

BORNO STATE EXPLANATORY NOTES

EN 1: ASSUMPTIONS

EN 1.1: (OIL PRICE) \$57.00/bbl to \$20/bbl, this fall in crude oil prices is as an outcome of the complete meltdown of the world economy, occasioned by the shock experienced during the COVID-19 pandemic. The earlier \$57/bbl is no longer feasible, thus the new assumption of \$20/bbl for the remaining part of the year 2020 is proposed as the State is cautiously being conservative. The Global lockdown also affected the production schedule which resulted to proposing a new daily production rate of 1.7bb/day as against 2.8bbl/day in the original budget 2020.

The COVID – 19 shock which is responsible for the global meltdown of the world economy, also affected the exchange rate of the Naira against the dollar. Rising from ₦305/\$ to about ₦360/\$, making more naira available per each dollar resulting to inflation.

The global economic meltdown resulted in the fall of the National GDP (gross domestic product) from 2.9% to -4.5%. This is largely due to non productivity during the lockdown as many industries and government offices were shutdown, thus impacting negatively on the growth of the economy. However, the State adopted the Federal Government assumption

The closure of industries, companies and the restriction of interstate movement, made goods and services scarce. Whereas, the demand for goods and services remain high, thus resulting to increase in prices. As a result the rate of inflation rose from an earlier projection of 10.8% to 14.13% as obtained in the addendum to the Medium-Term Expenditure Framework (MTEF) 2020, submitted to National Assembly in May 2020. Furthermore, prices of goods and services in Borno State rose even higher than other parts of the country because of the peculiar circumstances of the State as a territorial state (with three international borders) and the ill activities of insurgents, which further restricts movement in the state. Despite this, the State adopted the Federal Government's projections of 14.13% inflation rate.

EN 1: REVENUE & GRANTS

EN 1.2: The drop in Statutory Allocation (SA) is as a result of both drop in crude oil price from \$57/bbl to about \$20/bbl and the daily production rate from 2.8m bbl/day to 1.7m bbl/day. Thus the State has to conservatively resolve at making an assumption of \$20/bbl as against the approved Federal Government benchmark of \$25pb, at a daily production rate of 1.7m bbl/day for the remaining part of the year. The NGF's projection of ₦32b for Borno State was made based on the \$20pb which the State adopted. However, in being conservative the State arrived at an estimate of ₦31.85b for the revised budget 2020.

EN 1.4: Other FAAC transfer such as augmentation from sources, Nigerian Liquefied Natural Gas (NLNG), Excess Crude Oil Account, Nigeria Sovereign Investment Authority (NSIA), Stabilization Fund are expected to support the FAAC disbursement for the remaining part of the year. In the revised Budget about ₦3.36b is expected as against ₦11.4b in the original budget 2020 this due largely to the global fall in oil prices (\$57/bbl – \$20bbl) and daily crude oil production (2.8bbl/day – 1.7bbl/day).

Initially, in the original budget, VAT was expected to rise due to increase in VAT rate from 5% to 7.5% but because of the lockdown, many businesses are running at low capacity, as such the expected rise in VAT may not be realizable. However, if businesses were able to open fully which is unlikely, VAT may recover towards the end of the year. The drastic fall of VAT from ₦17.9b in the original budget to ₦13.7b in the amended budget 2020 therefore, was as a result of the shutdown of businesses. However, despite the projection of NGF that Borno State's expected VAT of ₦14.1b for the remaining part of the year, the State projected an expected VAT of ₦13.7b, in order not to be over ambitious.

EN 1.5: The increase in IGR of the State is as a result of expected revenue from the issuance of Certificate of Occupancy. This was suspended about 10years ago but reintroduced this year with the creation of Borno State Geographic Information Service (BOGIS). Also, ground rent from landed properties (₦1.0b) and the sale of government properties (202, 303, 505, 777 and 1000 Housing Estates including some in LGAs amounting to (₦1.114b) on owner occupier basis also form part of the IGR. Most owners of these houses have paid in full.

Other sources include the collection of PAYE of (~~₦~~8.1b) arrears from all Federal Government workers working in the state, out of which about ~~₦~~1.8b have already been paid for the first quarter. The State is expecting the second, third and fourth quarters of installment payments before the end of the year 2020. Stamp duties of about ~~₦~~77.8m from Banks and other financial institutions and fees from GSM Operators are also new sources of revenue. With these new sources of revenue, though some of these sources (sale of Government & PAYE arrears) are just for this year, the State's projection of expected IGR (~~₦~~18.4b) is no doubt realizable. Also given the commitment of the Government's drive towards generation of revenue and the effort put in the review of rates and taxes, the State is being optimistic in realizing the projection.

EN 1.6: Internal Grants figures of about ~~₦~~12.7b from the original budget are maintained at ~~₦~~12.7b as no new grant expected for the remaining part of the year 2020. The Internal Grants for (UBEC ~~₦~~1.5b; MCRP ~~₦~~3.6b; TETFund ~~₦~~1.5; NSHIP ~~₦~~1.1b; & BIGIS ~~₦~~5.0b) remain unchanged due to the fact that the funds are already being utilized.

Other grants expected is for COVID – 19 Response which the State has conservatively projected as ~~₦~~8.9b in the Revised Budget 2020. Though other interventions are expected these are mostly in kind which have not been quantified.

The figures for External Grants rose by ~~₦~~4.956b from ~~₦~~ 5.0b as a result of the State's expectation of \$12.1m from 2019 SFTAS performance grant and \$10m for revised and COVID-19 AF. The State is working hard towards achieving the requirements of SFTAS in order to make this a reality.

EN 1.7: Other Capital Receipts of ~~₦~~500m remain the same as the expected transfer remains unchanged.

EN 2: EXPENDITURE (Recurrent)

EN 2.1: Personnel Cost (salaries and pension): the slight drop in salaries and pension from ~~₦~~31.2b to ~~₦~~29.5b is due to the large number of workforce expected

to retire. However, in the original budget, the proposal for the employment of new staff and the amount budgeted was also reduced as the activity has not commenced except for medical personnel. The personnel cost of ₦2.91bn includes salaries and special allowances of all health workers, re-engaged retired Nurses and Midwives working in Isolation Centres and Hospitals treating COVID-19 Patients within the State.

EN 2.2: Overhead Cost; the significant drop in overhead cost from ₦39.7b to ₦20.7b is as a result of the negative impact of COVID-19 pandemic, which was the reason for: (i). Suspension of all international travels by government officials (ii). Suspension of interstate travels (iii). Reduction in government activities and engagements especially during the lockdown (iv). Suspension of all medical treatments abroad (v). Curtailment of all interstate travels by government officials. All these proposed expenditures were dropped from the Revised Budget 2020, thus cutting down on above spending.

EN 2.3: Internal Loans; the total internal loans for the revised budget rose by ₦2.0b from ₦7.5b to ₦9.5b as a result of newly negotiated ₦2.0b loan from Access Bank Plc effective from 1/03/2020.

EN 2.4: The reduction in debt obligations from ₦7.59b to ₦1.52b was an aftereffect of suspension of debt repayment service by the Federal Government (salary bailout, excess crude account loan and CBN Budget Support Facility) for the remaining part of the year due to COVID-19 pandemic. The average monthly amount is about ₦480m and for nine (9) months is ₦4.32b.

The debt obligation of ₦1.52b captured for the remaining part of 2020 includes that of monthly external debt of obligation of ₦21.6m. However, the State's debt obligation excludes pension and gratuity as this has been provided for under recurrent expenditure of Ministry of Finance in the Revised Budget. This action of debt holiday is expected to make more money available to States amounting to about ₦4.32b to enable them mitigate the COVID-19 pandemic.

The Consolidated Revenue Fund Charges of ₦150m is provided for to cover salaries of Statutory Holders in the 2020 Revised Budget. However, due to fall in expected revenue as a result of fall in oil prices and production level, the Pension and Gratuity fund was reduced by ₦3.0b from ₦9.2b to ₦6.2b in the 2020 Revised Budget.

EN 2: EXPENDITURE (Capital)

EN 2.5 Economic Sector; this sector's allocation fell from ₦47.5b to ₦29.8b, mainly as a result of COVID-19 pandemic, where only critical projects and projects close to completion (construction work) were adequately funded, while new non-critical projects such as purchase of road construction equipment, tractors, tricycles, skill acquisition equipments, construction of new roads, houses, residential buildings among others were reduced by about ₦11.148b. The Agriculture subsector is adequately funded to ensure food security in the state as the rainy season has set in. This is also the mainstay livelihood for the majority of our people. A provision of about ₦5.4b was made in revised budget for agricultural activities and support to farmers. Most construction projects and activities here are either those that are critical to COVID-19, such as construction and provision of irrigation facilities and earth dams.

EN 2.6: Social; this sector include; healthcare, environmental care, community engagement (sensitization to create awareness & information dissemination) and social development. Most of the activities being undertaken here are COVID-19 related activities, thus the increase in funding from ₦17.89b to ₦18.62b. Most projects and activities here are critical to COVID-19, such as procurement of medical equipment, drugs, PPE, community surveillance, enforcement of medical guidelines, training of medical staff and construction of hospitals.

EN 2.7: Law and Justice; the drop in funding from ₦1.148b to ₦261m under law and justice, was mainly in areas of non critical construction projects yet to take off. This is to make fund available for the fight against COVID-19 pandemic and to help address emergency response in the State. The amount of savings of about ₦887m is being used to fund the fight against COVID-19 pandemic and provision of palliatives. The drop is also as result of drop in expected Statutory Allocation

from ₦65.5b to ₦31.8b from Federation Account and other revenues accruing to the State.

EN 2.9: General Administration sector; the drop from ₦9.2b to ₦3.6b was as a result of COVID-19 pandemic, which means that most non critical construction works amounting to about ₦2.147b in the original budget was dropped in favour of those critical in the fight against COVID-19. Other areas that were cut include purchase of motor vehicles (security vehicle) in the original budget by ₦800m in favour of COVID – 19. The fall in expected revenue for the year also resulted to cut in non COVID – 19 response expenditure thus the drop of about ₦5.6b in General Administration in the 2020 Revised Budget.

Areas mainly funded here are under emergency response (SEMA), for the purchase and distribution of palliatives to the citizens totaling about ₦370m, was provided for in the revised budget to help cushion the effect of the lockdown.

EN 3 FINANCING

EN 3.1 Domestic Loan: Commercial Bank Loan (CBN Loans and Access Bank); The Central Bank loans are the Accelerated Agricultural Development Scheme (AADS), and that of the Family Home Loan, while that of Access Bank Plc, is for purchase of Personal Protective Equipment (PPE) and construction of Hospital . All loans are new and coming into effect this year. The AADS loan (₦1.5b) is for engagement of youth in the State in sustainable and profitable activities along agricultural production and its value chain. It's aimed at encouraging farmers to embrace modern farming practices while using high quality inputs. This loan became effective on the 26/03/2020 and is for a period of sixty (60) months at 9% interest rate. The AADS loan however, does not enjoy the repayment holiday as those of Excess Crude and salary Bailout.

The Family Home loan (₦6.0b) however, is for the construction of houses across the State for returnees and other citizens of Borno. The effective date for this loan is 15/05/2020 for a period of 162 months and moratorium of 24 months at interest rate of 5%.

The Access Bank loan facility is for ₦2.0b for a period of ten (10) years inclusive of twelve (12) months maximum moratorium. The loan is for the financing of the

building or expansion of the State's medical or healthcare facilities, and the purchase of medical equipment. The interest rate is 5% (inclusive of management fees) up to February 28, 2021 and as from March 01, 2021 interest rate shall be 9%. This loan commences upon draw down or on the date of disbursement.

EN 3.2 External loan;; the external loan for the State are world bank loans. This includes; NEWMAP (~~₦~~2.5b), YESSO (~~₦~~1.1b), FADAMA III (~~₦~~1.4b) and Community and Social Development Project (~~₦~~950m), all these sums up to ~~₦~~9.5b. This did not change as the State is already utilizing/optimizing all the facilities. The activities engaged under these loans are mostly covering mitigation effects of COVID-19 pandemic on the citizens within the State.

The NEWMAP loan is a subsidiary loan with effective date of 15/7/2016 with a commitment charge of ½% pa and a service charge of not more than ¾% pa payable on the principal amount. The project activities shall include erosion and watershed management among others.

The Community and Social Development Project Second Additional loan became effective on the 24/01/2017 with a commitment charge of ½% pa and service charge of ¾% pa. The Youth Employment and Social Support Operation (YESSO) Additional Financing become effective on 27/01/2017. The State is expected to repay principal amount and accrued interest (1.65%) commencing 1/08/2021 to include 1/2/2031, and 3.35% commencing 1/08/2031 to include 1/02/2041. FADAMA III second additional financing came to effect on 14/02/2017.

Other external debt stock of the State includes those of UBE, HIV Programmes, Health System Development, Fadama Development Fund and Community Base Rural and Agricultural Programme. These loans have since been utilized remain service and repayment.

EN 3.3 Sale of Government Properties in the year 2020; this include the sale of 1,000 Housing Estate, 777 Housing Estate, 505 Housing Estate, 303 and 202 Housing Estate on owner occupier basis. The sale of these properties is expected to attract the sum of ~~₦~~801m, in the year 2020, as most beneficiaries have already paid in full. The cost of one bedroom and a two bedroom apartment is

₦750,000.00 and ₦1,500,000.00 respectively, while a three bedroom and a four bedroom apartment cost ₦2,250,000.00 and ₦3,000,000.00 respectively. Each housing Estate was named in respect to the number of houses within the Estate.