ONDO STATE GOVERNMENT

2023-2025
MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

Economic and Fiscal Update (EFU),
Fiscal Strategy Paper (FSP) and
Budget Policy Statement (BPS)

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Abbreviations

BRINCS	Brazil, Russia, India, Nigeria, China, South Africa
CBN	Central Bank of Nigeria
CPIA	Country Policy and Institutional Assessment
CRF	Consolidated Revenue Fund
DMD	Debt Management Department
EFU	Economic and Fiscal Update
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FRL	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
HRM	Human Resource Management
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IR	Independent Revenue
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
MYBF	Multi-Year Budgeting Framework
NBS	National Bureau of Statistics
NNPC	Nigerian National Petroleum Company
NPC	National Planning Commission
ODA	Official Development Assistance
ODIRS	Ondo State Internal Revenue Service
ODBPP	Ondo State Bureau of Public Procurement
ODSG	Ondo State Government
OECD	Organisation for Economic Cooperation and Development
PFM	Public Financial Management
PIA	Petroleum Industry Act
PITA	Personal Income Tax Act
PMS	Premium Motor Spirit (Petrol)
SHoA	State House of Assembly
VAT	Value Added Tax
G11	A group of eleven countries - specifically Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam
G20	A group of 20 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union.
MINT	Mexico, Indonesia, Nigeria, and Turkey
WEO	World Economic Outlook

Section 1 Introduction and Background

1.A Introduction

1. The Ondo State Fiscal Responsibility Law (2017) makes statutory provision requiring the State Government to prepare Medium Term Expenditure Framework (MTEF). MTEF is a three-year planning tool that produces the estimates of aggregate resource envelope available to government and the allocation of those resources to meet government's economic, social and development objectives and priorities. It also details the strategies to achieve government's defined objectives, and highlights the key assumptions behind revenue projections, strategic objectives behind expenditure framework and fiscal targets over the medium term.

2. Key elements of MTEF are Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS). The Economic and Fiscal Update (EFU) provides economic and fiscal analyses that form the basis for the budget planning process. It is aimed primarily at policy makers and decision takers in Ondo State Government. EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.

3. On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in MTEF and annual budget process, and as such, they determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective. FSP explains the overall direction of budget over the medium-term highlighting sector priority i.e prioritising policies and projects on sector basis.

1.A.1 Budget Process

4. The budget process describes the budget cycle in a fiscal year. Its conception is informed by the MTEF process which has three components namely:

   i. Medium Term Fiscal Framework (MTFF);

   ii. Medium Term Budget Framework (MTBF);

   iii. Medium Term Sector Strategies (MTSS).

5. It commences with the conception through preparation, planning, execution, control, monitoring, and evaluation and goes back again to conception for the ensuing year's budget.

1.A.2 Summary of Document Content

6. In accordance with international good practice in budgeting, the production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Ondo State Government (ODSG) for the period 2023-2025.

7. The purpose of this document is three-fold:

   i. To provide a backward-looking summary of key economic and fiscal trends that will affect the public expenditure in the future - Economic and Fiscal Update;

   ii. To set out medium term fiscal objectives and targets, including tax policy; revenue mobilisation; the level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF; and

   iii. Provide indicative sector envelopes for the period 2023-2025 which constitutes the MTSS.

8. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis in order to inform the budget planning process. It is aimed primarily at budget policy makers and decision takers in the Ondo State Government, including the State legislature. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:

   - Overview of Global, Africa, National and State Economic performances;
   - Trends in budget performance over the last few years.

9. The FSP is a key element in the ODSG Medium Term Expenditure Framework (MTEF) process and the annual budget process. As such, it sets out the state's policies and priorities to be implemented over the medium term. It specifies the broad fiscal objectives that would guide the 2023 budgetary process from a fiscally sustainable perspective.

1.A.3 Preparation and Audience

10. The purpose of this document is to provide an informed basis for the 2023 budget preparation cycle for all of the key stakeholders, specifically:

    - Ondo State House of Assembly (SHoA);
    - State Executive Council (ExCo);
    - Ministry of Economic Planning and Budget;
    - Ministry of Finance;
    - All Government Ministries, Extra-Ministerial Departments and Agencies (MEDAs);
    - Civil Society Organisations (CSOs).

11. The document is prepared prior to the 2023 Budget preparation period by Ondo State Government's MYBF (EFU-FSP-BPS) Work Group which comprises the Ministry of Economic Planning and Budget, Ministry of Finance, Office of Accountant-General, Office of Auditor-General (State and LG), Debt Management Office, Bureau of Statistics and Ondo State Internal Revenue Service using data collected from International, National and State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM[1]

12. **Legislative Framework for PFM in Ondo State** - The fundamental law governing public financial management in Nigeria and Ondo State in particular is the 1999 Constitution as amended. Sections 120 and 121 of the Constitution provide that all revenues accruing to Ondo State Government shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and no revenue shall be paid into any other fund, except as authorized by the State House of Assembly (SHoA) for a specific purpose. The withdrawal of funds from the CRF shall be authorized by the SHoA through the annual budget or appropriation process. The Governor of Ondo State shall prepare and lay expenditure proposals for the coming financial year before the SHoA, and the SHoA shall approve the expenditure proposal by passing an Appropriation Law. The Appropriation Law shall authorize the executive arm of government to withdraw and spend the amounts specified from the CRF[2].

13. Apart from the Nigerian Constitution, Ondo State has a set of laws and regulations that regulate its budget preparation and implementation. The laws are:

- Ondo State Finance Management Law, 2017 with provisions for the control and management of finances of Ondo State.
- Ondo State Government Financial Regulations and Store, 2017 issued under the Finance Management Law, 2017. The Financial Regulations and Store provides guidelines for financial authorities, sub-accounting officer's cash book and monthly accounts, revenue-general, authorization of expenditure, expenditure-classification and control, payments procedure, adjustment, bank accounts and cheques, custody of public money, stamps, security books and documents, receipts and licence books, imprest, self-accounting ministries/extra-ministerial departments or units, accounting procedure and equipment, boards of survey, loss of and shortages in public funds, deposits, advances, salaries, internal audit functions, government vehicles, store-classification and general, general instructions: books and forms of accounts, supervision and custody of stores, receipts of stores, issues of stores, returned stores, handing over stores, acquisition of stores, government contracts, tenders boards and tenders, loss of stores and unserviceable stores, stores inspection, allocated stores, unallocated stores, court accounts, pensions procedure, and miscellaneous.
- The Ondo State Fiscal Responsibility Law (FRL), 2017. The FRL was enacted in 2017 based on the Federal Fiscal Responsibility Act. The

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[1] Based on 2014 PEFA Assessment for Ondo State

[2] Sections 120 and 121 of Constitution of Federal Republic of Nigeria 1999 as amended

FRL provides the following: the creation of the implementation organ, medium term fiscal framework, how public expenditure may be carried out, borrowing process, transparency and accountability in governance and principles of sound financial management.

- Ondo State Public Procurement Law 2017. The Public Procurement Law was enacted based on the Federal Public Procurement Act 2007 to set the administrative arrangement, standards and procedures for procurement in Ondo State.
- Ondo State Audit Law, 2017 as amended.
- Occasional treasury circulars issued by the Commissioner for Finance of Ondo State for additional rules and guidelines to support accounting, internal audit and stores procedures.

14. **Institutional Framework for PFM in Ondo State** - The Constitution vests the executive powers of the State in the Governor. The Constitution provides that "the Governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year, estimates of the revenues and expenditure of the State for the next following financial year"[3]. The Governor of Ondo State exercises this executive power either directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, and other officers in the public service of the State.

15. Specifically, Ondo State Executive Council (EXCO) formulates the policies of the State Government, considers and recommends the State's budget to the House of Assembly. On passage, the Governor signs the appropriation bill into law.

16. The State Ministry of Economic Planning and Budget oversees the preparation of the budget, both revenue and expenditure. It is also in charge of planning (long and medium-term), setting the broad agenda for development and statistics. The Ministry of Economic Planning and Budget is the main organ of the EXCO for the formulation and execution of fiscal policies. The Ministry also coordinates and manages the State's fiscal policies and all revenue and expenditure profiles of the government.

17. The Ministry of Finance is responsible for core treasury functions of revenue and expenditure management, accounting, and fund and cash management. One of the core departments in the Ministry of Finance is the Debt Management Department. Debt Management Department manages Ondo State public debt as well as liaises with the Debt Management Office at the Federal level. The Ministry of Finance has an important quasi-autonomous agency, the Office of the Accountant General for the State (OAGS). Specific functions of the OAGS include to account for all receipts and payments of the State Government; supervise the accounts of the State Ministries, Extra-Ministerial Departments and Agencies (MEDAs); collate and prepare Statutory Financial Statements of the State Government and any other

[3] Section 121 (1) of Constitution of Federal Republic of Nigeria 1999 as amended

Statements of Accounts required by the Commissioner for Finance; maintain and operate the accounts of the Consolidated Revenue Fund, development fund and other public funds and provide cash backing for the operations of the State Government; maintain and operate the State Government's accounts; conduct routine and in-depth inspection of the books of accounts of State Ministries, Departments and Agencies to ensure compliance with rules, regulations, policy decisions and maintenance of account codes; and formulate and implement the accounting policy of the State Government.

18. The State Internal Revenue Service (IRS) coordinates the generation of government revenue in the State. The Service formulates and executes Joint Tax Board (JTB) policies on taxation, stamp duties, motor vehicle licensing, among others.

19. Another important institutional framework in the circle of financial management in the State is the Bureau of Public Procurement. The Bureau plays a significant role in ensuring that all MEDAs adhere to the good practices in procurement.

20. The State Government allows line agencies some autonomy in expenditure control. Line ministries and agencies propose their budgets based on the guidelines issued by the EXCO through the Ministry of Economic Planning and Budget. There are three main categories of expenditure: personnel costs, overhead costs and capital expenditure. The payroll is centralized under the Head of Service (HoS) and Office of the Accountant General of the State (OAGS). MEDAs receive regular monthly disbursements for general items of overhead costs. They also receive, as the need arises, funds for other specific items of overhead expenditure. MEDAs have the responsibility to execute their capital program, but capital funds are paid project-by-project by the OAGS.

1.B.2 Overview of Budget Calendar

21. Indicative Budget Calendar for Ondo State Government is presented below:

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
Preparation and Publication of EFU-FSP-BPS	June-August	MYBF Work-Group
Update of MTSSs by 5 Pilot Sectors	August	MEDAs
Preparation and Issuance of Budget Call Circular	August	MEPB
Citizens Engagement	August	MEPB
Budget Preparation Workshop	August	MEPB and MEDAs
Preparation of MEDAs Budget and on-line Submissions	September	MEDAs
Pre-Treasury Board Meetings	September	MEPB and MEDAs
Compilation of Draft Budget	September	MEPB
Treasury Board Meeting	September	ExCo
Presentation of Draft Budget to the SHoA	September	Governor
Budget Defence by MEDAs before the House	October	SHoA
Debate and Approval of Budget by SHoA	October/November	SHoA
Signing Appropriation Bill	December	Governor

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

22. The global economy is still under the shadow of COVID-19 consequences culminating to hyperinflation, high interest rate, low productivity and socio-economic upheavals. After the Omicron variant's brief impact, it was anticipated that the global economic recovery would resume in the second quarter of this year. However, it has deteriorated, largely as a result of Russia/Ukraine conflict, which has resulted in a tragic humanitarian and food crises in Eastern Europe, Africa, North America, etc. As a result, the economic fortunes of developed nations and emerging markets have impeded significantly.

23. The prospect for global economic growth has dimmed after a shaky rebound in 2021. The first quarter's performance was slightly better than anticipated, but due to economic downturns in China and Russia, the second quarter's real global GDP is forecast to have contracted—the first decline since 2020.

24. According to the fundamental prediction, growth would moderate from 6.1 percent last year to 3.2 percent in 2022, a 0.4 percentage point decline from the April 2022 estimate (World Economic Outlook 2022). The United States' GDP was revised downward by 1.4 percentage points as a result of lower growth earlier this year, less consumer purchasing power, and tighter monetary policy. With significant worldwide repercussions, growth in China has been lowered downward by 1.1 percentage points as a result of additional lockdowns and the worsening real estate crisis. Significant downgrades in Europe also reflect the effects of the crisis in Ukraine and tighter monetary policy.

25. War-induced rises in commodity prices and expanding pricing pressures are likely to cause inflation to stay high for longer than in the prior prediction. The expected inflation rates for 2022 are 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies, respectively. These projections represent increases of 1.8 and 2.8 percentage points from the predictions made in January.

26. In the United States, the consumer price index rose to 9.1 percent in June, compared with a year earlier, and it also rose to 9.1 percent in the United Kingdom in May—the highest inflation rates in these two countries in 40 years. In the Euro area, inflation in June reached 8.6 percent, its highest level since the inception of the monetary union. Equally concerning, in emerging market and developing economies, second-quarter inflation is estimated to have been 9.8 percent. Higher food and energy prices, supply constraints in many sectors, and a rebalancing of demand back toward services have in most economies driven up headline inflation. Worsening supply-demand imbalances—including those stemming from the war—and

further increases in commodity prices could lead to persistently high inflation, rising inflation expectations, and stronger wage growth.

27. Global supply chain problems are now exacerbated by China's economic slump. The government's zero-COVID plan has significantly and widely impacted economic activity through COVID-19 outbreaks and mobility restrictions. Shanghai, a key node in the world's supply chain, went into rigorous lockdown in April 2022, which caused the city's entire economic activity to halt for roughly eight weeks. Since the first quarter of 2020, at the start of the pandemic, when it fell by 10.3 percent, the real GDP severely shrank by 2.6 percent on a sequential basis in the second quarter. This was the steepest decrease since. More contagious variations have since caused a concerning rise in COVID-19 cases.

28. The war in Ukraine continues, causing widespread hardship. The war’s humanitarian cost is rising, with about 9 million people displaced, yet-to-be-determined number of life lost and many infrastructures destroyed in Ukraine since the Russian invasion started. Since April 2022, major advanced economies have placed additional financial sanctions on Russia, and the European Union agreed on embargoes on imports of coal starting in August 2022 and on Russian seaborne oil starting in 2023. The European Union announced that it will block insuring and financing maritime transport of Russian oil to third countries by the end of 2022. At the same time, the Organization of the Petroleum Exporting Countries has agreed to bring forward increases in oil supply that were planned for September, and the Group of Seven plans to study the possibility of introducing a price ceiling on Russian exports of crude oil.

29. There is a worsening food problem. Despite stabilizing in recent months, global food costs are still significantly higher than they were in 2021. The war in Ukraine has been the main factor driving up food costs globally, notably for cereals like wheat. Export restrictions in various nations have also contributed to this trend, though some of these limitations have lately been lifted. The effects of this inflation are being felt most strongly in low-income nations where food accounts for a bigger portion of consumption. The most affected nations include those whose diets are skewed toward the products with the highest price increases (particularly wheat and corn), those that depend most on food imports, and those that experience a significant pass-through of global prices to local prices for basic foods. Low-income nations, notably those in sub-Saharan Africa, whose populations already suffered from acute malnutrition and excess mortality before the war, have been particularly hard hit.

Table 2: GDP and Inflation rates (CPI) of some selected countries in the world from 2021-2025

	Gross Domestic Product Rate (%)						Inflation (%)					
Country	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024	2025
United States	-3.4	5.7	3.7	2.3	1.4	1.7	1.2	4.7	7.7	2.9	2.3	2.0
Germany	-4.6	2.8	2.1	2.7	1.5	1.4	-0.7	3.2	5.5	2.9	1.8	1.9
Sweden	-2.9	4.8	2.9	2.7	2.3	2.0	0.6	2.7	4.8	2.2	1.7	1.9
Netherlands	-3.8	5.0	3.00	2.0	1.8	1.5	1.1	2.8	5.2	2.3	1.9	1.9
China	2.2	8.1	4.4	5.1	5.1	5.0	2.4	0.9	2.1	1.8	2.0	2.0
India	-6.6	8.9	8.2	6.9	7.0	7.0	7.0	5.5	6.1	4.8	4.3	4.1
Brazil	-3.9	4.6	0.8	1.4	2.2	2.0	3.2	8.3	8.2	5.1	3.3	3.3
Nigeria	-1.8	3.6	3.4	3.1	2.9	2.9	13.3	17.00	16.1	13.1	11.6	11.5
South Africa	-6.4	4.9	1.9	1.4	1.4	1.4	3.3	4.5	5.7	4.6	4.5	4.5
Ghana	0.4	4.2	5.2	5.1	5.3	5.4	9.9	10	16.3	13.0	9.1	6.9

Source: IMF's World Economic Outlook update, April 2022.

30. All the selöected countries except China and Ghana have negative GDP in 2020 because of the consequent effects of Covid-19 pandemic in the year. Only Nigeria had double-digit inflation rates in 2020. Globally, GDP rates are set to be positive over the next four years as the negative effects of Covid-19 pandemic subsides, courtesy of more production and administration of Covid-19 vaccines.

2.A.2 Sub- Saharan Africa

31. With a population of about 1.165 billion people and a Gross Domestic Product of about US$1.918 trillion, according to World Bank (2021), Sub-Saharan Africa is a large continent. Despite the numerous difficulties posed by poor leadership and corruption, the region's diversity offers both natural and human resources with the capacity to produce inclusive growth and end poverty.

32. Real gross domestic product (GDP) in Africa rebounded strongly in 2021, growing by 6.9 percent. This rebound was supported by recovery in global demand, higher oil prices benefiting oil-exporting economies, easing of COVID-19 restrictions in most countries, and associated growth in domestic consumption and investment. Africa's real GDP growth is, however, projected to decelerate to 4.1 percent in 2022, reflecting ebbing of base effects and uncertainties related to the persistence of the COVID-19 pandemic and the impact of the Russia–Ukraine conflict

33. Growth varies greatly between nations and regions. East Africa (11.7%) and North Africa (11.7%) experienced the fastest economic growth in 2021. (4.8 percent). Growth is anticipated to slow in North Africa in 2022 to 4.5 percent and to stabilize in East Africa at 4.7 percent. West Africa's average growth rate in 2021 was 4.3 percent, and it is anticipated to stay strong in 2022 at 4.1 percent. From 3.4 percent in 2021 to 4.6 percent in 2022, growth in Central Africa is anticipated to increase. The strongest comeback, from a contraction of 6.0 percent, was in Southern Africa, with growth expected to be 4.2 percent, driven mostly by South Africa (growth of 4.0 percent), Botswana (12.5 percent), and Mauritius (4.9 percent). The region's growth is anticipated to slow to 2.5 percent in 2022 as the effects of significant fiscal stimulus fade.

34. Africa's growth outlook is highly uncertain, with risks tilting to the downside. The spill-over effects from the Russia–Ukraine conflict and related sanctions on Russia may cause a larger decline in global output than currently projected. A combination of low COVID-19 vaccination rollout and emergence of new COVID-19 variants may force countries to retain some restrictions. Other downside factors include heightened debt vulnerabilities, tight global financial conditions as inflationary pressures rise, the effect of the Russia–Ukraine conflict and related sanctions on Russia, climate and environmental risks, and other socio-political and security issues. Upside factors include faster vaccination rollout, a comprehensive resolution of debt problems, and policies to accelerate structural transformation and build economic resilience.

35. Although macroeconomic fundamentals have mostly improved, there are still significant hurdles in the medium term, particularly because of the persistence of the pandemic's effects and the instability brought on by the impact of the conflict in Russia and Ukraine. As COVID-19-related interventions are scaled back and domestic revenue growth is relatively stronger, the average budget deficit in Africa is expected to decrease to 4.0 percent of GDP in 2022 from 5.1 percent in 2021. However, in the short to medium term, increased commodity prices brought on by the conflict between Russia and Ukraine would have a significant negative impact on the fiscal situation, particularly for nations whose economy depend on the importation of food and energy goods. Based on anticipated reductions in the trade deficit and current transfers, the average current account deficit is predicted to fall from 2.4 percent of GDP in 2021 to 2.0 percent in 2022. As a result of stronger foreign cash inflows, exchange rate swings decreased in the majority of countries in 2021. The outlook for currency rates in 2022 and beyond depends on changes in the global financial markets, particularly in light of the conflict between Russia and Ukraine and the normalization of monetary policy in advanced economies. According to projections, average inflation would increase from 13.0 percent in 2021 to 13.5 percent in 2022, driven by a strong increase in commodity prices, particularly those of food and energy as the conflict between Russia and Ukraine heats up.

36. Despite recent debt relief efforts, sovereign debt still poses a threat to economic growth. Due to growth recovery and debt relief efforts, it is predicted that Africa's debt-to-GDP ratio would stabilize at around 70 percent in 2021 and 2022 from 71.4 percent in 2020, but it will still be higher than before the epidemic. By increasing external buffers, initiatives from the global financial community like the Debt Service Suspension Initiative (DSSI), the Common Framework, and the International Monetary Fund's general allocation of $650 billion-equivalent Special Drawing Rights (SDRs) on August 23, 2021 have also assisted in easing liquidity pressures in many nations. With 23 African countries experiencing or at risk of experiencing debt distress as of February 2022, these actions have not, however, eliminated debt vulnerabilities. To achieve long-term debt sustainability, further structural changes are needed, such as debt restructuring and reordering governmental expenditure priorities. The medium- to long-term transformation of debt-ridden African countries

toward a path of sustainable debt will be greatly aided by reconfiguring the global debt relief infrastructure, including reinstating the DSSI.

2.A.3 Nigerian Economy[4]

37. Nigeria is the largest producer of oil and gas in Africa and the fourth largest producer of gas globally. There are also proven reserves and deposits of various mineral resources across the country. The country also has untapped agricultural potential; over 1,000 km of coastline and some 279 billion cubic meters of surface water that can boost irrigated farming, development of the blue economy and tourism. The rebasing of Nigerian's GDP in 2013 from US$ 270 billion to US$ 510 billion revealed structural dynamics towards the growing importance of services in the economy. Over the past four decades, the service sector assumed an increasing role as the main contributor to the domestic output, while contribution of agriculture value added has declined to about 24% of GDP in 2020, down from over 50% in the 1970s. Despite the growing importance of the services sector, growth in the economy remains captive to developments in the oil economy, which contributes about 90% of exports and nearly two thirds of fiscal revenues. The ratio of oil revenues to GDP has declined substantially, underpinned by the rebasing of GDP, which increased the tax base without commensurate increase in collection efforts. Manufacturing value added increased to 13% in 2020 from 8% in 2017. The largest contribution to this was from sector of food, beverage and tobacco which accounted for 4.75% of the country's GDP.

38. According to AFDB, growth will decelerate, averaging 3.2% during 2022–23, due to persistent low oil production and rising insecurity. Inflation is projected to remain elevated at 16.9% in 2022 and to stay above pre-pandemic levels in 2023, fuelled mainly by rising food, diesel, and gas prices and persistent supply disruptions amplified by the Russia– Ukraine conflict. Capital inflows are projected to recovery, while oil exports are projected to increase slightly. The benefit of a forecast positive oil price shock on exports may, however, be partly offset by a weak output effect due to lower oil production, stoked by infrastructure deficiencies and rising insecurity. The projected marginal current account surplus of 0.1% of GDP in 2022 could turn into deficit of 0.2% in 2023. Improved revenue collection will help narrow the fiscal deficit to an average of 4.5% of GDP. Public debt targeted to reach 40% of GDP by 2024 on fresh borrowing. The headwinds to the outlook may be exacerbated by rising insecurity and policy uncertainty underpinned by reversal of initially planned removal of subsidies on premium motor spirit a year before the 2023 elections.

39. **Real GDP –** Nigeria's economy grew by 3.11% from a year ago in the first quarter of 2022, following a 3.98% rise in the prior period. This marks the 3rd consecutive quarter of slow growth.

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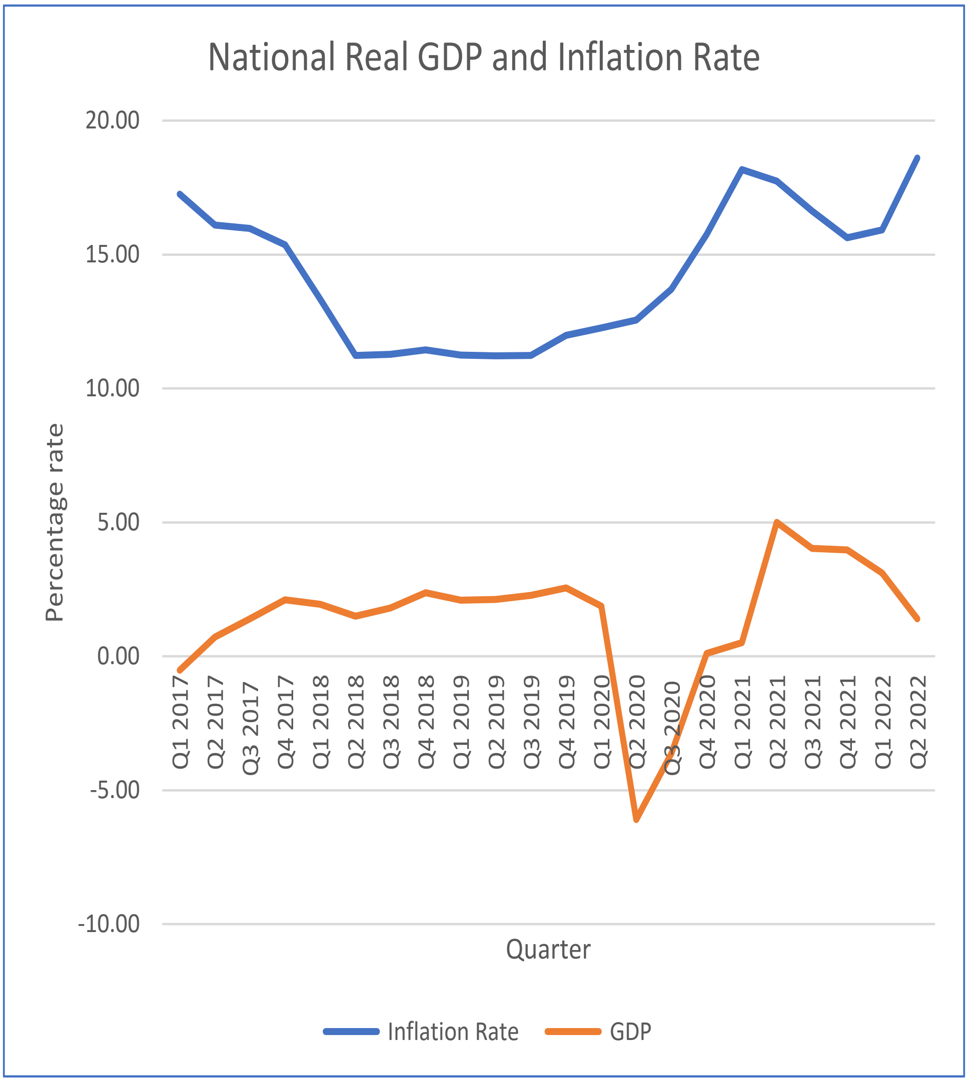
[4] Sources: IMF WEO, April 2021, NBS Reports, CBN Reports, NNPC Reports, OPEC Reports and US Energy Information Administration Reports.

40. According to NBS, the non-oil sector expanded by 6.08%, faster than 4.73% in Q4, driven by good performance in information and communication (12.07% vs 5.03% in Q4), primarily telecommunications (14.50%); trade (6.54% vs 5.34%), financial and insurance (23.24% vs 24.14%); agriculture (3.16% vs 3.58%) and manufacturing (5.89% vs 2.28%). However, the oil sector plunged by 26.04%, after an 8.06% slump in the previous quarter, reflecting lower oil output as the average daily crude oil production stood at 1.49 million barrels per day, down from 1.50 mbps in Q4 and 1.72 mbps a year ago. Nigeria has struggled to meet its production targets due to operational challenges and insecurity amid growing crude oil theft and pipeline vandalism. On a quarterly basis, the GDP shrank by 0.37%, after a 14.66% contraction in the previous quarter (NBS).

41. **Inflation (CPI)** Annual average inflation stood at 17.0% in 2021 against 13.2% the previous year and above the central bank's 6–9% target. Inflation was fuelled by food price rise and high exchange rate at the start of the year. The central bank kept the policy rate unchanged at 11.5% in 2021 to support economic recovery. The current account deficit narrowed to 2.9% of GDP in 2021 from 4% in the preceding year, supported by recovery in oil receipts. Improved oil exports and disbursement of the Special Drawing Right (SDR) allocation of $3.4 billion (0.8% of GDP), pending decision on its use, helped to boost gross reserves to $40.1 billion in 2021. The ratio of non-performing loans (NPLs) to gross loans was 4.9% in December 2021 (regulatory requirement 5%), while the capital-adequacy ratio was 14.5% (regulatory benchmark 10%). Poverty and unemployment remained high, broadly unchanged from 40% and 33.3%, respectively, in 2020.

42. In the current year, Nigeria's rate of inflation rose steadily and reached a seventeen-year high of 19.64% in July 2022. This, compared to 18.6% recorded in the previous month of June 2022, is 1.04% higher. According to NBS, the increase in inflation was caused by an increase in food index attributed to the disruption in the supply of food products; cost of transportation arising from higher cost of energy; and an increase in import costs as a result of currency depreciation.

43. The national quarterly real GDP growth and year-on-year inflation rates from years 2017 to 2021 and Q1 and Q2 of 2022 are shown in figure 1 below.

Figure 1: Real GDP Growth and Inflation	**Data Sources and Trends:**
	• CBN Year-on-Year Inflation, NBS Quarterly Real GDP Growth • Inflation peaked at 18.72% (year-on-year) in January 2017. It remained stable between 11.22% and 11.98% from Q2 2018 to Q4 2019, but picked from Q1 2020 to Q2 2022 due to low production and high demands occasioned by Covid-19 Pandemic • Significant improvement in Real GDP in Q2 2017 to Q1 2020 but became negative in both Q2 and Q3 of 2020 as a result of Covid-19 • Stability in both real GDP and Inflation from 2018 Q2

44. **Foreign Exchange Rate** - In 2020, the naira was devalued to ₦360 and later to ₦379 to a Dollar. The devaluation of the official exchange rate was likely a move to unify the currency's multiple exchange rates. The Central Bank devalued the currency twice in 2020, and it traded within a band of 380.0 and 381.0 NGN per USD later in the year. The pressure was because of rising demand for U.S. dollars as foreign investors pulled out of the

country in the wake of the global health crisis, which sent oil prices tumbling.

45. In May 2021, the Naira was also devalued further to ₦410.25 to a Dollar. A year after (May 2022), Nigerian naira dropped to a new record low of NGN 419.8 per USD on the official market, following a currency devaluation, weakening 7.7% month-on-month, while the currency was down to 12.7% year-on-year. Meanwhile, the NAFEX rate used by investors and exporters traded at 410.7 per USD, weakening 0.3% month-on-month, 5.8% year-on-year and 4.7% year-to-date.

46. **Crude Oil Price** – Brent crude oil is a major benchmark price for purchases of oil worldwide. The price has been on the increase since February when Russia invaded Ukraine, reaching as high as $113 per barrel, marking the highest level since June 2014. Energy cost generally is projected to remain high as long as Russian/Ukraine crisis persists.

47. The projected oil price of the Federal Government of $70/barrel as contained in the 2023 Federal MTEF is less than the current global oil prices which at September 2022 is well over $100/barrel. The prices have been on the increase since the invasion of Ukraine by Russia on February 24, 2022. Industry figures showed that Brent, the crude against which Nigeria's oil is priced, leaped to a high of $118.11/barrel, moving up by $7.65 or 6.23 per cent when compared to its value the previous day.

48. Foreign brokerage Citi said oil prices could fall to $65 a barrel level by year-end and potentially to $45 by 2023-end. The scenario assumes an absence of any intervention by OPEC+ and a decline in short-cycle oil investment.

49. In 2022 and 2023, Russian crude exports may remain robust even if refined product exports may fall. With that, further global crude oil demand weakness should spell higher inventories, which could weaken crude prices going ahead. The foreign brokerage sees Brent at $99 per barrel in the third quarter of calendar 2022 and at $85 a barrel in the fourth quarter. Overall, it sees Brent price to average at $98 a barrel in 2022 and $75 in 2023.

50. OPEC has stuck with its forecast that world oil demand will exceed pre-pandemic levels in 2022, although the producer group said Russia's invasion of Ukraine and developments around the coronavirus pandemic pose a considerable risk. The Organization of the Petroleum Exporting Countries (OPEC) maintained its forecast that world oil demand would rise by 3.36 million barrels per day (bpd) in 2022, extending a recovery from 2020's slump.

51. **Crude Oil Production**- Nigeria has not been able to meet her benchmarked crude oil production since 2013 as a result of lack of capacity, adherence to OPEC+ production quota and some other production disruptions like pipeline vandalism, pipeline leakage repair, community protests, terminal maintenance, pump and flare management, boiler failure, etc.

52. OPEC has announced it has increased Nigeria's crude oil production quota from 1.766 million barrels a day in June to 1.799 million barrels per day for the month of July. The report said the figure showed an increase of 5,000

barrels per day when compared to the 1.233 million barrels per day produced averagely in the month of May 2022. The report said despite the improvement in fossil fuel prices, the short-term economic outlook for Nigeria was affected by high inflation, which had reduced private sector optimism and weakened consumer spending. It said in May 2022, the composite Consumer Price Index rose to 17.7% year-on-year from 16.8% year-on-year.

53. Since the average crude oil produced over the last 3 years was 1.93mbpd, crude oil production estimated for 2022, 2023 and 2024 in the 2023-2025 MTEF/FSP are 1.69mbpd, 1.83mbpd, 1.83mbpd respectively.

54. COVID-19 pandemic, Russia-Ukraine war and insecurity have placed Nigeria at a critical juncture. The country entered the crisis with falling per capita income, high inflation, and governance challenges. Policy adjustments and reforms designed to shift the country from its dependence on oil and to diversify the economy toward private sector-led growth will set Nigeria on a more sustainable path to recovery.

2.A.4 Ondo State Economy

55. The economy of Ondo State is the sixth largest in Nigeria and is dominated by crude oil and crop production. Agriculture is the mainstay of the state economy in that it provides employment for majority of the people, and the chief products are cocoa, rubber, timber (teak and hardwoods) and palm oil and kernels. Ondo is Nigeria’s chief cocoa-producing state, producing more than 75,000 tons annually and the produce is cultivated for export. Other crops include rice, yams, corn (maize), coffee, taro, cassava (manioc), vegetables, and fruits. Mineral deposits include petroleum, bitumen, coal, etc. Since the state has become part of the oil producing states in Nigeria, petroleum has taken over from cocoa by becoming the major source of revenue for the state. However, this narrative is expected to change going by the level industrial revolution being spearheaded by the present administration. Though the State has the largest Bitumen deposit in Africa and the longest coast line in Nigeria of 180km, it is yet to derive benefits from them.

56. The economic fortunes of the State are heavily dependent on the national economy. The economic fundamentals of the State economy have been linked to national indices on the affected specific variables.

57. The State is still a net importer of goods and services but is a net exporter of agricultural produce to other States. The movement of agricultural produce is not well-documented and computed to register meaningful contribution to the State economy. In spite of the steady progress in economic growth and development, available data indicate that agriculture, especially crops and livestock, and fisheries as well as SMEs, which have the potential to generate large scale employment opportunities, are not currently doing so. However, these areas are undergoing transformation.

58. There is the predominance of subsistence and non-mechanized agriculture in the State. That is why the growth of the State's economy is predicated on

increased transformation of the agricultural value chain (large scale agricultural production and agro-based industrial production). Concerted efforts are being made by the present administration to attract mega investments through Ondo State Investments Promotion Agency (ONDIPA). Although the trend of IGR in the State over the years has been varied, the present administration has demonstrated strong determination to change the prevailing situation of the State's IGR.

59. Following the activities of herdsmen in the State, there was a drop in the Internally Generated Revenue, which had negative effect on the State economy. More so, their activities contributed to hike in prices of goods and services in the State.

60. The operations of the State Security Network (Amotekun) brought considerate stability to the State economy. Their efforts are seen to checkmate the activities of insurgencies which maintained the security of lives and properties, so much that, farmers could return to their farmlands for food production, hence, stability of the State economy.

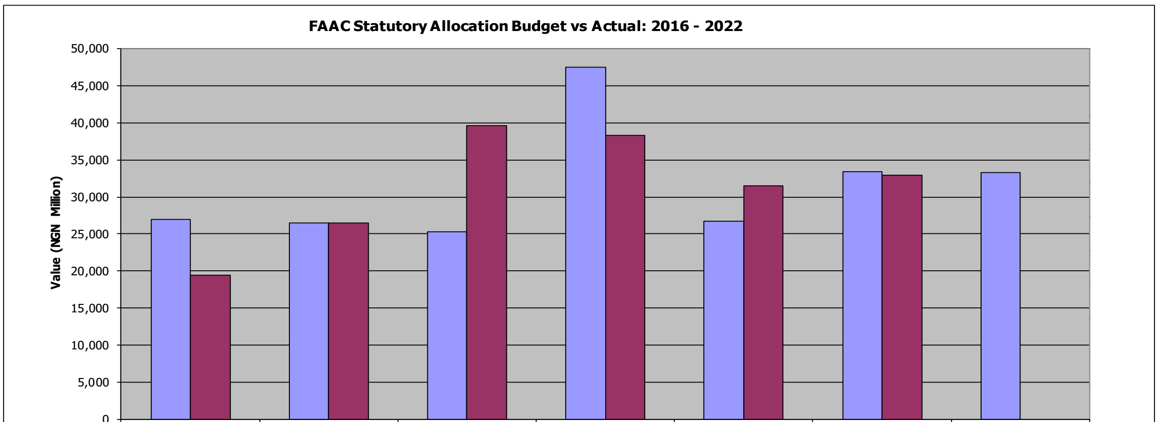
2.B Fiscal Update

2.B.1 Historic Trends

Revenue Side

61. On the revenue side, the document looks at Statutory Allocation, Value Added Tax (VAT), IGR, Mineral Derivation, and Capital Receipts – budget versus actual for the period 2016-2020 (five year historic) and 2021 budget.

Figure 2: Statutory Allocation



	2016	2017	2018	2019	2020	2021	2022
Budget	27,000,000,000	26,460,000,000	25,352,256,000	47,548,509,200	26,730,614,127	33,413,267,658	33,242,755,920
Actual	19,436,790,470	26,494,873,180	39,582,605,207	38,310,622,771	31,549,178,887	32,958,772,167	0
Performance	72.0%	100.1%	156.1%	80.6%	118.0%	98.6%	0.0%
Growth		36.31%	49.40%	-3.21%	-17.65%	4.47%	0.00%

Year

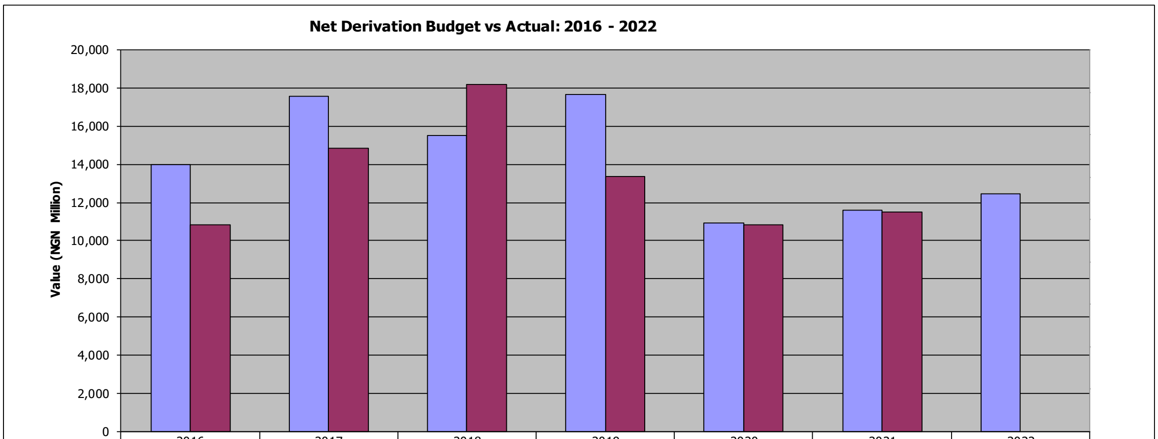
62. Statutory Allocation is a transfer from the Federation Accounts Allocation Committee (FAAC) and is based on the collection of minerals (largely Oil) and non-mineral revenues (companies' income tax, custom and excise

duties) at the national level, which is then shared between the three tiers of government using sharing ratios.

1. Actual receipts increased from 2017 to 2018 at 49.4% and it declined slightly (by -3.21%) in 2019 and further dropped by -17.65% in 2020. However, it picked up slightly again in 2021 at 4.47%. The reason for the drastic fall of statutory allocation in 2020 was as a result of COVID-19 pandemic which ravaged the world and further plummeted the global oil price.

2. Going forward, it is important to take into consideration the crude oil benchmark production and prices, particularly in the light of instability in prices and the recent pronouncement by OPEC to increase daily supply.

Figure 3: Mineral Derivation

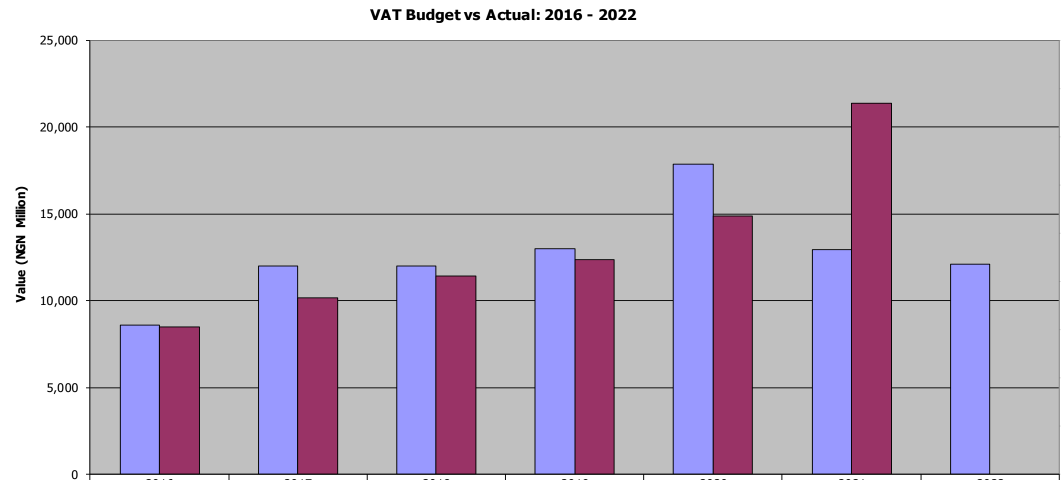


	2016	2017	2018	2019	2020	2021	2022
Budget	14,000,000,000	17,560,000,000	15,536,592,000	17,671,343,589	10,945,781,930	11,583,777,563	12,480,288,528
Actual	10,856,126,641	14,846,749,497	18,185,882,157	13,390,210,139	10,852,424,806	11,504,678,077	0
Performance	77.5%	84.5%	117.1%	75.8%	99.1%	99.3%	0.0%
Growth		36.76%	22.49%	-26.37%	-18.95%	6.01%	0.00%

63. Mineral Derivation is another transfer from the Federation Accounts. It is based on the amount and cost of oil on the world market as well as the real output that may be attributed to the State.

64. Actual receipts on Mineral Derivation increased with a growth rate of 36.76% and 22.49% in 2017 and 2018 respectively but declined in 2019 and 2020 (by -26.37% and -18.9%) and picked up slightly in 2021 by 6.01%) attributable to the fall in the price of crude oil in the global market.

Figure 4: VAT



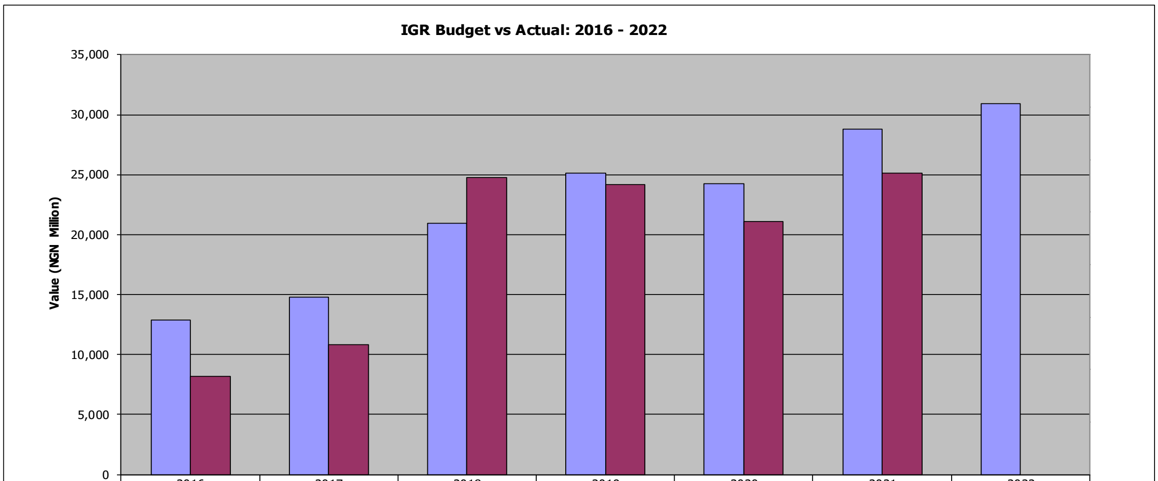
	2016	2017	2018	2019	2020	2021	2022
Budget	8,600,000,000	12,000,000,000	12,000,000,000	13,018,742,127	17,879,043,585	12,925,776,176	12,120,000,000
Actual	8,513,433,644	10,174,457,879	11,419,703,361	12,388,614,574	14,892,602,066	21,386,339,168	0
Performance	99.0%	84.8%	95.2%	95.2%	83.3%	165.5%	0.0%
Growth		19.51%	12.24%	8.48%	20.21%	43.60%	0.00%

Year

65. VAT is an ad valorem tax which was reviewed last year from 5% to 7.5% on most goods and services. It is collected by the Federal Inland Revenue Service (FIRS) and distributed between the three tiers of government on a monthly basis – partially based on set ratios, and partially based on the amount of VAT a particular State generated. States receive 50% of the total VAT collections nationally, from which Ondo gets around 2.2% of the States' allocation.

66. VAT receipts has been on the increase consistently from 2016 to 2021 largely due to the growth in nominal economic activity in Nigeria. Performance relative to budget (i.e. budget accuracy) has been good – no more than 17% below from 2016 to 2020 but 65.5% above in 2021.

Figure 5: IGR

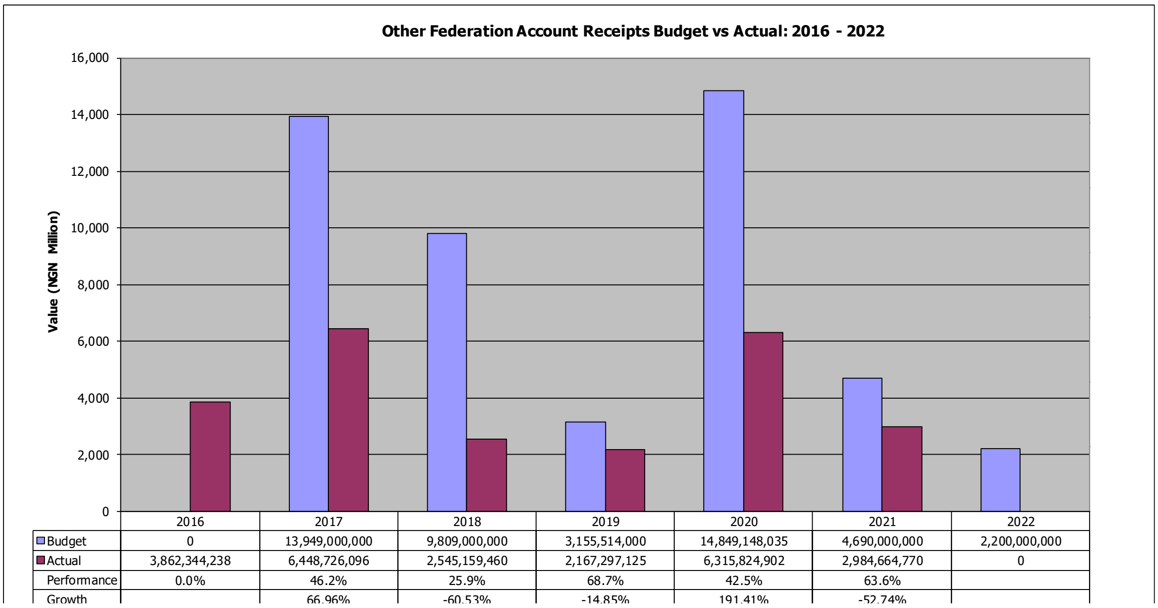


	2016	2017	2018	2019	2020	2021	2022
Budget	12,898,700,000	14,764,363,121	20,923,646,783	25,122,729,947	24,244,763,855	28,778,132,248	30,945,804,155
Actual	8,181,258,372	10,862,612,694	24,787,441,316	24,187,708,289	21,094,342,131	25,124,731,349	0
Performance	63.4%	73.6%	118.5%	96.3%	87.0%	87.3%	0.0%
Growth		32.77%	128.19%	-2.42%	-12.79%	19.11%	0.00%

69. Independent Revenue (IR) is revenue collected within Ondo State related to income tax (PAYE represents the highest contributor to IGR), fines, levies, fees and other sources of revenue within the State.

70. Independent Revenue actual collections were lower than the budget in 2016, 2017, 2019, 2020, and 2021. However, in 2018, it increased astronomically beyond budget at 118.5%, occasioned largely by the various reforms being carried out by the State Government in the Ondo State Internal Revenue Service, particularly the autonomy granted the Service, and partially from off season inflows. Notwithstanding, there is need for the Service to improve on its collection drive by increasing the revenue base and harnessing the power of technology.

Figure 6: Other Federation Account Receipts

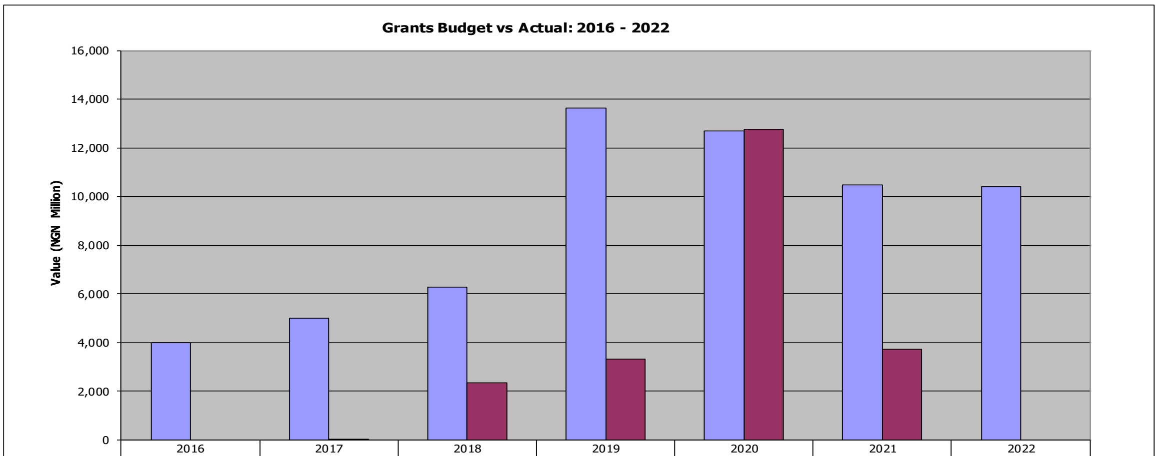


	2016	2017	2018	2019	2020	2021	2022
Budget	0	13,949,000,000	9,809,000,000	3,155,514,000	14,849,148,035	4,690,000,000	2,200,000,000
Actual	3,862,344,238	6,448,726,096	2,545,159,460	2,167,297,125	6,315,824,902	2,984,664,770	0
Performance	0.0%	46.2%	25.9%	68.7%	42.5%	63.6%	
Growth		66.96%	-60.53%	-14.85%	191.41%	-52.74%	

71. Other Federation Account Receipts are other receipts from Federation Accounts which include Exchange Gain, NNPC refund, Excess Crude Refund, Forex Account Stabilisation, etc.

72. Receipts from this source have been unsteady since 2016. In 2017, 2018, 2019, 2020 and 2021 receipts were 46.2%, 25.9%, 68.7% and 42.5% and 63.3% respectively. The State had receipts in 2016 when it did not have a budget for it.

Figure 7: Grants



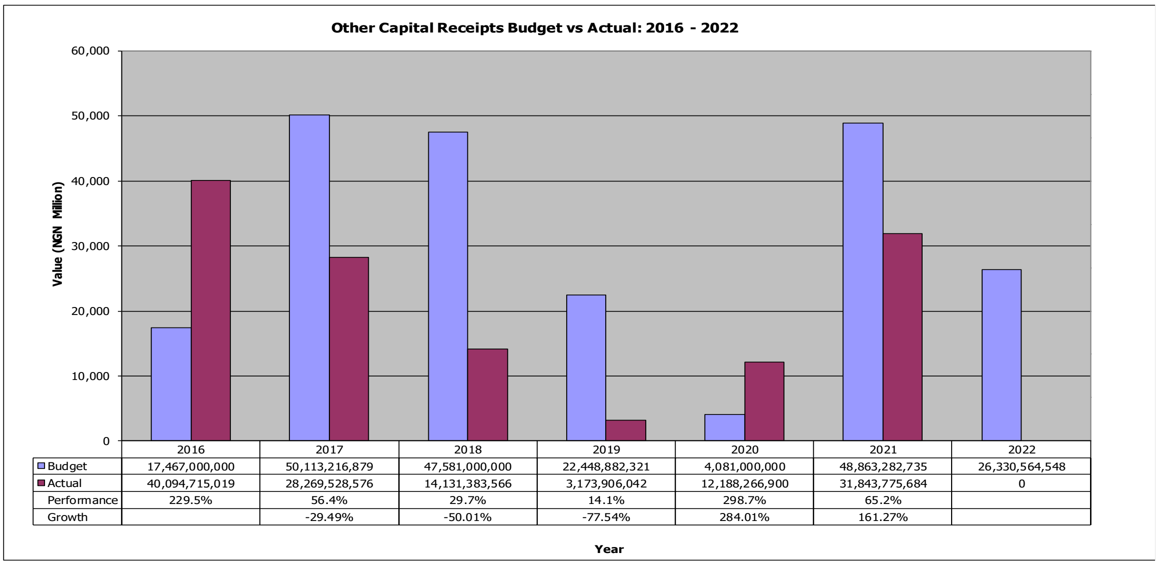
	2016	2017	2018	2019	2020	2021	2022
Budget	4,000,000,000	5,000,000,000	6,279,046,084	13,650,326,429	12,707,484,079	10,475,715,003	10,404,515,000
Actual	0	7,860,000	2,344,000,000	3,336,733,787	12,759,734,016	3,714,239,895	0
Performance	0.0%	0.2%	37.3%	24.4%	100.4%	35.5%	
Growth		0.00%	29721.88%	42.35%	282.40%	-70.89%	

73. Grants are receipts from both internal and external sources such as Federal Government MDGs Conditional Grants Scheme, as well as grants from the international development partners (including UK - Department for International Development (DFID), European Union (EU) and United Nations Children’s Fund (UNICEF). Ondo State has proactively included as much grant expenditure “on-budget” as possible, even if the funds don’t travel through the State treasury.

74. Since nothing was received in 2016, actual receipts have been irregular. When there were revenues in those years, they were substantially below the budget, partly because several MEDAs acting as middlemen between the State and the donor partners were overly ambitious and inconsistent in putting signed agreements into practice.

75. Future grant projections by MEDAs should be in line with agreements that have already been made; any "blue-sky" projections should be expressly tied to the execution of certain projects.

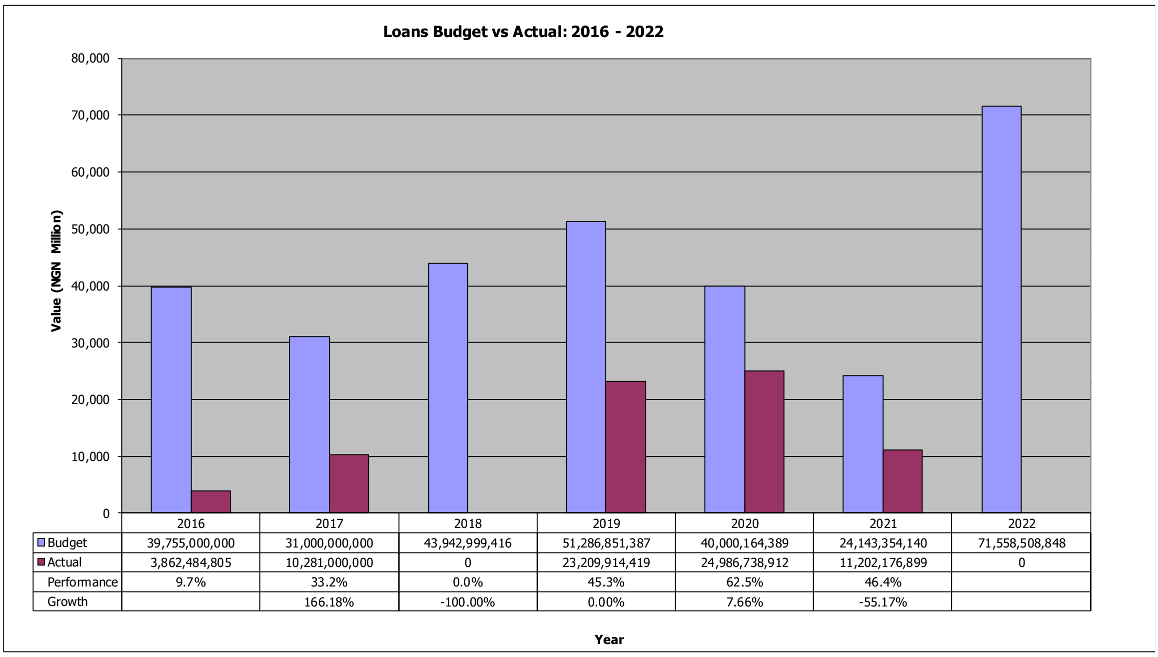
Figure 8: Other Capital Receipts



	2016	2017	2018	2019	2020	2021	2022
Budget	17,467,000,000	50,113,216,879	47,581,000,000	22,448,882,321	4,081,000,000	48,863,282,735	26,330,564,548
Actual	40,094,715,019	28,269,528,576	14,131,383,566	3,173,906,042	12,188,266,900	31,843,775,684	0
Performance	229.5%	56.4%	29.7%	14.1%	298.7%	65.2%	
Growth		-29.49%	-50.01%	-77.54%	284.01%	161.27%	

76. Other capital receipts in this context include reimbursements for federal roads built by the State, budgetary assistance, reimbursements for excess Paris Club deductions, and reimbursements for withholding tax. The State got more than expected in 2016 and 2020, but less in the following years. The budget was inconsistent because the State have no control on when the fund would be released.

Figure 9: Loans/Financing



	2016	2017	2018	2019	2020	2021	2022
Budget	39,755,000,000	31,000,000,000	43,942,999,416	51,286,851,387	40,000,164,389	24,143,354,140	71,558,508,848
Actual	3,862,484,805	10,281,000,000	0	23,209,914,419	24,986,738,912	11,202,176,899	0
Performance	9.7%	33.2%	0.0%	45.3%	62.5%	46.4%	
Growth		166.18%	-100.00%	0.00%	7.66%	-55.17%	

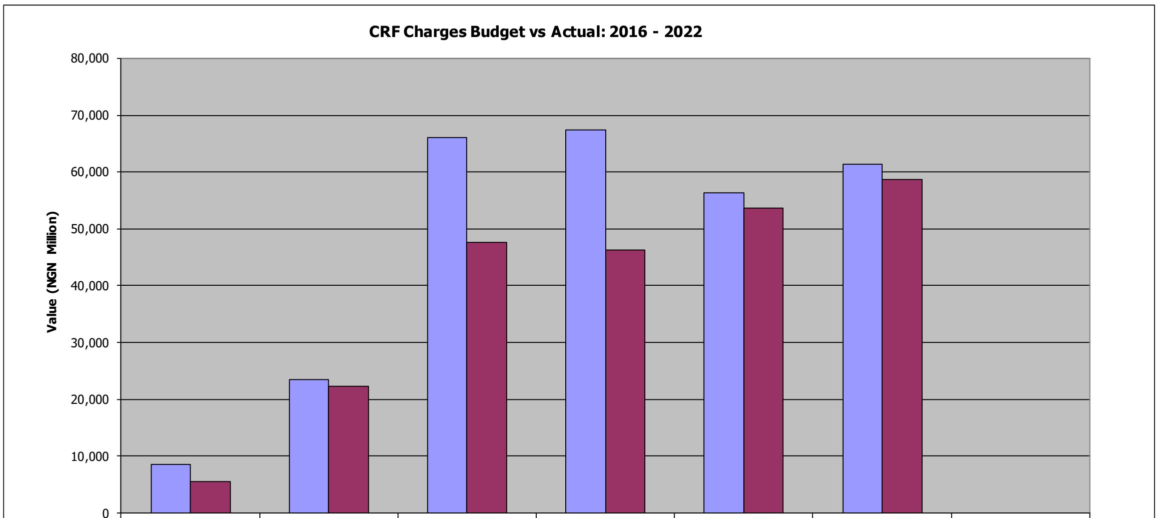
77. Financing has been provided in the form of several World Bank programs in addition to some short-term borrowings through banking facilities (FADAMA, Health and Education sectors support).

78. The lacklustre performance over all the years was as a result of poor agreements/MOUs made with the creditors by the States MEDAs and anticipated internal loans that we never actually floated. Later in this chapter, we will discuss the State's potential borrowing capacity.

Expenditure Side

79. On the expenditure side, the document looks at Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2016-2021 (six years) and 2022 budget.

Figure 10: Social Contributions and Social Benefits Figure



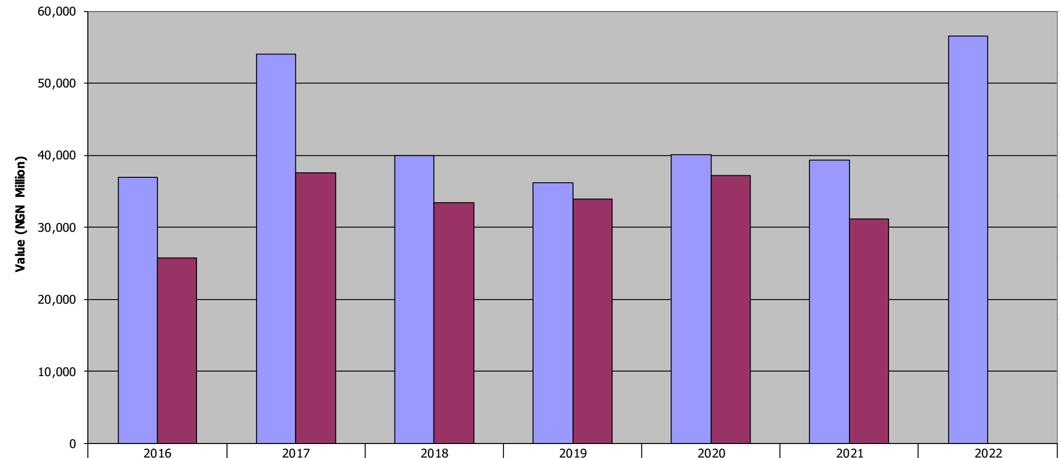
	2016	2017	2018	2019	2020	2021	2022
Budget	8,590,000,000	23,409,578,815	66,035,326,208	67,438,090,179	56,257,902,970	61,299,578,315	0
Actual	5,510,259,123	22,259,194,637	47,641,028,273	46,266,683,738	53,654,180,129	58,739,055,551	0
Performance	64.15%	95.09%	72.14%	68.61%	95.37%	95.82%	
Growth		303.96%	114.03%	-2.88%	15.97%	9.48%	

Year

80. For the purposes of this analysis, CRF (Consolidated Revenue Fund) charges are limited to pensions, social benefits, and public debt servicing. The expenses of debt payments have been accurately calculated over time due to a robust public debt framework.

81. The actual figures have been steadily rising since 2016, 2017, 2018, 2020, and 2021, primarily because of regular worker retirement, which results in a significant burden of pension and gratuities, with the exception of 2019. If the debt data is updated and periodically reconciled with the federal Debt Management Office (DMO), strong forecasting capabilities, to assure equality in both budget and actuals, should enable for accurate projections moving ahead.

Figure 11: Personnel

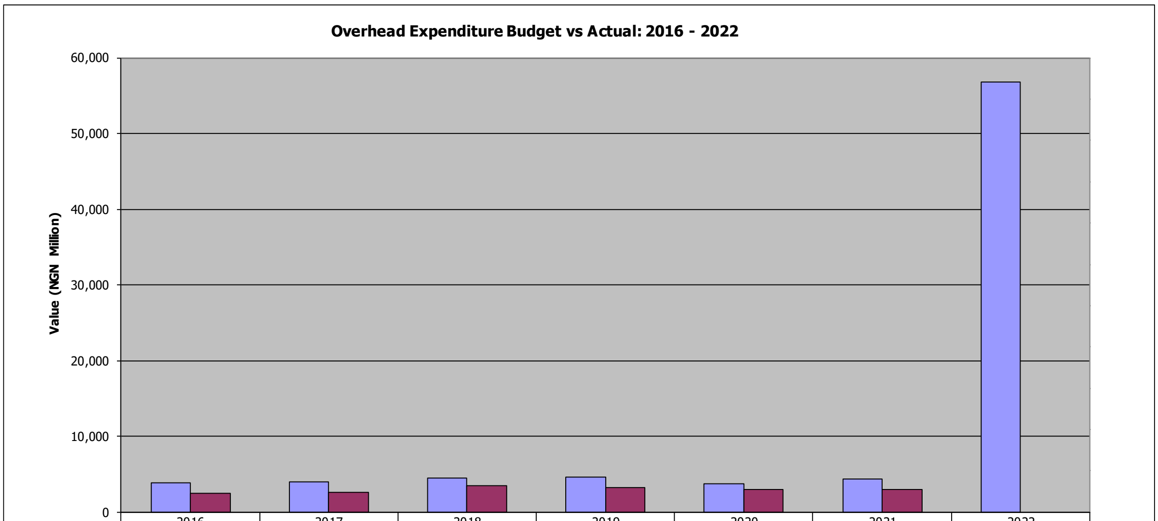


	2016	2017	2018	2019	2020	2021	2022
Budget	37,000,000,000	54,004,000,000	40,023,683,079	36,191,533,708	40,059,974,548	39,345,528,105	56,536,381,000
Actual	25,796,630,908	37,538,685,791	33,398,996,628	33,976,764,212	37,163,627,335	31,188,334,305	0
Performance	69.72%	69.51%	83.45%	93.88%	92.77%	79.27%	
Growth		45.52%	-11.03%	1.73%	9.38%	-16.08%	

82. Personnel expenditure includes salaries, allowances and benefits of core civil servants of the State. Personnel costs have risen year on year since 2013 with particularly large increase in 2017. This was largely due to the fact that five out of the seven months' salary arrears owed workers by the immediate past administration were paid.

83. Actual expenditure has been close to budget in all years except 2016 and 2017 – This was the year Nigeria slipped into recession, leading to sharp drop in the revenue that accrued to the State in that same year.

Figure 12: Overheads



	2016	2017	2018	2019	2020	2021	2022
Budget	3,830,963,000	3,958,135,000	4,503,019,500	4,562,700,000	3,764,833,550	4,312,714,750	56,778,223,011
Actual	2,459,948,125	2,607,951,145	3,496,592,655	3,263,171,346	2,927,547,556	3,035,727,401	0
Performance	64.21%	65.89%	77.65%	71.52%	77.76%	70.39%	
Growth		6.02%	34.07%	-6.68%	-10.29%	3.70%	

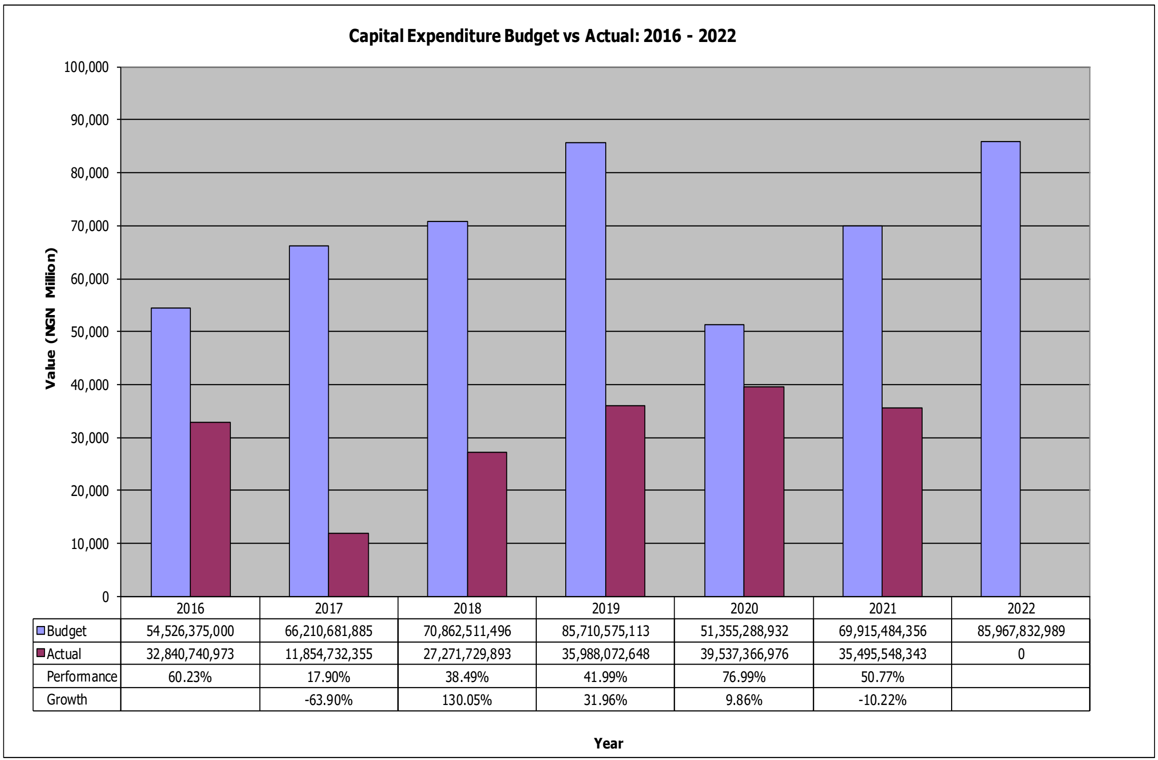
Year

84. Overheads comprise mainly of operational and maintenance costs for running day-to-day activities of the Government. Overhead allocations are transferred to MEDAs on a monthly basis subject to warrants and availability of fund.

85. Overhead expenditure was reduced significantly in the year under review – Deliberate steps were taken in the year 2016 and 2017 by reducing cost of running government so as to free up more funds for capital projects in the State. However, in year 2022, overhead budget jumped to an unprecedented height. This was because budget head called Special Programme was phased out and added to the overhead cost. Similarly, some recurrent related items in Capital Vote were moved to this budget head.

86. Not surprisingly, performance against budget has been poor occasioned by dwindling fortune of the revenue year-on-year. Going forward, overhead expenditure must be brought under control, to ensure that cost of governance is not more than necessary.

Figure 13: Capital Expenditure



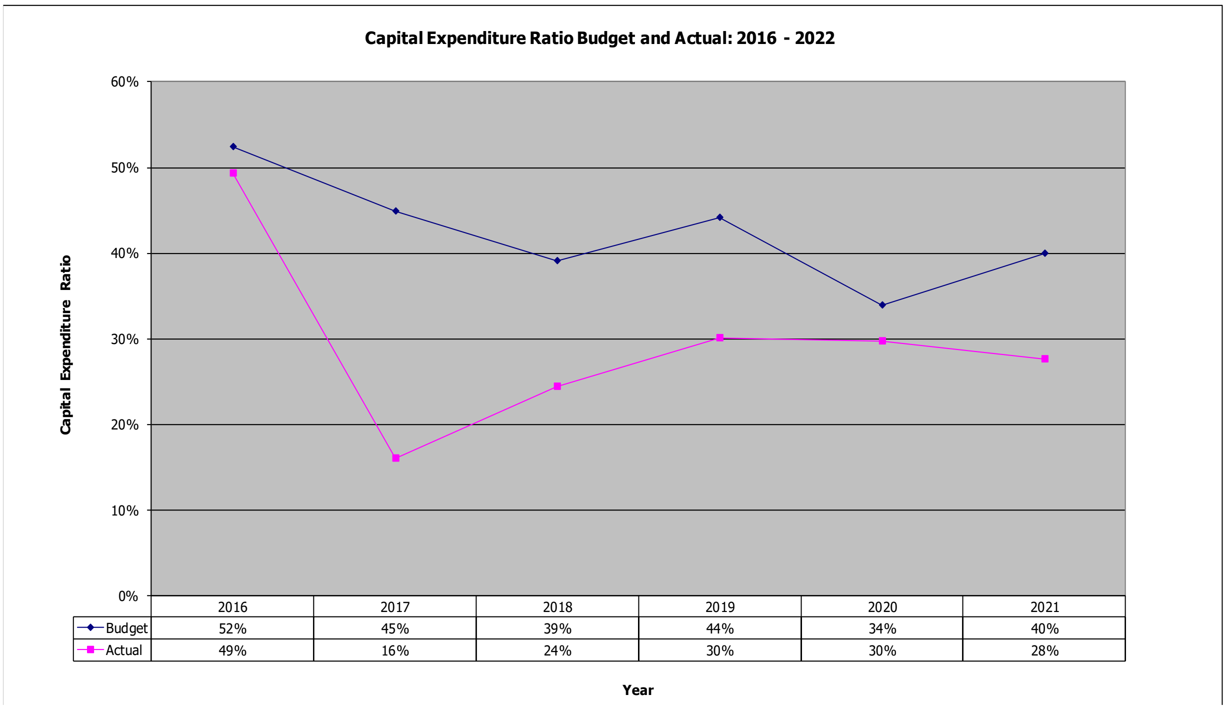
	2016	2017	2018	2019	2020	2021	2022
Budget	54,526,375,000	66,210,681,885	70,862,511,496	85,710,575,113	51,355,288,932	69,915,484,356	85,967,832,989
Actual	32,840,740,973	11,854,732,355	27,271,729,893	35,988,072,648	39,537,366,976	35,495,548,343	0
Performance	60.23%	17.90%	38.49%	41.99%	76.99%	50.77%	
Growth		-63.90%	130.05%	31.96%	9.86%	-10.22%	

87. Capital expenditure refers to projects that generate State assets (e.g. roads, schools, hospitals).

88. In the years under review, actual Capital Expenditures in relation to budget were low. This was owing to increase in recurrent expenditure which could not correspondingly match by the total revenue of the State. However, since the emergence of the present administration, there has been a change in the negative trend in capital expenditure, even though they could not match up with budget. This was because of the deliberate move by the present government to address the infrastructural decay that dotted the entire State.

89. Efforts should be made to ensure accurate forecast of revenues. Also, we must ensure capital expenditure is given better consideration in the subsequent years. There should be tight control on recurrent expenditure which will help to improve the level of actual capital expenditure performance against budget, going forward. This will also help in avoiding wasted effort in preparing detailed capital expenditure submissions that cannot, ultimately, be implemented.

Figure 14: Capital Expenditure Ratio



90. The actual capital expenditure ratio dropped sharply from 49% in 2016 to 16% in 2017. However, the ratio was relatively stable from 2019 to 2021 at around 30%.

91. It will be observed that in all the years reviewed (i.e. 2016 – 2021) the actual capital expenditure ratio was lower than capital budget ratio.

By Sector

92. The emphasis of expenditure of the current administration has been on infrastructure which was, up till 2017, in a State of dis-repair. The allocations of high percentage of capital expenditure reflect this and the investment in this sector is expected to ultimately boost economic activity in the State.

93. The performance of personnel and overhead are detailed in tables 3a and 3b while performance of capital expenditure is detailed in table 4 below.

Table 3: Sector Recurrent Expenditure – Budget Vs Actual

3a

Personnel Expenditure by Sector												
No.	**Sector**	**2018 Budget**	**2018 Actual**	**2019 Budget**	**2019 Actual**	**2020 Budget**	**2020 Actual**	**2021 Budget**	**2021 Actual**	**Performance**	**Average Budget**	**Average Actual**
1	ADMINISTRATION OF JUSTICE	2,000,111,257	1,419,429,612	2,100,116,819	1,838,419,073	2,390,735,988	2,299,091,084	2,660,071,179	1,855,439,232	81.00%	5.77%	5.31%
2	AGRICULTURAL DEVELOPMENT	1,372,349,452	1,190,401,005	1,440,966,925	1,205,370,080	1,389,728,284	1,295,629,609	1,381,743,877	1,049,074,609	84.88%	3.52%	3.40%
3	EDUCATION	17,343,821,887	16,549,698,693	18,211,012,981	16,424,887,761	17,281,726,634	17,262,614,210	19,645,099,550	13,901,390,682	88.49%	45.72%	45.98%
4	ENVIRONMENT AND SEWAGE MANAGEMENT	283,977,572	317,038,788	298,176,450	320,593,333	302,631,277	301,251,909	401,393,218	278,533,204	94.65%	0.81%	0.87%
5	GENERAL ADMINISTRATION	6,637,515,182	5,243,270,743	1,095,489,291	873,009,309	4,962,745,875	2,678,075,823	3,239,608,114	1,633,912,207	65.44%	10.05%	7.48%
6	HEALTH	7,866,772,912	8,404,463,870	8,341,071,055	9,289,466,439	9,358,190,518	9,261,770,713	10,100,367,276	8,916,284,109	100.58%	22.50%	25.72%
7	INFORMATION	510,646,348	357,887,704	536,178,666	359,509,288	406,000,237	403,353,582	493,418,367	378,006,138	77.01%	1.23%	1.07%
8	INFRASTRUCTURAL DEVELOPMENT	1,720,182,474	1,477,173,974	1,898,763,144	1,503,849,003	1,915,099,730	1,706,903,073	1,917,719,178	1,419,657,006	81.96%	4.70%	4.38%
9	LEGISLATIVE ADMINISTRATION	400,448,739	377,694,699	420,471,148	373,742,839	332,590,330	331,805,595	432,095,003	321,590,913	88.60%	1.00%	1.01%
10	PUBLIC FINANCE	1,230,630,879	1,100,874,853	1,292,162,423	1,056,208,474	828,349,758	772,072,447	861,989,195	663,236,582	85.27%	2.66%	2.58%
11	REGIONAL DEVELOPMENT	0	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
12	COMMUNITY DEVELOPMENT	445,064,262	395,725,300	374,354,587	427,045,175	468,345,754	464,435,813	623,190,274	443,128,691	90.55%	1.21%	1.24%
13	TRADE AND INDUSTRY	212,162,117	331,302,298	222,770,219	304,663,439	423,230,162	386,623,474	471,217,875	328,080,933	101.60%	0.84%	0.97%
	Total	**40,023,683,079**	**37,164,961,537**	**36,231,533,708**	**33,976,764,212**	**40,059,374,548**	**37,163,627,335**	**42,227,913,105**	**31,188,334,305**	**87.99%**	**100.00%**	**100.00%**

3b

Overhead Expenditure by Sector											
No.	**Sector**	**2018 Budget**	**2018 Actual**	**2019 Budget**	**2019 Actual**	**2020 Budget**	**2020 Actual**	**2021 Budget**	**2021 Actual**	**Performance**	**Average Budget**
1	ADMINISTRATION OF JUSTICE	500,664,000	402,187,634	571,000,000	388,365,046	293,243,800	229,217,677	294,819,900	212,656,000	74.25%	1.25%
2	AGRICULTURAL DEVELOPMENT	217,735,000	96,993,587	214,050,000	87,136,734	85,850,000	60,109,588	81,732,500	55,263,200	49.97%	0.45%
3	EDUCATION	7,336,310,886	7,628,268,152	7,001,000,000	6,491,152,465	168,090,000	137,370,757	163,770,500	130,170,890	98.08%	11.04%
4	ENVIRONMENT AND SEWAGE MANAGEMENT	200,800,000	159,694,700	175,550,000	53,978,700	35,750,000	30,950,000	33,962,500	29,470,000	61.45%	0.34%
5	GENERAL ADMINISTRATION	9,905,188,678	3,184,412,952	8,130,150,000	2,902,076,362	1,160,528,000	734,495,943	1,081,176,500	897,297,910	38.06%	15.26%
6	HEALTH	601,471,300	138,068,333	745,240,000	150,799,973	69,928,000	46,113,000	75,581,600	49,498,857	25.77%	1.12%
7	INFORMATION	566,980,000	349,553,369	450,800,000	327,942,378	24,850,000	22,550,000	29,875,000	20,050,000	67.14%	0.81%
8	INFRASTRUCTURAL DEVELOPMENT	1,040,130,000	497,652,427	968,200,000	512,062,711	181,475,000	141,828,333	239,892,500	139,056,329	53.12%	1.83%
9	LEGISLATIVE ADMINISTRATION	2,501,000,000	1,429,242,375	3,152,000,000	1,099,802,584	905,368,750	858,173,250	1,413,368,750	711,630,500	51.42%	6.00%
10	PUBLIC FINANCE	39,481,235,043	7,373,055,748	37,108,228,744	10,867,994,327	712,350,000	564,577,509	718,370,000	702,796,000	25.00%	58.72%
11	REGIONAL DEVELOPMENT	0	0	0	0	0	0	0	0	0.00%	0.00%
12	COMMUNITY DEVELOPMENT	1,563,200,000	1,255,437,415	1,579,200,000	982,866,195	73,650,000	57,450,000	74,017,500	49,015,145	71.27%	2.48%
13	TRADE AND INDUSTRY	408,994,000	157,847,679	394,500,000	71,075,243	53,750,000	44,711,500	79,762,500	38,822,571	33.35%	0.71%
	Total	**64,323,708,908**	**22,672,414,369**	**60,489,918,744**	**23,935,252,717**	**3,764,833,550**	**2,927,547,556**	**4,286,329,750**	**3,035,727,401**	**39.57%**	**100.00%**

Table 4: Sector Capital Expenditure – Budget Vs Actual

Capital Expenditure by Sector												
No.	**Sector**	**2018 Budget**	**2018 Actual**	**2019 Budget**	**2019 Actual**	**2020 Budget**	**2020 Actual**	**2021 Budget**	**2021 Actual**	**Performance**	**Average Budget**	**Average Actual**
1	**ADMINISTRATION OF JUSTICE**	1,457,000,000	213,519,055	1,081,500,000	202,009,409	2,870,600,000	1,409,210,000	1,319,000,000	309,022,812	31.71%	2.26%	1.42%
2	**AGRICULTURAL DEVELOPMENT**	7,459,785,000	641,454,524	6,811,355,000	415,783,885	5,657,914,286	1,248,761,908	6,521,006,813	1,031,581,839	12.62%	8.89%	2.22%
3	**EDUCATION**	14,092,586,368	8,143,693,812	8,329,781,075	4,604,479,644	4,237,618,158	2,628,043,000	6,965,818,349	995,372,635	48.69%	11.30%	10.90%
4	**ENVIRONMENT AND SEWAGE MANAGEMENT**	1,378,000,000	173,404,837	2,549,165,000	1,020,398,220	2,271,700,000	1,763,467,610	2,376,000,000	2,011,748,060	57.95%	2.88%	3.31%
5	**GENERAL ADMINISTRATION**	6,597,830,083	2,212,942,470	9,660,672,400	1,833,586,648	3,537,535,000	1,900,272,345	4,726,900,000	1,786,337,631	31.53%	8.24%	5.15%
6	**HEALTH**	7,503,661,045	491,104,170	6,412,600,000	2,671,041,134	7,687,200,000	8,524,015,734	4,761,875,000	1,224,551,274	48.97%	8.86%	8.60%
7	**INFORMATION**	448,500,000	301,690,771	972,000,000	206,782,367	357,540,000	269,782,275	457,000,000	199,393,623	43.74%	0.75%	0.65%
8	**INFRASTRUCTURAL DEVELOPMENT**	24,183,160,000	13,291,301,476	34,411,377,004	22,620,281,604	14,895,161,800	18,030,120,754	32,860,961,485	24,471,528,631	73.73%	35.75%	52.21%
9	**LEGISLATIVE ADMINISTRATION**	513,489,000	44,745,051	1,001,489,000	73,649,963	1,544,500,000	82,163,136	862,300,000	110,270,498	7.93%	1.32%	0.21%
10	**PUBLIC FINANCE**	2,490,500,000	548,426,176	10,875,235,634	1,548,179,462	5,747,147,278	1,843,046,694	5,254,822,709	3,028,616,891	28.60%	8.19%	4.64%
11	**REGIONAL DEVELOPMENT**	6,214,636,800	5,318,974,573	7,068,537,435	2,022,640,905	6,378,312,772	4,900,028,153	0	0	62.26%	6.61%	8.15%
12	**COMMUNITY DEVELOPMENT**	2,433,000,000	12,834,226	1,930,400,000	599,610,220	1,137,472,411	907,952,622	1,233,900,000	163,172,096	25.00%	2.26%	1.12%
13	**TRADE AND INDUSTRY**	2,305,000,000	852,737,519	1,675,000,000	192,270,093	1,410,900,000	930,530,898	2,575,900,000	163,952,354	26.86%	2.68%	1.42%
	Total	**77,077,148,296**	**32,246,828,660**	**92,779,112,548**	**38,010,713,553**	**57,733,601,704**	**44,437,395,129**	**69,915,484,356**	**35,495,548,343**	50.48%	**100.00%**	**100.00%**

2.B.2 Debt Position

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

Table 5: Debt Position as at 31st December 2021

Debt Sustainability Analysis			
A	**DSA RATIO SCENARIOS:**	**Sustainability Thresholds**	**As at 31st December 2021**
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	66.33%
2	Total Domestic Debt/IGR	150%	248.04%
3	Total External Debt/Total Revenue	50%	38.37%
4	Total Public Debt/Total Revenue	100%	104.70%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	0.17%
7	Total Debt Service/Total Revenue	15%	3.75%
8	Domestic Debt Service/IGR	10%	13.40%
			2021 Actual
B	**PUBLIC DEBT DATA AS AT 31st DECEMBER 2021**		**Naira**
1	Total Domestic Debt		62,320,355,623
2	Total External Debt		36,052,286,452
3	**Total Public Debt**		**98,372,642,075**
4	Total Domestic Debt Service 2021		3,367,242,892
5	Total External Debt Service in 2021		155,115,928
6	**Total Public Debt Service**		**3,522,358,820**
C	**STATE GDP FOR 2021**		
1	**State GDP**		0

95. The State's domestic and external debts as at December 2021 amounted to N62,320,355,623.00 and 36,052,286,452.00 respectively. These made the State's total public debt to be 98,372,642,075.00. In the year, the State spent the sum of 3,522,358,820.00 to finance both debts. Under solvency ratios, except for total external debt/total revenue ratio which was 11.63% less than the 50% sustainability threshold, others were higher than the required sustainability threshold. The worst is the domestic debt to IGR ratio, at 248.04% which is 98.04% higher than expected threshold of 150%. This culminated into higher domestic debt service/IGR ratio under liquidity ratios. This was largely due to a low IGR base which must be increased in the short-medium term. Once IGR is at a more appropriate level compared to the level of economic activity in the State, more domestic borrowing will be possible.

96. In the medium term, although foreign exchange represents a risk, foreign loans represent a more affordable solution to borrowing.

Section 3 Fiscal Strategy Paper

97. Fiscal Strategy Paper highlights the macroeconomic and fiscal policy objectives of the State Government over the medium-term period of 2023-2025 and the strategies to be implemented to achieve the objectives.

3.A Macroeconomic Framework

98. The Macroeconomic framework is based on key macroeconomic Indicators which are usually used to evaluate the performance of an economy. The Macroeconomic framework reflects the mineral sector benchmarks (production, price and NGN:USD exchange rate) as laid out in the Federal Government Medium Term Expenditure Framework for the period 2023-2025. Real GDP growth and Inflation (CPI) are as per the IMF World Economic Outlook dated April 2021. The figures represent a prudent macro-economic framework from which the Ondo State Medium Term Expenditure Framework is drawn.

Table 6: Macroeconomic Framework

Macro-Economic Framework

Item	2022	2023	2024	2025
National Inflation	13.00%	17.16%	16.21%	17.21%
National Real GDP Growth	2.31%	3.75%	3.30%	3.46%
Oil Production Benchmark (MBPD)	1.8000	1.6900	1.8300	1.8300
Oil Price Benchmark	$57.00	$70.00	$66.00	$62.00
NGN:USD Exchange Rate	410.25	435.57	435.92	437.57

3.B Fiscal Strategy and Assumptions

Policy Statement

99. **Policy Thrust and Priorities for the 2023 Budget**

The policy thrust and priorities of Government in the next fiscal year is aimed at streamlining sectorial programmes and projects within the framework of the Medium-Term Expenditure Framework (MTEF) and to further consolidate on the gains of this administration in the last five years as contained in Second Term Blueprint Christened the REDEEMED agenda. The varying competing needs of different sectors should be prioritized and programmes/projects necessary to address them be properly aligned within the Medium-Term Sector Strategy (MTSS). To this end, the main objectives of 2023 Budget are to:

i. attain financial resilience and sustainability through efficient and sufficient IGR;
ii. optimize resource inflow and expand fiscal space nationally and internationally;
iii. adhere to development policy and ensure fiscal discipline;
iv. improve human capital development with renewed vigour;
v. safeguard lives and livelihood in a secure environment;
vi. stimulate rural economy and shared prosperity;
vii. increase effective and efficient healthcare delivery;

The above objectives are to be achieved by the deployment of the following strategies:

i. Intensifying efforts on Independent Revenue Initiatives through automation and expand the tax net through evidence-based tax administration;
ii. Stimulating robust partnership and harnessing the public, corporate and private individual grants to boost State's resources;
iii. Leveraging Donor and Development Partners' Support in funding key Intervention Programmes;
iv. Ensuring efficient Public Financial Management through timely and effective prioritization to achieve development goals;
v. Creating employment and jobs in Agric-Business and Enterprises;
vi. Strategic intervention and support for businesses, the aged and youth through State Social Investment and Intervention Programmes;
vii. Provision of essential support to security agencies for crime prevention and control;
viii. Prioritizing Community-Based infrastructure and stimulating rural economy through massive construction of rural amenities; and
ix. Reduction of the State's recurrent expenditure/cost of governance to mop up fund for Capital projects.

3.C Indicative Three-Year Fiscal Framework

100. The indicative three-year fiscal framework for the period 2023-2025 is presented in the table below.

Table 7: Ondo State Medium Term Fiscal Framework

Macro-Economic Framework

Item	2022	2023	2024	2025
National Inflation	13.00%	17.16%	16.21%	17.21%
National Real GDP Growth	2.31%	3.75%	3.30%	3.46%
Oil Production Benchmark (MBPD)	1.8000	1.6900	1.8300	1.8300
Oil Price Benchmark	$57.00	$70.00	$66.00	$62.00
NGN:USD Exchange Rate	410.25	435.57	435.92	437.57
Other Assumptions				
Mineral Ratio	36%	34%	32%	32%

Recurrent Revenue	2022	2023	2024	2025
Statutory Allocation	33,242,755,920	35,298,844,991	36,357,810,341	37,084,966,547
Net Derivation	12,480,288,528	18,499,522,348	20,534,469,807	21,971,882,693
VAT	12,120,000,000	25,128,948,522	26,385,395,949	27,704,665,746
IGR	30,945,804,155	32,000,632,000	35,200,702,000	38,720,771,000
Excess Crude/Other FAAC Revenue	6,060,000,000	25,085,000,000	25,335,850,000	25,589,208,500
Total Recurrent Revenue	**94,848,848,603**	**136,012,947,862**	**143,814,228,096**	**151,071,494,486**
Recurrent Expenditure				
Salary and Wages	44,046,501,000	46,177,653,360	47,101,206,427	47,148,307,634
Overheads	19,797,841,600	23,884,318,783	24,123,161,971	24,364,393,591
Social Contribution and Social Benefits	12,504,880,000	12,895,400,000	13,540,170,000	14,217,178,500
Grants and Contributions	10,035,900,000	13,701,220,000	13,975,244,400	14,254,749,288
Public Debt Charge	13,871,685,000	14,078,140,122	12,973,056,498	13,515,843,682
Transfer to Local Government	2,565,681,000	2,592,048,348	2,836,853,703	3,106,138,982
Transfer to Internal Revenue Services	5,500,000,000	6,080,148,520	6,832,164,970	7,659,381,185
Total	**108,322,488,600**	**119,408,929,133**	**121,381,857,969**	**124,265,992,860**
Transfer to Capital Account	**-13,473,639,997**	**16,604,018,729**	**22,432,370,127**	**26,805,501,626**
Capital Receipts				
Grants	10,404,515,000	18,246,200,000	11,736,200,000	10,849,800,000
Other Capital Receipts	22,470,564,548	34,692,191,121	21,000,000,000	17,400,000,000
Total	**32,875,079,548**	**52,938,391,121**	**32,736,200,000**	**28,249,800,000**
Transfer to OSOPADEC	**4,992,115,411**	**7,399,808,939**	**8,213,787,923**	**8,788,753,077**
Reserves				
Contingency Reserve	0	0	0	0
Planning Reserve	0	2,040,194,218	2,157,213,421	2,266,072,417
Total Reserves	**0**	**2,040,194,218**	**2,157,213,421**	**2,266,072,417**
Capital Expenditure	**85,967,832,988**	**143,886,706,693**	**121,122,268,783**	**114,415,176,132**
Discretional Funds	47,121,484,988	70,417,883,693	96,306,368,783	95,395,676,132
Non-Discretional Funds	38,846,348,000	73,468,823,000	24,815,900,000	19,019,500,000
Financing	71,558,508,848	83,784,300,000	76,324,700,000	70,414,700,000
Total Budget Size	**199,282,437,000**	**272,735,638,983.00**	**252,875,128,096**	**249,735,994,486**
Ratios			0	
Growth in Recurrent Revenue	0.95%	43.40%	5.74%	5.05%
Growth in Recurrent Expenditure	16.52%	10.23%	1.65%	2.38%
Capital Expenditure Ratio	45.64%	56.22%	52.00%	50.24%
Deficit to Total Expenditure	35.91%	30.72%	30.18%	28.20%

101. The capital receipts expected in the State for the period 2023-2025 is presented in the table below.

Table 8: Capital Receipts

CAPITAL RECEIPT PAGE

ITEM	2022	2023	2023 GCC	2024	2025
Internal Grants					
IG & MRU FG Conditional Grant	500,000,000	0	0	0	0
IG & MRU (Public Work Fare)/Cash Transfer	0	0	0	0	0
O-CARES -Public Work Fare	584,606,000	1,110,000,000		0	0
O-CARES Cash Transfer	369,225,000	637,630,000		0	0
O-CARES Commerce	215,381,000	330,300,000		0	0
O-CARES Micro Credit	246,150,000	93,400,000		0	0
O-CARES CSDP	446,147,000	507,500,000		0	0
O-CARES FADAMA	1,215,366,000	1,915,700,000	0	0	0
O-CARES Economic Planning	0	405,470,000	0	0	0
National Gas Expansion Programme	75,000,000	100,000,000	50,000,000	60,000,000	60,000,000
State Fiscal Transparency Accountability and Sustainability Program for Results (SFTAS)	4,000,000,000	0	0	0	0
SUBEB (UBEC)	4,086,280,000	1,695,000,000	1,695,000,000	1,695,000,000	1,695,000,000
Basic Health Care Provision Fund (Contributory Health Scheme)	756,000,000	350,000,000	80,000,000	400,000,000	400,000,000
Basic Health Care Provision Fund (PHCDA)	0	0	0	0	0
SABER Grant	0	10,000,000,000		8,000,000,000	7,000,000,000
Youth Employment and Social Support Operations (YESSO)/NASSCO/SOCU	0	250,000,000	40,000,000.00	300,000,000	400,000,000
Basic Health Care Provision Fund (Emergency Response Agency)	13,500,000	0	0	0	0
Sub-Total Internal Grant	**12,507,655,000**	**17,395,000,000**	**1,865,000,000**	**10,455,000,000**	**9,555,000,000**
External Grants					
UNICEF	280,000,000	240,000,000	50,000,000	252,000,000	264,600,000
United Nations Population Fund (UNFPA)	0	2,200,000		2,200,000	2,200,000
Ondo State Cervical Cancer Secondary Prevention (WHO)		22,000,000		22,000,000	22,000,000
REDD+ Project (World Bank Supported)	80,000,000	50,000,000	50,000,000	50,000,000	50,000,000
DFB/Public Private Mix Intervention	0	32,000,000	0	0	0
Partnership for Expansion of Water Supply and Sanitation and Hygiene (PEWASH)	700,000,000	500,000,000	500,000,000	950,000,000	950,000,000
Health Promotion (Production & Airing of Jingles) WHO	0	5,000,000	0	5,000,000	6,000,000
Food and Agric Organisation Support (FAO)	150,000,000	0	0	0	
Sub-Total External Grant	**1,210,000,000**	**851,200,000**	**600,000,000**	**1,281,200,000**	**1,294,800,000**
Grant Balancing Item / Blue Sky					
Total Grants	**13,717,655,000**	**18,246,200,000**	**2,465,000,000**	**11,736,200,000**	**10,849,800,000**
Internal Loans					
Bond	0	30,000,000,000		0	0
Internal Loans/Borrowings	52,354,208,848	25,000,000,000		50,000,000,000	50,000,000,000
Accelerated Agricultural Development Scheme (AADS) OSAEC	750,000,000	1,000,000,000	0	1,000,000,000	0
African Development Bank (AfDB) (SAPZ) (OSAEC)	0	1,000,000,000	0	1,000,000,000	1,000,000,000
AUDA NEPAD (OSAEC)	500,000,000	500,000,000		500,000,000	0
National Livestock Transformation Fund (OSAEC)	500,000,000	0		0	0
Red Gold -Oil Palm (OSAEC)	2,000,000,000	2,000,000,000		2,000,000,000	0
IDH The Sustainable Trade Initiative (OSAEC)	10,000,000	0	0	0	0
Cocoa Development Initiative (Cocoa Revolution)	250,000,000	0	0	0	0
Livestock Productivity and Resilence Support (L-PRESS)	680,000,000	600,000,000	80,000,000	600,000,000	600,000,000
LIFE-ND	594,300,000	514,300,000	80,000,000	514,300,000	514,300,000
Total	**57,638,508,848**	**60,614,300,000**	**160,000,000**	**55,614,300,000**	**52,114,300,000**
Loans 2					
Youth Employment and Social Support Operations (YESSO)/NASSCO/SOCU	240,000,000				
French Development Agency(AFD) Water Facility	4,963,575,000	8,000,000,000	1,000,000,000	6,345,400,000	6,345,400,000
RAAMP	2,000,000,000	6,070,000,000	1,500,000,000	6,820,000,000	4,410,000,000
African Development Bank (AfDB) Water Facility	6,261,750,000	8,000,000,000	2,000,000,000	6,445,000,000	6,445,000,000
Ondo State Erosion and Watershed Management Project (NEWMAP)	2,800,000,000	1,000,000,000	350,000,000	1,000,000,000	1,000,000,000
Ondo State Agro-Processing Productivity Enhancement and Livelihood Improvement Support (OAPPEALS)	150,000,000	100,000,000	50,000,000	100,000,000	100,000,000
Total	**16,415,325,000**	**23,170,000,000**	**4,900,000,000**	**20,710,400,000**	**18,300,400,000**
Loan Balancing Item / Blue Sky	0.00	0.00	0	0	0
Total Loans	**74,053,833,848**	**83,784,300,000**	**5,060,000,000**	**76,324,700,000**	**70,414,700,000**
Other Capital Receipts					
Roll-Over Fund	2,885,915,548.38	22,941,238,121.41	0	12,000,000,000	10,300,000,000
Roll-Over Fund- OSAEC (CACS)	473,000,000	200,953,000.00	0	0	0
Roll-Over Fund-Lands	560,824,000.00	0	0	0	0
Roll-Over Fund- UNIMEDSTH	2,544,222,000.00	0	0	0	0
Roll-Over Fund- Works and Infrastructure	11,216,603,000.00	0	0	0	0
Excess Crude	2,000,000,000	0	0	0	0
Stabilization Fund	0	10,000,000,000		7,500,000,000	5,500,000,000
Exchange Gain	1,200,000,000	0			
Contributory Health Scheme (Insurance Premium)	590,000,000	750,000,000		1,500,000,000	1,600,000,000
Forex Account Stabilisation/Excess Bank Charges Refund	1,000,000,000	0	0	0	0
Total Other Capital Receipt	**22,470,564,548**	**34,692,191,121**	**0**	**21,000,000,000**	**17,400,000,000**
OCR Balancing Item / Blue Sky					
Total Other Capital Receipts	**22,470,564,548**	**34,692,191,121**	**0**	**21,000,000,000**	**17,400,000,000**

3.C.1 Assumptions

102. **Statutory Allocation –** Own percentage estimation is used for statutory allocation.

103. **Net Derivation** – the estimation of net derivation is based on own percentage forecast method using the assumptions adopted for statutory allocation.

104. **VAT** – the estimation of net derivation is based on own percentage forecast method using the assumptions adopted for statutory allocation.

105. **Other Federation Account Distributions** – the estimation is based on the current receipt (i.e. from January to June 2022). Furthermore, it is anticipated that governments will press FAAC for excess crude distributions in 2023 to assist in funding the challenges brought about by Covid-19.

106. **Independent Revenue (IR) –** the current administration introduced measures to grow IR. These measures have started yielding results as actual IR increased by 28% in 2018. It is anticipated that IR will continue to increase by 20% every year from 2021 and start to stabilise from 2023. Own Value is therefore used to forecast IGR for 2023 – 2025.

107. **Grants –** The internal grants are based on the actual receipts for 2021 and performance from January to June 2022. External grants are based on signed grant agreements with the development partners

108. **Financing (Net Loans)** – Ondo State intends to secure an internal loan/borrowing of about N55.0 billion (inclusive of N20.0 billion bond) in 2023. All other internal and external loans are projections based on signed agreements.

109. **Personnel** – It is anticipated that the salary arrears expected to be paid in 2023 will impact on the wage bill in the year. So, the projection is that total wage bill will increase in 2023, 2024 and 2025 as a result of arrears and workers' yearly increment.

110. **Overheads** – Overhead has been relatively stable over the last five years. It is anticipated that the status quo will remain. Consequently, own value method is used to forecast overhead for 2023, 2024 and 2025.

111. **Social Contribution and Social Benefits** – A substantial amount is being owed as pension and gratuity payment. It is appropriate to make adequate provision for these items and other social commitments. Hence, the own value, representing computation for outstanding commitments as well as estimation for next medium term is used.

112. **Public Debt Charge** – is based on the projected principal and interest due for repayments in 2023, 2024 and 2025.

113. **Transfer to Internal Revenue Services** – is 10% of total IGR for 2023, 2024 and 2025.

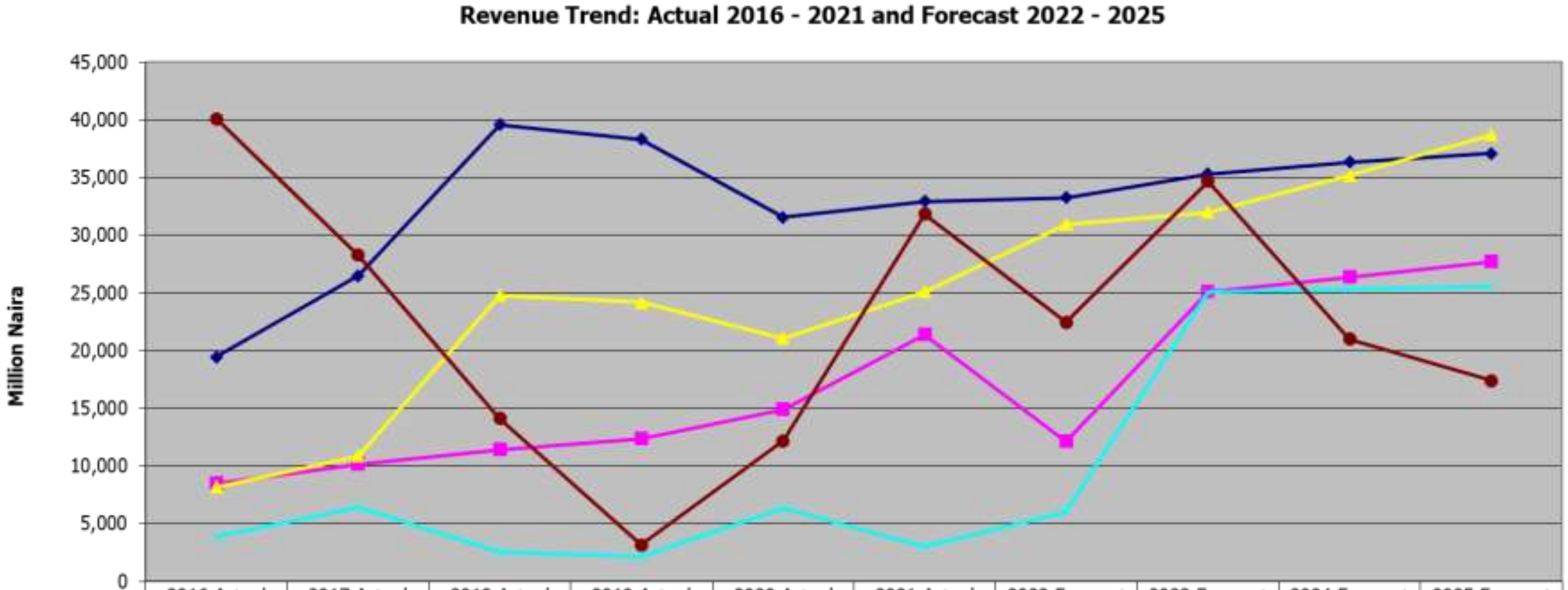
114. **Transfer to Local Governments** – is 10% of total IGR (after deduction of cost of collection) for 2023, 2024 and 2025.

115. **Capital Expenditure** – is based on the balance from the recurrent account plus capital receipts, less contingency reserve as outlined above.

3.C.2 Fiscal Trends

116. Based on the above assumptions, plus actual revenue and expenditure figures for 2016-2021 (using the same basis for forecasting as noted in the sub-sections within section 3.B), the trend from historical actual to forecast can be seen for revenue and expenditure in the line graphs below.

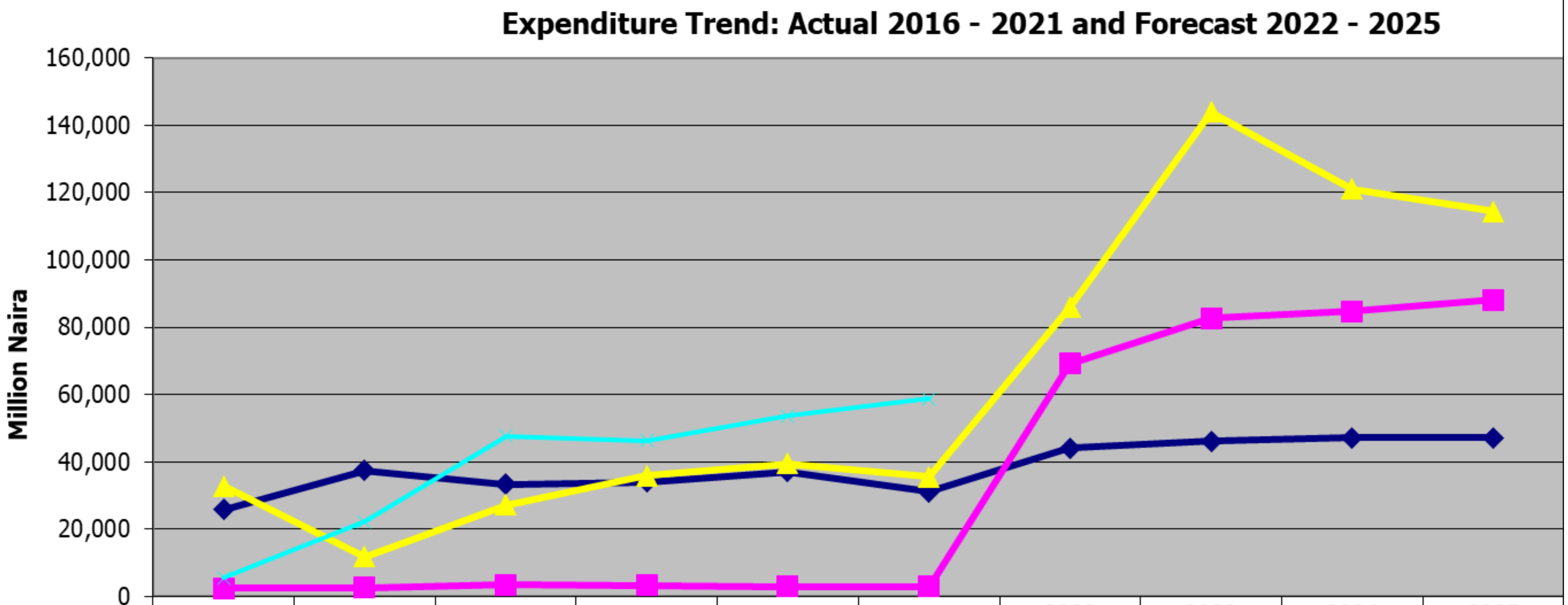
Figure 15: Ondo State Revenue Trend



	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Stat.Allocation	19,436,790,47	26,494,873,18	39,582,605,20	38,310,622,77	31,549,178,88	32,958,772,16	33,242,755,92	35,298,844,99	36,357,810,34	37,084,966,54
VAT	8,513,433,644	10,174,457,87	11,419,703,36	12,388,614,57	14,892,602,06	21,386,339,16	12,120,000,00	25,128,948,52	26,385,395,94	27,704,665,74
Total IGR	8,181,258,372	10,862,612,69	24,787,441,31	24,187,708,28	21,094,342,13	25,124,731,34	30,945,804,15	32,000,632,00	35,200,702,00	38,720,771,00
Other Federation Account Receipts	3,862,344,238	6,448,726,096	2,545,159,460	2,167,297,125	6,315,824,902	2,984,664,770	6,060,000,000	25,085,000,00	25,335,850,00	25,589,208,50
Capital Receipts	40,094,715,01	28,269,528,57	14,131,383,56	3,173,906,042	12,188,266,90	31,843,775,68	22,470,564,54	34,692,191,12	21,000,000,00	17,400,000,00

Year

Figure 16: Ondo State Expenditure Trend



	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Personnel Costs	25,796,630,	37,538,685,	33,398,996,	33,976,764,	37,163,627,	31,188,334,	44,046,501,	46,177,653,	47,101,206,	47,148,307,
Overheads	2,459,948,1	2,607,951,1	3,496,592,6	3,263,171,3	2,927,547,5	3,035,727,4	69,268,103,	82,671,278,	84,651,652,	88,172,510,
Cap. Ex.	32,840,740,	11,854,732,	27,271,729,	35,988,072,	39,537,366,	35,495,548,	85,967,832,	143,886,706	121,122,268	114,415,176
CRF Charges	5,510,259,1	22,259,194,	47,641,028,	46,266,683,	53,654,180,	58,739,055,				

3.D Fiscal Risks

117. The analysis and forecasting basis as laid out above implies some fiscal risks, including but not limited to the following:

Table 10: Fiscal Risks

Risk	Likelihood	Impact	Reaction
Militancy/Pipeline vandalism that could lead to reduction in daily oil production	Medium	High	Dependence on Statutory allocation and Mineral derivation is crucial to the budget, however, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Security situation countrywide could affect economic activity and oil production, resulting in risk to VAT and Statutory Allocation. It also creates fear in the tax officers as they cannot	Medium	High	The estimates for VAT and statutory allocation are not overly ambitious. In addition, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Risks associated with debt financing	Low	Medium	Use of external borrowing to finance budget deficit
Mismanagement and inefficient use of financial resources	Medium	High	Adherence to existing and new institutional and legal/regulatory framework that will require more transparent and efficient use of financial resources.
Floods, Fulani herdsmen/ farmers crises and other natural disasters impact on economic activity and hence IGR tax base, causing increased overhead expenditure	Medium	Medium	Increased investment to increase climate resilience (flood control and irrigation), improved security situation, adaptation, and awareness
Election year and poor election calendar with long period between party primaries, election dates and swearing-in dates spanning almost one year will affect investment and FDI while economy generally will take a nap	Medium	High	Build internal resilience and market state potential aggressively while prudence should be our watch word.

118. It should be noted however that no budget is without risk. The ongoing implementation of the 2022 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

Section 4 Budget Policy Statement

119. The 2023 Budget is to harness the State's resources to birth healthy, knowledgeable and prosperous citizens through prioritised investment in agriculture, infrastructure, human capital development and rural economy in a secure environment.

4.A Budget Policy Thrust

120. The overall policy objectives are captured by the following points:

- attain financial resilience and sustainability through efficient and sufficient IGR;
- optimize resource inflow and expand fiscal space nationally and internationally;
- adhere to development policy and ensure fiscal discipline;
- improve human capital development with renewed vigour;
- safeguard lives and livelihood in a secure environment;
- stimulate rural economy and shared prosperity;
- increase effective and efficient healthcare delivery;

4.B Sector Allocations (3 Year)

121. The total forecast budget size for the 2023 fiscal year as explained in Section 3.C above is **₦272,735,638,983.00** of which the sum of **₦119,408,929,133.00** will be for recurrent expenditure (i.e. Personnel, Overhead, Social Contributions, Grants & Contributions Public Debt Charge, Transfer to Internal Revenue Service and Transfer to Local Governments), **₦143,886,706,693.00** will be for capital expenditure and **₦7,399,808,939** as transfer to OSOPADEC. The capital component of the budget is derived from discretionary and non-discretionary funds. Discretionary fund of **₦70,417,883,693.00** will be distributed to all MEDAs while non-discretionary capital fund of **₦73,468,823,000.00** is specifically earmarked for special projects. The non-discretionary fund is in the form of loans and grants. The total of sum of **₦2,040,194,218.00** is earmarked as Planning Reserve.

122. The indicative overhead and capital allocation (envelope) to the sectors for 2023-2025 are based on the combined proportion of budget and actual expenditure as shown in tables 11 (a and b) and 12 below.

11a

No.	Sector	% 2023	2023 Allocation	% 2024	2024 Allocation	% 2025	2025 Allocation
Personnel Expenditure by Sector							
1	ADMINISTRATION OF JUSTICE	5.54%	2,559,569,546	5.54%	2,610,760,937	5.54%	2,613,371,698
2	AGRICULTURAL DEVELOPMENT	3.46%	1,597,960,427	3.46%	1,629,919,636	3.46%	1,631,549,555
3	EDUCATION	45.85%	21,171,775,296	45.85%	21,595,210,802	45.85%	21,616,806,013
4	ENVIRONMENT AND SEWAGE MANAGEMENT	0.84%	388,813,894	0.84%	396,590,172	0.84%	396,986,762
5	GENERAL ADMINISTRATION	8.76%	4,046,768,912	8.76%	4,127,704,291	8.76%	4,131,831,995
6	HEALTH	24.11%	11,131,649,133	24.11%	11,354,282,115	24.11%	11,365,636,397
7	INFORMATION	1.15%	531,507,318	1.15%	542,137,464	1.15%	542,679,602
8	INFRASTRUCTURAL DEVELOPMENT	4.54%	2,096,133,483	4.54%	2,138,056,152	4.54%	2,140,194,209
9	LEGISLATIVE ADMINISTRATION	1.00%	463,440,941	1.00%	472,709,760	1.00%	473,182,469
10	PUBLIC FINANCE	2.62%	1,208,174,382	2.62%	1,232,337,870	2.62%	1,233,570,208
11	REGIONAL DEVELOPMENT	0.00%	0	0.00%	0	0.00%	0
12	COMMUNITY DEVELOPMENT	1.22%	564,698,711	1.22%	575,992,685	1.22%	576,568,678
13	TRADE AND INDUSTRY	0.90%	417,161,317	0.90%	425,504,544	0.90%	425,930,048
	Total	**100.00%**	**46,177,653,360**	**100.00%**	**47,101,206,427**	**100.00%**	**47,148,307,634**

11b

No.	Sector	% 2023	2023 Allocation	% 2024	2024 Allocation	% 2025	2025 Allocation
Overhead Expenditure by Sector							
1	ADMINISTRATION OF JUSTICE	0.0180	429,141,075	1.80%	433,432,485	1.80%	437,766,810
2	AGRICULTURAL DEVELOPMENT	0.0051	121,908,325	0.51%	123,127,409	0.51%	124,358,683
3	EDUCATION	0.1920	4,586,676,963	19.20%	4,632,543,732	19.20%	4,678,869,170
4	ENVIRONMENT AND SEWAGE MANAGEMENT	0.0043	102,356,819	0.43%	103,380,387	0.43%	104,414,191
5	GENERAL ADMINISTRATION	0.1497	3,575,848,524	14.97%	3,611,607,009	14.97%	3,647,723,079
6	HEALTH	0.0093	221,463,438	0.93%	223,678,072	0.93%	225,914,853
7	INFORMATION	0.0109	259,977,870	1.09%	262,577,649	1.09%	265,203,425
8	INFRASTRUCTURAL DEVELOPMENT	0.0214	511,562,375	2.14%	516,677,999	2.14%	521,844,779
9	LEGISLATIVE ADMINISTRATION	0.0690	1,647,621,800	6.90%	1,664,098,018	6.90%	1,680,738,999
10	PUBLIC FINANCE	0.4792	11,444,200,841	47.92%	11,558,642,849	47.92%	11,674,229,278
11	REGIONAL DEVELOPMENT	-	0	0.00%	0	0.00%	0
12	COMMUNITY DEVELOPMENT	0.0347	828,362,104	3.47%	836,645,725	3.47%	845,012,182
13	TRADE AND INDUSTRY	0.0065	155,198,650	0.65%	156,750,636	0.65%	158,318,143
	Total	**100.00%**	**23,884,318,783**	**100.00%**	**24,123,161,971**	**100.00%**	**24,364,393,591**

Table 12: Sector Capital Expenditure – Budget

Capital Expenditure by Sector		Discretionary Funds						Non-Discretionary Funds			Total Capital Envelope					
No.	Sector	% 2023	2023 Allocation	% 2024	2024 Allocation	% 2025	2025 Allocation	2023 Allocation	2024 Allocation	2025 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation	% 2025	2025 Allocation
1	ADMINISTRATION OF JUSTICE	4.00%	2,816,715,348	4.00%	3,852,254,751	4.00%	3,815,827,045	0	0	0	1.9%	2,816,715,348	3.0%	3,852,254,751	3.1%	3,815,827,045
2	AGRICULTURAL DEVELOPMENT	8.00%	5,633,430,695	8.00%	7,704,509,503	8.00%	7,631,654,091	8,040,953,000	5,714,300,000	2,214,300,000	9.0%	13,674,383,695	10.4%	13,418,809,503	8.0%	9,845,954,091
3	EDUCATION	6.00%	4,225,073,022	6.00%	5,778,382,127	6.00%	5,723,740,568	3,390,000,000	1,695,000,000	1,695,000,000	5.0%	7,615,073,022	5.8%	7,473,382,127	6.0%	7,418,740,568
4	ENVIRONMENT AND SEWAGE MAI	3.10%	2,179,691,744	3.10%	2,981,035,299	3.10%	2,952,846,021	1,350,000,000	1,000,000,000	1,000,000,000	2.3%	3,529,691,744	3.1%	3,981,035,299	3.2%	3,952,846,021
5	GENERAL ADMINISTRATION	5.60%	3,943,401,487	5.60%	5,393,156,652	5.60%	5,342,157,863	0	0	0	2.6%	3,943,401,487	4.2%	5,393,156,652	4.3%	5,342,157,863
6	HEALTH	7.33%	5,161,630,875	7.33%	7,059,256,832	7.33%	6,992,503,060	1,241,200,000	1,929,200,000	2,030,200,000	4.2%	6,402,830,875	6.9%	8,988,456,832	7.3%	9,022,703,060
7	INFORMATION	1.50%	1,056,268,255	1.50%	1,444,595,532	1.50%	1,430,935,142	0	0	0	0.7%	1,056,268,255	1.1%	1,444,595,532	1.2%	1,430,935,142
8	INFRASTRUCTURAL DEVELOPMEN	44.47%	31,314,832,878	44.47%	42,827,442,198	44.47%	42,422,457,176	57,820,000,000	14,225,400,000	11,815,400,000	58.9%	89,134,832,878	44.1%	57,052,842,198	44.0%	54,237,857,176
9	LEGISLATIVE ADMINISTRATION	6.00%	4,225,073,022	6.00%	5,778,382,127	6.00%	5,723,740,568	0	0	0	2.8%	4,225,073,022	4.5%	5,778,382,127	4.6%	5,723,740,568
10	PUBLIC FINANCE	4.00%	2,816,715,348	4.00%	3,852,254,751	4.00%	3,815,827,045	695,470,000	252,000,000	264,600,000	2.3%	3,512,185,348	3.2%	4,104,254,751	3.3%	4,080,427,045
11	REGIONAL DEVELOPMENT	0.00%	0	0.00%	0	0.00%	0	7,399,808,939	8,213,787,923	8,788,753,077	4.9%	7,399,808,939	6.4%	8,213,787,923	7.1%	8,788,753,077
12	COMMUNITY DEVELOPMENT	4.00%	2,816,715,348	4.00%	3,852,254,751	4.00%	3,815,827,045	507,500,000	0	0	2.2%	3,324,215,348	3.0%	3,852,254,751	3.1%	3,815,827,045
13	TRADE AND INDUSTRY	6.00%	4,225,073,022	6.00%	5,778,382,127	6.00%	5,723,740,568	423,700,000	0	0	3.1%	4,648,773,022	4.5%	5,778,382,127	4.6%	5,723,740,568
	Total	**100.00%**	**70,417,883,693**	**100.00%**	**96,306,368,783**	**100.00%**	**95,395,676,132**	**80,868,631,939**	**33,029,687,923**	**27,808,253,077**	**100.00%**	**151,283,252,982**	**100.00%**	**129,331,594,572**	**100.00%**	**123,199,509,270**

Note: the total non-discretionary fund for the medium term is on this table is different from what is on the Microeconomic Framework page. This is due to the addition of allocations to OSOPADEC as capital allocation on this page.

4.C Considerations for the Annual Budget Process

123. The budget call circular should include the following instructions to MEDAs for the annual budget submissions:

  i. Only prioritised projects. contained in the sectors' MTSS should be in the MEDAs capital budget proposal;

  ii. Budget submissions for capital projects must include full life-time capital investment requirements (costs) and also sources of funding (particularly if grants and/or loans are being used to partially/fully fund the project);

  iii. This year Budget will be programme-based, such that each input and activity must speak to expected outcomes as captured in the REDEEMED agenda.

Section 5 Summary of Key Points and Recommendations

124. We summarise below a list of the key points arising in this document:

a. Ondo State should sustain the current Budget reform programme, particularly as it relates to the preparation of a realistic budget, total alliance with National Chart of Accounts, ensuring policy-plan-budget linkages using the State MTSSs, and early passage of the budget. Efforts should be made to prepare MTSS for other sectors not yet provided for and as well use the projections in the document as inputs into the State budget rather than allow the sector planning team waste their precious time to prepare it without making use of it.

b. Ondo State must continue to monitor the performance of mineral-based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process. If the benchmark price of crude in the Federal FSP is lower or higher than $70 per barrel used herein and IMF, World Bank, OPEC and US Energy Information Administration Reports validates the oil price benchmark provided in Federal FSP, the State should revisit the assumptions and recalculate statutory allocation.

c. The State should also intensify more of its efforts in Independent Revenue generation, industrialisation drive, harnessing her natural endowment like developing Araromi Seaside to world tourist centre, exploration of bitumen and alleviating the effects of Covid-19 pandemic and Russia/Ukraine war on the people of the State.