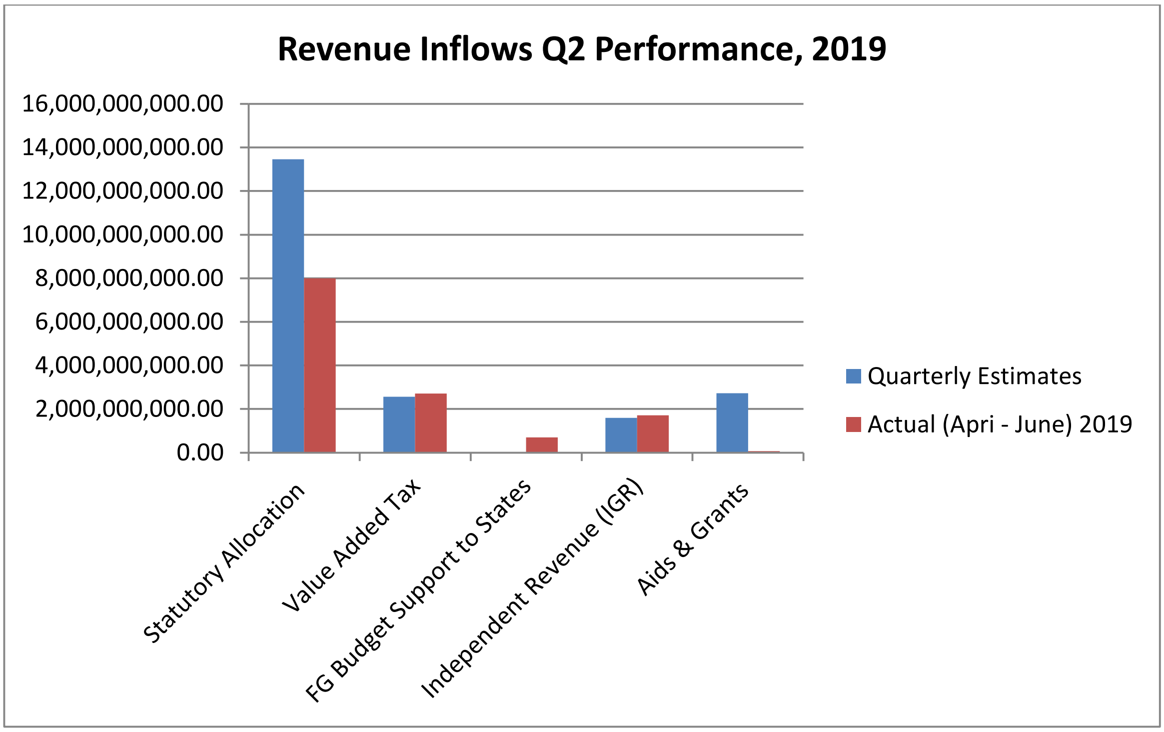


Table 3: Recurrent Debt Expenditure

Items	Budget 2019	Quarterly Estimates	Actual (Apri - June) 2019	% Performance
CRF Charges – Public Debt Charges	10,000,000,000.00	2,500,000,000.00	0	
Internal Loans Repayment	0	0	51,060,234.12	-
External Loans Repayment	0	0	3,320,426,403.19	-

Source: Office of the Accountant General

Table 4: Recurrent Non – Debt Expenditure

Items	Budget 2019	Quarterly Estimates	Actual (Apri - June) 2019	% Performance
Personnel Cost	30,141,412,193.64	7,535,353,048.41	5,390,681,407.00	71.54
CRF Charges - Statutory Office Holder's Salaries/Allowances	4,662,505,614.00	1,165,626,403.50	1,284,959,309.90	110.24
CRF Charges - Pensions and Gratuities	3,904,000,000.00	976,000,000.00	731,222,928.00	74.92
Overhead Cost	24,539,375,164.57	6,134,843,791.14	5,228,074,016.00	85.65

Source: AG Office & Ministries, Departments & Agencies (MDAs)

As stated in the revenue analysis above, the expenditures are projected evenly from the 2019 approval of each item, though the propensity to expend may not be the same for all the quarters. However, we still wish to emphasise that the table above is populated based on the response to data request from our MDAs.

The expenditure side as we all know is usually classified into recurrent and capital.

On the recurrent aspect, the sum of N 15,811,823,243.05 was estimated with a performance of N12,634,937,660.90 (79.90%). The personnel cost estimated at N 7,535,353,048.41 with a performance of N 5,390,681,407 (71.54%) having a shortfall of N 2,144,671,641.41. Consolidated Revenue Fund Charges (CRFC) statutory office holders estimated the sum of N1,165,626,403.50 with a performance of N1,284,959,309.90 (110.24%) which is above the quarterly estimate by N119,332,906.64

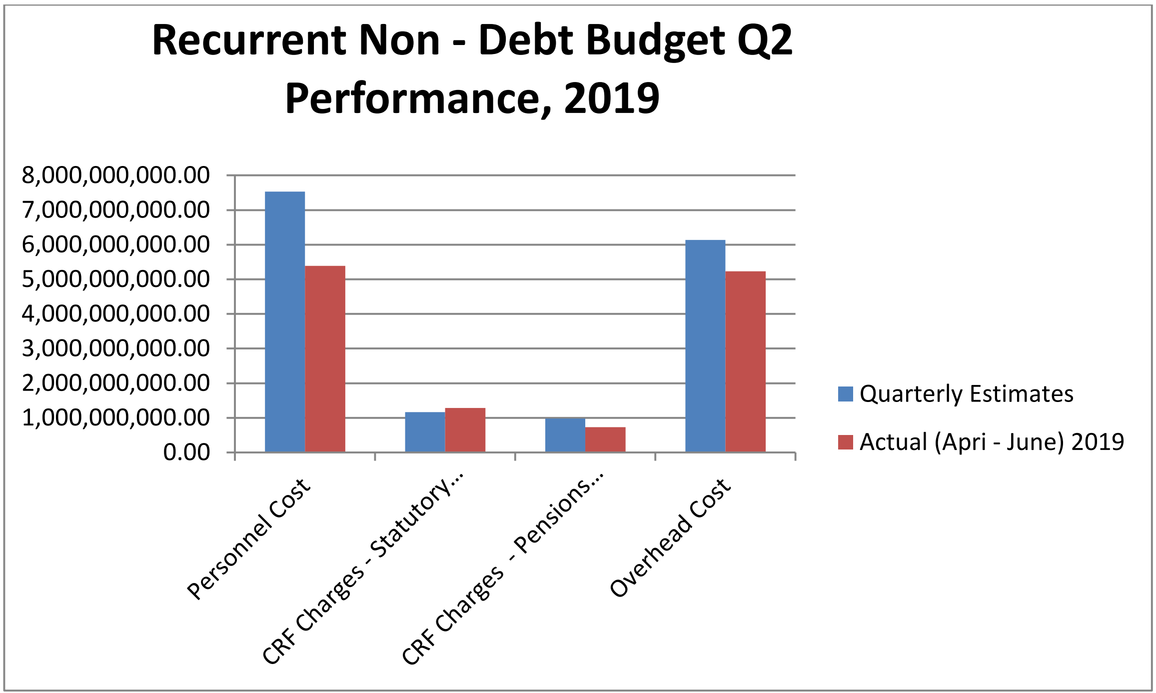
The CRFC charges on pensions and gratuities was estimated at the sum of N976,000,000.00 with a performance of N 731,222,928 (74.92%) lower than the expected with the sum of N 244,777,072. On the aspect of overhead, the sum of N6,134,843,791.14 was estimated for the quarter but only N5,228,074,016.00 (85.22%) was actually spent leaving a balance of N906,769,775.14

For the capital, the sum of N18,206,608,477.59 was estimated to be spent on capital development within the period but a total sum of N2,005,253,768.00(11.01%) was actually expended leaving a high shortfall of N16,201,354,709.59

The total expenditure performance for the period stood at N 18,011,678,066.21 (49.32%) as against the estimated N 36,518,431,720.65 leaving a balance of N 18,506,753,654.44

The reason for this low performance could be attributed to political uncertainties within the State. Moreover, huge shortfall of revenue is also a contributing factor to the low performance.

Fig. 2: Recurrent Non-Debt Performance



3.2 Capital Expenditure Analysis

In the capital expenditure the performance of the second quarter of 2019 is at 11.01%, compared to the annual approved estimate.

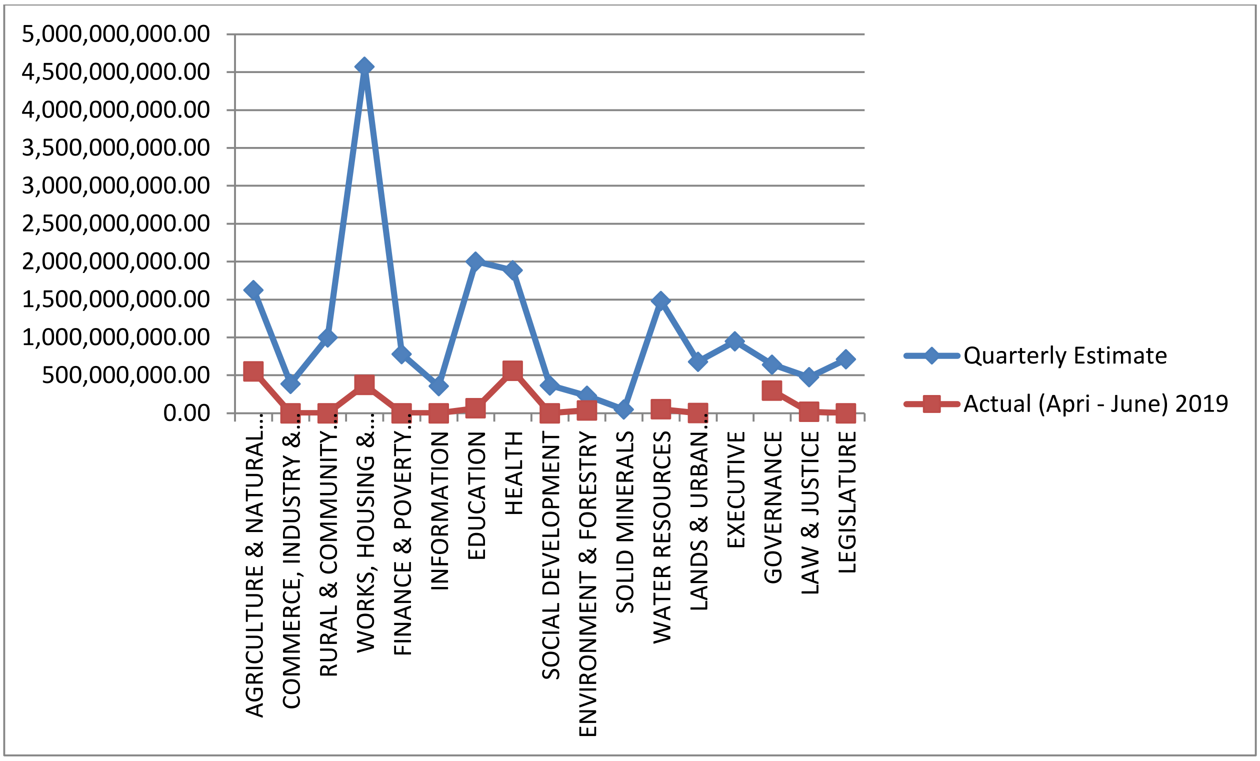
Table 5: Capital Expenditure Based on Sub-Sector

Capital Expenditure Based on Sub – Sector				
ITEM	**Budget 2019**	**Quarterly Estimate**	**Actual (April-June) 2019**	**% Performance**
AGRICULTURE & NATURAL RESOURCES	**6,507,995,761.72**	**1,626,998,940.43**	**552,824,226.00**	**33.98**
COMMERCE, INDUSTRY & TOURISM	**1,557,360,123.20**	**389,340,030.80**	**0.00**	**0.00**
RURAL & COMMUNITY DEVELOPMENT	**3,997,342,050.00**	**999,335,512.50**	**0.00**	**0.00**
WORKS, HOUSING &	**18,294,219,558.00**	**4,573,554,889.50**	**374,542,205.00**	**8.19**

TRANSPORT				
FINANCE & POVERTY ALLEVIATION	**3,122,500,000.00**	**780,625,000.00**	**35,000,000.00**	**4.48**
INFORMATION	**1,433,000,000.00**	**358,250,000.00**		
EDUCATION	**8,011,032,016.80**	**2,002,758,004.20**	**66,169,079.00**	**3.30**
HEALTH	**7,547,343,279.70**	**1,886,835,819.93**	**560,244,117.00**	**29.69**
SOCIAL DEVELOPMENT	**1,471,040,454.94**	**367,760,113.74**	**1500,000.00**	**0.41**
ENVIRONMENT & FORESTRY	**919,844,666.60**	**229,961,166.65**	**39,000,000.00**	**16.96**
SOLID MINERALS	**200,000,000.00**	**50,000,000.00**		**0.00**
WATER RESOURCES	**5,929,700,000.00**	**1,482,425,000.00**	**53,779,200.00**	**3.63**
LANDS & URBAN DEVELOPMENT	**2,723,949,248.82**	**680,987,312.21**	**2,681,215.00**	**0.39**
EXECUTIVE	**3,791,160,143.00**	**947,790,035.75**		**0.00**
GOVERNANCE	**2,573,081,356.30**	**643,270,339.08**	**299,245,026.00**	**46.52**
LAW & JUSTICE	**1,900,865,251.29**	**475,216,312.82**	**20,268,700.00**	**4.27**
LEGISLATURE	**2,846,000,000.00**	**711,500,000.00**		**0.00**
Total	**72,826,433,910.37**	**18,206,608,477.59**	**2,005,253,768.00**	**11.01**

Source: Ministries, Departments & Agencies

Fig. 3: Capital Expenditure



3.3 INTERNALLY GENERATED REVENUE (IGR) INFLOW ANALYSIS

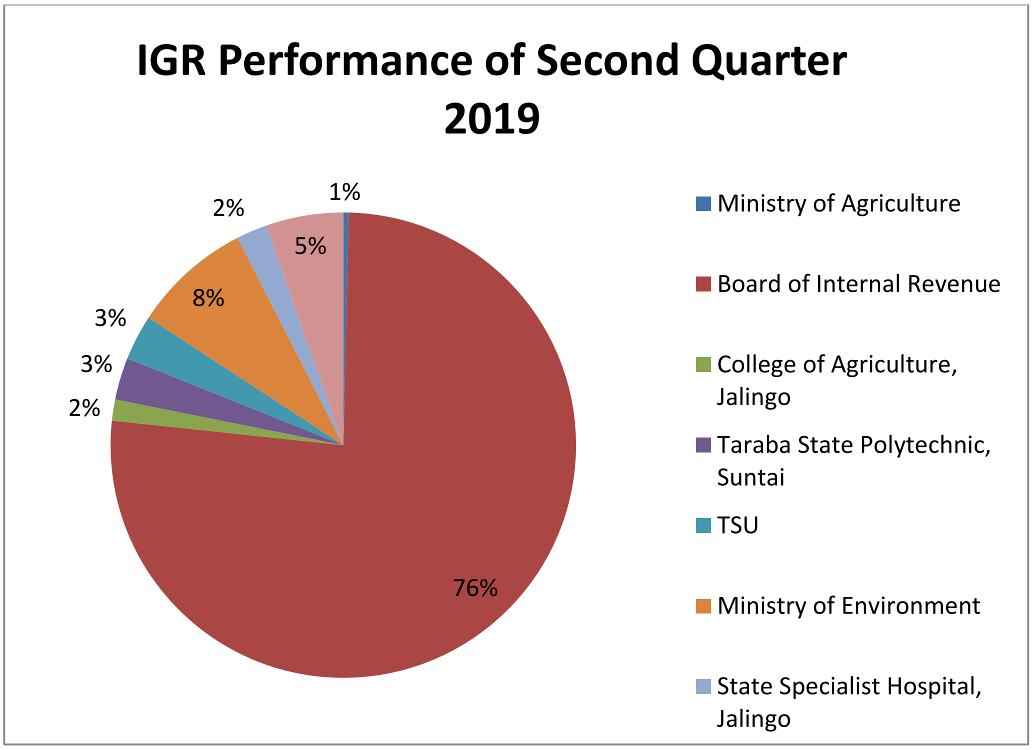
Table 6: IGR Inflow

Revenue Source/ Organization Name	Approved Estimates 2019	Quarterly Estimates 2019	Actual Performance 2019	% performance
Ministry of Agriculture	68,453,900.00	17,113,475.00	6,554,900.00	38.30
Board of Internal Revenue	3,618,561,926.21	904,640,481.55	1,310,649,271.00	144.88
College of Agriculture, Jalingo	26,250,000.00	6,562,500.00	25,232,500.00	384.50
Taraba State Polytechnic, Suntai	148,350,000.00	37,087,500.00	50,276,590.00	102.85

TASU	**550,000,000.00**	**137,500,000.00**	**53,984,866**	**39.26**
Ministry of Environment	**503,100,000.00**	**125,775,000.00**	**142,179,021.00**	**113.04**
State Specialist Hospital, Jalingo	**96,562,759.26**	**24,140,689.82**	**36,461,720.00**	**151.04**
Others	**1,872,902,913.73**	**468,225,728.43**	**92,430,064.00**	**19.74**
Total	**6,884,181,499.20**	**1,721,045,374.80**	**1,717,768,932.00**	**99.81**

Source: Ministries, Departments & Agencies

Fig. 4: IGR Performance



4.0 SUMMARY

Budget Size	**N 146,073,726,882.10**
REVENUE:	
Expected quarterly performance	**N 36,518,431,720.65**
Actual performance (April-June)	**N 13,181,469,869.00**
Shortfall	**N 23,336,961,851.65**
EXPENDITURE:	
Expected quarterly performance	**N 36,518,431,720.65**
Actual performance (April-June)	**N 18,011,678,066.21**
Shortfall	**N 18,506,753,654.44**

5.0 CONCLUSION

The second quarter (April –June) 2019 performance was characterized with weak economic activities. This negatively affected the budget implementation through low performances of most of the macroeconomic assumptions used in the year's projections.

VAT and internally generated revenue appreciated above expected performances with 5% and 8% respectively. All the others fall short of expectations and this in turn affected the expenditure implementation.

On the expenditure side, CRFC overshoot it expected performance by 10% while other expenditure items performed below expectation.

Generally, performances were not encouraging as they fall below expectation and the implication of this is that a huge variance has been created which if not augmented may lead to a generally low budget implementation.