EXPLANATORY NOTES ON CHANGES TO THE 2020 APPROVED BENUE STATE BUDGET

Explanatory Note (1) for revisions of revenue projections

1.1 Budget Assumptions (Original and Amended Budget 2020)

- The 2020 budget bill was signed into law on 30 December 2019 for implementation with effect from 1 January 2020. By the end of the first quarter, the assumptions underpinning the revenue projections in the budget had changed as a result of the global economic slowdown created by the oil supply war between Saudi Arabia and Russia and the disruptive impact of the COVID-19 pandemic.

- The impact of these shocks continued into the second quarter and have necessitated a significant downward review of revenue projections at federal and sub-national levels. The Federal Ministry of Finance has accordingly revised the projections and assumptions in the 2020-2022 Medium Term Expenditure Framework (MTEF) as reflected in the table below, while the Nigeria Governors Forum secretariat believes it could be worse. Although we have adopted the assumptions in the revised MTEF, we have been deliberately conservative in our expectations such that our revenue estimates are well below the upper boundaries that the NGF has set for Benue State.

	Projected for Approved 2020 Budget	**Revised Projection for 2020 Budget Bill (FGN MTEF)**
Oil Price Benchmark	US$57 per barrel	US$25 per barrel
Oil Production Benchmark	2.18 million barrels per day	1.9 million barrels per day
Exchange Rate (NGN:USD)	305	360
National GDP Growth Rate (%)	2.93	(4.42)
Inflation (%)	10.81	14.13

1.2 Revisions to Gross Statutory Allocation

- With a contracting economy as shown in above table, income from traditional revenue sources such as corporate earnings tax, PMS under-recovery (now zero), exchange rate gain and Value Added Tax (VAT) is expected to decline. Overall, Benue State is anticipating a 57% to 67% fall in both oil-related and non-oil components of the gross statutory allocations from the Federation Account Allocation Committee (FAAC) over the course of the year. It has therefore become necessary to undertake a downward revision of the projected revenue for fiscal year 2020. As already noted, the revised revenue projections here are considerably lower than the upper boundaries set for our state in the NGF's typically more conservative projections.

1.3 Revisions to Internally Generated Revenues (IGR)

- Last year's IGR increased by 59% to over N17billion, the fourth largest percentage increase in the country, according to NBS. Additional collection reforms provided the basis for a projected N33b in the approved 2020 budget. Although Benue itself only imposed a moderate COVID-19 lockdown, the nationwide travel restrictions and the associated economic slowdown has refocused policy attention on stimulus and relief packages, including tax reliefs, to minimise the economic impact of the pandemic on businesses and citizens. This has reduced the range of collectibles and forced a substantial downward estimate of IGR to slightly less than last year's level, which could have been worse but for the fact that the administration of revenue collection has continued to improve.

1.4 Other observations on revenue and grants (internal and external)

- In common with other states, Benue has been in dialogue with the Federal Government, the Nigeria Governors Forum and development partners on grants and aid in response to the budget crisis occasioned by the impact of COVID-19. The state is currently expecting to receive income in cash or kind from up to 10 sources over the course of the year. Other assumptions underlying the revenue estimates include the following:

i. continued institutional strengthening of internally generated revenue collection in the State in collaboration with the Local Government Councils;
ii. blockage of leakages in internal revenue generation by our MDAs and remitting of all collections into the Government's Treasury Single Account;
iii. the revenue sharing formula would hold steady or improve with respect to the parameters used in the Statutory Allocation and Value Added Tax (VAT) distribution;
iv. further acceleration and strengthening of the financial management reforms being implemented under the World Bank-supported State Fiscal Transparency and Sustainability (SFTAS, which will earn enhanced revenue for improved results;
v. payment of counterpart cash contributions and other commitments with our development partners will be further strengthened;
vi. herdsmen attacks and other clashes and forms of criminality are eliminated or reduced;
vii. goodwill of domestic and foreign creditors, investors and development partners in respect of debt servicing reliefs and emergency financing, investments and aid;
viii. further relaxation of COVID–19 movement and interaction restrictions across the country and broader reopening of the national economy;
ix. no further threats to stability and predictability in the national and global political economy.

1.5 Transfers to Fund Recurrent Expenditure

- These are funds that the LGAs are required by law to transfer to state government accounts for expenditure on services co-funded by the two tiers of government.

- Such shared services include payment of salaries of primary school teachers as provided in the State Universal Basic Education law and those of primary healthcare workers as required by the Primary Health Care law, as well as funds for operations of the Benue State Independent Electoral Commission (BSIEC) as provided for in the act establishing the Commission.

Explanatory Note (2) for key expenditure allocations

2.1 Maintaining critical (non-COVID-19 response expenditures)

- While reducing the recurrent expenditure estimates overall by over 59%, we have kept faith with the government's responsibility to the generality of its workforce by protecting the personnel budget to the extent feasible, with only very minimal reductions in some discretionary allowances, focusing the bulk of the reductions on non-critical overhead costs.

- The capital expenditure estimates have been reduced by 54%, but they still maintain the commitment of the government to protecting and enhancing farmers' livelihoods, creating jobs and generating wealth through agricultural value chain development investments in providing machinery, fertilisers, improved seedlings and chemicals, extension services and access to markets. Thus, there are only minor to moderate adjustments in the agricultural items, with ample provision for inputs as well as access roads and bridges to facilitate evacuation of produce, along with provisions for COVID19-related relief for those in the agricultural value chain.

- Provision for critical infrastructure remains the largest component of the capital expenditure estimates. There are provisions to construct nine priority arterial roads (over 300km in total) across the three senatorial zones and township roads to promote livelihoods sustaining economic activities in the major towns. There is provision for priority basic rural infrastructure projects for which procurement has already been approved. There is also the previously mentioned expansion of water supply, which is doubly critical because of the central importance of water in the COVID-19 response.

2.2 COVID-19 response expenditures

- Special attention has been paid to controlling the spread of COVID-19 and managing the impact on livelihoods. To control the disease and minimise the threat to lives, the approved health expenditure estimates have not only been preserved but have been substantially increased, along with increases for other complementary sectors. There are new or enhanced provisions for sensitization and behaviour change communication, enforcement of pandemic control regulations, disinfection of public spaces, personal protection supplies, water supply to support the hygiene requirements, testing and isolation facilities and treatment centres, training and incentives for health workers and research labs, among other measures.
- There are also expenditure items to mitigate the economic impact of the pandemic on individual and household livelihoods, MSMEs and priority business sectors such as agriculture. These include budgetary provision for palliatives for poor and vulnerable households, agricultural inputs for farmers, access roads and basic rural infrastructure to support farmers and protect the food supply chain, along with provision for a public-private partnership to establish a major agricultural goods market to boost the sector and create more jobs. Other expenditure items in the response include relief packages for affected businesses, incentives for operators in COVID-19 priority sectors and provision to facilitate access to ecommerce and e-learning, including at basic education levels.
- The expenditure outlay of N26.75b on these COVID-19 response items represents 25% of the revised total budget. These items are tagged on the expenditure spreadsheet as covid-response (CR).

2.3 Revisions to non-essential spending

- There is a 51% cut of the overheads budget, marking the first time it will contract rather than grow year-on-year. Most of the cuts have come from provisions for debt servicing holidays granted by CBN and the Federal Government, maintenance of vehicles, travel expenses, conferences and entertainment in line with the changes (e.g. virtual meetings instead of in-person conferences) created by COVID-19.

- Outside the critical capital expenditure items highlighted in in 2.1 and 2.2 above, provisions for nearly all non-critical capital expenditure items (e.g. airport, TV station, vehicles and some renovations) have either been dropped altogether or cut by up to 90%.

Explanatory Note (3) for adjustments to financing items, sources, and/or amounts.

3.1 Revisions to domestic loans

- Domestic loans are the principal financing source. The State Government expects that its current engagement with lenders will deliver the expected results.

3.2 Revisions to external financing items, sources, and/or amounts.

- There are no the external financing items scheduled in the revised budget.

3.3 Revisions to non-lending instruments

- There are no plans to accumulate any new arrears.