2018-2020 Medium Term Fiscal Framework (MTFF) and Fiscal Strategy Paper (FSP)

October, 2017

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Table of Acronyms

MTEF	Medium Term Expenditure Framework
MYBF	Multiyear Budget Framework
FSP	Fiscal Strategy Paper
MTSS	Medium Term Sector Strategy
IR	Independent Revenue
PPT	Petroleum Profit Tax
MDA	Ministries, Departments and Agencies
OSOPADEC	Ondo State Oil Producing Area Development Commission
PPP	Public Private Partnership
VAT	Value Added Tax
CRF	Consolidated Revenue Fund Charge
DSA	Debt Sustainability Analysis
JAAC	Joint Account Allocation Committee
IGR	Internally Generated Revenue

CHAPTER ONE
INTRODUCTION

1.1 The Medium-Term Expenditure Framework (MTEF) is a three-year planning tool that produces the estimates of aggregate resource envelope available to government and the allocation of these resources to meet government's economic, social and development objectives and priorities. It also entails costing the strategies on sector basis as well as highlights key assumptions behind revenue projections, expenditure framework and fiscal targets over the planned period.

1.2 The concept of Medium Term Planning and Budgeting has been globally embraced as a strategy for government to implement policy initiatives over a number of years to ensure consistency and accelerated economic development. Ondo State, like most of its contemporaries, has initiated the process of adopting a three-year planning horizon, to facilitate overall development of the State through linkage of government medium/long term development plans and policies (Blue Print to Progress) to its annual budget. This 2018-2020 MTEF document is, therefore, the first of its kind in the State, signposting a major departure from the single year budgeting system to multi-year budgeting system. In this regard, a 'top down' Multi-Year Budget Framework (MYBF) and the 'bottom up' Medium

Term Sector Strategy (MTSS), prepared on a pilot basis for five sub-sectors-Infrastructure, Education, Agriculture, Health and Public Finance, were consolidated to produce the State's 2018-2020 MTEF.

CHAPTER TWO

2018 -2020 MACRO-ECONOMIC FRAMEWORK

2.1 The global economic activities are picking up gradually. According to International Monetary Fund's World Economic Outlook, April 2017 edition, world economic growth rate is expected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. Similarly, the Nigeria economy has continued to recover from the current economic challenges as indicated by the consecutive fall in inflation rate in the second and third quarters of 2017. The economy has, statistically, moved out of recession and non-oil export activities have been on the upward trend. Price of crude oil, which remains the nation's major source of revenue, has been relatively stable above its benchmark price while vandalism of oil pipeline is being creatively tackled by the Federal Government. Hence, the economy has been projected to grow by 0.8% in 2017 (World Economic Outlook April, 2017). Consequently, the macro-economic framework for 2018-2020, as adapted from the Federal Government MTEF, is presented as follows:

Table 1: Macro-Economic Framework

Macro-Economic Framework				
Item	**2017**	**2018**	**2019**	**2020**
National Inflation	15.74%	12.42%	13.39%	9.90%
National Real GDP Growth	1.50%	3.50%	4.50%	7.00%
Oil Production Benchmark	2.2	2.3	2.4	2.5
Oil Price Benchmark	42.5	45	45	50
NGN:USD Exchange Rate	305	305	305	305

2.2 In the medium term, the outturns of these macro-economic indices would substantially influence the projections of the State's fiscal framework. This is so because of the fact that revenue from the Federation account constitute the greater portion of the State’s aggregate revenue.

2.3.0 Review of 2014-2016 Revenue Budget Performances

2.3.1 The performance of revenue in the period 2014-2016 is presented in the Table below:

Table 2: Revenue Performance 2014-2016 (Budget vs Actual)

	REVENUE	2014				2015				2016			
S/N	ITEM	BUDGET	ACTUAL	VARIANCE	%	BUDGET	ACTUAL	VARIANCE	%	BUDGET	ACTUAL	VARIANCE	%
1	Statutory Allocation (Budget)	43,000,000,000	35,823,969,521	-7,176,030,479	83.31	38,000,000,000	38,891,850,681	891,850,681	102.35	27,000,000,000	19,436,790,470	-7,563,209,530	71.99
2	VAT (Budget)	10,000,000,000	8,313,253,045	-1,686,746,955	83.13	10,000,000,000	8,234,257,688	-1,765,742,312	82.34	8,600,000,000	8,513,433,644	-86,566,356	98.99
3	Total Independent Revenue (Budget)	15,000,000,000	9,433,109,892	-5,566,890,108	62.89	15,000,000,000	9,583,868,087	-5,416,131,913	63.89	12,898,700,000	8,181,258,372	-4,717,441,629	63.43
4	Excess Crude (Budget)	10,000,000,000	8,034,312,949	-1,965,687,051	80.34	0	222,693,256	222,693,256	0.00	0	3,862,344,238	3,862,344,238	0.00
5	Grants (Budget)	6,000,000,000	763,133,587	-5,236,866,413	12.72	6,000,000,000	2,349,902,703	-3,650,097,297	39.17	4,000,000,000	0	-4,000,000,000	0.00
6	Loans (Budget)	44,000,000,000	8,358,140,393	-35,641,859,607	19.00	27,000,000,000	17,838,226,350	-9,161,773,650	66.07	39,755,000,000	3,862,484,805	-35,892,515,195	9.72
7	Mineral Derivation (Budget)	20,000,000,000	24,447,614,941	4,447,614,941	122.24	20,000,000,000	14,717,904,393	-5,282,095,607	73.59	14,000,000,000	10,856,126,641	-3,143,873,359	77.54
8	Other Capital (Budget)	20,000,000,000	20,813,567,561	813,567,561	104.07	15,000,000,000	2,074,819,488	-12,925,180,512	13.83	17,467,000,000	40,094,715,019	22,627,715,019	229.55
	TOTAL REVENUE	**168,000,000,000**	**115,987,101,888**		**69.04**	**131,000,000,000**	**93,913,522,646**		71.69	**123,720,700,000**	**94,807,153,188**		76.63

Source: Ondo State Final Accounts

2.3.2 In the period under review, revenue decreased significantly from ₦115.987 Billion in 2014 to N93.914Billion in 2015 while there was a slight increase to ₦94.807 Billion in 2016. In effect, the State recorded an average revenue of ₦101.569 billion between 2014 and 2016.

2.3.3 A worrisome fact to note is the performance of Independent Revenue (IR). IR recorded an average of N9.066Billion in the period under review.

In 2016, the IR performance was N8.181Billion which is 9.76% below the average medium-term performance. Also, IR contributed an average 8.93% to total revenue in the period. This shows that over 90% of revenue accruing to the State comes from external sources, over which the state does not have absolute control. In essence, the State is over dependent on revenue from external sources. This ugly trend had necessitated the intervention of government in recent time.

2.3.4 The analysis of total and individual revenue item performances is presented in the following graphs and charts:

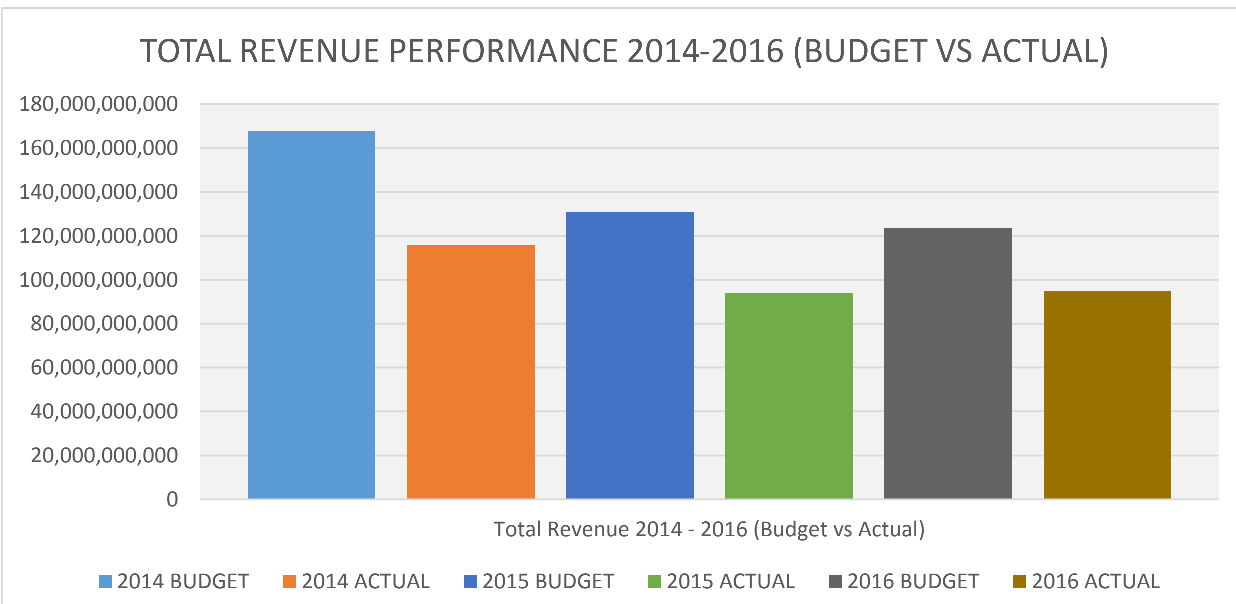


Figure 1: Revenue Performance 2014-2016 (Budget vs Actual)

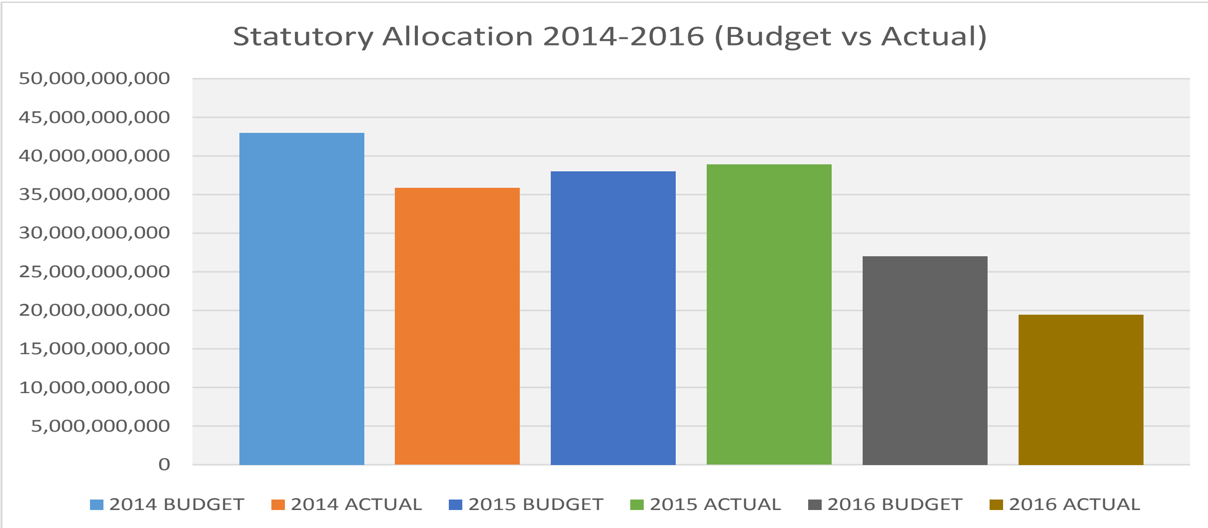


Figure 2: Statutory Allocation 2014-2016 (Budget vs Actual)

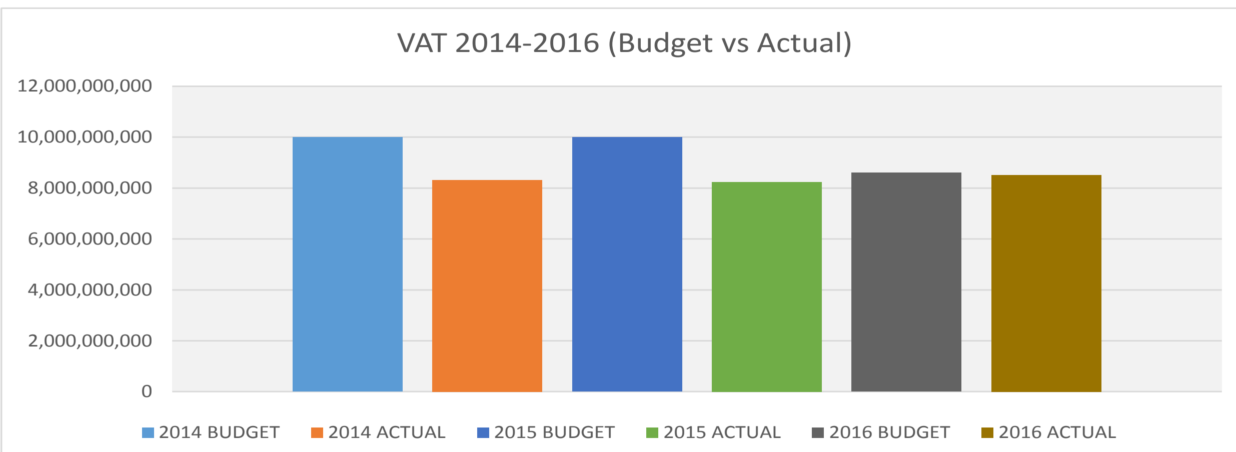


Figure 3: VAT 2014-2016 (Budget vs Actual)

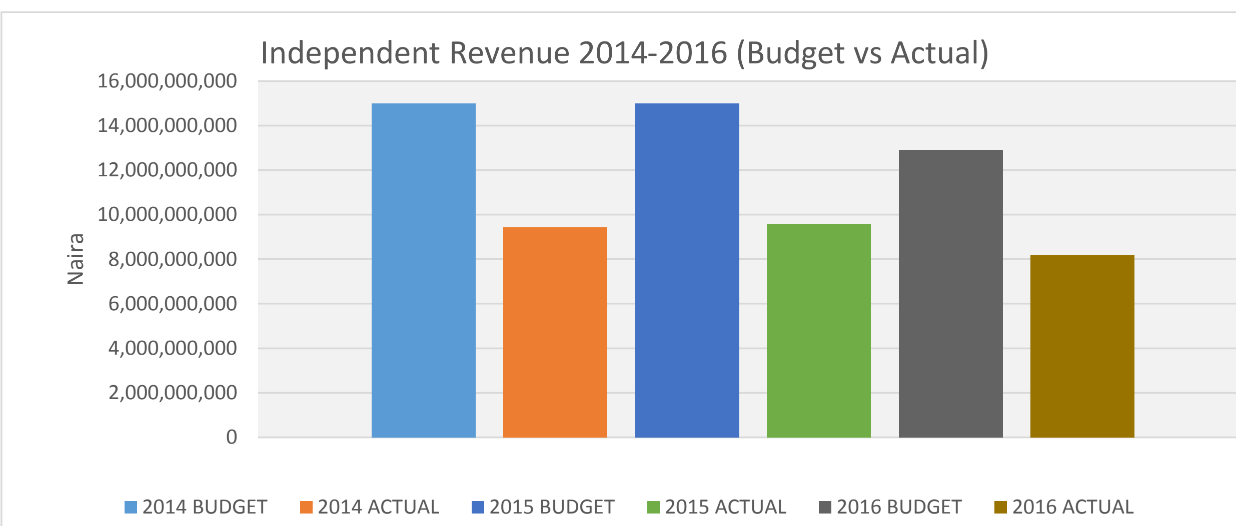
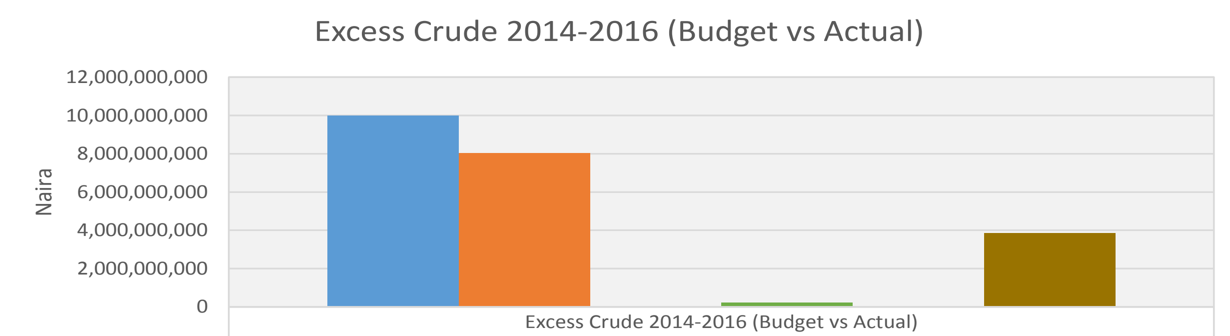


Figure 4: Independent Revenue 2014-2016 (Budget vs Actual)



	Excess Crude 2014-2016 (Budget vs Actual)
2014 BUDGET	10,000,000,000
2014 ACTUAL	8,034,312,949
2015 BUDGET	0
2015 ACTUAL	222,693,256
2016 BUDGET	0
2016 ACTUAL	3,862,344,238

Figure 5: Excess Crude 2014-2016 (Budget vs Actual)

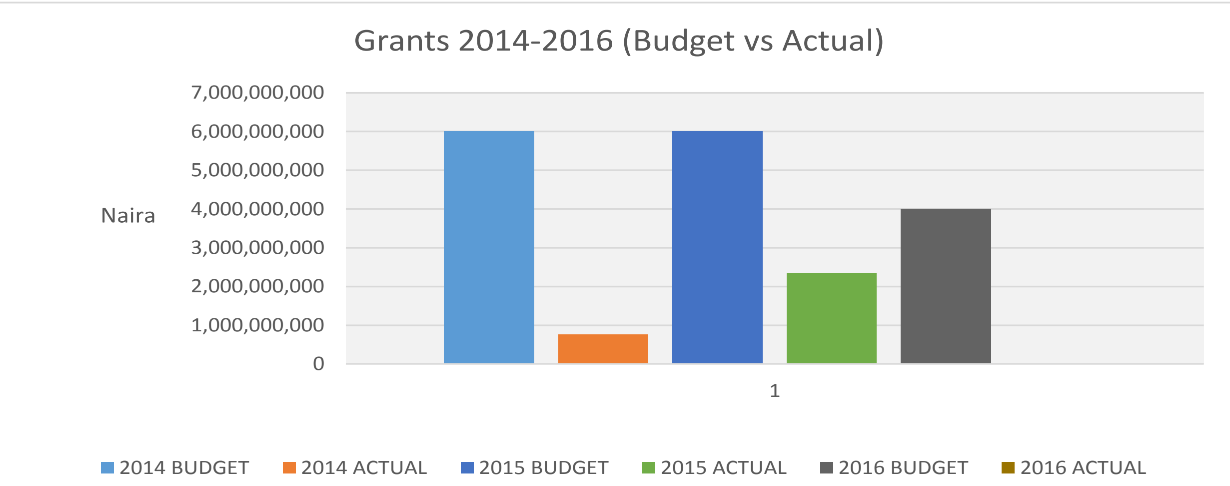
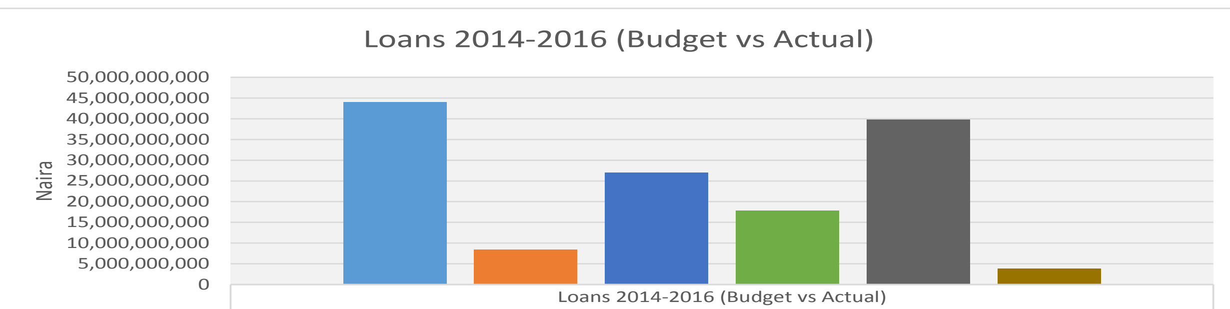


Figure 6: Grants 2014-2016 (Budget vs Actual)



	Loans 2014-2016 (Budget vs Actual)
2014 BUDGET	44,000,000,000
2014 ACTUAL	8,358,140,393
2015 BUDGET	27,000,000,000
2015 ACTUAL	17,838,226,350
2016 BUDGET	39,755,000,000
2016 ACTUAL	3,862,484,805

Figure 7: Loans 2014 - 2016 (Budget vs Actual)

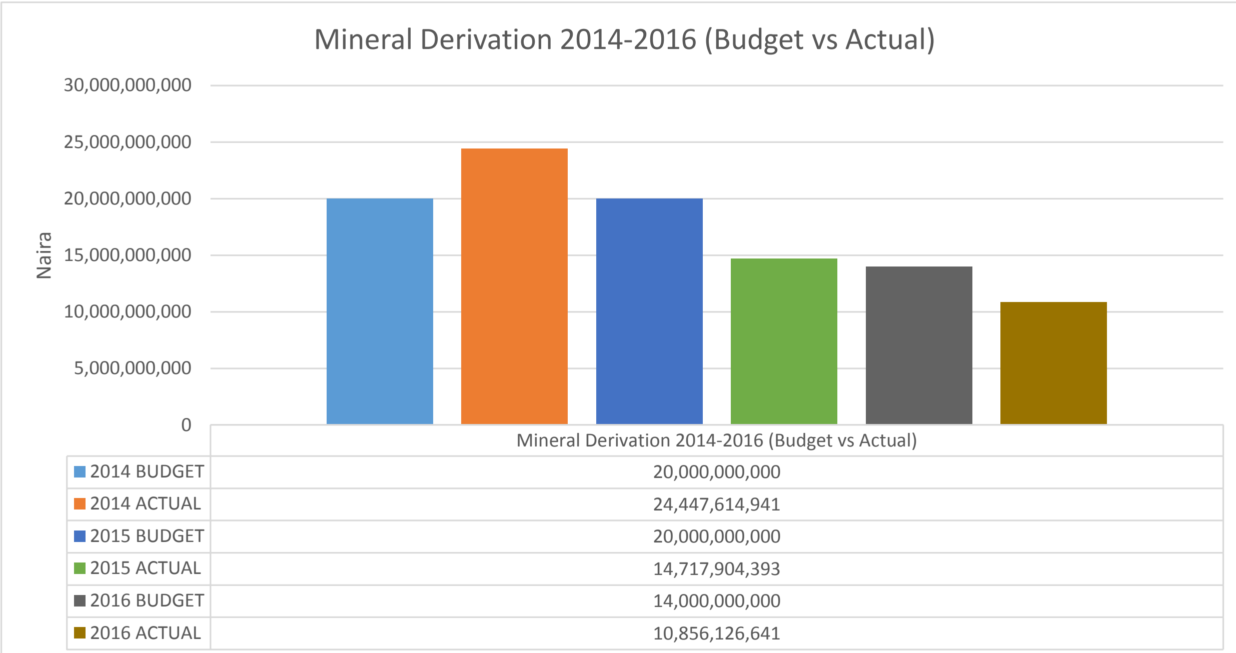


Figure 8: Mineral Derivation 2014-2016 (Budget vs Actual)

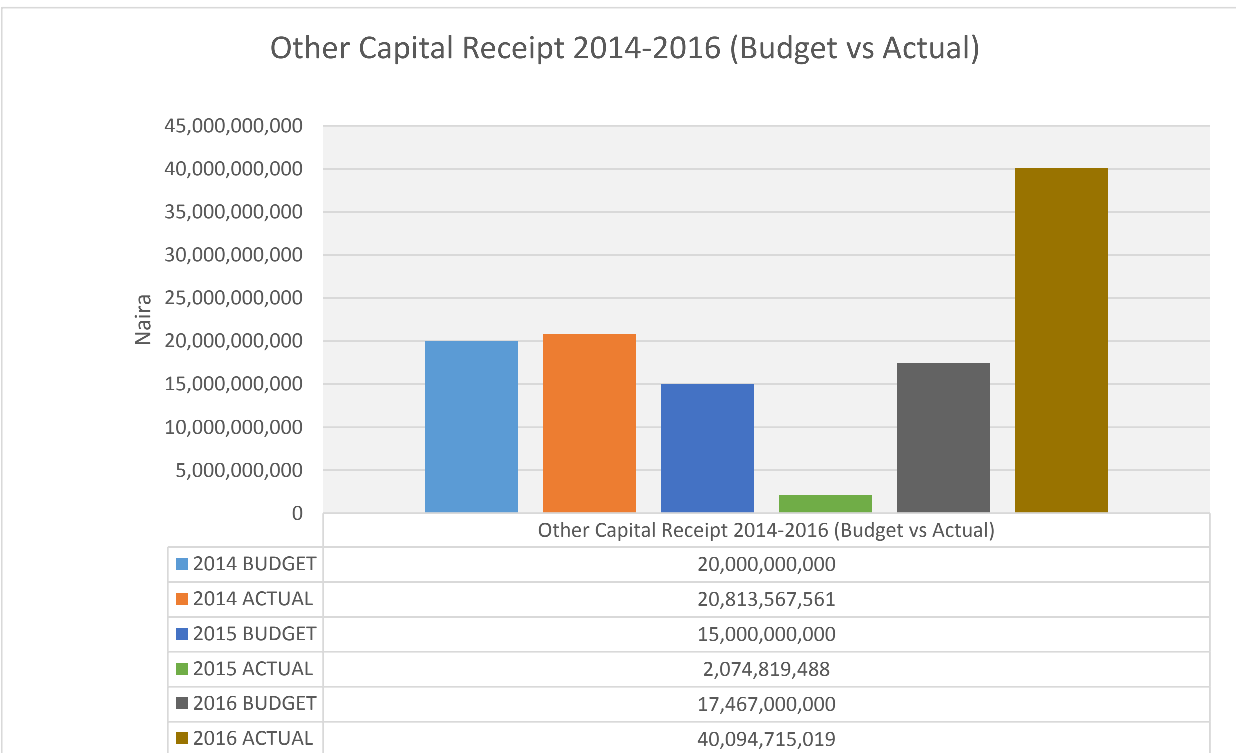


Figure 9: Other Capital Receipts (Budget vs Actual)

2.4.0 Review of 2014-2016 Expenditure Budget Performances

2.4.1 The performances of expenditure items in the period 2014-2016 is presented in the table below:

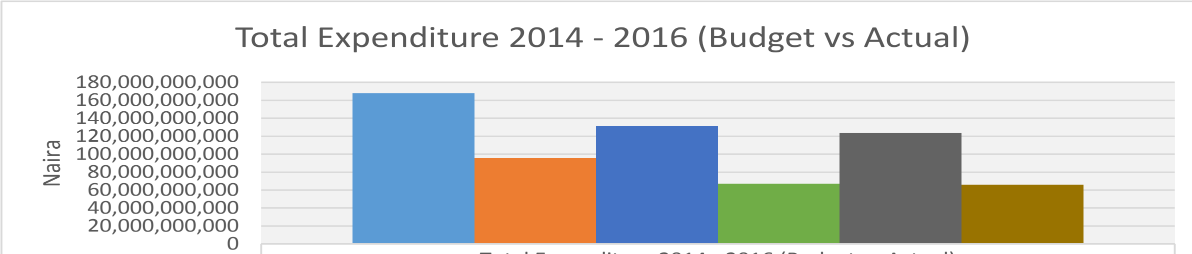
Table 3: Expenditure 2014-2016 (Budget vs Actual)

	EXPENDITURE	2014				2015				2016			
S/N	ITEM	BUDGET	ACTUAL	VARIANCE	%	BUDGET	ACTUAL	VARIANCE	%	BUDGET	ACTUAL	VARIANCE	%
1	CRF Charges (Budget)	8,180,000,000	6,617,896,521	-1,562,103,479	80.90	12,423,124,000	4,567,337,753	-7,855,786,247	36.76	8,590,000,000	5,510,259,123	-3,079,740,877	64.15
2	Personnel Cost (Budget)	34,217,179,000	32,562,379,206	-1,654,799,794	95.16	37,705,000,000	28,163,270,436	-9,541,729,564	74.69	37,000,000,000	25,796,630,908	-11,203,369,092	69.72
3	Overhead Cost (Budget)	4,741,946,000	3,084,627,368	-1,657,318,632	65.05	4,176,600,000	2,772,361,842	-1,404,238,158	66.38	3,830,963,000	2,459,948,125	-1,371,014,875	64.21
4	Special Programs (Budget)	17,025,075,000	9,750,136,774	-7,274,938,226	57.27	14,127,126,000	6,827,780,855	-7,299,345,145	48.33	12,684,362,000	9,192,195,237	-3,492,166,763	72.47
5	Rec Grants to Parastatals & T. In/Grants & Loans (Budget)	7,779,000,000	6,393,143,124	-1,385,856,876	82.18	8,271,100,000	5,286,762,627	-2,984,337,373	63.92	7,089,000,000	4,011,308,000	-3,077,692,000	56.58
6	Capital Expenditure (Budget)	96,056,800,000	37,250,975,782	-58,805,824,218	38.78	54,297,050,000	19,592,127,526	-34,704,922,474	36.08	54,526,375,000	19,226,341,379	-35,300,033,621	35.26
	Total Expenditure	**168,000,000,000**	**95,659,158,775**		**56.94**	**131,000,000,000**	**67,209,641,040**		**51.31**	**123,720,700,000**	**66,196,682,772**		53.50

2.4.2 Expectedly, aggregate actual expenditure had been on the decline as a result of poor revenue performance in the period under review. Looking at the performance of each expenditure item, Capital expenditure was mostly affected by the poor performance, posting a paltry average of 36.7%. In effect, developmental projects suffer when low revenue is recorded in the State.

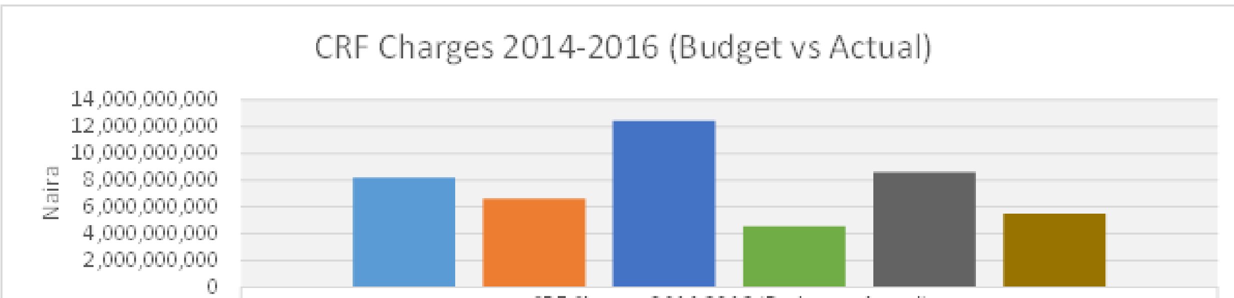
2.4.3 The decline in Personnel Cost was not unconnected with the backlog of workers' salaries in 2015 and 2016. This, however, increased the contingent liability of government instead of providing relief.

2.4.4 The analysis of total and individual expenditure performances is presented in the following graphs and charts:



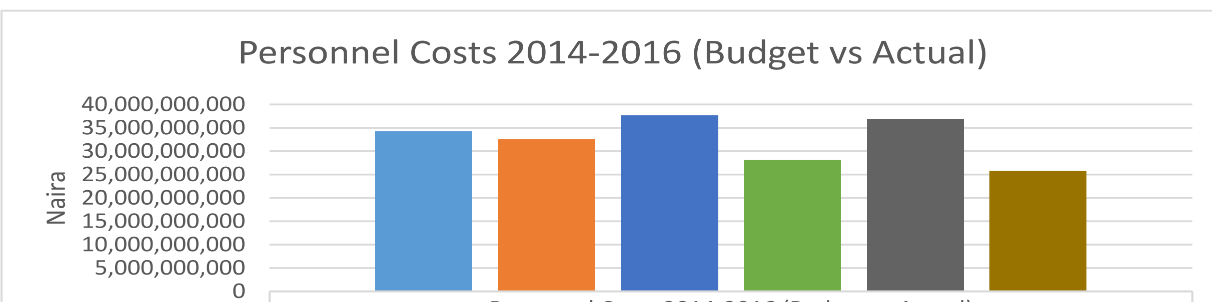
	Total Expenditure 2014 - 2016 (Budget vs Actual)
2014 BUDGET	168,000,000,000
2014 ACTUAL	95,659,158,775
2015 BUDGET	131,000,000,000
2015 ACTUAL	67,209,641,040
2016 BUDGET	123,720,700,000
2016 ACTUAL	66,196,682,772

Figure 10: Total Expenditure 2014-2016 (Budget vs Actual)



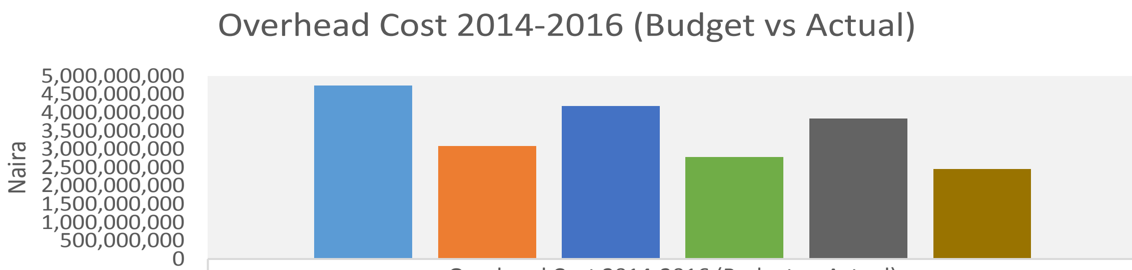
	CRF Charges 2014-2016 (Budget vs Actual)
2014 BUDGET	8,180,000,000
2014 ACTUAL	6,617,896,521
2015 BUDGET	12,423,124,000
2015 ACTUAL	4,567,337,753
2016 BUDGET	8,590,000,000
2016 ACTUAL	5,510,259,123

Figure 11: CRF Charges 2014-2016 (Budget vs Actual)



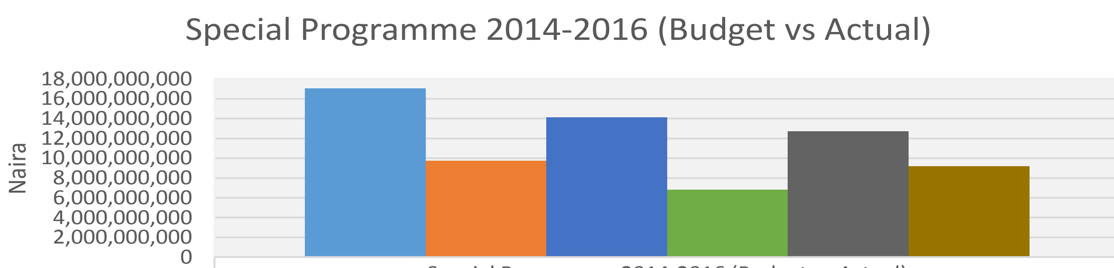
	Personnel Costs 2014-2016 (Budget vs Actual)
2014 BUDGET	34,217,179,000
2014 ACTUAL	32,562,379,206
2015 BUDGET	37,705,000,000
2015 ACTUAL	28,163,270,436
2016 BUDGET	37,000,000,000
2016 ACTUAL	25,796,630,908

Figure 12: Personnel Cost 2014-2016 (Budget vs Actual)



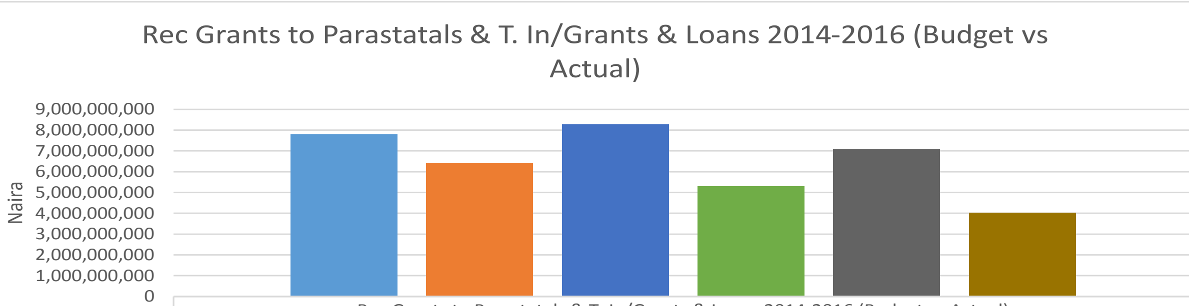
	Overhead Cost 2014-2016 (Budget vs Actual)
2014 BUDGET	4,741,946,000
2014 ACTUAL	3,084,627,368
2015 BUDGET	4,176,600,000
2015 ACTUAL	2,772,361,842
2016 BUDGET	3,830,963,000
2016 ACTUAL	2,459,948,125

Figure 13: Overhead Cost 2014-2016 (Budget vs Actual)



	Special Programme 2014-2016 (Budget vs Actual)
2014 BUDGET	17,025,075,000
2014 ACTUAL	9,750,136,774
2015 BUDGET	14,127,126,000
2015 ACTUAL	6,827,780,855
2016 BUDGET	12,684,362,000
2016 ACTUAL	9,192,195,237

Figure 14: Special Programmes 2014-2016 (Budget vs Actual)



	Rec Grants to Parastatals & T. In/Grants & Loans 2014-2016 (Budget vs Actual)
2014 BUDGET	7,779,000,000
2014 ACTUAL	6,393,143,124
2015 BUDGET	8,271,100,000
2015 ACTUAL	5,286,762,627
2016 BUDGET	7,089,000,000
2016 ACTUAL	4,011,308,000

Figure 15: Grants to Parastatal & Tertiary Institutions 2014-2016 (Budget vs Actual)

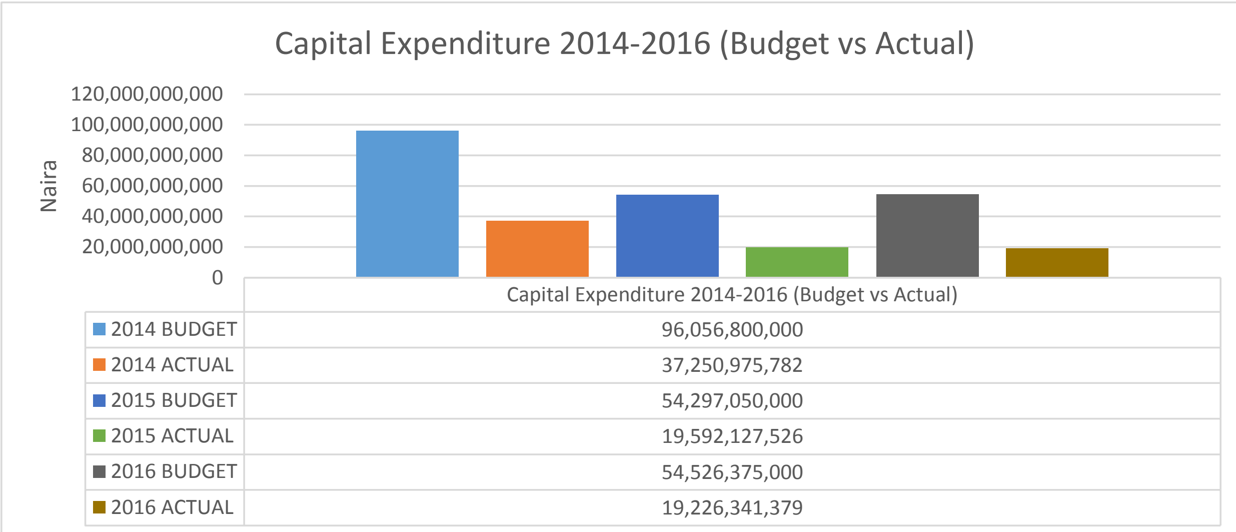


Figure 16: Capital Expenditure 2014-2016 (Budget vs Actual)

2.50 2016 Budget Performance

2.5.1 The State operated a budget size of ₦123.721 billion broken into ₦69.195 billion for Recurrent Expenditure and ₦54.526 for Capital Expenditure.

Revenue Performance

2.5.2 The revenue estimates for 2016 budget was N123.721 billion. At the end of the year, total accruable revenue from all sources amounted to N94.807 billion which is 77% of the total expected revenue for the year. The total actual Independent revenue realized in 2016 was N8.181 billion which is 63% of expected IR for the year. Other capital receipts recorded N58.676 billion, representing 78% of the estimated figure. Some of the items that made up the capital receipts include Mineral derivation, Excess PPT, Budget

Support Fund, Paris Club refund, etc. However, the state may not be able to get revenue from some of these items in 2018, particularly, budget support fund.

Table 4: 2016 Revenue Performance (Budget vs Actual)

SUMMARY OF 2016 BUDGET PERFORMANCE		2016	
REVENUE ITEMS	BUDGET (N)	ACTUAL (N)	PERFORMANCE
Statutory Allocation	27,000,000,000	19,436,790,470	72%
VAT (Budget)	8,600,000,000	8,513,433,644	99%
Independent Revenue	12,898,700,000	8,181,258,372	63%
Excess Crude	0	3,862,344,238	
Grants	4,000,000,000	0	0%
Loans	39,755,000,000	3,862,484,805	10%
Mineral Derivation	14,000,000,000	10,856,126,641	78%
Other Capital	17,467,000,000	40,094,715,019	230%
Exchange Gain			
Excess Petroleum Profit Tax			
Total Recurrent	**48,498,700,000**	**36,131,482,486**	74%
Total Capital (excluding VAT)	**75,222,000,000**	**58,675,670,703**	78%
Total Revenue	**123,720,700,000**	**94,807,153,188**	77%

Expenditure Performance

2.5.3 In 2016, the total expenditure stood at N79.811 billion out of N123.721 billion expected for the year. Of this, recurrent expenditure accounted for N46.971 billion while the capital expenditure was N19.226 billion. However, a variance of N14.996 billion (total revenue over expenditure) was mainly contractual obligations that the Ministry of Finance rolled over to the next fiscal year. The summary of the expenditure performance is presented in the table below:

Table 5: 2016 Expenditure Performance (Budget vs Actual)

SUMMARY OF 2016 BUDGET PERFORMANCE			
EXPENDITURE ITEMS			
CRF Charges	8,590,000,000	5,510,259,123	64%
Personnel Cost	37,000,000,000	25,796,630,908	70%
Overhead Cost	3,830,963,000	2,459,948,125	64%
Special Programs	12,684,362,000	9,192,195,237	72%
Rec Grants to Parastatals & T. In/Grants & Loans	7,089,000,000	4,011,308,000	57%
Capital Expenditure	54,526,375,000	19,226,341,379	35%
Loan Repayment(Internal/External)		13,614,399,594	
Total Expenditure	**123,720,700,000**	**79,811,082,366**	65%

2.6.0 Review of 2017 Budget Implementation

2.6.1 A total budget of ₦170.847 billion was appropriated for the State in 2017 fiscal year with a corresponding amount as revenue. The summary of this figure is as follows:

Table 6: Summary of 2017 Budget

S/N	ITEM	2017 ESTIMATES (N'B)
1	Debt Servicing	₦8.127
2	Statutory Transfers	₦8.374
3	Recurrent Expenditure	₦95.159
4	Capital expenditure	₦59.187
	TOTAL	**₦170.847**

2.6.2 The performance of this budget as at the end of September 2017, shows disparity between budgeted and actual figures. Total receipt from all sources was ₦72.968 billion as against ₦129.685 billion expected for the period. Out of this, the Independent Revenue (IR) was ₦7.920 billion as against ₦11.073 billion expected for the period. The IR could only account for 11% of the total revenue. Though, this is an improvement over 2016 figures, it is still a far cry from required performance. The bulk of the State's revenue still come from the Federation account. Details of the 2017 revenue performance is presented in the table below:

Table 7: 2017 Revenue Performance (Budget vs Actual)

	2017 REVENUE PERFORMANCE						
(a)	**Revenue from Federation Account**	**2017 Estimate ₦B**	**Expected Revenue Jan- Sept ₦B**	**Actual as at Sept ₦B**	**%**	**% of Total Budget**	**COMPUTED ACTUAL JAN-DEC**
i.	Statutory Allocation	26.460	19.845	18.554	93	70	24.739
ii	Value Added Tax	12.000	9.000	7.542	84	63	10.055
iii.	Mineral Derivation Fund	17.560	13.170	10.863	82	62	14.483
iv.	Budget Support	6.666	5.000	6.555	131		8.740
v	Excess Paris Club	13.156	9.867	9.100	92		12.133
vi.	Excess Petroleum Profit Tax	6.644	4.983	2.455	49		3.273
vii	Refund on Federal Roads	6.060	4.545	-	-	-	0.000
viii	Exchange Gain/Stabilization Account	7.305	5.479	3.774	69	40	5.033
	Sub Total	**95.851**	**71.888**	**58.843**	**82**	**61**	**78.457**
(b)	**Independent Revenue**	**14.764**	**11.073**	**7.920**	**72**	**54**	**10.560**
©	**Other Revenues:**					-	
	i. Rollover Fund	6.200	6.200	6.200	100	100	6.200
	ii. Credit from Development Partners	18.031	13.523		-		18.031
	iii. Grants	5.000	3.750		-	-	5.000
	iv. Education Endowment Fund (ETF)	-	-	-			
	v. Bond	-	-	-			
	vi. Ecological Fund	-	-	-			
	vii. Loans/Leases	31.000	23.250		-	-	31.000
	Sub Total	**60.231**	**46.723**	**6.200**		**10**	**60.231**
	GRAND TOTAL	**170.846**	**129.685**	**72.963**	**56**	**43**	**149.248**
	SOURCE: OFFICE OF THE ACCOUNTANT-GENERAL						

2.6.3 On the expenditure side, the total recurrent expenditure at the end of September, 2017 stood at ₦54.490 billion as against ₦71.369 billion projected for the same period while the Capital Expenditure was ₦5.396 billion which is 12% of expected expenditure for the period. Similarly, a total of ₦9.708 was used to service the state debt up to September, 2017. A sum of N1.957 billion was transferred to OSOPADEC for the same period. Details of the 2017 Expenditure performance is set out in the table below:

Table 8: 2017 Expenditure Performance (Budget vs Actual)

	2017 EXPENDITURE PERFORMANCE					
A:	**Debt Service**					
		Approved Estimate 2017 N'B	**Expected Expenditure Jan-Sept N'B**	**Actual as at Sept 2017 N'B**	**%**	**% of Total Budget**
i.	Debt Repayment (Principal)	8.127	5.418	6.683	123	82
	Total	**8.127**	**5.418**	**6.683**	123	82
B:	**Statutory Transfers**					
		Approved Estimate 2017 N'B	**Expected Expenditure Jan-Sept N'B**	**Actual as at Sept 2017 N'B**	**%**	**% of Total Budget**
i	Transfer to LG Joint Account (10% IGR)	1.350	0.788			
ii.	Transfer to OSOPADEC	7.024	4.097	1.557	38	22
	Total	**8.374**	**4.097**	**1.557**	38	19
C:	**Recurrent Expenditure**					
		Approved Estimate 2017 N'B	**Expected Expenditure Jan-Sept N'B**	**Actual as at Sept 2017 N'B**	**%**	**% of Total Budget**
i.	Personnel Cost	54.004	31.502	16.554	53	31
ii	Overhead Cost	3.958	2.309	1.525	66	39
	Recurrent Grants to Parastatals and Tertiary Institutions	7.699	4.491	2.251	50	29
iv.	Special Programme	14.035	8.187	5.776	71	41
v.	Consolidated Revenue Fund Charge	15.283	8.915	4.503	51	29
vi	Grants/Loans	0.180	0.105	0.000	-	-
	TOTAL	**95.159**	**55.509**	**30.609**	**55**	**32**
B:	**Capital Expenditure**					
		Approved Estimate 2017 N'B	**Expected Expenditure Jan-Sept N'B**	**Actual as at Sept 2017 N'B**	**%**	**% of Total Budget**
i.	Capital Expenditure of MDAs	59.187	34.526	4.269	12	7
	TOTAL	**59.187**	**34.526**	**4.269**	**12**	**7**
	GRAND TOTAL (A+B+C+D)	**170.847**	**99.551**	**43.118**	**43**	**25**
	SOURCE: OFFICE OF THE ACCOUNTANT-GENERAL					

CHAPTER THREE

2018-2020 FISCAL STRATEGY

3.1 In line with the philosophy and aspiration of the present administration which is hinged on a 5-point Agenda “Programmes for change”, the State 2018-2020 fiscal strategy budget was tailored towards the programmes as contained in the Strategic Development and Policy implementation document (Blueprint to Progress) and the MTSS documents of the five pilot sub-sectors. To this end, the State’s 2018-2020 fiscal objective focuses on rebuilding the State economy through massive mobilization of Independent Revenue as well as prioritized investment on infrastructural facilities and agriculture related activities.

Objectives and Targets

3.2 The key targets from a fiscal perspective are:

- Diversification of the State economy to reduce over reliance on the Federal allocation;
- Increase in the Independent Revenue by at least, a factor of three;
- Prompt payment of salaries and pensions;
- Prioritized investment in infrastructural facilities;
- Accelerated rural development;
- Provision of functional education and technological growth;

- Improved healthcare delivery and social services;
- Job creation through Agriculture, Entrepreneurship and Industrialization;
- Increased Capital/Recurrent Expenditure ratio; and
- Ensuring sustainable debt climate with appropriate level of public sector borrowing.
- Ensure that all on-going projects are given attention while also considering new projects in the Budget;

3.3 Similarly, the following strategies are expected to play pivotal role in achieving the medium-term objectives:

(i) Deployment of ICT to drive independent revenue;
(ii) Engagement of Revenue Consultants to help drive Independent Revenue generation;
(iii) Rehabilitation of dilapidated infrastructural facilities;
(iv) Provision of farm inputs and seedlings to farmers to boost food production;
(v) Encourage a productive Public Private Partnership (PPP) investment in the State;
(vi) Deployment of ICT to empower and create wealth for Youths and Artisans;

(vii) Collaboration with relevant Federal Agencies/Development Partners to support State initiatives; and,

(viii) Enhancing accessibility to Semi-urban and rural Areas through opening up of all rural feeder roads.

3.4 The management of the economy in the medium term will require government focusing on growth drivers and key priority areas that will sustain economic growth. Therefore, in the medium term, transparency, efficiency and accountability would be pursued in achieving operating targets, with built-in risk aversion strategies in the course of implementing government policies.

CHAPTER FOUR

2018-2020 FISCAL FRAMEWORK

4.1 The 2018-2020 fiscal framework, comprising recurrent revenue, capital receipts, recurrent and capital expenditure, etc., was determined using various iterative forecast methods such as 3-year Moving Average, 5-year Moving Average without outliers 4-year Weighted Moving Average, Elasticity, Percentage Increase and Own Value.

The outcome of the forecast methods as chosen for each item are contained in the table below:

Table 9: 2018-2020 Fiscal Framework

Macro-Economic Framework						
Item	**2017**	**2018**	**2019**	**2020**		
National Inflation	15.74%	12.42%	13.39%	9.90%		
National Real GDP Growth	1.50%	3.50%	4.50%	7.00%		
Oil Production Benchmark	2.2	2.3	2.4	2.5		
Oil Price Benchmark	42.5	45	45	50		
NGN:USD Exchange Rate	305	305	305	305		
Fiscal Framework						
Recurrent Revenue	**2017**	**2018**	**2019**	**2020**	**Forecast Method**	
Statutory Allocation	22,964,000,000	25,352,256,000	26,493,107,520	28,347,625,046	Own Value	
VAT	9,912,000,000	12,000,000,000	12,540,000,000	13,417,000,000	Own Value	
Independent Revenue	15,000,000,000	18,359,000,000	25,000,000,000	30,000,000,000	Own Value	
Total Recurrent Revenue	**47,876,000,000**	**55,711,256,000**	**64,033,107,520**	**71,764,625,046**		
		16.37%	**14.94%**	**12.07%**		
Debt Services (Principal)	**8,126,698,115**	**13,599,878,085**	**2,984,701,184**	**2,371,330,589**		
Statutory Transfers						
10% IGR to JAAC	1,500,000,000	1,835,900,000	2,500,000,000	3,000,000,000		
OSOPADEC	5,629,200,000	6,214,636,800	6,512,939,366	6,825,560,456		
Total Statutory Transfer	**7,129,200,000**	**8,050,536,800**	**9,012,939,366**	**9,825,560,456**		
Recurrent Expenditure					**Forecast Method**	
CRF Charges	15,282,880,700	12,500,000,000	13,750,000,000	15,125,000,000	Own Value	
Personnel	40,530,000,000	42,151,200,000	35,666,400,000	37,449,720,000	Own Value	
Overheads	3,958,000,000	4,070,231,300	4,477,254,430	4,924,979,873	Own Value	
Special Programs (Actual)	14,035,000,000	15,230,634,300	15,992,166,015	16,791,774,316	Own Value	
Rec Grants to Paras & Tert Ins(Actual)	7,879,000,000	7,569,535,948	8,326,489,543	9,159,138,498	Own Value	
Total Recurrent Expenditure	**81,684,880,700**	**81,521,601,548**	**78,212,309,988**	**83,450,612,686**		
		-0.20%	**-4.06%**	**6.70%**		
Total Debt Serv, Stat Transfer & Recurrent Exp	**96,940,778,815**	**103,172,016,433**	**90,209,950,538**	**95,647,503,731**		
Transfer to Capital Account	**-49,064,778,815**	**-47,460,760,433**	**-26,176,843,018**	**-23,882,878,685**		
Capital Receipts						
Grants	5,086,908,000	6,687,065,584	5,478,065,584	5,319,065,584		
Excess Crude	0	0	0	0	Own Value	
Mineral Derivation	14,073,000,000	15,536,592,000	16,282,348,416	17,063,901,140	Own Value	
Other Capital Receipts	46,031,000,000	46,390,000,000	20,000,000,000	17,500,000,000		
Total	**65,190,908,000**	**68,613,657,584**	**41,760,414,000**	**39,882,966,724**		
Reserves					**Base**	**Percentage**
Contingency Reserve	8,041,324,418	7,609,031,204	4,244,779,776	4,078,944,503	Capital Expenditure Budget	10.00%
Planning Reserve	11,346,868,742	11,032,833,951	8,446,207,543	8,696,804,040	Total Revenue	7.00%
Total Reserves	**19,388,193,159**	**18,641,865,155**	**12,690,987,319**	**12,775,748,543**		
Donor Funds with Counterpart Contributions	23,737,183,129	22,887,298,151	25,026,659,601	22,623,539,310		
Capital Expenditure less Donor Funds	**41,420,162,935**	**31,552,599,000**	**5,423,497,614**	**5,969,014,671**		
Capital Expenditure	**65,157,346,064**	**54,439,897,151**	**30,450,157,215**	**28,592,553,982**		
Net Financing	49,031,216,879	33,287,000,000	14,866,586,233	12,592,465,942		
Total Budget Size	**162,098,124,879**	**157,611,913,584**	**120,660,107,753**	**124,240,057,713**		
Capital Expenditure Rate	**25.55%**	**20.02%**	**4.49%**	**4.80%**		
Deficit to Total Expenditure	30.25%	21.12%	12.32%	10.14%		

4.2 A total revenue and budget size of **₦157.612 billion**, inclusive of credit from development partners (₦18.436 billion) and net financing of N33.287 billion, is, therefore, estimated for 2018, while N120.660 Billion and N124.240 Billion were projected for 2019 and 2020, respectively. The decline in the projected values in 2019 and 2020 is not unconnected with the need to start to deemphasise borrowing and debt financing as from 2019.

4.3.1 Analysis and Justification for Revenue Projections

(a) **Statutory Allocation** – Receipt from Statutory Allocation is mainly determined by the volume of crude oil production and its price at the global market. According to the Federal Government FSP, an increment of 0.100m barrel per day (4.5%) is expected from crude oil production while $2.5/barrel (5.9%) increment is expected from price of crude oil in 2018 when compared to 2017 figure. Total receipt of N22.964 billion is expected as statutory allocation by the end of 2017. Hence, a total increment of 10.4% over 2017 figure representing N25.352 billion is expected in 2018. This is expected to grow to N26.493 billion and N28.348 billion in 2019 and 2020 respectively.

(b) **Independent Revenue (IR)**: The performance of IR in the State between June – August 2017 average N1.000 Billion. Therefore, with improvement in the activities of the Revenue Consultants recently engaged by the State Government, coupled with the implementation of SIFMIS and the tax reforms, the State's IR is expected to improve significantly in 2018 to a monthly average of N1.500 billion which amounts to N18.360 billion.

This is expected to grow to N25.000 Billion in 2019 and N30.000 billion at the end of 2020.

(c) **Value Added Tax (VAT)** –VAT is a non-oil revenue which is expected to be influenced by the projected national growth rate of 3.5% in 2018. Similarly, more states are expected to comply with the FG directive on full remittance of VAT. Hence, further growth of 18% (using best of judgement) is expected in VAT. With the total expected growth rate in VAT (18% + 3.5% = 22%) multiplied by the actual expected receipt in 2017, i.e. N10.056 billion a total of N12,000.00 billion (approx..) is projected for 2018. This is projected to grow by 4.5% amounting to N12.540 billion in 2019 and by 7% amounting to N13.417 billion in 2020.

(d) **Mineral Derivation:** This is informed by the volume of production and the price of crude Oil in the global market. In this wise, the state is expected to benefit maximally from the overall increase in production and the price. The consideration of the total expected increase in crude oil price from $42.5 to 45/Barrel and production of crude oil increase from 2.2 to 2.3 million barrel/day, using a factor on the expected actual of N14.073 billion in 2017; a sum of N15.537 billion is projected for 2018. This value is projected to grow by 4.8% in 2019 and 2020 amounting to N16.282 billion and N17.064 billion respectively.

(e) **Grants from Donor Agencies**: Grants are fixed amounts expected from donor agencies and the Federal Government for specific projects. In line with the projection submitted by relevant MDAs, a total of N6.687 billion is expected from grants in 2018 with a counterpart contribution of N3.492 billion. In the same vein, N5.478 billion and N5.319 billion are expected for 2019 and 2020 respectively.

(f) **Credit from Development Partners:** Credit from development partner are usually fixed, based on signed Memorandum of Understanding (MoUs) by relevant MDAs usually for specific programmes/projects in the State. In 2018, a total of N12.707 billion is expected from signed MoUs. As at August 2017, N16.184 billion and N13.910 billion are expected for 2019 and 2020 respectively.

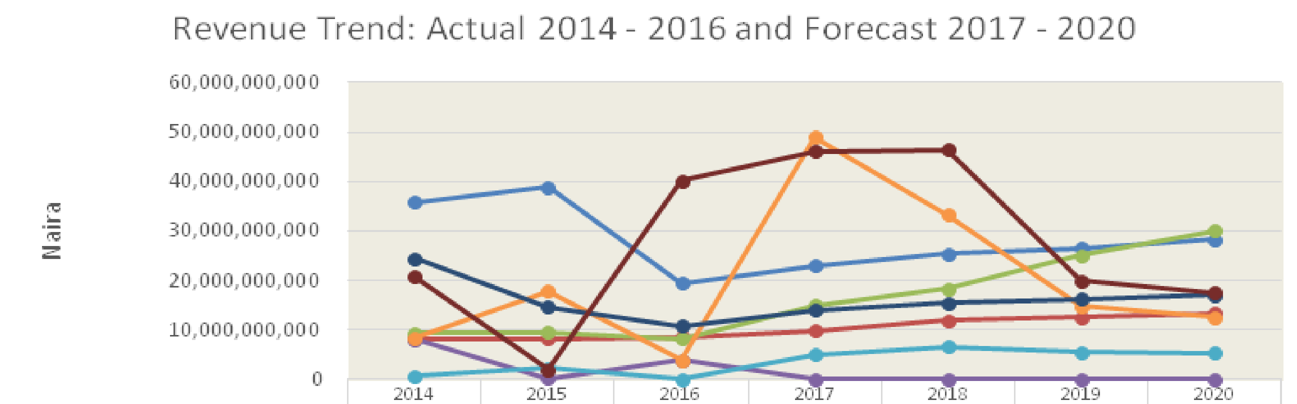
(g) **Paris Club Deduction** - The refund from Paris Club deduction commenced in 2016 with the disbursement of the first tranche to States. In 2018, the state is expected to receive the final tranche which has been projected as N13.156 billion

(h) **Refund from FGN** - The Federal Government indebtedness to the State on the repair of federal roads amounts to N6.000 billion. The State is expecting a repayment of N6.000 billion in 2018.

(i) **Excess Petrol Profit Tax** - Expected revenue from this activity was projected taking cognizance of total expected revenue in 2017 which is N3.683 billion with a monthly average of N0.306 billion. Therefore, the total expected revenue of N3.683 billion in 2017, is adopted and projected for 2018.

(j) **Exchange Gain** – Taking into account, the current exchange rate of Naira to Dollar, the State Ministry of Finance projected N6.120 billion for 2018. As the divergence between budgeted and actual official exchange rate begins to narrow, fund from this source will continue to dwindle. Hence, N4.000 billion is projected for both 2019 and 2020.

4.3.2 The revenue historical trend and projections is depicted in the graph below.



	2014	2015	2016	2017	2018	2019	2020
Statutory Allocation	35,823,969,521	38,891,850,681	19,436,790,470	22,964,000,000	25,352,256,000	26,493,107,520	28,347,625,046
VAT	8,313,253,045	8,234,257,688	8,513,433,644	9,912,000,000	12,000,000,000	12,540,000,000	13,417,000,000
Total Independent Revenue	9,433,109,892	9,583,868,087	8,181,258,372	15,000,000,000	18,359,000,000	25,000,000,000	30,000,000,000
Excess Crude	8,034,312,949	222,693,256	3,862,344,238	0	0	0	0
Grants	763,133,587	2,349,902,703	0	5,086,908,000	6,687,065,584	5,478,065,584	5,319,065,584
Loans	8,358,140,393	17,838,226,350	3,862,484,805	49,031,216,879	33,287,000,000	14,866,586,233	12,592,465,942
Mineral Derivation	24,447,614,941	14,717,904,393	10,856,126,641	14,073,000,000	15,536,592,000	16,282,348,416	17,063,901,140
Other Capital	20,813,567,561	2,074,819,488	40,094,715,019	46,031,000,000	46,390,000,000	20,000,000,000	17,500,000,000

Figure 17: Revenue Trend 2014-2016 (Actual) and 2017-2020 (Forecast)

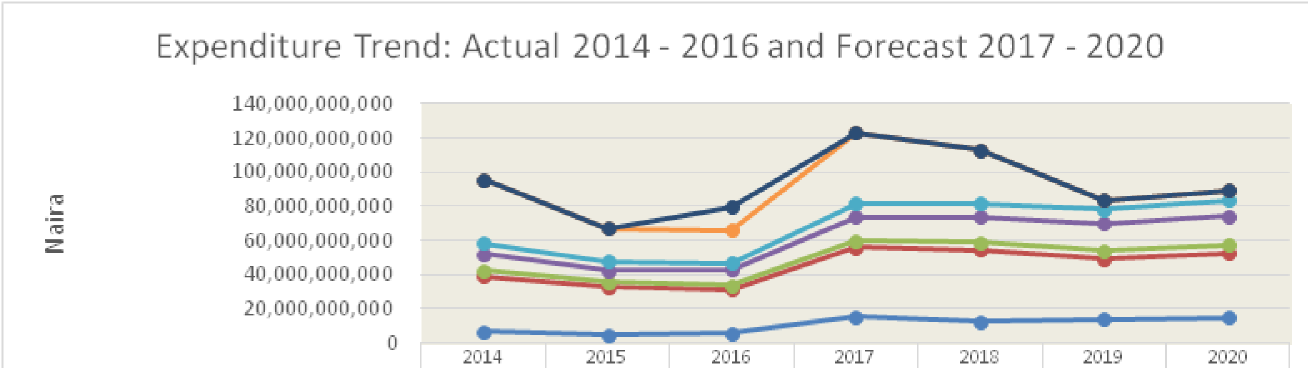
4.4 Analysis and Justification for Expenditure Projections

(a) **CRF Charges:** Four major components of CRF Charges include payment of Pension, Gratuity, Salaries of Political office holders and Public Debt Service Charges. All these components are expected to moderately increase in the next medium term until the new pension scheme takes firm root in the State. However, the State's CRF is expected to slightly decrease due to the payment of salary/pension arrears, gratuities of retired public servants as well as the repayment of interest on loans by the State Government. Hence, the own value forecast option appears the most acceptable. To this end, N12.500 billion, N13.750 billion and N15.125 billion are projected for 2018, 2019 and 2020 respectively.

(b) **Personnel**: In view of the backlog of salary arrears inherited from the last administration the personnel cost of the government is expected to remain high and be fully offset in 2018 while the cost will drop significantly in 2019. Hence, the own value option, based on the computation of salaries/allowances for (already established positions, salaries areas still outstanding and 5% allowance to cater for promotions, advancement and incremental credits) is considered the most favourable approach to personnel cost in the next three years. Hence, N42.151 billion, N35.666 billion and N37.450 billion are projected for 2018, 2019 and 2020 respectively.

(c) **Overhead Cost**: It is provided mainly to service the capital projects. Therefore, as projected that investment in infrastructure will increase in the medium term, overhead cost is also expected to increase to adequately service the capital projects. Against this backdrop, own value forecast was selected as most suitable. Therefore, N4.000 billion is estimated for 2018. This is expected to grow by 10% in 2019 to N4.477 billion and N4.925 billion in 2020.

(d) **Capital Expenditure:** Considering the level of infrastructural deficit in the state, the medium term strategy of government has been designed to attract substantial investment to the infrastructure subsector to substantially bridge this gap and ultimately, stimulate the economy. In this wise, a total of N55.807 billion is projected in 2018 for Capital Expenditure.



	2014	2015	2016	2017	2018	2019	2020
Loan Repayment(Internal/External)			13,614,399,594				
Cap. Ex. (Actual)	37,250,975,782	19,592,127,526	19,226,341,379	41,420,162,935	31,552,599,000	5,423,497,614	5,969,014,671
Rec Grants to Paras & Tert Ins(Actual)	6,393,143,124	5,286,762,627	4,011,308,000	7,879,000,000	7,569,535,948	8,326,489,543	9,159,138,498
Special Programs (Actual)	9,750,136,774	6,827,780,855	9,192,195,237	14,035,000,000	15,230,634,300	15,992,166,015	16,791,774,316
Overhead Cost (Actual)	3,084,627,368	2,772,361,842	2,459,948,125	3,958,000,000	4,070,231,300	4,477,254,430	4,924,979,873
Personnel Cost (Actual)	32,562,379,206	28,163,270,436	25,796,630,908	40,530,000,000	42,151,200,000	35,666,400,000	37,449,720,000
CRF Charges (Actual)	6,617,896,521	4,567,337,753	5,510,259,123	15,282,880,700	12,500,000,000	13,750,000,000	15,125,000,000

Figure 18: Expenditure Trend 2014-2016 (Actual) and 2017-2020 (Forecast)

2018-2020 Sectoral Allocation of Fund

4.5. The sectoral distribution of both recurrent and capital expenditure, based on the MYBF model, is as presented in the two tables and the following charts.

Table 10: Indicative Sector Recurrent Expenditure Ceilings 2018-2020

Sectoral Recurrent Expenditure							
No.	**MDAs**	**% 2018**	**2018 Allocation**	**% 2019**	**2019 Allocation**	**% 2020**	**2020 Allocation**
1	ADMINISTRATIVE	38.67%	30,098,859,506	38.67%	28,700,171,640	38.67%	30,596,304,811
2	ECONOMIC SECTOR	17.27%	13,441,206,026	17.27%	12,816,595,921	17.27%	13,663,349,487
3	LAW AND JUSTICE SECTOR	3.18%	2,472,626,723	3.18%	2,357,724,263	3.18%	2,513,491,944
4	REGIONAL SECTOR	0.00%	0	0.00%	0	0.00%	0
5	SOCIAL SECTOR	40.88%	31,818,507,745	40.88%	30,339,908,176	40.88%	32,344,373,759
	Total	**100.00%**	**77,831,200,000**	**100.00%**	**74,214,400,000**	**100.00%**	**79,117,520,000**

Table 11: Indicative Sector Capital Expenditure Ceilings 2018-2020

Sectoral Capital Expenditure 2016							
No.	**Sector**	**% 2018**	**2018 Allocation**	**% 2019**	**2019 Allocation**	**% 2020**	**2020 Allocation**
1	ADMINISTRATIVE	8.53%	9,226,518,346	8.53%	883,626,906	8.53%	958,791,531
2	ECONOMIC SECTOR	62.45%	32,626,422,084	62.45%	6,465,703,047	62.45%	7,015,700,045
3	LAW AND JUSTICE SECTOR	1.09%	479,401,319	1.09%	112,498,590	1.09%	122,068,143
4	REGIONAL SECTOR	0.00%	0	0.00%	0	0.00%	0
5	SOCIAL SECTOR	27.93%	15,475,401,064	27.93%	2,891,706,743	27.93%	3,137,686,185
	Total	**100.00%**	**44,119,995,331**	**100.00%**	**10,353,407,602**	**100.00%**	**11,234,107,357**

Note: The figures excludes 18.436B donor fund

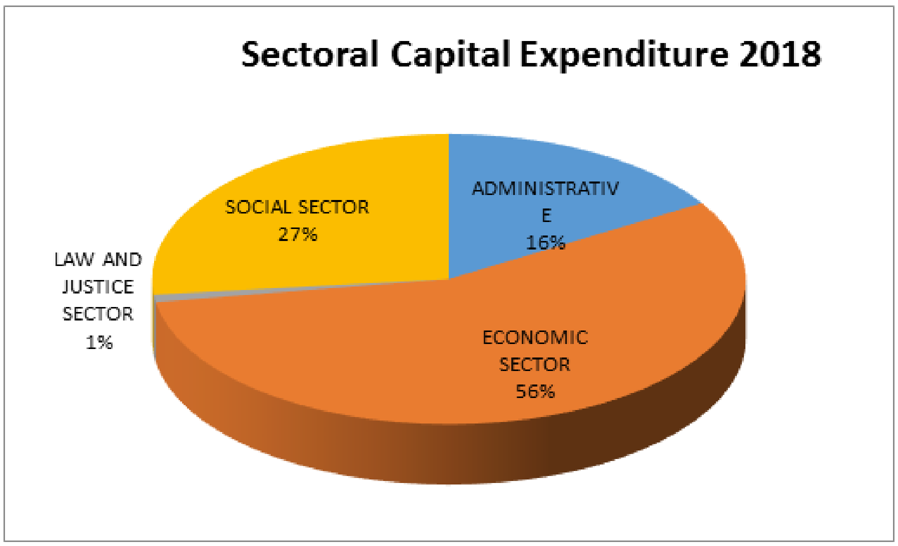


Figure 19: Proposed 2018 Sectoral Capital Allocation

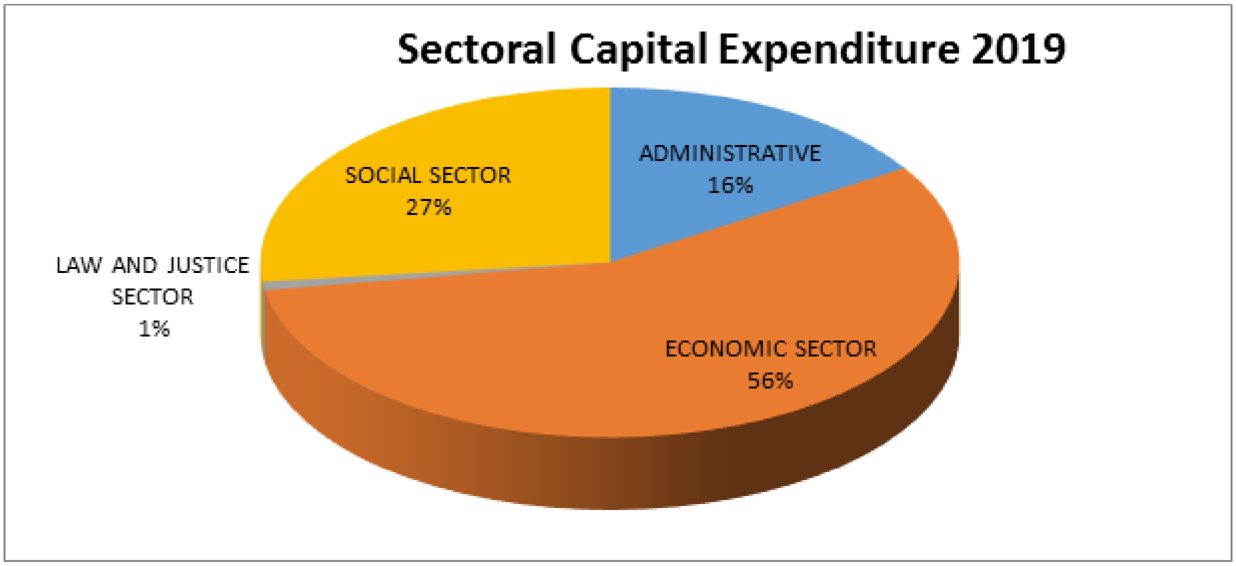


Figure 20: Proposed 2019 Sectoral Capital Allocation

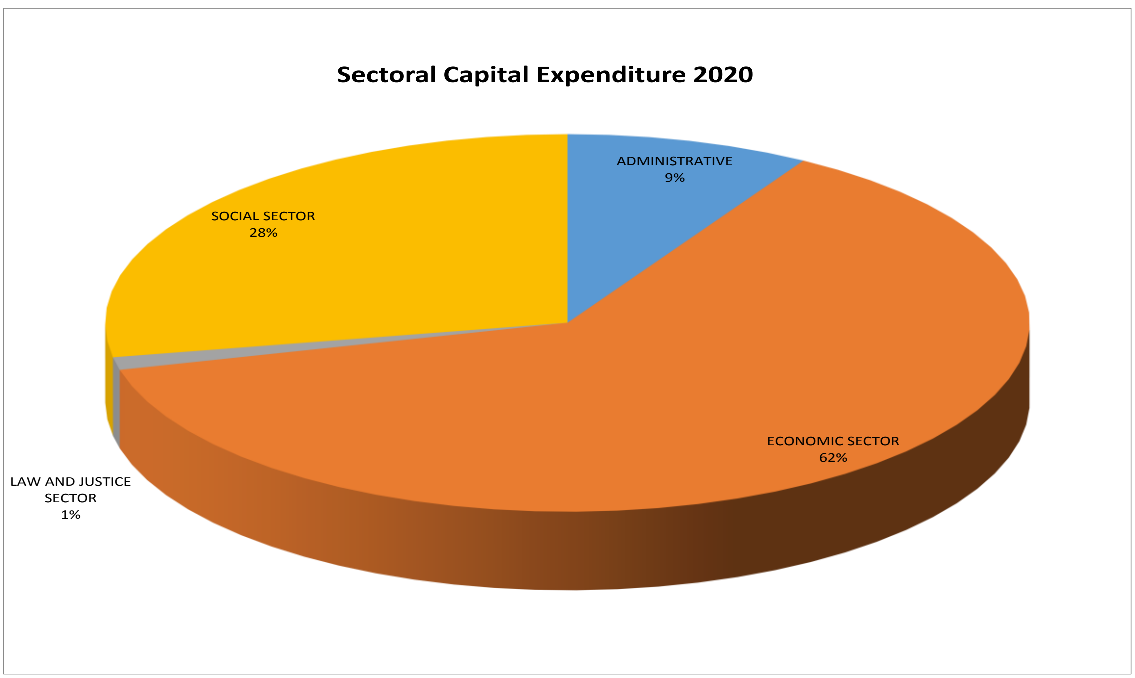


Figure 21: Proposed 2020 Sectoral Capital Allocation

4.6 In line with the medium term target of the government, priority has been accorded the economic sector in which government is expected to utilize N32.626 billion in 2018 while maintaining the lead in the succeeding years. The activities in the economic sector, which include agriculture, energy, public finance, trade and industry and transportation are expected to boost economic activities in the state.

4.7 As part of the process of preparing the MTEF, Medium Term Sector Strategies (MTSS) were prepared for five pilot sub-sectors viz: Education, Health, Infrastructure, Agriculture and Public Finance. Sub-Sector envelopes were also estimated for other sub-sectors not yet covered by MTSS. The sub-sector envelopes as determined by the MTSS is presented below:

Table 12: Sectoral Capital Projection 2018-2020

CAPITAL PROJECTION 2018 - 2020			
SECTOR	**2018 N'M**	**2019 N'M**	**2020 N'M**
AGRICULTURE	4,579,785,000.00	2,561,635,454.83	2,405,363,608.05
INFRASTRUCTURE	14,815,160,000.00	8,286,642,085.81	7,781,117,827.90
HEALTH	6,753,134,783.00	3,777,266,725.70	3,546,835,636.89
EDUCATION & TECH. GROWTH	7,131,686,368.00	3,989,003,993.20	3,745,655,932.24
PUBLIC FINANCE	4,145,100,000.00	2,318,500,786.35	2,177,061,301.29
TRADE & INDUSTRY	3,226,000,000.00	1,804,415,704.51	1,694,337,834.54
TOTAL PILOT SECTOR	**40,650,866,151.00**	**22,737,464,750.40**	**21,350,372,140.92**
RURAL & COMM EXT. SERVICES	4,810,000,000.00	2,690,402,832.82	2,526,275,568.55
YOUTH &SPORT SERVICES	6,050,032,000.00	3,383,996,513.82	3,177,556,763.11
INFORMATION	242,000,000.00	135,359,144.60	127,101,598.25
LAW & JUSTICE	1,227,000,000.00	686,304,423.26	644,436,615.93
ADMINISTRATION	1,255,000,000.00	701,965,811.89	659,142,585.97
LEGISLATIVE	205,000,000.00	114,663,738.20	107,668,709.26
SUB-TOTAL OTHERS	**13,789,032,000.00**	**7,712,692,464.60**	**7,242,181,841.08**
PLANNING CONTIGENCY			
GRAND TOTAL	**54,439,898,151.00**	**30,450,157,215.00**	**28,592,553,982.00**

In line with the priorities of government as stipulated in the blueprint to progress policy document, investment in infrastructural facilities is expected to take lead in the next three years without prejudice to other critical sectors like education, health and agriculture. In this wise, a total of N54.439 billion is being projected for capital budget in 2018, with the Infrastructure subsector allocated 27% of the sum which amounts to N14.815 billion, followed by Education and Technology with N7.131 billion. Similar trend could be observed in the succeeding years with infrastructure taking the highest vote. A total of N30.450 billion and N28.592 billion projected for 2019 and 2020 respectively.

CHAPTER FIVE

DEBT SUSTAINABILITY ANALYSIS

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

Table 13: Sustainability Analysis

Debt Sustainability Analysis			
A	**DSA RATIO SCENARIOS:**	**Sustainability Thresholds**	**As as 31st December 2016**
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	147.13%
2	Total Domestic Debt/IGR	150%	649.77%
3	Total External Debt/Total Revenue	50%	32.43%
4	Total Public Debt/Total Revenue	100%	179.56%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	1.40%
7	Total Debt Service/Total Revenue	15%	43.85%
8	Domestic Debt Service/IGR	10%	187.51%
			2016 Actual
B	**PUBLIC DEBT DATA AS AT 31st DECEMBER 2016**		**Naira**
1	Total Domestic Debt		53,159,719,891
2	Total External Debt		11,716,491,056
3	**Total Public Debt**		**64,876,210,947**
4	Total Domestic Debt Service 2016		15,340,940,619
5	Total External Debt Service in 2016		504,189,036
6	**Total Public Debt Service**		**15,845,129,656**

5.2. By December, 2016, the State's total public debt was ₦64.876 billion, broken into ₦53.160 billion for Domestic Debt and ₦11.717 billion for External Debt. On a general analysis, the State has a sobering status, as can be seen in the sustainability thresholds above; particularly, in all the analysis involving Independent Revenue. In essence, the State is not generating enough revenue from within to maintain a healthy fiscal status, as revealed in the above analysis. Hence, the State must, as a matter of urgency, prioritize the issue of internal revenue generation in the next medium term.

Consequently, the State must intensify efforts at re-scheduling all her outstanding debts liabilities otherwise, it may be constrained in its borrowing plans in line with the sustainability thresholds which has gross imbalances as clearly indicated in the table.

CHAPTER SIX

CONCLUSION

6.1 The 2018- 2020 MTEF is prepared against the backdrop of the challenges occasioned by dwindling revenue from the federation account which has been an impediment to the implementation of the state budget over the years. In this regard, strategies have been developed to enhance the performance of internally generated revenue in the medium term. With the implementation of SIFMIS and the conclusion of the tax reforms, more revenue is expected by government in the next three years to record improved budget implementation.